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X5

Winning Customers with **the Power of 5**

X5 RETAIL GROUP

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Winning Customers with the Power of 5

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Customers want the best

Best Price

Best Products

Best Stores

X5 Retail Group's performance in 2008 proves that if you deliver for your customers, your customers will deliver for you

By making X5's customer value proposition our number one priority, we have consistently won more customers and generated the strongest like-for-like sales growth in Russia. We're proud of the **milestones** we reached this year, including a record **800 million plus** customer visits, over **1,100 stores** and pro-forma* gross sales in excess of **USD 10 billion.**

Success with customers means rewards for shareholders. So we are working harder than ever to win customers and earn their loyalty. And as Russia's largest retailer, we have an unbeatable competitive advantage.

* Including Karusel's results from 1 January 2008.

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We call it the **Power of 5,** our five key strategies for success in the marketplace:

Multi-Format Stores
Multi-format approach ensures that we have unique offers for all consumer groups in Russia.
Our soft discounters, supermarkets and hypermarkets give our customers the best value, choice and convenience

Price Leadership
We're the place to shop for value – and we make it clear we won't be beat

Focus on Fresh, Assortment & Private Label
We give customers the best products to try… and the best reasons to buy

Purchasing Power
As the number one leader, we can partner with our suppliers to help customers get more… for less

Supply Chain Management
We constantly increase our scale and distribution efficiencies to supply customers in the many regions and communities where we are present across Russia

X5 Retail Group – Winning Customers with the Power of 5!

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Operational & Financial Highlights

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GROWTH ON 2007

57% in USD
53% in RUR
Consolidated* Net Retail Sales

45% in USD
41% in RUR
Pro-Forma Net Retail Sales**

OPERATING HIGHLIGHTS

#1
Market Position

4%
Market Share

1,101
Number of Stores

874,032 sq.m.
Selling Space

816,273,268
Customer Visits

USD 10 billion
Pro-Forma Gross Sales**

FINANCIAL HIGHLIGHTS, PRO-FORMA***

	2008	2007	*% change y-o-y*
Net Sales (USD million)	8,892	6,152	*45%*
Gross Profit (USD million)	2,279	1,611	*41%*
Gross Margin (%)	*25.6%*	*26.2%*	
EBITDA (USD million)	803	548	*47%*
EBITDA Margin (%)	*9.0%*	*8.9%*	

* Including results of the acquired *Karusel hypermarket chain* from 30 June 2008, when the acquisition was completed.
** Including Karusel's results from 1 January 2007 and 2008, respectively.
*** Profit & Loss figures in this Annual Report are presented on pro-forma basis, unless otherwise stated. Pro-forma figures include results of the acquired Karusel hypermarket chain from 1 January 2007 and 2008, respectively. We believe pro-forma numbers are useful because they allow investors to evaluate X5's operating results and financial performance for different periods on a more comparable basis. These figures should be used in addition to, but not as a substitute for, the Consolidated Financial Statements included in this Annual Report, which include Karusel's results only as from 30 June 2008, when the acquisition was completed.

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Message from the Chairman of the Supervisory Board

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Hervé Defforey

I am pleased to present X5 Retail Group's Annual Report for 2008. The Company once again delivered strong growth in sales and EBITDA, our key financial indicators. Thanks to efforts of our management team and employees, X5 begins 2009 as the unrivalled Russian retail leader.

As we look at the financial turmoil affecting so much of the world, it is important for shareholders to understand our Company's strategy for securing a strong and successful future. This report outlines our achievements and plans for driving financial performance in 2009, while enhancing X5's long-term prospects for leadership and profitability. I believe there are several points worth bearing in mind.

First, X5 is in an excellent position to win customers and capitalize on market opportunities in a weakened competitive landscape. The Company has taken timely and prudent actions to strengthen its financial position.

Second, corporate governance and risk management have been reinforced in a number of ways. Two more independent directors joined X5's Supervisory Board, making half our directors independent and further enhancing corporate governance practices. X5 was the first company in Russia to have its internal audit function certified in accordance with the international standards of the Institute of Internal Auditors. We also introduced a formal risk assessment process to improve our capacity to evaluate, mitigate and report on internal and external risks. Training and professional development were also intensified at all levels, including implementation of a new employee code of conduct.

Lastly, I want to emphasize X5's role as a source of strength for the retail sector and the Russian economy. We kept price increases at our stores below inflation for the second consecutive year. Our Company employs more than 60,000 people and provides continued investment in the regions and communities in which we operate. X5 is a large and stable partner for suppliers affected by the credit crisis. In selected areas, we have opportunities to buy out troubled retailers, enabling stores to stay open for business and goods flowing to the consumer. The Russian government recognizes the importance of the retail industry, and we support the positive measures introduced to promote its stability and long-term development.

Despite current macro economic difficulties, we remain focused on the outlook over the next several years. For Russian consumers, modern retail shopping is now the norm, and X5 is best positioned to serve people's needs in good times and bad. Our ultimate goal is long-term leadership and outperformance, and we believe focused execution of X5's multi-format strategy offers our shareholders the best opportunities for durable, profitable growth.

Hervé Defforey
Chairman of the Supervisory Board

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Letter from the Chief Executive Officer

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Lev Khasis

Dear Shareholders, Customers, Partners and Colleagues:

This year's Annual Report is divided into two distinct sections to give you a clear picture of X5's performance in 2008 and how we are positioned for growth and leadership in 2009. I would like to start with a few words of my own on what our Company accomplished in the year just ended and some direction for what you can expect from us going forward.

X5 delivered on all of its promises for 2008:

- We exceeded our financial targets, reaching USD 10 billion in gross sales pro-forma, growing our business by 57% on consolidated basis and generating a 9% EBITDA margin, our key indicator of profitability.
- X5 gave customers the best value, quality and service, while maintaining a healthy 25.6% gross margin and driving an industry-beating 22% increase in ruble like-for-like sales.
- We had a breakthrough year for hypermarkets with the acquisition of Karusel, further strengthening our position as Russia's number one retailer.
- We have substantially enhanced our logistics capacity, adding a net nine warehouses and expanding our distribution network's reach to six large cities in European Russia and the Urals in addition to Moscow and St. Petersburg.

This performance is a clear validation of our strategy to get closer to the customer and reinvest in our value propositions across our three formats. I want to highlight two major contributors to our strong finish for the year.

The first is the smooth and speedy integration of Karusel hypermarket chain. X5 leveraged its significant experience with large and small acquisitions, which helped the Company to exceed its initial EBITDA target for the year. Second, X5 responded rapidly and effectively to changing market conditions in the third and fourth quarters, cutting costs, scaling back investments, and prudently managing the Company's liquidity and financial position.

Our results and the strong pick-up in customer traffic in discounters at year-end demonstrate the resilience of our multi-format approach in a tougher macro environment. We also benefited from Pyaterochka and Perekrestok's strong presence in Moscow, St. Petersburg and other large cities that have been less affected by economic downturn and trading conditions than smaller cities and less developed regions.

That experience has been good preparation for the challenges and opportunities of 2009. Times are harder for Russian consumers. Many smaller retailers – including our competitors – are struggling or even threatened with bankruptcy due to liquidity constraints. Economic growth in Russia is expected to slow substantially compared to what we have come to expect in recent years.

Letter from the Chief Executive Officer

But food retail is one of the most resilient sectors – people will continue buying staples and other non-discretionary items, while focusing on value. And X5 is in a unique position to sustain growth and emerge as an even stronger player this year. Our game plan is simple – we will play aggressive offense and defense:

1. Win Customers

Consumers are more price-conscious than ever. The most important things we can do this year are to ensure product affordability, the right assortment and the best service. X5's scale and purchasing power enable us to work with suppliers to get the best quality and value for customers. We are taking Pyaterochka's brand and leadership in discounters to the next level by offering the lowest prices for every item on our shelves; adjusting our assortment to drive shifts towards private label offerings across our formats; and re-launching Karusel to promote its new "Everything Under One Roof – at Low Prices" concept. We also increased staff training to reinforce customer service – retailing is a people business, and let's not forget it.

2. Expand and Consolidate Selectively

X5 is taking a selective approach to new store openings in 2009. We will favor growth in discounters, which are right for the times, cheap to open and quick to pay back. We will strengthen and optimize discounter and supermarket positions in existing regions rather than enter new ones, and also enhance our distribution, logistics and IT infrastructure and efficiency. Smaller retailers affected by the liquidity crisis provide X5 with opportunities to add to local positions and generate high returns, and we will pursue industry consolidation selectively.

3. Manage Finances Prudently

The actions we took in 2008 have helped us begin the new year in a solid financial position. Our plans for 2009 call for prudent financial management. Continued top-line growth combined with efficiency gains and significantly scaled back capital expenditures will provide additional resources for balance sheet strengthening this year.

X5 keeps its promises and is determined to deliver in 2009 and beyond. Our management team is confident in X5's outperformance even in a slowing economy, and we will make every effort to drive efficiency and profitable growth. Bottom line: I expect X5 to end the year in an even stronger position, with excellent future prospects.

Lev Khasis
Chief Executive Officer,
Chairman of the Management Board

Executive Committee

Lev Khasis
Chief Executive Officer,
Chairman of the Management Board

Evgeny Kornilov
Chief Financial Officer, Deputy CEO

Andrei Gusev
Mergers, Acquisitions and Business Development Director

Angelika Li
Branch Management Director

Dmitry Ishevskiy
Logistics and Supply Chain Director

Ekaterina Romazanova
Purchasing Director

Ekaterina Stolypina
Human Resources Director

Jacquot Boelen
General Director of Supermarket Format

Karina Chernikova
General Manager, X5 Media

Leonid Terentiev
Asset Management Director

Mikhail Susov
Chief Marketing Officer

Mikhail Kuprish
Chief Development Officer

Oleg Vysotsky
General Director of Discounter Format

Sergey Egorov
Security Director

Tatiana Ponomareva
General Director of Hypermarket Format

Teimur Shternlib
Chief Information Officer

Vagan Abgaryan
Investment Director

Valentin Ponomar
Chief Administrative Director

Yury Kobaladze
Corporate Affairs Director

<< 2008 – Strong Growth Ahead of Expectations >>

A Milestone Year

2008 marks a year of milestones for X5 Retail Group. The Company strengthened its number one position in the Russian retail sector and delivered on all of its promises for growth.

For the first time, gross sales reached USD 10 billion pro-forma*. X5 exceeded its revenue targets for the year with a 45% increase in pro-forma net sales to USD 8.9 billion, and industry-leading like-for-like sales growth** of 22% (in ruble terms). X5 also delivered 47% growth in pro-forma EBITDA to USD 803 million. This key measure of profitability equates to a pro-forma EBITDA margin of 9%, beating the Company's 8.4 – 8.6% target for 2008.

Strategically, X5 continued its focused expansion. We crossed a major milestone this year with the opening of our 1,101st store, and another with a record 816 million customer visits. It was also a breakthrough year for hypermarket leadership, thanks to the acquisition of Karusel.

While the deteriorating economic conditions at the end of 2008 were a major test of X5's resilience, by responding rapidly to changing markets we finished the year with strong results. The actions we took and the strong customer response we received give us confidence that X5 is on the right track.

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** Like-for-like 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 like-for-like 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 like-for-like calculation starting from the first day of the month following the month of the store opening. The like-for-like comparison for each store takes into account retail sales generated by that store during the same months it was in operation in both the reporting period and the period of comparison. The retail sales of all the relevant stores in the relevant months are then aggregated and compared. Like-for-like sales are calculated on the basis of traffic and basket amounts of relevant stores in the period under review.

2008 – Strong Growth Ahead of Expectations

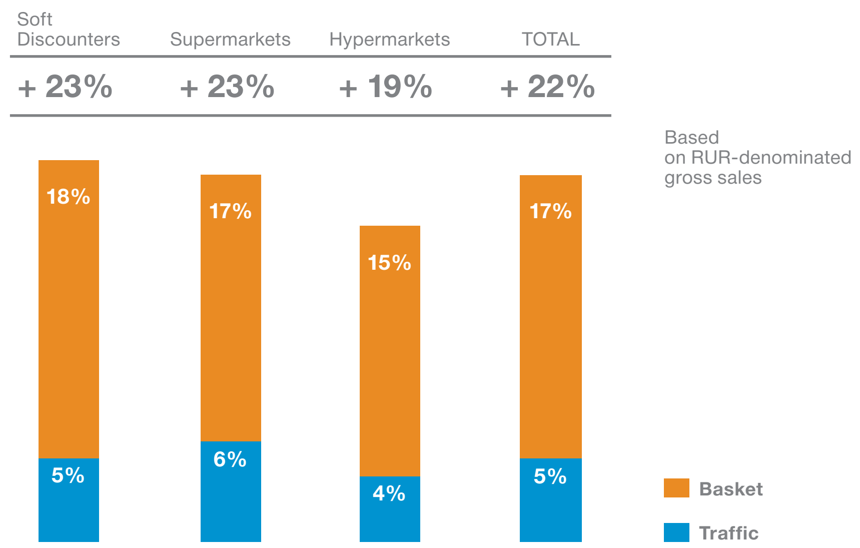
Successful Strategic Delivery

Best-in-Class Multi-Format Execution

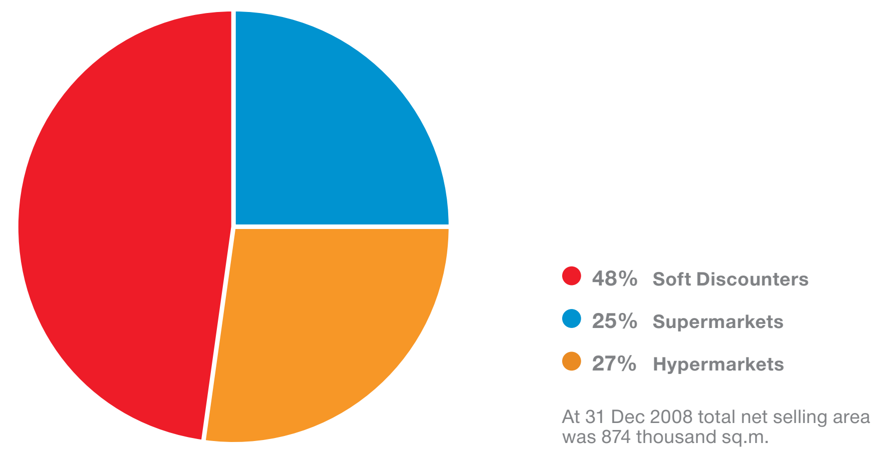
X5 is a multi-format operator with leading positions in discounters and supermarkets and substantially stronger presence in hypermarkets after the acquisition of Karusel.

In 2008 we posted the strongest like-for-like sales growth* in the industry of 22% in ruble terms. We are encouraged by the 5% increase in customer traffic to our stores, which to a large extent drove this performance. It shows we are on the right track, giving customers the value proposition they want.

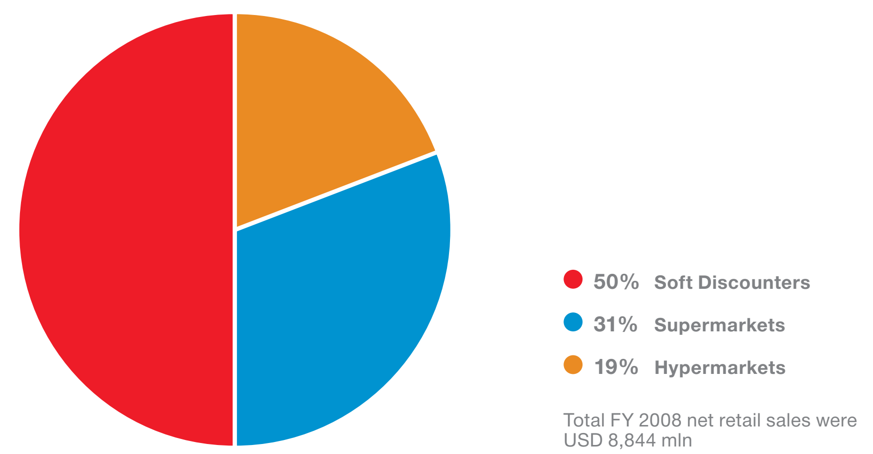
2008 LFL Performance



2008 Net Selling Area Break-Down by Format



2008 Net Retail Sales Break-Down by Format



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2008 – Strong Growth Ahead of Expectations

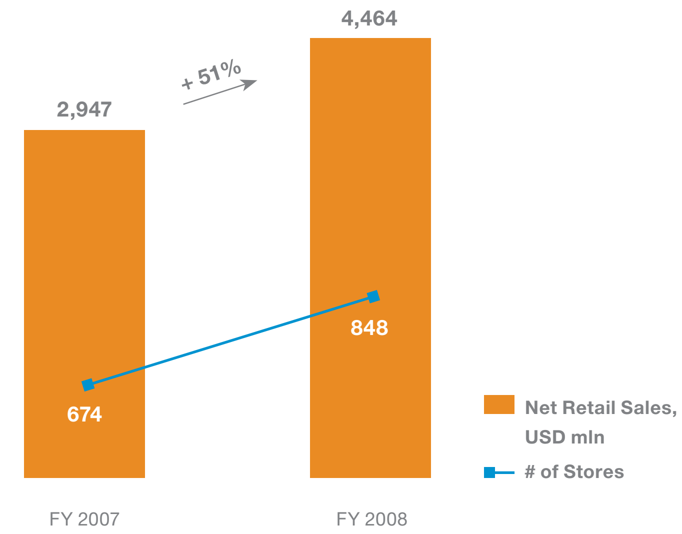
Soft Discounters

Пятёрочка
Самые близкие низкие цены

Soft discount format net retail sales for 2008 totaled USD 4,464 million, an increase of 51% year-on-year in USD terms or 47% in rubles. This was driven by LFL sales growth of 23% and new stores' contribution of 24%. Performance was bolstered by a sharp surge in year-end sales, highlighting Pyaterochka's brand strength as Russia's leading soft discounter when shoppers became very focused on value.

Pyaterochka is the clear leader in the soft discount segment and one of Russia's top-ranked consumer brands. Pyaterochka's offering has been wildly successful among local neighbourhood shoppers – and in a tougher economic climate it has only gained in popularity and market share.

Soft Discounters Store Count & Sales



2008 was a year of success for X5 soft discounters. Pyaterochka not only reported exceptional trading results, it also managed to substantially expand its regional presence. Pyaterochka is present in 22 Russian cities, and almost half of new stores were opened outside of Moscow and St. Petersburg. We entered nine new cities in 2008: Perm, Veliky Novgorod, Yaroslavl, Rostov-na-Donu, Krasnodar, Kaluga, Rostov, Tver and TogliattI and substantially added to our positions in Lipetsk, Nizhny Novgorod and Samara.

At 31 December 2008, Pyaterochka operated 848 soft discount stores with total net selling space of 419,207 square meters. X5's soft discount stores have simple store layouts, providing the customer with a clean, attractive environment. The key customer appeals of the soft discount format are low prices, convenient store location, and an attractive assortment. Soft discount stores have net selling space of 500 square meters on average, selling some 3,500 mainly food items.

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2008 – Strong Growth Ahead of Expectations

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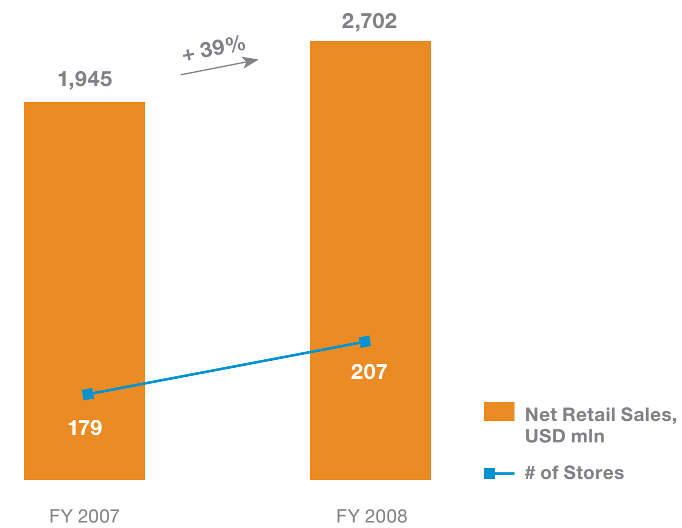
Supermarkets

Supermarket format 2008 net retail sales totaled USD 2,702 million, an increase of 39% year-on-year in USD terms or 35% in rubles driven by LFL sales growth of 23% and new stores contribution of 12%.

Perekrestok offers a modern European supermarket experience for Russia's middle and upper class shoppers. Our supermarkets appeal strongly to these customers due to attractive fresh foods displays, convenient store location and competitive pricing. X5's supermarkets are typically located in residential areas, near or in a shopping center on a major road or traffic intersection.

At 31 December 2008, there were 207 supermarkets, with total net selling space of 222,362 square meters and presence in 23 Russian cities and Ukraine. Stores have net selling space of between 800 and 1,600 square meters and offer, on average, 15,000 items, comprised primarily of food products. Supermarkets offer a wider range of fresh produce than soft discount stores, particularly fruits and vegetables, meat, seafood and baked goods made fresh right in the store.

Supermarkets Store Count & Sales



2008 – Strong Growth Ahead of Expectations

Hypermarkets

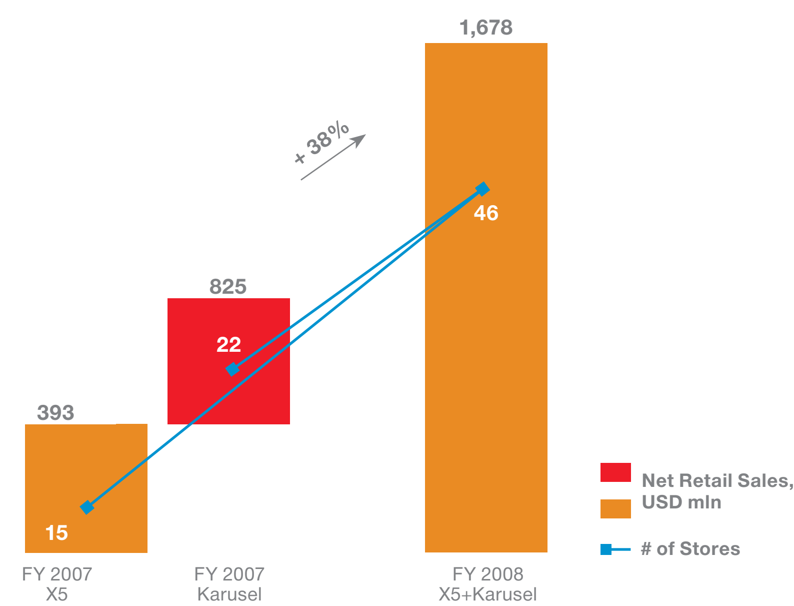
КАРУСЕЛЬ

Full year 2008 hypermarket net retail sales totaled USD 1,678 million on pro-forma basis*, an increase of 38% year-on-year in USD terms or 34% in rubles. This was driven by LFL sales growth of 19% and new stores' contribution of 15%. On a consolidated basis**, i.e. inclusive of the Karusel hypermarket chain's activities from the second half of the year, 2008 hypermarket net sales increased by 185% year-on-year to USD 1,120 million.

In June 2008, X5 Retail Group completed the acquisition of 100% of the share capital and assets of Karusel, a significant milestone for the Company's multi-format strategy (see "Breakthrough Year in Hypermarkets"). As part of the transaction, X5 acquired 24 operating hypermarkets (one of them opened in the third quarter of 2008), two hypermarkets under construction and eight land plots. The acquisition of Karusel was financed through the successful May 2008 placement of a USD 1,026 million rights issue of the Company's Global Depository Receipts (GDRs).

At 31 December 2008, X5 operated 46 hypermarkets, including compact and full size stores, with total net selling space of 232,462 square meters and presence in 15 Russian cities. Hypermarkets have, on average, net selling space of 5,000 square meters and offer 20,000 – 35,000 items, including various non-food goods. Non-food sales account for approximately 30% of total hypermarket sales.

Hypermarkets Store Count & Sales, Pro-Forma*



* Including acquired Karusel hypermarkets from 1 January 2007 and 2008, respectively.
** Excluding acquired Karusel hypermarkets in 2007 and including them from 30 June in 2008.

2008 – Strong Growth Ahead of Expectations

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Breakthrough Year in Hypermarkets

2008 was a breakthrough year for establishing X5's leadership in hypermarkets. With the acquisition of Karusel and organic store openings, hypermarket sales reached USD 1,678 million on pro-forma basis and we tripled our footprint to 46 stores in this format. As a result, hypermarkets amounted to 19% of X5's 2008 pro-forma net retail sales, compared to 7% of reported net sales a year earlier.

In June 2008, X5 completed the acquisition of the Karusel hypermarket chain, establishing leadership in this format as a complement to our number one positions in soft discounters and supermarkets. Hypermarkets have been the fastest growing segment of the Russian food retail sector for the past several years. Russian families are increasingly flocking to do their weekend shopping at these outlets, which they see as a modern, high quality alternative to traditional open-air markets that meet their needs for both food and non-food items.

X5's priority in the second half of the year was the integration of Karusel, including IT platform replacement in each of the stores; and centralisation of operations, purchasing, logistics, HR, administrative and financial functions. Despite the temporary sales impact of the three-to-four day closings at each acquired store, the integration programme's accelerated implementation and aggressive cost control enabled X5 to substantially exceed the Company's EBITDA margin target for 2008.

As part of the strategic relaunch of Karusel, X5 undertook the rebranding of all Perekrestok hypermarkets, a programme that was completed in February 2009. We also began fine-tuning the hypermarket marketing strategy to strengthen the format's appeals, including pricing policy, loyalty programmes and assortment, particularly in areas that will help our customers in this economy. We expect these changes to support like-for-like sales growth at each of our stores over the medium term as hypermarkets increase their share of the market.

And we are making sure that consumers know about the exciting changes at Karusel. Advertising and promotional campaigns during 2009 will strengthen consumer awareness of our "Everything Under One Roof – at Low Prices" concept, generating enthusiasm for Karusel as the ultimate destination for family shopping.

<< 2008 – Strong Growth Ahead of Expectations >>

Strengthened Regional Positions

North-West Region
- 64% Discounters
- 8% Supermarkets
- 28% Hypermarkets

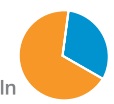
FY'08 Sales – USD 2,713 mln

Central Region
- 49% Discounters
- 41% Supermarkets
- 10% Hypermarkets

FY'08 Sales – USD 4,476 mln

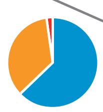
Privolzhsky Region
- 29% Supermarkets
- 71% Hypermarkets

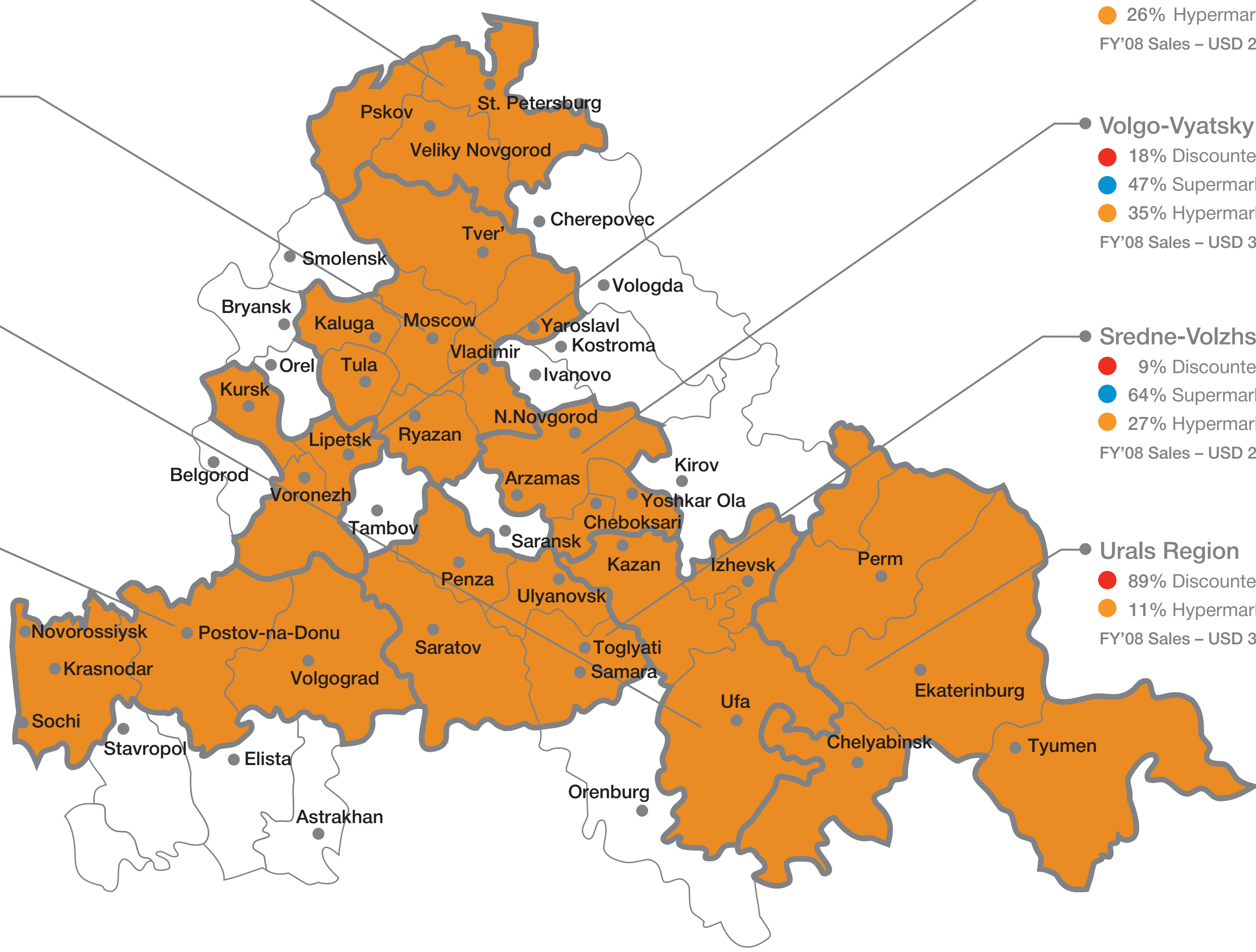
FY'08 Sales – USD 157 mln



South Region
- 2% Discounters
- 63% Supermarkets
- 35% Hypermarkets

FY'08 Sales – USD 178 mln

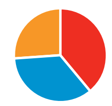




X5 Existing Operations

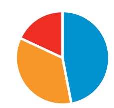
Centralno-Chernozemny Region
- 39% Discounters
- 35% Supermarkets
- 26% Hypermarkets

FY'08 Sales – USD 278 mln



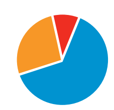
Volgo-Vyatsky Region
- 18% Discounters
- 47% Supermarkets
- 35% Hypermarkets

FY'08 Sales – USD 392 mln



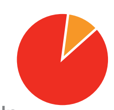
Sredne-Volzhsky Region
- 9% Discounters
- 64% Supermarkets
- 27% Hypermarkets

FY'08 Sales – USD 232 mln



Urals Region
- 89% Discounters
- 11% Hypermarkets

FY'08 Sales – USD 368 mln

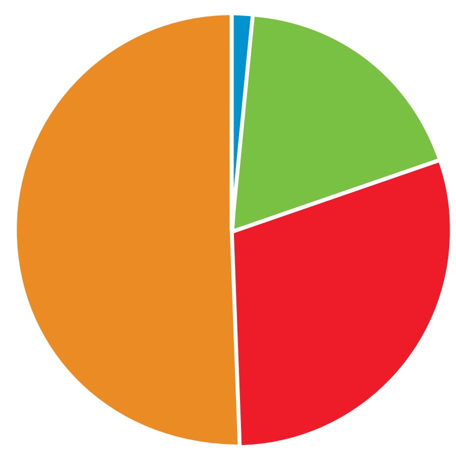


<< 2008 – Strong Growth Ahead of Expectations >>

As at 31 December 2008, X5 was present in 39 Russian cities and regions. We are the clear leader in Moscow and St. Petersburg, and are gaining market share in other urban regions. During the year, X5 entered 11 new cities in European Russia and the Urals. In addition, we strengthened our market leadership and increased our multi-format presence in regions with existing operations. Already by end 2008 we secured leadership in four large regional cities and surrounding areas, including Nizhny Novgorod, Lipetsk, Samara and Chelyabinsk.

At year-end, X5 operated 1,101 store in total, consisting of 848 soft discounters, 207 supermarkets, and 46 hypermarket stores, with total net selling space of 874.0 thousand square meters. X5 added a net 233 stores in 2008, including 24 acquired Karusel hypermarkets, 7 additional hypermarkets, 28 supermarkets and 174 soft discounters. Total net selling area increased 43% or by 264.8 thousand square meters, including 138.0 thousand for the acquired Karusel stores and 126.9 thousand through organic store openings.

FY 2008 Net Retail Sales by Region



Total FY 2008 net retail sales were USD 8,844 mln

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2008 – Strong Growth Ahead of Expectations

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2008 Sales, Store Locations and Selling Space

Region	Headquarter City	Net Selling Area ('000 sq. m.)	# of Stores			FY 2008 Net Retail Sales (USD mln)
			Discounters	Supermarkets	Hypermarkets	
Central	Moscow	355.1	368	114	10	4,476
North-West	St. Petersburg	269.4	276	20	15	2,713
Volgo-Vyatsky	Nizhny Novgorod	57.2	29	20	5	392
Urals	Ekaterinburg	56.1	139	–	2	368
Centralno-Chernozemny	Lipetsk	35.4	19	13	3	278
Sredne-Volzhsky	Samara	28.6	13	14	2	232
Privolzhsky	Kazan	28.2	–	7	5	157
South	Rostov-na-Donu	35.6	4	13	4	178
Ukraine	Kiev	8.5	–	6	–	50
Total		**874.0**	**848**	**207**	**46**	**8,844**

<< 2008 – Strong Growth Ahead of Expectations >>

Franchisee Partnerships and Buy-Outs

X5 has always considered franchisees and partnerships an important part of its business strategy. During 2008 we acquired three regional franchisees and established new partnerships for growth in convenience stores and pharmacies. At year end, the Company's franchisee store network totaled 607 stores including 571 Pyaterochka and 36 Perekrestok-Express outlets.

Given the market conditions facing many smaller retailers, we have increased our focus on opportunities to buy out X5 franchisees:

- In April 2008, X5 Group acquired 100% of the share capital and assets of Kama Retail company – a Pyaterochka franchisee in Perm and the Perm region. X5 gained 28 soft discount stores with a net selling area of 9.3 thousand square meters.
- In June 2008, X5 purchased a further 24% stake in a former franchisee operating Pyaterochka stores in Ekaterinburg and Chelyabinsk, raising X5's ownership interest to 75% with a view to purchase the remaining 25% interest in 2009.
- In December 2008, X5 acquired Agrotorg-Rostov – a Pyaterochka franchisee in the Rostov region. X5 will operate 21 Pyaterochka discount stores acquired in the transaction (over 7 thousand square meters of net selling space). This transaction enabled X5 to strengthen its presence in the south of Russia, and achieve a better balanced multi-format store portfolio.

In addition, X5 established partnerships to pursue growth opportunities in core markets by developing alternative formats:

- In third quarter 2008, X5 created a joint venture and signed a franchising agreement with Retail-Express to develop a chain of Perekrestok-Express small convenience stores. At 31 December 2008 the company operated 36 stores in Moscow. X5 holds a 40% interest in the company and has an option to purchase a further 30% interest in 2011 and the remainder in 2013.
- In December 2008 X5 signed an agreement with A5 Pharmacy Chain, which operates 180 pharmacy outlets with estimated FY 2008 net sales of USD 100 mln. A5 was granted preemptive rights to rent space adjacent to our food retail stores at commercial market rates, at properties owned or leased by X5 Retail Group. In its turn, X5 has a call option to acquire the entire A5 business in 2011 at a discount based on performance of the A5 pharmacies located on X5's premises.

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2008 – Strong Growth Ahead of Expectations

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Logistics & IT Infrastructure Development

Operational excellence is all about increasing the efficiency of the business as a foundation for long-term market leadership and profitable growth. At the end of the day, it's our customers who benefit from X5's efficiency, in the form of improved store offerings and reinvestment in our value propositions.

Logistics Infrastructure Development

Expansion in the Russian regions has been a major driver of X5's growth. Russia's geography presents unique operational challenges for retailers, particularly in the area of distribution logistics and supply chain management. Long distances and harsh winters require effective local and regional solutions.

Improvements in logistics infrastructure enable X5 to significantly enhance operational efficiency and competitiveness. For that reason, in 2007 the Company began an ambitious long-term project to build an integrated logistics infrastructure across the European part of Russia and the Urals. In 2008 X5 made a substantial step forward in implementation of this programme: The Company added a net nine Distribution Centres (DCs), increasing total warehouse capacity by 47.3 thousand square meters. By year-end, the Company operated 19 DCs totaling 191.0 thousand square meters.

2008 End of Year DC Locations

Region	# of DCs	Total warehouse capacity, ('000 sq. m.)	Functionality		
			Dry	Fruit & Vegetables	Fresh
Central	6	109.1	v	v	v
North-West	4	44.5	v	v	v
Volgo-Vyatsky	1	13.5	v	v	
Urals	5	18.2	v	v	v
Centralno-Chernozemny	2	2.4	v	v	
Sredne-Volzhsky	1	3.3	v	v	
Total	**19**	**191.0**			

2008 – Strong Growth Ahead of Expectations

IT Systems Upgrades

Investments in information systems are essential for efficient management of our operations and supplier relationships, enhancing our financial returns and planning X5's strategic development. Integration of the Karusel hypermarket chain was a major test of X5's IT systems efficiency: Within a period of three months, X5 completely replaced the IT systems for each of Karusel's 24 hypermarkets. While this process could have required store closures of up to two weeks per location, in the end the overhauls took only three to four days per store, minimizing the disruption of trading activities.

In 2008, X5 initiated and substantially brought forward several vital IT projects, including:

- **SAP for Retail:** X5 is implementing a modern enterprise resource planning (ERP) system to serve as the Company's technology backbone and manage processes from store operations to strategic planning. In March 2008, we began the first phase of implementation of SAP for Retail. By year end, we had a tested and approved blueprint; in 2009 the system will be launched in a pilot region.

- **Pyaterochka IT upgrades:** In November 2008, X5 began upgrading IT systems in Pyaterochka soft discounter stores, implementing the state-of-the-art proprietary platform already operating successfully in X5's supermarkets and hypermarkets. Upgrades are being rolled out in stages in each region of operations, starting in Nizhny Novgorod.

- **Shared Services Centre:** In 2008, the Company introduced a single centralizing Service Centre to handle all processes related to store supplies. This has substantially reduced paperwork at stores, simplified the consignment process, improved in-store labour productivity, enabled headcount reductions for accounting and administrative staff, and strengthened capacity for financial reporting.

2008 – Strong Growth Ahead of Expectations

Strong Financial Performance

Financial Review*

X5 delivered strong operating results in 2008, while also exceeding its financial targets for the year. This outperformance was driven by strong top-line growth coupled with efficient cost control measures, focused execution of the Karusel hypermarket chain integration programme, and lower costs associated with the Employee Stock Option Programme (ESOP).

On a consolidated basis, X5 reported net sales of USD 8,353 million, an increase of 57% year-on-year. The Company's 2008 consolidated financial results include the contribution from the acquired Karusel business from 30 June 2008.

To facilitate comparisons with prior year performance, the Profit & Loss figures discussed further in this section of the Annual Report are presented on pro-forma* basis, unless otherwise stated, i.e. including Karusel business from 1 January 2007 and 2008, respectively. These figures should be used in addition to, but not as a substitute for, the Consolidated Financial Statements included in this Annual Report. Pro-forma net sales grew 45% to USD 8,892 million in 2008. Pro-forma EBITDA rose 47% to USD 803 million, and adjusted pro-forma operating profit** increased 49% to USD 552 million.

In 2008, X5 recorded a non-cash goodwill impairment charge of USD 2,257 million and a mainly non-cash foreign exchange loss of USD 267 million, resulting in a reported net loss of USD 2,145 million pro-forma compared to a net profit of USD 156 million in 2007. These non-cash items do not affect EBITDA and other key metrics that the Company uses to evaluate its underlying financial and operational performance.

* Profit & Loss figures in this section of the Annual Report are presented on pro-forma basis, unless otherwise stated. Pro-forma figures include results of the acquired Karusel hypermarket chain from 1 January 2007 and 2008, respectively. We believe pro-forma numbers are useful because they allow investors to evaluate X5's operating results and financial performance for different periods on a more comparable basis. These figures should be used in addition to, but not as a substitute for, the Consolidated Financial Statements included in this Annual Report, which include Karusel's results only as from 30 June 2008, when the acquisition was completed.

** Adjusted operating profit and adjusted net profit are defined as operating profit/net profit before non-cash goodwill impairment charge.

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2008 – Strong Growth Ahead of Expectations

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Profit & Loss – Key Trends and Developments

Pro-Forma P&L Highlights

USD mln	FY 2008	FY 2007	*% change y-o-y*
Net Sales	**8,892.4**	**6,151.5**	***45%***
incl. Retail	8,843.8	6,109.6	*45%*
Gross Profit	**2,278.5**	**1,610.7**	***41%***
Gross Margin, %	*25.6%*	*26.2%*	
EBITDA	**803.2**	**547.6**	***47%***
EBITDA Margin, %	*9.0%*	*8.9%*	
Adjusted Operating Profit*	**552.5**	**370.7**	***49%***
Adjusted Operating Margin, %	*6.2%*	*6.0%*	
Impairment of Goodwill	(2,257.0)	-	*n/a*
Operating Profit	**(1,704.5)**	**370.7**	***n/a***
Operating Margin, %	*n/a*	*6.0%*	
Adjusted Net Profit*	**111.5**	**155.7**	***-28%***
Adjusted Net Margin, %	*1.3%*	*2.5%*	
Net Profit/(Loss)	**(2,145.5)**	**155.7**	***n/a***
Net Margin, %	*n/a*	*2.5%*	

* Adjusted operating profit and adjusted net profit are defined as operating profit/net profit before non-cash goodwill impairment charge.

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2008 – Strong Growth Ahead of Expectations

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Net Sales Performance

Net Retail Sales Dynamics by Format

USD mln	FY 2008	FY 2007	*% change y-o-y*
Hypermarkets (incl. Karusel)	1,678.0	1,218.0	*38%*
Supermarkets	2,701.8	1,944.7	*39%*
Soft Discounters	4,464.0	2,946.8	*51%*
Total Net Retail Sales	**8,843.8**	**6,109.6**	***45%***

Total net retail sales for 2008 increased to USD 8,844 million – a year-on-year increase of 45% in USD terms (41% in RUR terms). Discounters delivered outstanding results across all regions consistently throughout the year. Supermarkets' performance was very strong in the first three quarters, while fourth quarter results of supermarkets in certain regions were negatively affected by weaker trading conditions as a result of the financial crisis. Hypermarkets' performance in the second half of the year was affected by Karusel integration and sales loss attributable to temporary store closing for 3 to 4 days required for IT platform replacement at each acquired store.

Gross Profit & Gross Margin Analysis

USD mln	FY 2008	FY 2007	*% change y-o-y*
Gross Profit	**2,278.5**	**1,610.7**	***41%***
Gross Margin, %	*25.6%*	*26.2%*	

2008 gross profit increased 41% to USD 2,279 million and full year 2008 gross margin amounted to 25.6% compared to 26.2% in 2007. Year-on-year gross margin evolution is the result of X5's decision to invest in its value propositions in line with the Company's "closer-to-the-customer" pricing strategy, which drove industry-leading LFL sales growth this year. It also reflects the planned reduction in Karusel's gross margin as part of X5's post-acquisition value repositioning strategy.

<< 2008 – Strong Growth Ahead of Expectations >>

Selling, General and Administrative Expenses (SG&A)

USD mln	FY 2008	FY 2007	*% change y-o-y*
Staff Costs, incl.	(839.5)	(602.7)	*39%*
% of Net Sales	*9.4%*	*9.8%*	
ESOP	2.5	(47.7)	*-105%*
% of Net Sales	*0.0%*	*0.8%*	
Lease Expenses	(271.3)	(179.9)	*51%*
% of Net Sales	*3.1%*	*2.9%*	
Other Store Costs	(129.5)	(97.3)	*33%*
% of Net Sales	*1.5%*	*1.6%*	
Depreciation & Amortisation	(250.7)	(176.9)	*42%*
% of Net Sales	*2.8%*	*2.9%*	
Utilities	(149.0)	(103.6)	*44%*
% of Net Sales	*1.7%*	*1.7%*	
Third Party Services	(102.2)	(80.7)	*27%*
% of Net Sales	*1.1%*	*1.3%*	
Other Expenses	(86.4)	(78.1)	*11%*
% of Net Sales	*1.0%*	*1.3%*	
Total SG&A	**(1,828.7)**	**(1,319.3)**	**39%**
% of Net Sales	***20.6%***	***21.4%***	

2008 – Strong Growth Ahead of Expectations

SG&A expenses increased in absolute terms but declined as percentage of revenue as a result of tighter cost controls and smooth integration of Karusel. 2008 SG&A costs totalled USD 1,829 million – an increase of 39% year-on-year. This was mainly due to higher staff costs resulting from business expansion and wage inflation, higher leasing expenses and one-off Karusel integration costs.

Staff Costs

2008 staff costs, including expenses associated with the Employee Stock Option Programme (ESOP), totalled USD 840 million, an increase of 39% over 2007. Net of ESOP, 2008 staff costs grew 52% year-on-year to USD 842 million. X5 revised salaries throughout 2008 to reflect changes in the labour market. The average salary increase for store personnel was 14% in RUR terms, while wages for office staff rose 10%, resulting in a Company-wide average salary increase of 13% in RUR terms. X5 also implemented administrative staff headcount reduction of approximately 30% of Moscow-based and regional offices' personnel in the fourth quarter of 2008 in response to deteriorating market conditions. At the same time, the Company continued to hire store personnel for new openings. End of year number of employees totalled 60,467 compared to 44,092 as at 31 December 2007.

Lease Expenses

In 2008, lease expenses increased by 51% year-on-year to USD 271 million on the back of rent inflation in the first three quarters of 2008 as well as store expansion. In 2009, the Company initiated a process to revise its leases with a view to improve existing rents in line with market realities.

Utilities

In 2008, utilities expense increased 44% year-on-year to USD 149 million, due primarily to higher electricity, gas and other utility costs.

Impairment of Goodwill

With the recent substantial weakening of global equity markets and increased cost of capital, X5 recorded a non-cash goodwill impairment charge in the fourth quarter of 2008. Based on the goodwill impairment test conducted in accordance with IAS 36, X5 took a non-cash charge of USD 2,257 million against total goodwill amount on the Company's balance sheet of USD 2,732 million (as at 31 December 2008 at year-end exchange rate). Over 80% of the total goodwill amount relates to goodwill created through the accounting treatment of the 2006 merger of Perekrestok and Pyaterochka as a reverse acquisition under IFRS 3*.

The impairment charge is a non-cash item that does not affect X5's EBITDA, adjusted operating profit* or its adjusted net profit**, i.e. the key metrics that the Company uses to evaluate its financial performance. The charge was triggered by change in the Company's stock price, but does not impact the strategic value of X5's assets and is not indicative of the Company's ability to generate cash flow. The write-down of goodwill also has no impact on bank credit arrangements or bonds.

* Over 80% of the Company's goodwill was created as a result of the merger between Pyaterochka and Perekrestok in 2006, which was treated as a reverse acquisition (IFRS 3). In accordance with reverse acquisition accounting, goodwill amounted not to the actual price paid for Pyaterochka less fair value of its identifiable net assets, but to the total market capitalization of Pyaterochka at that time less fair value of its identifiable net assets, i.e. was several times larger than under regular acquisition accounting. Recent weakening in the Company's stock price was a technical trigger for this goodwill impairment.

** Adjusted operating profit and adjusted net profit are defined as operating profit/net profit before non-cash goodwill impairment charge.

<< # 2008 – Strong Growth Ahead of Expectations >>

*Non-Operating Gains and Losses**

USD mln	FY 2008	FY 2007	% change y-o-y
Adjusted Operating Profit*	**552.5**	**370.7**	***49%***
Impairment of Goodwill	(2,257.0)	-	n/a
Operating Profit	**(1,704.5)**	**370.7**	***n/a***
Finance Costs (net)	(163.7)	(138.1)	19%
Net FX (Loss)/Gain	(267.2)	31.4	n/a
Share of Loss of Associates	(0.6)	-	n/a
Profit before Tax	**(2,136)**	**264.1**	***n/a***
Income Tax, incl.	(9.4)	(108.4)	-91%
Current & Deferred Income Tax	(50.3)	(108.4)	-53%
Deferred Tax Income Resulting from Reduction in Tax Rate**	40.9	2.9%-	n/a
Net (Loss)/Profit	**(2,145.5)**	**155.7**	***n/a***
Net Margin, %	*n/a*	*2.5%*	
Adjusted Net Profit*	**111.5**	**155.7**	***-28%***
Adjusted Net Margin, %	*1.3%*	*2.5%*	

* Adjusted operating profit and adjusted net profit are defined as operating profit/net profit before non-cash goodwill impairment charge.
** Corporate income tax rate was reduced from 24% to 20% effective as at 1 January 2009.

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2008 – Strong Growth Ahead of Expectations

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Finance Costs

Net finance costs for 2008 amounted to USD 164 million versus USD 138 million a year ago due to higher average cost of short-term debt attributable to the rise in interest rates on RUR funding. At the same time, more than 65% of the Company's debt portfolio has no exposure to interest rate fluctuations, due to a LIBOR hedge on USD 1.1 billion syndicated loan (interest of appr. 4.2% p.a.) and the fact that RUR 9 billion bonds have a fixed coupon (7.6% p.a.). This limits the effects of rising interest rates on the Company's cost of debt, and the effective interest rate on X5's total debt for the full year 2008 was approximately 7.5%.

Foreign Exchange (FX) Loss

Due to the significant depreciation of the Russian ruble versus the U.S. dollar in the second half of the year (RUR/USD rate at 31 December 2008 reached 29.38 versus 24.55 at 31 December 2007), the Company reported FX loss of USD 267 million for 2008. This is a primarily non-cash item, resulting from revaluation of the Company's USD-denominated debt.

Income Tax

Income tax for the full year 2008 amounted to USD 9 million, which includes:

- USD 41 million deferred tax income resulting from the reduction in the corporate income tax rate from 24% to 20% effective 1 January 2009;
- USD 50 million current and deferred income tax expense.

Normalized full year effective tax rate (adjusted for goodwill impairment charge) amounted to 41.7%, which is higher than the statutory tax rate for two main reasons: shrinkage due to lost inventory is not tax deductable in Russia; and second, the reported FX revaluation loss was not 100% tax deductable.

Net Profit / (Loss)

X5 reported a USD 2,145 million net loss for 2008 due to goodwill impairment charge discussed above. Adjusted net profit (excluding goodwill impairment charge) totalled USD 112 million, a year-on-year decrease of 28%. The decrease in adjusted net profit year-on-year is attributable to the non-cash FX loss in the amount of USD 267 million for 2008.

2008 – Strong Growth Ahead of Expectations

*Consolidated Cash Flow – Key Trends and Developments**

USD mln	FY 2008	FY 2007	*% change y-o-y*
Net Cash from Operating Activities	629.3	427.5	*47%*
Net Cash Used in Investing Activities	(1,656.0)	(898.8)	*84%*
Net Cash from Financing Activities	1,194.2	470.0	*154%*
Effect of Exchange Rate Changes on Cash	(70.2)	12.8	*n/a*
Net Increase in Cash	**97.3**	**11.5**	***746%***

Cash Flow from Operating Activities

USD mln	FY 2008	FY 2007	*% change y-o-y*
Net Cash from Operating Activities before Changes in Working Capital	774.3	491.3	*58%*
Change in Working Capital	243.9	139.8	*75%*
Net Interest and Income Tax Paid	(388.9)	(203.6)	*91%*
Net Cash from Operating Activities	**629.3**	**427.5**	**47%**

Net cash from operating activities totaled USD 629 million versus USD 427 million a year ago on the back of strong operating performance and working capital improvement.

* Including Karusel's results only as from 30 June 2008, when the acquisition was completed (excluding Karusel in 2007).

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2008 – Strong Growth Ahead of Expectations

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USD mln	**FY 2008**	**FY 2007**	***% change y-o-y***
Decrease / (Increase) in Trade and Other Accounts Receivable	39.0	(65.1)	*n/a*
Increase in Inventories	(164.9)	(77.0)	*114%*
Increase in Trade Accounts Payable	239.7	330.2	*(27%)*
Increase / (Decrease) in Other Accounts Payable	130.0	(48.2)	*n/a*
Changes in Working Capital	**243.9**	**139.8**	***75%***

The decrease in trade and other accounts receivable totaled USD 39 million, as USD 160 million cash received in the third quarter of 2008 as refund from former Karusel shareholders offset the increase in accounts receivable driven by the growth of X5's business.

The increase in inventories of USD 165 million is attributable to inventory build-up in the fourth quarter 2008 needed to stock up new stores and ensure product availability for New Year and Christmas sales. These trends also explain the USD 240 million increase in trade accounts payable.

The increase in other accounts payable is mainly attributable to growth in accrued expenses and VAT payable.

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2008 – Strong Growth Ahead of Expectations

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Cash Flow from Investing Activities

USD mln	FY 2008	FY 2007	*% change y-o-y*
Cash Flows Used in Investing Activities, incl.			
Acquisition of Karusel	(658.9)	-	*n/a*
Net Cash Used in Investing Activities	**(1,656.0)**	**(898.8)**	***84%***

Net cash used in investing activities totaled USD 1,656 million. This includes the purchase of Karusel (24 operating hypermarkets, two stores under construction and eight land plots) in the amount of USD 659 million and USD 997 million of organic capital expenditures (CapEx), including store openings, tactical acquisitions, development of logistics infrastructure (in 2008 the Company added organically 127 thousand square meters of selling space and 47 thousand square meters of warehouse capacity), and IT and maintenance projects.

Cash Flow from Financing Activities

USD mln	FY 2008	FY 2007	*% change y-o-y*
Cash Flows from Financing Activities, incl.			
Proceeds from Loans	2,061.4	2,042.2	*1%*
Repayment of Loans	(1,999.8)	(1,563.3)	28%
Proceeds from Issue of Share Capital	999.5	-	*n/a*
Proceeds from Sale of Treasury Shares	144.2	-	*n/a*
Net Cash from Financing Activities	**1,194.2**	**470.0**	***154%***

Net cash from financing activities amounted to USD 1,194 million as the Company raised equity capital to finance the acquisition of Karusel and sold Treasury Shares for general corporate purposes.

2008 – Strong Growth Ahead of Expectations

*Consolidated Balance Sheet – Key Trends and Developments**

Selected Balance Sheet Data

USD mln	Consolidated Balance Sheet 31-Dec-08	Restated** Balance Sheet 31-Dec-07	*% change y-o-y*
ASSETS			
Non-Current Assets, incl.	**4,387.4**	**5,688.4**	***-23%***
Property, Plant and Equipment & Investment Property	3,223.2	2,119.6	*52%*
Goodwill	475.4	2,955.6	*-84%*
Intangible Assets	499.2	524.2	*-5%*
Current Assets, incl.	**1,273.4**	**861.2**	***48%***
Inventories of Goods for Resale	482.2	325.2	*48%*
Trade and Other Accounts Receivable	189.0	148.6	*27%*
Cash	276.8	179.5	*54%*
Total Assets	**5,660.8**	**6,549.6**	***-14%***
EQUITY AND LIABILITIES			
Total Equity	**1,638.4**	**3,243.7**	**-49%**
Non-Current Liabilities, incl.	**1,749.2**	**1,725.7**	*1%*
Long-Term Borrowings	1,481.0	1,464.7	*1%*
Current Liabilities	**2,273.2**	**1,580.2**	***44%***
Short-Term Borrowings	578.4	253.7	*128%*
Total Liabilities	**4,022.4**	**3,305.9**	***22%***
Total Equity and Liabilities	**5,660.8**	**6,549.6**	***-14%***
Net Debt	**1,782.6**	**1,538.9**	***16%***
Net Debt/EBITDA	**2.2x**	**3.2x**	

* Including Karusel's results only as from 30 June 2008, when the acquisition was completed (excluding Karusel in 2007).

** In line with IFRS requirements, 2007 Balance Sheet was restated to take into account final fair value adjustments for acquisitions completed in 2007 (Korzinka and Strana Gerkulesia retail chains).

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2008 – Strong Growth Ahead of Expectations

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Non-Current Assets

As at 31 December 2008 PP&E and investment property amounted to USD 3,223 million, an increase of 52% or USD 1,104 million since the beginning of the year. This increase is largely attributable to the acquisition of the Karusel hypermarket chain and organic expansion, partially offset by FX revaluation adjustment.

As at 31 December 2008 goodwill totaled USD 475 million versus USD 2,956 mln at the end of 2007. The decrease of USD 2,480 million is explained by goodwill impairment charge discussed above and FX revaluation adjustment.

Current Assets

Current assets increased by 48% or USD 412 million to USD 1,273 million compared to the beginning of the year. The increase is mainly attributable to the acquisition of Karusel (which resulted in increased accounts receivable, inventories, VAT and other taxes recoverable) and an increase in cash balance of USD 97 million to USD 277 million as of 31 December 2008.

Non-Current Liabilities

Non-current liabilities totaled USD 1,749 million, an increase of 1% or USD 23 million since the beginning of the year.

Current Liabilities

Current liabilities rose 44%, an increase of USD 693 million from the beginning of the year and amounted to USD 2,273 million at 31 December 2008. This increase is primarily attributable to the acquisition of Karusel (which resulted in an increase in debt and trade and other accounts payable as well as provisions).

Source of Strength in Russian Retail

2009 Priorities Support X5's Long-Term Leadership and Growth

The global financial crisis is having a profound effect on Russia, but X5's scale and ability to respond to changes in the marketplace give us clear competitive advantages and unique opportunities. We invite you to read further in this section on our Company's key priorities:

- **More Value for Customers:** X5 is winning customers with the "Power of 5" – our five key strategies for marketplace success: Multi-Format Approach; Price Leadership; Focus on Fresh, Assortment & Private Label; Purchasing Power; and Supply Chain Management.

- **Selective Expansion and Consolidation:** We will continue to expand organically and by acquisition, with a selective approach.

- **Partner of Choice for Suppliers:** Our position as a large, stable partner is becoming even more important for our almost 4,000 suppliers, a key competitive advantage for X5.

- **Leading on Efficiency:** We will drive operational efficiency by further developing our logistics infrastructure, supply chain management and IT systems.

- **Prudent Financial Management:** We will ensure a strong financial position through cash management, cost control, disciplined investment and balance sheet strengthening.

X5 is determined to deliver in 2009 and beyond. These actions will support our financial objectives for the year while positioning the Company for long-term leadership and outperformance in the Russian retail sector.

Source of Strength in Russian Retail

Rapid Response to Changing Market Situation

The global financial crisis has turned into a major challenge for the Russian economy and a test of the retail sector's resilience. As Russia's largest retailer, we recognize the role X5 must play to help customers and serve as a source of strength for the economy as a whole. After several years of strong economic gains, Russians face slowing income growth and rising unemployment. And we have seen signs of consumers trading down as they cut back on family spending.

Yet food retail remains one of the most resilient sectors as consumers shop for their basic needs. Surveys show that consumers – particularly those in large cities – are less likely to significantly cut food spending. Some 80 percent of X5's sales are generated in Moscow and St. Petersburg, where consumers are less affected by economic circumstances. And in every region we are present, X5 has a clear competitive advantage in offering customers everything they need at the lowest price.

The credit crunch has taken a major toll on smaller retailers and businesses, threatening them with bankruptcy as they struggle to pay banks and suppliers and re-stock their shelves. X5 has made selective acquisitions of troubled retailers that enhance our market positions, which we believe is part of an inevitable process of industry consolidation by stronger players. For many communities, this means stores will stay open for business under stable new ownership, and goods will flow uninterrupted to consumers.

The Russian Government has provided strong, continued support to the retail sector. Financing made available to leading retailers provides additional liquidity to thousands of producers and helps to ensure a well-functioning supply chain and efficient market for servicing consumer needs. The Government has also introduced a range of tax reforms and incentives to foster the positive long-term development of the sector.

X5 is doing its part to improve consumers' lives and provide economic benefits to employees, suppliers and the communities in which we operate. We believe these are the right actions to deliver benefits to our customers and shareholders – and help strengthen the Russian economy.

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Source of Strength in Russian Retail

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Winning Customers with the Power of 5

More Value for Customers

X5's performance in 2008 proves that if you deliver for your customers, your customers will deliver for you. The value proposition of X5's stores will continue to be our number one priority in 2009, with a focus on two key elements – price and assortment.

Consumers are increasingly price-conscious, and this is especially evident in the regions. It is more important than ever to ensure the affordability of products on our shelves. In 2009 we will continue to sharpen our price position, with continued gross margin investment in our customer value proposition in order to enhance X5's advantage over the competition and drive customer traffic.

As deteriorating product availability and empty shelves become a common feature of the Russian retail landscape this year, we are re-doubling our efforts to ensure our stores have everything our customers want, all the time. We are also rationalizing assortment to make sure that we increase shelf space utilisation and drive further improvements in sales per square meter.

Soft Discounters

Our Pyaterochka soft discounters are in an excellent position to benefit as consumers begin trading down, thanks to strong awareness of the brand's "Lowest Prices, Closest to Home" promise. The format's value proposition is built on price leadership, convenient location and attractive assortment, which have proven very compelling. We are taking aggressive steps not only to maintain Pyaterochka's market position but to attract new customer groups and consumers from non-organized retail and troubled competitors.

In 2009 we are launching a major step up in Pyaterochka's price leadership: Our "lowest price in the market" concept will now cover everything on our shelves, not just basic staples. New advertising and PR campaigns will encourage customers to shop at our stores for all their household needs. Another area of focus is assortment. We plan to decrease the number of products we stock by approximately 20%, from an average 3,500 SKUs to 3,000, so as to drive a shift towards private label offerings and enhance the efficiency of promotional campaigns.

Supermarkets

Over three quarters of X5's supermarkets' sales come from Moscow and St. Petersburg, where we continue to see stable demand from medium and high-income customers for a wide assortment of quality offerings in fresh and some premium items. Clearly, in times of crisis, supermarkets are exposed to trading-down trends, particularly in regions hard hit by slowdowns in certain industries. This is having a pronounced effect on the competitive landscape, and X5 expects Perekrestok to emerge with increased market share and superior prospects for growth and profitability as economic recovery takes hold.

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Source of Strength in Russian Retail

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Perekrestok enjoys over 50% market share in supermarkets in Russia and is widely recognized as offering the best value for money of any supermarket. To drive this home and pull in customers from competitors, our priorities for 2009 are to enhance assortment and quality, while continuing to offer the most attractive supermarket prices. We are rationalizing assortment, increasing private label sales and further enhancing our focus on fresh and prepared foods, one of Perekrestok's strongest competitive advantages.

X5's focus on large cities mitigates some of the economic sensitivity the country is facing. In the smaller regional cities most affected by the crisis, the Company has initiated a review of its store portfolio to focus on areas with stable demographics for supermarkets. Stores that could benefit from conversion into soft discounters will be remodeled and rebranded as Pyaterochka.

Hypermarkets

КАРУСЕЛЬ

Offering low prices and wide assortment, Karusel hypermarkets are a convenient alternative to open-air markets, which historically have been very popular among Russians hit by hard economic times.

With the integration of Karusel and rebranding of Perekrestok hypermarkets now complete, X5 is focused on fine-tuning its hypermarket concept to reflect economic realities. We are strengthening the format's appeals, including pricing strategy, promotions, loyalty programme and assortment.

We expect improved performance, especially in sales per square meter, where Karusel lagged historically and which we see as a significant medium-term opportunity. Due to the high cost and long lead times for adding hypermarket selling space, we are putting a priority on like-for-like sales improvements driven by the re-launch and rebranding of our nearly 50 stores rather than new store construction in this format. We only plan to open stores that are already at an advanced stage of construction.

Source of Strength in Russian Retail

Selective Expansion and Consolidation

In 2009 X5 is continuing to add selling space, but we apply a very conservative approach towards new project approval and investments. We are prioritizing growth in soft discounters over other formats, and leasing rather than buying up properties for new store locations.

Pyaterochka has the best short-term profile for new store openings due to its clear competitive strengths and the low capital requirements and short payback period for each new store. We will continue opening new supermarkets and hypermarkets that are already at an advanced stage of construction. Supermarkets will be opened on a very selective basis only in Moscow, St. Petersburg and several other large cities. Additional hypermarket projects will be undertaken only if location and economics offer outstanding value.

To manage resources efficiently, we plan to limit expansion in 2009 to core regions where X5 already has established strong positions. Our CapEx is largely discretionary and the Company has flexibility to adjust expansion plans in response to changes in financial markets.

The financial crisis is providing strong players with unique opportunities to acquire smaller retail chains, especially those that are having trouble refinancing or servicing their debt. X5 views this as an efficient way to strengthen market leadership opportunistically, with the prospect of superior economic returns. The first deal of this type – the buy-out of X5's franchisee in Rostov-na-Donu in December 2008 – enabled X5 to strengthen its presence in South of Russia overnight, while rescuing the regional company from bankruptcy, saving jobs, keeping stores open to serve consumers and extending a liquidity lifeline to suppliers from a large and stable customer.

Supplier Relationships – Partner of Choice

X5's leadership in Russian retail makes us the partner of choice for almost 4,000 suppliers, ranging from local food producers to multinational consumer product groups. This partnership is one of X5's key competitive advantages for delivering a superior customer value proposition and enhancing profitable growth.

Our supply chain offers continuous opportunities to leverage X5's scale, purchasing power, regional footprint and logistical infrastructure to increase efficiency and obtain the best product assortment and terms from suppliers. We re-invest these gains in our customer value proposition, offering lower prices, promotions and loyalty programmes to drive traffic growth at our stores.

The financial crisis has further increased X5's importance in the eyes of suppliers. Due to the credit crunch, many smaller, financially-squeezed retailers have reportedly stopped or are substantially delaying payments to suppliers. To guarantee a functioning supply chain and continuous flow of goods to Russian consumers, X5 defined several major priorities for supplier relations in 2009:

- Ensure assortment availability and efficient utilisation of shelf space
- Enhance local supplier share of regional store sales
- Increase percentage of direct contracts with suppliers
- Expand the range of private label products
- Pay suppliers strictly on time according to agreed terms

Source of Strength in Russian Retail

Assortment availability and shelf space utilisation: Our customers must be able to find everything they want when they shop at our stores. In 2009 X5 will work with the most reliable suppliers to ensure product availability and timely on-shelf replenishment, developing our logistics network and back-up ordering and distribution systems. We will also rationalize assortment to give priority to category leaders and ensure efficient utilisation of shelf space.

Local suppliers' share of regional store sales: Local sourcing is crucial for enhancing our stores' appeal to consumers in Russian regions, and a prerequisite for product affordability.

Direct contracts with suppliers: Going direct enables X5 to "cut out the middle man" and minimize its exposure to third-party distributors, reducing non-delivery risk and helping to maintain low prices.

Private label expansion: As Russian consumers become more price-conscious, X5 sees opportunities to shift consumption towards private label products. This means X5 can offer lower prices for products of similar quality while supporting margins. For producers, it means guaranteed volumes from a large and stable partner.

Paying suppliers strictly on time has always been our credo: But now it is also an advantage over the competition, as we provide a stable source of liquidity to supplier partners affected by the credit crisis. This includes shortening payment days for suppliers who are able to restrain prices and help us control in-store inflation.

Distribution and IT Infrastructure – Leading on Efficiency

We are reinforcing our efficiency focus both at the operational and headquarters levels this year. This includes investment in logistics capacity, upgrading IT infrastructure and optimising business processes. Aside from reducing costs, our logistics infrastructure and supply chain management performance are important for ensuring in-store product availability, which maximizes our ability to make every sale and increases customer loyalty versus the competition by enhancing our brand image of quality, reliable service.

In 2009 X5 has plans for adding new distribution centres (DCs) and expanding existing ones. The objective is to increase average supply centralization (a measure of supply chain efficiency) from 50% at the end of 2008 to 57% by the end of 2009. To minimize CapEx, a majority of new DCs will be leased rather than owned facilities. Strategically, our goal is to have at least one large multi-format and multifunctional DC in each large city where we are present by year-end. We also plan to open our first national non-food DC in the Moscow region, to increase operational efficiency in hypermarkets.

After a successful launch of a pilot project for Warehouse Management System (WMS) in one of our DCs, in 2008 X5 began the rollout of WMS in other distribution centres. WMS controls the movement and storage of goods within a warehouse and processes the associated transactions, including shipping, receiving, and picking. The Company plans to introduce WMS in all of its DCs by the end of 2012.

WMS will be complemented by voice technology to improve order picking accuracy and productivity of warehouse personnel. Moving from a paper-

Source of Strength in Russian Retail

based system to voice-detected picking typically reduces errors by 80 to 90% and supports a picking accuracy rate of one error per thousand picks, while staff productivity is expected to improve by up to 20%.

X5 plans to introduce the Transportation System to increase logistics management and operational cost efficiency through route optimization and demurrage reduction. The Company also plans to begin using railway shipments over large distances as a cost-effective logistics solution.

In 2009 the Company will continue implementation of its SAP enterprise resource management platform. SAP for Retail will be launched in a pilot region – Nizhny Novgorod, and in 2010 we plan to extend it to all regions of our operations. At the end of 2008, the Company also finalized the blueprint for development of SAP HCM (HR), which consists of two modules – HR management and payroll. The HR management module will be launched in late 2009 – early 2010, and payroll – in 2010.

Lastly, in 2009 X5 plans to upgrade discounters' IT systems in three additional regions. By 2011, we expect to have completed this programme for all the remaining regions of operation.

Prudent Financial Management

X5 has proved its ability to quickly react to changes in the financial and economic situation. We scaled back capital expenditures (CapEx) for 2008 and 2009 and initiated a new cost optimization programme. In addition, we have significantly improved X5's near-term liquidity position and increased cash generation to strengthen the Company's balance sheet.

In 2009, X5 has adopted a prudent financial management approach to the current liquidity-constrained market environment:

- Our 2009 CapEx programme will be limited to a maximum RUR 14 billion.
- We will be very conservative on new project approvals, focusing on investments with the highest returns and shortest possible paybacks.
- Most projects are discretionary, and the Company will use this flexibility to quickly adjust expansion plans in response to the situation in the financial markets.
- X5 will further reinforce cost controls and pursue every opportunity to support margins and cash flows through increased operational efficiencies and savings at the SG&A level.

In terms of cash flow management, in late 2008 and early 2009 X5 has used its healthy cash generation to strengthen X5's financial position:

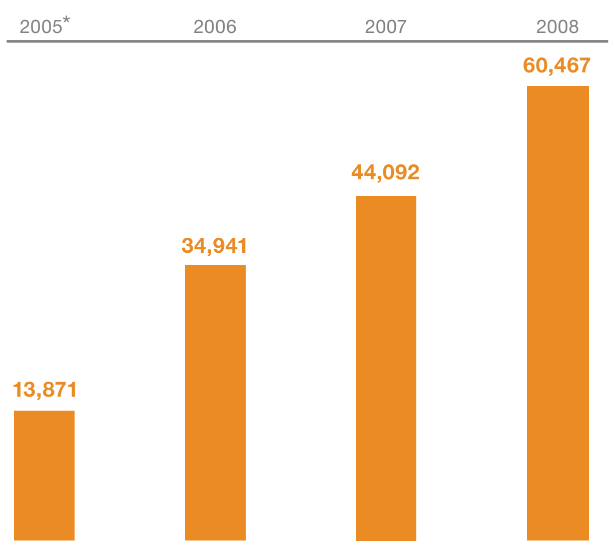
- As a result of efforts to deleverage the balance sheet, the Company's Net Debt/EBITDA ratio has decreased from 3.2x at the beginning of 2008 to 2.2x as at 31 December 2008.
- X5's short-term liquidity position is strong thanks to available credit resources almost twice the level of the Company's short-term debt.
- Our short-term foreign exchange (FX) exposure was eliminated by the end of first quarter 2009 as a result of 100% repayment of short-term dollar-denominated debt.

For the remainder of 2009, we expect that our cash flow generation and prudent approach to financial management will enable the Company to improve its debt maturity profile and further reduce leverage.

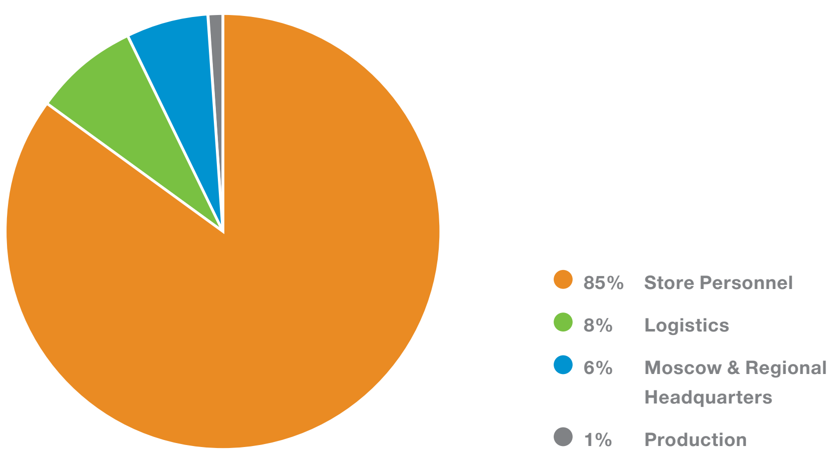
Employees & Communities

Employees

End of Year Number of Employees



2008 Staff Breakdown by Function



* 2005 number includes Perekrestok employees only.

2008 was an extraordinary year for employee contributions to X5's success. In line with more than 50% growth in the size of our business, staff levels increased to 60,467 at the end of the year compared to 44,092 employees in 2007.

The integration of the Karusel acquisition was a major – and successful – test for X5's human resource management function. We welcomed 3,300 new employees to our Company, educating them in our culture and business practices and fully centralizing the HR function. In total, X5 integrated personnel of five acquired companies during the year, while also improving training procedures and strengthening employee loyalty with enhanced compensation and benefits policies and the development of X5's corporate culture.

In the fourth quarter, X5 undertook steps to optimize headquarter and regional office headcount in response to changing market conditions. This programme included a salary freeze and approximately 30% headcount reduction for administrative and management staff in the offices.

In 2008, the Company introduced a new Code of Conduct for all employees. Among its main tenets are strict compliance with the law and professional integrity, respect for people and customer orientation.

Employees & Communities

Training as a Competitive Advantage

X5 Retail Group relies on knowledgeable in-store personnel to provide quality customer service – a key competitive appeal of X5's formats – and we also need talented managers to drive operational performance and execute strategic projects. The Company therefore has a deep commitment to employee education, operating 7 regional multi-format training centers and running numerous programmes to provide employees with professional development opportunities.

X5 places great emphasis on the quality of service in our stores, and we have consistently developed our training programme for store personnel. In 2009 the programme will be made even more practical, with a major part of the training taking place in our best stores in each region rather than in a classroom setting.

X5 is also strengthening the business management skills and operational expertise of midlevel and senior executives. In 2008 we implemented a successful programme to develop and promote talented managers with vertical and horizontal career-building opportunities within the organization. Another training programme provides managers with week-long field internships in all three formats to increase their understanding of in-store operations. Starting in 2009, this programme becomes mandatory orientation training for all new office employees, underscoring our top-to-bottom commitment to enhancing retail know-how.

As part of our cost control focus, in 2008 we rolled out a new training programme, "Finance for Non-Financial Staff". This teaches managers about effective budgeting and cost control techniques – demonstrating that everyone can play a role in making X5 a stronger and more efficient business.

Lastly, in 2008 we launched X5 Corporate University to provide orientation for all new office employees on the Company's values, principles, operations and strategy. We also focus on leadership development, time and conflict management, and delegation and communication skills. In 2009, we plan to launch distance-learning to enable employees to develop their professional skills at convenient times and in a more cost-effective way for the Company.

Employees & Communities

Employee Compensation and Motivation

X5 uses a complex and efficient system of key performance indicators (KPI) to determine compensation for executives and managers. Each year the Company revises these KPIs to ensure that they correspond with the Company's strategic objectives.

In 2008, X5 significantly increased its focus on strengthening staff loyalty with Company awards, events, corporate culture and values programmes and enhanced compensation and social benefits. This included recognition of best-in-class and long-serving employees and managers with special awards and bonuses.

Another way X5 retains talented employees is by offering social benefits. This includes health insurance, staff meals for store and logistics personnel, social payments and other benefits. In 2008, X5 signed a number of partnerships to provide our employees with special discounts for various services, including cleaning, exercise facilities, entertainment centers, dancing schools, etc. The Company plans to widen these partnerships to travel, recreation and transportation services.

Industry Recognition for Top Executives

X5 Retail Group's achievements and professional excellence were recognized this year with numerous industry awards. X5's CEO Lev Khasis was named best manager in the Russian Consumer Goods Sector by international finance magazine *Institutional Investor*. The National Association of Managers recognised three X5 top-managers with awards in various retail industry categories: Lev Khasis won the award for Executive Managers, Yury Kobaladze – for Public and Corporate Relations Directors, and Teimur Shternlib for IT Directors. Anna Kareva was named Best Investor Relations Officer in Russia by *IR Magazine Russia & CIS*. For the second consecutive year, the Company's lawyers were named the Best Russian Legal Department in Retail by the Russian magazine *Corporate Lawyer* and executive search consultant firm Pynes & Moerner.

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Employees & Communities

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Communities and Society – Commitment to Bettering People's Lives

X5 Retail Group is a major provider of investment and employment in the regions and communities in which we operate. In addition, the Company actively participates in social programmes and humanitarian projects as part of our commitment to bettering the lives of ordinary Russians. X5's efforts were recognized at the 7th International Retail Director Congress 2008 organized by BBCG in association with the World Retail Congress and the Russian Retail Companies Association. X5 was named the overall winner in the category "Retail Company of the Year" and was also one of the award winners in the category "Social Responsibility in the Community". The Company was ranked number one in "The Company of the Year in Retail" rating by *Company* magazine. Additionally, X5 ranked number one on the list of "Top 100 Russian Retail Businesses" and was named "Best Retail Chain for FMCG" at the XI Russian Trade Summit.

Scoring a Goal for Russian Football

X5 Retail Group is the general partner of the Russian Football Union and an official partner of the Russian national football team. The Company provides financial support for Russian football as a way to promote active, healthy lifestyles. This includes funding the construction of community football fields and sports programmes that provide education and training for talented young athletes.

Liniya Zhizni (Lifeline) – Fighting Child Mortality

X5 Retail Group supports Liniya Zhizni fund. The primary goal of Liniya Zhizni is to reduce child deaths from serious, treatable illnesses by modernising the country's health care system. In 2008 X5 participated in "A Minute for Life" charity programme to combat child mortality helping to raise more than RUR 7.2 mln. Our customers also showed their generous support for this worthy cause, donating RUR 5.3 mln in collection boxes located in Perekrestok's stores.

"Perekrestok Goes to School!"

X5 is participating in initiatives to improve Russia's education system. This includes the "Perekrestok Goes to School!" programme. Since its 2005 launch with the Moscow Department of Education and Moscow City Government the programme has expanded significantly: in 2008 more than 180 Perekrestok stores in 40 Russian cities participated in the programme, and 570 schools won valuable prizes this year. Winners received over 3,000 computers and other IT equipment.

In 2008, X5 also signed an agreement on scientific research and cooperation with the Systems Analysis Institute of the Russian Academy of Sciences ("ISA RAN"). This is a first step on the way to establishing a research institute to focus on modern retailing.

Caring for Vulnerable Segments of Society

X5 actively participates in the lives of those vulnerable in our society. In August 2008 X5 provided humanitarian assistance to the suffering population of South Ossetia. X5 also pays particular attention to the needs of Russian war veterans, pensioners and disabled persons by providing special discounts and other benefits. In December 2008, X5 opened its first store specially equipped for physically challenged customers.

Shareholder Information

X5 Retail Group's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs) (LSE ticker: FIVE). Each GDR represents an interest of 0.25 per ordinary share.

As at 31 December 2007, X5's share capital consisted of 54,120,038 issued ordinary shares with a nominal value of €1.00 each.

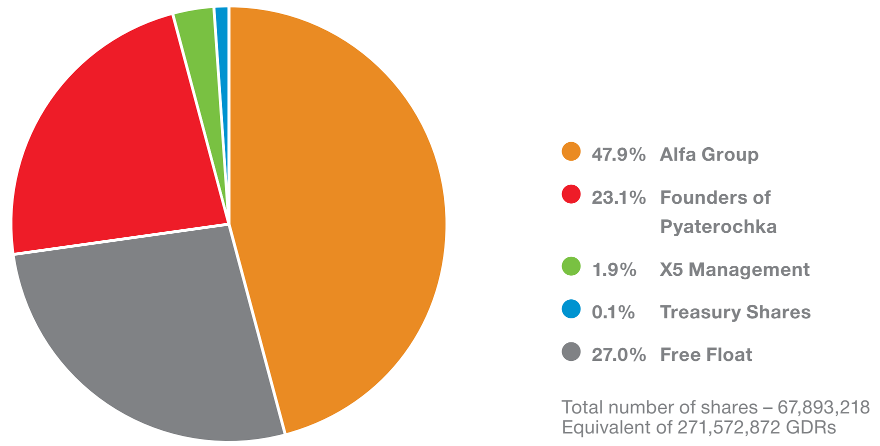
In May 2008 X5 successfully completed USD 1,026 million rights offering to existing shareholders to acquire newly issued GDRs in the Company for the purpose of financing the acquisition of Karusel and associated restyling and integration costs. As a result of the offering, X5's share capital increased from 54,120,038 to 66,146,713 issued ordinary shares, an equivalent of 264,586,852 GDRs.

In June 2008 X5 issued 1,746,505 new shares (equivalent of 6,986,020 GDRs) in order to settle 25% of the purchase price of the Karusel hypermarket chain. As a result, X5's share capital increased from 66,146,713 to 67,893,218 issued ordinary shares, an equivalent of 271,572,872 GDRs.

During 2008 X5 repurchased 317,082 GDRs (79,270.5 ordinary shares) as Treasury Stock to fund its Employee Stock Option Programme (ESOP).

As at 31 December 2008 X5's share ownership structure was as follows: Alfa Group – 47.9%, founders of Pyaterochka – 23.1%, X5 Management – 1.9%, treasury shares – 0.1%, free float – 27.0%.

X5 Share Capital as at 31 December 2008



Corporate Governance & Risk Management

Corporate Governance Report

As a Dutch public limited liability company whose global depositary receipts are listed on the London Stock Exchange, X5 Retail Group N.V. is obliged to report on compliance with the Dutch Corporate Governance Code in its Annual Report and to explain any instances where it does not apply the principles or best practice provisions of the Code.

In accordance with the Code, a broad outline of the corporate governance structure of the Company is presented in this section, including any deviations from the Code's principles and best practice provisions. The Company adheres to the principles and best practice provisions of the Code as far as may be reasonably expected, while complying with local legislation and applying market practices in the countries in which the Company operates.

The Management and Supervisory Boards

X5 Retail Group N.V. adopted a two-tier system of corporate governance, comprising a Management Board and a Supervisory Board. Both the Management Board and the Supervisory Board are accountable to the General Meeting of Shareholders for the performance of their duties.

Duties of the Management Board

The Management Board is responsible for X5's overall management. It is accountable for the Company's pursuit and achievement of corporate goals and objectives, its strategies and policies. The Management Board is responsible for complying with all relevant legislation and regulations, for managing the risks associated with the Company's activities, for financing and external communication. The Management Board is required to report related developments to, and discusses the internal risk management and control systems with the Supervisory Board and its Audit Committee.

Members of the Management Board

The Management Board currently consists of three members. The table below shows the current members of X5's Management Board and their respective terms of appointment.

Name	Year of Birth	Position	Year of Initial Appointment	End of Current Term of Appointment
Mr. Lev Khasis	1966	Chief Executive Officer, Chairman of Management Board	2006	2010
Mr. Evgeny Kornilov	1969	Chief Financial Officer	2008	2012
Mr. Frank Lhoëst	1962	Corporate Secretary	2007	2011

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Corporate Governance & Risk Management

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Lev Khasis, a Russian citizen, is the former Chairman of the Perekrestok Supervisory Board and a founding member of Investment Company Fosbourne, which invests in various businesses, including retail businesses in Russia. In addition to his activities at Perekrestok, Mr. Khasis previously held a number of senior board and management positions including Chairman of the Board of OJSC "Trade House GUM", Chairman of the Board of OJSC "Trade House TsUM" and Chief Executive Officer of OJSC Samara Trading House. Mr. Khasis is a recognized business leader in Russia and has received a number of public awards including 2004 Businessman of the Year and 2003 Person of the Year – in the nomination Head of Retail Business. For two consecutive years, in 2007 and in 2008, he was ranked Number 1 Retail Manager in a ranking by the National Association of Managers and Kommersant Publishing House.

Since February 2008 Mr. Khasis serves as the Chairman of the Russian Association of Companies of Retail Trade (ACORT).

Mr. Khasis graduated from the Aircraft Construction Faculty of the Samara Aircraft University, from the Banking Faculty of the Financial Academy of the Government of the Russian Federation and from the Law Faculty of the University of the Interior Ministry of the Russian Federation and holds a PhD in Economics, a PhD in Law and a PhD in Technology.

Evgeny Kornilov, a Russian citizen, was appointed Chief Financial Officer of X5 on 18 January 2008. Mr. Kornilov was initially appointed as the Chief Financial Officer of Perekrestok in August 2006 and became the Deputy Chief Financial Officer of X5 in 2007. He graduated from the Moscow Foreign Affairs University with a degree in Economics, International Trade and Foreign Languages. Prior to joining X5, Mr. Kornilov was the Chief Financial Officer and Chief Controller of SUN Interbrew in Russia and worked in the Management Consultancy and Audit Services practice of PricewaterhouseCoopers in Russia between 1992 and 1999.

Frank Lhoëst, a Dutch citizen, was appointed a Director B and Corporate Secretary of X5 on 5 November 2007. Since 1991, Mr. Lhoëst has held several positions at Fortis Intertrust, from account manager in The Netherlands Antilles to founder and director of the Fortis Intertrust office in Vienna, Austria. In 2002, Mr. Lhoëst established the Intellectual Property Group of Fortis Intertrust in The Netherlands. Mr. Lhoëst graduated from the Leiden University with a degree in Law.

Duties of the Supervisory Board

The Supervisory Board is responsible for advising and supervising the Management Board and the general course of affairs of X5 and its businesses. In performing its duties, the Supervisory Board takes into account the relevant interests of the Company's stakeholders, and, to that end, considers all appropriate interests associated with the Company. Major business decisions require the approval of the Supervisory Board. The Supervisory Board also supervises the structure and management of systems of internal controls as well as the financial reporting process. The Supervisory Board meets at least four times per year.

Members of the Supervisory Board

The General Meeting of Shareholders determines the number of members of the Supervisory Board. The Supervisory Board currently consists of eight members.

Corporate Governance & Risk Management

The Supervisory Board has prepared a profile of its size and composition, taking account of the nature of the Company's business and its activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board evaluates the profile annually.

According to the Rules governing the Principles and Practices of the Supervisory Board, a person may be appointed to the Supervisory Board for a maximum of three terms of four years. The Supervisory Board has prepared a Retirement and Re-appointment Schedule to prevent, to the greatest extent possible, re-appointments occurring simultaneously. Both the Supervisory Board profile and rotation plan can be viewed on the Company's website.

The table below shows the current members of the Supervisory Board and their respective terms of appointment.

Name	Year of Birth	Position	Year of Initial Appointment	End of Current Term of Appointment
Mr. Hervé Defforey	1950	Chairman	2006	2010
Mr. Mikhail Fridman	1964	Member	2006	2009
Mr. Alexander Savin	1969	Member	2006	2009
Mr. David Gould	1969	Member	2006	2010
Mr. Vladimir Ashurkov	1972	Member	2006	2012
Mr. Carlos Criado-Pérez Trefault	1952	Member	2007	2011
Mr. Alexander Tynkovan	1967	Member	2008	2012
Mr. Stephan DuCharme	1964	Member	2008	2012

<< Corporate Governance & Risk Management >>

Hervé Defforey, a French citizen, is a partner of GRP Partners, London and Los Angeles. He heads GRP Partners' European venture capital activities and serves on the boards of the following companies: IFCO Systems N.V. and Ulta, Corp. Mr. Defforey formerly held positions at Carrefour, S.A. (Paris), Azucarera EBRO S.A. (Madrid), BMW A.G. (Munich) and graduated from the University of St. Gallen, Switzerland with a degree in Business Administration.

Mikhail Fridman, a Russian citizen, serves as Chairman of the Supervisory Board of Alfa Group and is one of Alfa Group's principal founders. He also serves as the Chairman of the Board of Directors of TNK-BP and is a member of the Board of Directors of Alfa Bank and VimpelCom. He is also a member of the International Advisory Board of the Council of Foreign Relations (USA). Mr. Fridman graduated from the Moscow Institute of Steel and Alloys.

Alexander Savin, a Russian citizen, serves as Managing Director of A1 Group. His main non-executive/ancillary positions include member of the Supervisory Board of Alfa Group and member of the A1 Group Advisory Committee. Mr. Savin formerly supervised direct investments in the energy sector at Renaissance Capital Group and has had experience as a strategic consultant at Bain & Company in Moscow, London and Boston. Mr. Savin graduated from the Moscow State University with a degree in Economic Geography and Harvard Business School with an MBA.

David Gould, a U.S. citizen, serves as Deputy Director for Corporate Development Finance and Control at Alfa Group. He also serves as member of the Board of Directors of Alfa Finance Holdings SA. Mr. Gould formerly held positions at PricewaterhouseCoopers and graduated from Colgate University with a Bachelor of Geography and Economics and a MBA-MS in Accounting from Northeastern University. He qualified as a Certified Public Accountant in 1993 and a Chartered Financial Analyst in 1999.

Vladimir Ashurkov, a Russian citizen, serves as Director of Group Portfolio Management and Control at Alfa Group. His main non-executive/ancillary positions include member of the A1 Group Advisory Committee and member of the Russian Technologies Advisory Committee. Prior to joining Alfa Group, Mr. Ashurkov served as Vice President of Strategic Development in Industrial Investors Group (which owns the controlling stake in Far East Shipping Company) and gained experience in other transport and logistics companies and investment banks. Mr. Ashurkov graduated from Moscow Institute of Physics and Technology with a Bachelor of Science (Physics) and from the Wharton School, University of Pennsylvania, with a Master of Business Administration.

Carlos Criado-Pérez Trefault, a Spanish citizen, serves as the Executive Chairman of Dinosol Supermercados and as member of Permira UK Advisory Board. He is also a senior adviser to UBS Bank. He has held a number of positions in various companies such as SHV Makro, Wal-Mart International and Safeway Plc in the past. Mr. Carlos Criado-Pérez Trefault graduated from Darden School Management Course, University of Virginia.

Alexander Tynkovan, a Russian citizen, is the founder and CEO of "M.Video", a leading consumer electronics and home appliance retailer in the Russian Federation. Mr. Tynkovan graduated summa cum laude from the Moscow Energy Institute, majoring in Aircraft Electric Equipment.

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Corporate Governance & Risk Management

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Stephan DuCharme, a U.S. citizen, currently holds a portfolio of positions, including as member of the Investment Committee of Alfa Private Equity Partners, a Russian private equity fund. Previously, he held positions with SUN Group, Alfa Group, European Bank for Reconstruction and Development (EBRD) and Salomon Brothers Inc. Mr. DuCharme has served on the Boards of Directors of CSA Czech Airlines, Alfa Bank, SUN-Interbrew Ltd. and JSC SUEK. He graduated with distinction from the University of California at Berkeley and received his MBA from INSEAD.

Committees of the Supervisory Board

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its five permanent committees: the Audit Committee, the Remuneration Committee, the Selection and Appointment Committee, the Related Party Committee and the Strategy Committee. Each committee is composed of at least two members, at least one of whom must be independent within the meaning of the Dutch Corporate Governance Code. The members of each committee are appointed by and from the Supervisory Board. The committees operate pursuant to terms of reference established by the Supervisory Board, in accordance with the Dutch Corporate Governance Code. The terms of reference of these committees can be viewed on X5's website

Audit Committee. The Audit Committee assists the Supervisory Board in fulfilling its supervision and monitoring responsibilities in respect of the integrity of X5's financial statements, system of internal business control and risk management, financing and finance related strategies and tax planning. It furthermore advises in respect of the appointment of the external auditor by the General Meeting of Shareholders and his remuneration.

Remuneration Committee. The Remuneration Committee recommends the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders prepares proposals to the Supervisory Board for remuneration of the individual members of the Management Board in line with the remuneration policy and advises the Management Board on the level and structure of compensation for other senior personnel.

Selection and Appointment Committee. The Selection and Appointment Committee advises in respect of the selection and appointment of members of the Supervisory Board and the Management Board. At least annually the Selection and Appointment Committee evaluates the size and composition of the Supervisory Board and the Management Board, as well as the functioning of the individual members, and reports the results of such evaluations to the Supervisory Board.

Related Party Committee. The Related Party Committee advises the Supervisory Board on handling and deciding on reported (potential) conflicts of interests and any other related party transactions which are contemplated between X5 and any conflicted persons or entities, including but not limited to shareholders of X5, members of the Supervisory Board and members of the Management Board.

Strategy Committee. The Strategy Committee advises in respect of the general strategy of X5, including, but not limited to, the future direction to be taken by X5 as a whole and each of its affiliated businesses, overall growth and development strategy, mergers and acquisitions and financing strategy.

*Composition of the Supervisory Board Committees**

Name	Audit Committee	Remuneration Committee*	Selection & Appointment Committee*	Related Party Committee	Strategy Committee
H. Defforey	Member	Member	Member	Member	Member
M. Fridman					
V. Ashurkov	Member	Member	Member		Chairman
D. Gould	Chairman				
A. Savin					
C. C-P Trefault		Member	Member	Chairman	Member
A. Tynkovan		Member	Member	Member	Member
S. DuCharme		Chairman	Chairman		

Appointment, Suspension and Dismissal

The General Meeting of Shareholders shall appoint the members of the Management and Supervisory Board from a list of nominees, containing names of at least two persons for each vacancy, to be drawn by the Supervisory Board. The nomination by the Supervisory Board of the candidates is binding, and therefore the recommended candidate will be appointed by the General Meeting of Shareholders unless the nomination is deprived of its binding character by a qualified majority vote of at least two-thirds of the votes cast, representing more than one-half of the issued share capital of the Company. If the recommended candidate is rejected, the second nominee will be appointed unless similarly rejected by the General Meeting of Shareholders.

The Supervisory Board members appoint a chairman from among their members and a vice-chairman who shall replace the chairman in the latter's absence.

Supervisory Board members are appointed for a period of up to four years and may be re-elected twice. Members of the Management Board are also elected for a period of four years. The Articles of Association do not limit the total term of office for Management Board members.

Each member of the Supervisory Board and Management Board may, at any time, be dismissed or suspended by the General Meeting of Shareholders. A member of the Management Board may at any time

* For practical reasons the Supervisory Board resolved to combine the Remuneration Committee and the Selection and Appointment Committee (both committees currently having the same composition) into one "Nomination and Remuneration Committee" as from 2009.

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Corporate Governance & Risk Management

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be suspended by the Supervisory Board. Such suspension may be discontinued by the General Meeting of Shareholders at any time.

Remuneration

The remuneration of the individual members of the Management Board will be decided by the Supervisory Board on the recommendation by the Remuneration Committee of the Supervisory Board, based on the Company's Remuneration Policy. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders.

The Remuneration Policy for members of the Management Board and Supervisory Board is incorporated in the Remuneration Report on page 75, and is available on the website of the Company.

Reporting on Conflicts of Interest

The Supervisory Board is responsible for deciding how to resolve conflicts of interest between members of the Management Board, members of the Supervisory Board and/or the external auditor on the one hand and the Company on the other hand.

A member of the Management Board or of the Supervisory Board is required immediately to report and provide all relevant information to the chairman of the Supervisory Board (and to the other members of the Management Board, if it concerns a member of that board) on any conflict of interest, or potential conflict of interest, that he may have with the Company and that may be of material significance to him or the Company.

A decision of X5 to enter into a transaction involving a conflict of interest with a member of the Management Board or a member of the Supervisory Board that is of material significance to him or the Company requires the approval of the Supervisory Board and must be concluded on terms customary in the Russian retail sector. The Related Party Committee advises the Supervisory Board on the handling, and deciding on, reported conflicts of interest and prepares resolutions of the Supervisory Board in relation thereto.

In the event of legal proceedings between the Company and a member of the Management Board, the Company may be represented by a member of the Supervisory Board. In all other events in which a member of the Management Board has a conflict of interest with the Company, the Company may be represented by the Management Board, notwithstanding the discretionary power of the General Meeting of Shareholders to designate other person(s) to represent the Company upon execution of such a related party transaction.

Securities Owned by Board Members

The members of the Management Board and Supervisory Board and X5's other senior management are subject to the Company's Code of Conduct with regard to Insider Trading, which contains rules of conduct to prevent trading in X5's global depositary receipts of shares or other financial instruments when holding inside information. The Code of Conduct with regard to Insider Trading can be viewed on the Company's website.

The Code of Conduct includes a specific section on obligations of members of the Management Board to report to the Compliance Officer in case of

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changes in their holding of securities in any Dutch listed company, not being X5 securities, in accordance with the Dutch Corporate Governance Code.

Furthermore, under the Financial Supervision Act in The Netherlands, members of the Management Board and Supervisory Board shall notify the Netherlands Authority for the Financial Markets ("AFM") of X5 securities and voting rights at their disposal. These positions can be viewed on the AFM's public registry at www.afm.nl/registers.

In addition, under the Disclosure and Transparency Rules in the United Kingdom, X5 must notify a Regulatory Information Service (RIS) of the occurrence of all transactions in X5 conducted – on their own account – and notified by members of the Management Board and Supervisory Board.

Shareholders and Their Rights

General Meeting of Shareholders

X5 Retail Group N.V. is required to hold a General Meeting of Shareholders within six months after the end of the financial year, among other things, to adopt the financial statements, to decide on any proposal concerning profit allocation and to discharge the members of the Management Board and Supervisory Board from their responsibility for the performance of their respective duties for the previous financial year.

Extraordinary meetings will be held as often as the Management Board or the Supervisory Board deems necessary. In addition, shareholders and holders of depositary receipts of shares jointly representing 10% of the outstanding share capital may request the Management Board and the Supervisory Board that a General Meeting of Shareholders be held, stating their proposed agenda in detail.

The powers of the General Meeting of Shareholders are defined in the Articles of Association. Apart from the decisions taken at the Annual General Meeting of Shareholders, the main powers of the shareholders are to appoint (subject to the Supervisory Board's right of making binding nominations), suspend and dismiss members of the Management Board and Supervisory Board, to appoint the external auditor, to adopt amendments to the Articles of Association, to issue shares and grant subscriptions for shares, to authorise the Management Board or the Supervisory Board to issue shares and grant subscriptions for shares, to authorise the Management Board or the Supervisory Board to restrict of exclude pre-emptive rights of shareholders upon issuance of shares, to authorise the Management Board to repurchase outstanding shares of the Company, to adopt the remuneration policy of the Management Board, to determine the remuneration of members of the Supervisory Board, and to merge, demerge or dissolve the Company.

General Meetings of Shareholders may only be held in Amsterdam, Haarlemmermeer (Schiphol Airport) or The Hague (the Netherlands). Notice of a General Meeting of Shareholders must be given to the shareholders and the holders of depositary receipts of shares no later than the fifteenth day before the date of the meeting and must include an agenda stating the items to be discussed during the meeting.

All shareholders and other persons who, pursuant to Dutch law or the Articles, are entitled to attend and/or vote at a General Meeting of Shareholders are entitled to address the General Meeting of Shareholders.

As described in "Terms and Conditions of the Global Depositary Receipts", holders of GDRs may instruct the Depositary with regard to the exercise of the voting rights connected to the Shares underlying their GDRs. Alternatively, upon request of the holders of such depositary receipts, the Depositary will grant a proxy to such holders who wish to vote in person at a General Meeting of Shareholders. Persons who hold a written proxy may represent shareholders at a General Meeting of Shareholders. The written proxy must be duly executed and legalised in accordance with the laws of the country where the proxy is issued.

Subject to the prior approval of the Supervisory Board, the Management Board may set a record date to establish which shareholders are entitled to attend and vote at the General Meeting of Shareholders.

Voting Rights

Each share confers the right to cast one vote at the General Meeting of Shareholders. There are no restrictions, either under Dutch law or in the Articles, on the right of non-residents of The Netherlands or foreign owners to hold or vote the shares, other than those also imposed on residents of The Netherlands. Resolutions of the General Meeting of Shareholders will be passed by a simple majority of the votes cast in a meeting where more than 25% of the issued share capital is present or represented. If 25% or less of the issued share capital is present or represented, a second meeting should be convened and held no later than four weeks following the first meeting. At such second meeting, no quorum requirement will apply. However, the General Meeting of Shareholders can only resolve on a merger or demerger with a majority of at least two/thirds of the votes cast, if less than fifty percent of the issued capital is represented in that meeting.

Members of the Management Board and Supervisory Board will be appointed by the General Meeting of Shareholders upon binding nomination of the Supervisory Board, which nomination will only be deprived of its binding character by two/thirds of the votes cast at the General Meeting of Shareholders representing at least half of the issued capital. If the Supervisory Board does not make a nomination, the members of the Management Board or Supervisory Board will be appointed by a simple majority of the votes cast at the General Meeting of Shareholders. If there is no simple majority of votes cast in the event of an appointment of persons for a vacancy on the Supervisory Board or on the Management Board, a second vote will be taken. If there is a tie in voting at the second vote, a drawing of lots will determine the issue.

If there is a tie in voting on matters other than the appointment of persons, the proposal will be considered rejected.

Dividend Rights

Any distribution of profits to shareholders will be made after the adoption by the General Meeting of Shareholders of the annual accounts of the Company from which it appears that such distribution is permitted. The Company may only declare profit distributions insofar as its net assets exceed the sum of its issued share capital plus any legal reserves required to be maintained pursuant to Dutch law and the Articles. A loss may only be applied against such reserves to the extent permitted by Dutch law. On a proposal of the Supervisory Board, the General Meeting of Shareholders will determine which part of the profits will be added to the reserves and the allocation of the remaining profits.

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On a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to pay an interim dividend insofar as X5's net assets exceed the sum of its issued share capital and the reserves that are required to be maintained pursuant to Dutch law, as evidenced by an interim financial statement prepared and signed by all the members of the Management Board. In addition, on a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to make distributions to the shareholders out of any reserves that need not to be maintained pursuant to Dutch law.

Dividends and other distributions that have not been claimed within five years after the date on which they became due and payable revert to the Company.

Auditor

The General Meeting of Shareholders appoints the external auditor upon nomination of the Supervisory Board. Both the Audit Committee and the Management Board make a recommendation to the Supervisory Board with respect to the external auditor to be proposed for (re)appointment by the General Meeting of Shareholders. In addition, the Audit Committee evaluates and, where appropriate, recommends the replacement of the external auditor. The Audit Committee also pre-approves the fees for audit and permitted non-audit services to be performed by the external auditor as negotiated by the Management Board. The Audit Committee shall not approve the engagement of the external auditor to render non-audit services prohibited by applicable laws and regulations or that would compromise their independence.

At least every four years, the Management Board, shall, together with the Audit Committee, thoroughly assess the functioning of the external auditor in the various entities and capacities in which the external auditor operates. The main conclusions of the assessment shall be notified to the General Meeting of Shareholders for the purpose of considering the nomination for the appointment of external auditor of the Company.

Corporate Governance Code

The Dutch Corporate Governance Code (the "Code") came into effect on 1 January 2004. On 10 December 2008 the Dutch Corporate Governance Code Monitoring Committee presented an amended Code, which will become effective from the financial year starting on 1 January 2009. Some of the Code's best practice provisions have been incorporated into Dutch law, including the obligation for companies to discuss in their annual report in detail the principles and best practice provisions on which they do not comply with the Code, and to explain the reasons for not doing so.

Any substantial changes to the corporate governance structure of a company or any substantial changes to compliance with the Code will be discussed at the Annual General Meeting of Shareholders. The Code provides that if a company's general meeting of shareholders approves the corporate governance structure and the company's explanations for any deviations from the Code as discussed in the annual report, the company will be deemed to comply with the Code.

Our corporate governance policies with respect to the implementation of the Code were discussed with our shareholders at the 2006 Annual General Meeting of Shareholders. Since then, there were no substantial changes in the corporate governance structure of the Company. We will carefully consider, and where necessary report on how the recent amendments of the Code will affect X5's corporate governance policy for the Annual Report over 2009.

X5 lists below its deviations from the Code and reasons for doing so. The deviations follow the order of the recommendations in the Code.

Best Practice Provision II.2.2: Granting of Unconditional Options to Members of the Management Board

Pursuant to the Dutch Corporate Governance Code, if a company grants unconditional options to its members of the Management Board, such grant should be subject to certain performance criteria and the options should not be exercisable within three years following the date of grant.

On 15 June 2007, the General Meeting of Shareholders approved the adoption of X5's Employee Stock Option Programme ("ESOP") in which the members of the Management Board may also participate. Options will be granted in four tranches, issued over a period of four years with immediate vesting for the first tranche, an 11 month vesting period for the second tranche and a one year vesting period for the third and fourth tranches.

While the ESOP is considered a long-term compensation for its participants, and the grant of options will be linked to pre-determined, measurable performance based targets, X5 acknowledges that in terms of vesting periods the ESOP deviates from the Code. However, since X5's operational activities are mainly based in the Russian Federation and Ukraine and the grant of unconditional options with a shorter than three year vesting period was customary in these markets when the ESOP was designed in 2007, it is important for X5 to follow local market practice with respect to vesting periods, in order to attract and reward the best professionals in these markets.

As indicated in the Remuneration Report on page 75, the design and structure of the variable remuneration, including the long-term incentive scheme, will be subject to a review in the course of 2009.

Best Practice Provision II.2.11: Immediate Publication of Main Elements of Contracts with Members of the Management Board

Pursuant to the Dutch Corporate Governance Code, the main elements of contracts with members of the management board should be made public following the entering into of such a contract but prior to the notice of the convocation of the General Meeting of Shareholders where the relevant member will be appointed.

X5 acknowledges that on this point it has deviated from the Dutch Corporate Governance Code. However, the main elements of the contracts with the members of the Management Board will be included in the 2008 Remuneration Report, which will also be made available on X5's website upon publication of the Annual Report for 2008.

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Best Practice Provision III.2.1: Independence of Members of the Supervisory Board

Pursuant to the Dutch Corporate Governance Code, all, but one, of the members of the Supervisory Board should be independent.

Although the number of independent members of the Supervisory Board doubled from two to four in 2008, four members of the Supervisory Board (i) have a substantial shareholder interest in X5 or (ii) are related to companies that are owned or controlled by companies that ultimately hold 10% or more of the shares or GDRs in X5. These members of the Supervisory Board are, therefore, not considered to be independent within the meaning of the Code. Mr. Defforey, Mr. Criado-Pérez Trefault, Mr. Tynkovan and Mr. DuCharme are independent within the meaning of the Code.

X5 believes that the non-independent members of the Supervisory Board have an in-depth knowledge of the geographic market, of business in general and of food-retail specifically in the markets in which X5 operates, which is of particular advantage to X5 and its stakeholders.

Best Practice Provision III.7.1: No Grant of Shares and Options to Members of the Supervisory Board

Pursuant to the Dutch Corporate Governance Code, members of the supervisory board should not be granted any shares and/or rights to subscribe for shares as remuneration for their membership of the supervisory board.

On 15 June 2007, 5 November 2007 and 16 June 2008, the General Meeting of Shareholders approved that Mr. Defforey and Mr. Criado-Pérez Trefault, as members of the Supervisory Board, were granted options under the ESOP. X5 acknowledges that such grant deviates from the Code. However, in order to attract and reward experienced individuals with a proven track record in the food retail industry, X5 believes it is necessary to grant stock options also to certain members of the Supervisory Board.

Risk Management & Internal Controls

This section provides an overview of X5's approach to risk management and internal controls in achieving its strategic objectives. ***Section 1*** describes the principal risks to which X5 is exposed as well as their mitigating factors, grouped into five categories: strategic, compliance (legal and regulatory), operational, financial and financial reporting risks. ***Section 2*** gives an overview of the system of internal control procedures and risk management techniques which are employed by management to manage and mitigate risk in an informed, controlled and transparent manner. This description covers all the components of the system of internal control and risk management determined by the Committee of Sponsoring Organizations (COSO) in its *Internal Control – Integrated Framework:* control environment, risk assessment, control activities, information and communication, monitoring.

Section 1: Risk Profile

Like any other entity X5 faces uncertainty in doing business. Uncertainty represents both risk and opportunity which are events, situations or possibilities that affect an entity's ability to achieve its objectives, maintain a good reputation and support value creation. The main challenge for any business is to develop appropriate controls and risk management techniques that would help to appropriately identify, assess, manage and mitigate the full set of risks facing the business. A properly functioning system will balance risks and opportunities helping the entity to achieve its objectives efficiently and effectively, which should ultimately enhance its value.

As a fast growing company operating in an emerging market, exposed to a number of external risk factors related to the politically and economically changing environment, it is critical for X5's success to be able to utilize opportunities existing in the Russian food market. This requires the Company to constantly evaluate the risks related to operating in an unstable emerging market environment and to accept a certain degree of economically justifiable risk. All these factors determine risk appetite of X5 that leans towards risk-taking and exploiting opportunities associated with aggressive business expansion and growth.

The principal risks faced by the Company and relevant mitigating factors are presented below:

1. Strategic risks

Business Strategy

We need to understand and properly manage strategic risk in order to deliver long-term profitable growth for the benefit of all of our stakeholders and secure and enhance X5's leadership in the Russian retail market. In recent years, the growth in consumer demand in Russia has attracted new market participants and has produced an increasingly competitive environment. In addition, Russia's retail market is highly fragmented which poses both opportunities and challenges in increasing market share for X5.

To ensure the Company continues to pursue the right strategy, the Supervisory Board and its Strategy Committee as well as the Company's Executive Committee hold specific sessions to discuss and take decisions on key strategic issues on a regular basis. We also invest significant resources in ensuring that our strategy is communicated well and understood not just by the parties who are key to delivering it,

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but by all our stakeholders including customers, investors, suppliers, government and the media.

Economic & Market Conditions

While in recent years the economic situation in Russia has generally become more stable and conducive to investment, the Russian economy is vulnerable to fluctuations in the price of oil and other commodities on the world market. As Russia is a major producer and exporter of oil and natural gas, a decline in the price of oil and natural gas could significantly slow or disrupt the Russian economy.

Consumer demand in the markets in which X5 operates depends upon a range of factors which are largely outside of X5's control, including demographic factors, consumer preferences and discretionary consumer spending (which is in turn influenced by factors such as general economic conditions, the availability of disposable income and general levels of consumer confidence).

The Company uses the multi-format approach in catering to Russia's diverse consumer base through the right stores: soft discounters, supermarkets and hypermarkets. We aim to have a broad appeal in product price and range in a way that allows us to compete successfully despite changing economic conditions that impact consumer spending. Importantly, product range, pricing policy, merchandising and marketing concepts are also adapted continually to account for changing consumer behavior. The practicability and acceptance of the concepts are first verified in test markets and then implemented Company-wide.

Expansion

To maintain its leadership position, X5 must expand at a rate that equals or exceeds that of its competitors. The failure of X5 to open new stores will directly impact on its growth and profitability. X5 management pays particular attention and allocates significant management resources to optimization of its organic expansion strategy including identifying and acquiring appropriate sites on commercially reasonable terms, opening new stores on schedule, employing, training and retaining store and supervisory personnel and fully integrating new stores into X5's existing operations.

An important part of X5's expansion strategy includes the selective acquisition of attractive retail chains. The pursuit of any acquisition strategy entails certain risks, including the failure to accurately assess the operations and/or financial condition of the target; overvaluing of the acquisition target; discovering, post-acquisition, larger or previously undisclosed liabilities or contingent liabilities; the failure to properly integrate the target and realize economies and synergies, etc. To address these risks, the Company employs an experienced M&A team and utilizes professional service providers (legal, tax, due diligence, valuation specialists) in the due diligence, negotiation and documentation phases of any transaction. Additionally, appropriate integration plans ensure timely and effective integration of the target. Also, importantly, a system of monitoring and direct accountability for achievement of operational integration and target synergies is established.

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2. Compliance risks

Legal

Russia is still developing the legal framework required to support a market economy. Risks associated with the Russian legal system first of all include inconsistencies between (i) federal laws, presidential decrees and regulations issued by the federal government; and (ii) regional and local laws, rules and regulations. There is sometimes a lack of judicial independence from political, social and commercial forces, as well as a relative inexperience of judges and courts in interpreting new Russian legislation and complex commercial arrangements. This is exacerbated by a lack of binding judicial precedents and difficulty in enforcing court judgments.

We protect ourselves against legal (including litigation) risks by seeking to comply with all applicable laws and regulations, and by vigorously preparing and defending our cases and enforcing our rights in relation to contracts and using all means provided by law.

Regulatory Environment

X5's operations are subject to oversight and regulation by various government entities and agencies, in connection with obtaining and renewing various licenses and permits and with respect to various quality, health and safety, packaging, labeling and distribution standards. Russia is in a process of structural, economic and political transition and the regulatory regimes applicable to X5's operations are still developing. Many regulations applicable to X5 have only recently been enacted and there is uncertainty regarding their application and enforcement. Regulatory authorities often have little experience in analysing regulatory issues arising from commercial transactions and exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards.

The Company monitors regulatory developments and has a strong compliance regime enforced by regular reviews and audits of stores and distribution centres to ensure that compliance and training needs are regularly reviewed and addressed. We also engage with public and governmental organizations to ensure that the interests of our customers are represented and we are often consulted and invited to contribute to important government regulations regarding the retail industry.

Food Products Safety

The packaging, marketing, distribution and sale of food products entail an inherent risk of contamination or deterioration, which could potentially lead to product liability, product recall and, as a result, negative publicity. The quality and safety of our products is of highest importance, so we have strict product safety procedures for ensuring product integrity at all times. We work in partnership with suppliers to ensure mutual understanding of the standards required. The Company also monitors the changes in the regulations regarding food safety and regularly reviews its respective policies and procedures to ensure compliance.

Taxation

Russian tax, currency and customs legislation are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of X5 may be challenged by the relevant regional and federal tax authorities. In recent years the tax authorities in the Russian Federation have taken a more assertive approach in their enforcement of tax legislation, and it is possible that transactions and activities that have not been challenged in the past may now be challenged.

Management regularly reviews the Company's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities. It also thoroughly reviews the judicial precedents that come out of tax disputes of other companies operating in Russia in order to be prepared to defend our position in case of a tax litigation. The Company protects itself against tax risks by establishing provisions in its IFRS consolidated financial statements.

Note 35 "Commitments and Contingencies" to the IFRS consolidated financial statements in this Annual Report contains the description of the main tax uncertainties and an estimate of the related liability.

Fraud

Whilst we persistently strive to high integrity standards among our staff, there remains the potential for fraud and other dishonest activity at all levels of the business, from store level to senior management. X5 gives clear guidance on behaviour to employees through the Company values and its Guiding Principles of Business Conduct. The Company has recently revised and reemphasized its Corporate Code for Reporting of Alleged Irregularities (referred to as "Whistleblower Policy") and implemented an ethics hot line. The Corporate Audit Department and/or the Security Department undertake investigations into fraud cases. Results of such investigations are highlighted to the Audit Committee of the Supervisory Board and the Supervisory Board as necessary.

3. Operational Risks

Reputational Risk

As X5's success depends to a significant extent upon brand recognition, the brand names Pyaterochka, Perekrestok and Karusel and their associated reputations are key assets of X5's business. X5 believes it has taken appropriate steps to protect its trademarks and other intellectual property rights but cannot be certain that such steps will be sufficient or that third parties will not infringe or challenge such rights. This is partly because Russia and the other countries in which X5 operates generally offer a lower level of intellectual property rights enforcement than countries in Western Europe and North America. Additionally, we emphasize the Guiding Principles of Business Conduct in the way we conduct our business and deal with customers, employees and suppliers. The brand name Pyaterochka is additionally exposed, as it is used by significant number of franchisee stores. We work only with the most successful and efficient partners and monitor their operations as well as compliance with franchise agreements leaving those who are damaging reputation of the brand. In addition, the Company has a strategy of selective buy-outs of franchisees, which reduces this reputational risk exposure.

Also, we strive not to lose sight of the importance of our corporate social responsibilities and place a high level of emphasis on charitable activities and the patronage of Russia's historical, cultural and spiritual heritage.

Performance Risk

There is a risk that the Company may not achieve its performance targets, particularly since, like all retailers; the business is susceptible to economic downturn that could affect consumer spending. Through our multi-format

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strategy and flexible pricing and assortment policies we try to respond to the needs and behaviour of customers from different market segments. Our aim is to have broad appeal to all customers, minimising the impact of changes in the economic climate.

All of our business units, including soft discounters, supermarkets and hypermarkets, have stretch targets and their performance is monitored continually and reported monthly to the Executive Committee and the Supervisory Board.

Human Resources

Our greatest asset is our employees. Though it is critical for our success to attract, retain, develop and motivate the best people with the right capabilities at all levels of operation, X5's competitive position and future prospects especially depend on its senior management experience and expertise and X5's ability to recruit and retain qualified personnel. The competition for attracting and retaining the best talent in Russia is particularly intense due to the relatively limited number of qualified individuals.

X5 has placed major emphasis on strengthening the skills and potential of key managers through professional development, training and performance management. The Company began implementing succession management, training and development and assessment processes in order to manage the career paths of our people throughout X5's growing organization. X5 is committed to recruiting and retaining highly skilled personnel, and to promoting from within whenever possible.

Real Estate

X5's ability to open new stores is heavily dependent on identifying and leasing and/or purchasing properties that are suitable for its needs on commercially reasonable terms. The market for property in large metropolitan areas in Russia is highly competitive and, when economic conditions are favourable, competition for, and therefore the cost of, high-quality sites may increase.

On the other hand, the prices of the properties may also decrease due to changes in the competitive environment, changes in the attractiveness of real property as an investment asset in Russia as a whole or in certain regional markets in which our real property is located. As a result of any unfavourable changes in the real property market, the value of X5's real property may decrease.

In the process of identifying and leasing and/or purchasing suitable properties, the Company performs comprehensive feasibility studies to identify and reduce risks of not obtaining approvals from the various regional authorities required to undertake construction and to secure X5's rights to the use of stores or to refit or refurbish those stores. However, if X5 procures the rights to suitable sites, it may experience difficulty or delay in obtaining approvals from the various regional authorities required to undertake construction and to secure X5's rights to the use of stores or to refit or refurbish those stores. In addition, for all the potential investments into property we calculate cash flows and return on investment taking into account store locations, traffic and accessibility studies, etc. to make sure that we obtain attractive real estate which is suitable for our business and for which we do not over-pay.

Supply Chain & Logistics
X5 stores are part of a complex supply chain and the Company works in partnership with our suppliers to manage the risk of any delays or interruptions in this supply, which might affect trade. The Company has also begun implementation of an ambitious long-term project to build an integrated logistics infrastructure across the European part of Russia and the Urals that will enable X5 to enhance its operational efficiency and competitiveness.

Much of Russia's transport infrastructure needs to be modernized with the help of long-term government and private sector investment programs. Poor condition of physical infrastructure may disrupt the transportation of goods and adds costs to doing business in Russia. X5 relies on the satisfactory condition of roads to allow for movement of its goods by trucks between distribution centres and stores.

IT Systems & Infrastructure
X5 manages its inventory and logistical operations through a variety of electronic media, including intranet, networked personal computers and automated inventory management systems. These operations are heavily dependent on the integrity of the electronic systems supporting them. The Company's systems and operations are vulnerable to interruption from natural disasters, power loss, breach of security and similar events. X5 has contingency plans in place to deal with such events, however, X5's information systems could suffer failures or delays and IT equipment breakdowns may result in temporary inoperability of the majority of stores trading software with the exception of cash registers.

In 2008 X5 launched the phased implementation of SAP system. The first phase of the implementation is introduction of the SAP for Retail system that will create technological platform to manage retail operations including transactions, purchasing and logistics, as well as inventory management. The future phases expand SAP functionality to financial and other modules.

4. Financial Risks

The main financial risks faced by the Company relate to the availability of funds to meet business needs and fluctuations in interest and foreign exchange rates. The central treasury function is responsible for managing the Company's liquid resources, funding requirements, interest rate, currency and credit exposures and the associated risks, as well as insurance of assets. The treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted.

Funding and Liquidity Risk
The Company finances its operations by a combination of retained profits, long and medium-term debt, capital market issues, commercial paper, bank borrowings and leases. The objective is to ensure continuity of funding. The policy is to smooth the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities, and a strong credit rating so that maturing debt may be refinanced as it falls due.

Interest Rate Risk
The objective is to limit our exposure to increases in interest rates while retaining the opportunity to benefit from interest rate reductions. Interest rate swaps are used to achieve the desired mix of fixed and floating rate debt.

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Foreign Currency Risk

Our principal objective is to reduce the effect of exchange rate volatility and transactional currency exposures through available hedging instruments, including currency forwards and options. The Company does not hedge non-cash accounting translation exposures.

Credit Risk

The Company is exposed to credit risk mainly through the use of financial instruments mentioned above and placement of cash balances with financial institutions. The objective is to reduce risk of loss arising from defaulting or insolvent counterparties. This is done primarily by continual assessment of financial institutions credit strength and counterparty limits.

Note 31 "Financial Risks Management" to the Consolidated Financial Statements in this Annual Report contains the detailed description of the currency risk, interest rate risk, and liquidity risk as well as how the Company currently manages them.

Insurance

X5's insurance policies cover most of its supermarket and hypermarket operations and part of its soft discount store operations. X5 also maintains third-party liability insurance to the extent required by Russian law. Still there is a risk that the Company's insurance policies may be insufficient to cover losses arising as a result of a business interruption or damage to X5's property as a result of fire, explosion, flood or other circumstances. The Company negotiated across-the-group schemes ensuring uniform cover for all its subsidiaries, which are arranged and managed centrally.

5. Financial Reporting Risk

Financial reporting risk relates to the failure in proper recording and classification of accounting entries arising from business activities of the Company, as well as to inability to make accurate and reliable estimates. All these factors may lead to misstatements in financial statements.

In preparing the consolidated financial statements, X5 management is responsible for maintaining proper accounting records, selecting suitable accounting policies and applying them consistently, and implementing and maintaining an effective and sound system of internal control over financial reporting, key elements of which are described below:

- The accounting function is centralized with main accounting and financial reporting office located in Moscow and accounting data processing centre located in Nizhny Novgorod.
- Though the Company still uses legacy accounting software from a local provider, significant improvements have been realized over the past two years to standardize the chart of accounts for all the entities that are consolidated into X5 Retail Group, as well as to map and partially automate the process of transformation statutory accounting records into the format in accordance with International Financial Reporting Standards.
- In addition, the Company implemented a reporting process that uses identical sources of accounting data for consolidated financial and managerial accounts, so periodic reconciliation of consolidated financial reporting to managerial accounting data helps to guarantee the reliability of external financial reporting.

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- The financial control team helps managers at all levels of responsibility to draw up and control budgets, participate in validation phases, propose action plans made necessary by discrepancies found in their implementation and, broadly speaking, help ensure the reliability of the entire process and of the financial data collected from it. Each month, actual performance is compared to the budgeted performance and that of the previous year. A summary of the performance of the Company is presented to the Company's Executive Committee. The Supervisory Board is provided with a summary of trends in sales and of performance indicators on a monthly basis.
- Due to improved efficiency in the accounting cycle, the Company was able to move in 2008 from semi-annual reporting to quarterly interim condensed financial information, reviewed by the Company's external auditor in accordance with IAS 34.

Section 2: System of Internal Control Procedures and Risk Management

The Management Board of X5 is responsible for designing, implementing and operating an adequately functioning Internal Control and Risk Management Framework in the Company.

Internal controls are designed and implemented by executive management and Company personnel under the control of the Management Board intended to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations.

One of the goals of internal control procedures is to highlight, manage and monitor the risks resulting from the Company's activity and the risks of misstatements or fraud, especially in the accounting and financial fields. However, like any system of control, it cannot provide an absolute guarantee that these risks will be totally eliminated.

The Company has adopted criteria set forth by the Committee of Sponsoring Organizations (COSO) in its *Internal Control – Integrated Framework* and is actively implementing it across the organization. In addition, the Corporate Audit Department (the Company's internal audit function) has been actively using COSO requirements for its audit engagements by assigning its findings to COSO categories. Finally, the COSO criteria for evaluating the effectiveness of control systems are required to be used by business process owners during the implementation of new and the improvement of existing control procedures.

The Internal Control Environment

In order to develop a shared culture, X5 has enforced a Code of Business Conduct that outlines corporate values and rules, as well as guiding principles of ethical behaviour.

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The values are: respect for the individual, service to our customers, striving for excellence.

X5's Guiding Principles of Business Conduct are the following:

1) Comply with the applicable laws of countries to which X5 is subject. Strictly adhere to corporate policies and procedures.

2) Act in the best interest of X5 while performing your job for the Company.

3) Ensure the accuracy of all Company business and financial records.

4) Protect the Company's assets, and use those assets in the manner intended.

5) Safeguard the Company's non-public information.

6) Always deal fairly with customers and suppliers, treating them honestly and with respect. Do not engage in unfair, deceptive or misleading practices.

7) Do not give or accept any gift where the value of the gift could cause, or give the appearance of causing, X5 to grant or receive any favor as a result.

Awareness and compliance with these corporate values and Guiding Principles of Business Conduct are enhanced first by training, but also by it becoming part of the organization and management of the Company. The values and corporate rules outlined in the Code of Business Conduct have been integrated into the system of evaluating top management performance.

Risk Assessment

The Company introduced the formal risk assessment & analysis process. It consists of a periodic identification, measurement and prioritization of business risks with the help of risk maps. It is intended to identify potential internal and external risks, to measure their relative importance and the probability of their occurrence, as well as the significance of their impact. In performing risk assessment X5 utilized standard for a retail business "risk universe", which was developed by Ernst & Young and covers about 100 risks under strategic, operational, financial and compliance categories. The evaluation of these risks by top management of the Company has made it possible to develop remediation plans and to focus specifically on anti-crisis planning aimed at managing and mitigating the most critical risks that the Company currently confronts during the times of worldwide economic downturn and financial crisis.

In 2009 the Company plans to make further improvements in its Internal Control System and Risk Management System by introducing COSO *Enterprise Risk Management – Integrated Framework*, which will allow X5 to set-up a central risk management office, and ensure the Management Board is continuously and promptly informed of important developments in risk management by a risk management officer. The establishment of central risk management function will also facilitate the Company-wide exchange of information on risk relevant issues and develop risk management activities in all the corporate functions, as well as recording and systematic assessment of all essential risks according to uniform standards.

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Control Activities

Under the authority delegated by the Management Board, the management teams at all levels of the organization are responsible for monitoring the risks and for designing internal control systems appropriate to their respective business processes. The finance function assists management at all levels in developing internal control procedures that are risk-oriented and in-built into the business processes. In addition, financial controllers are an integral part of the Company's Internal Control and Risk Management System and perform ongoing monitoring of its effectiveness.

Communication of Risks and Controls

In 2008 approximately 200 managers in the Company's corporate center have been formally trained in the COSO internal control framework. This initiative was combined with a control self-assessment performed with the assistance of questionnaires on COSO statements in order for controllers and business process owners to determine the Company's current compliance with COSO requirements and identify areas for improvement. This also helped to emphasize that internal control is the responsibility of all persons in the Company.

In 2008, the Company's Whistleblower Policy has been revised and the Director of the Corporate Audit Department, who functionally reports to the Audit Committee, acts as the Compliance Officer for this policy.

In addition, the quality of the Company's systems of business controls and the findings of internal and external auditors are regularly reported to the Management Board and discussed on the Audit Committee of the Supervisory Board as well as on the Supervisory Board, as necessary.

Monitoring of Internal Controls by the Corporate Audit Department

The main goal of X5's Corporate Audit Department (CAD) is to provide independent and objective assurance and value-adding advisory activity that assists the Company in achieving business objectives and improve operations. The CAD conducts systematic and disciplined evaluations of operational, financial and information systems regarding risk management, internal control and governance processes aimed to improve the effectiveness of these processes.

The CAD's organizational independence is guaranteed by the reporting system: CAD reports functionally to the Audit Committee of the Supervisory Board, and from the administrative standpoint – to the Management Board.

Following a risk based audit approach the CAD reviews the design of internal controls, and performs tests of controls on business processes that are critical for the Company's operations and provides recommendations on improvement of the respective internal controls. Implementation of such recommendations is carefully monitored and controlled by CAD, the Management Board and the Audit Committee of the Supervisory Board.

X5's CAD was the first internal audit department in Russia to successfully complete the external quality assessment procedures and has been certified by Ernst & Young on conformity with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Corporate Governance & Risk Management

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Management Summary

The Management Board has reviewed and analysed the strategic, operational, compliance, financial and financial reporting risks to which the Company is exposed, as well as the design and operating effectiveness of the Company's internal risk management and control systems over 2008. The outcome of this review and analysis has been shared with the Audit Committee of the Supervisory Board and the Supervisory Board and has been discussed with X5's external auditors.

The Management Board believes that the risk management and control systems regarding the financial reporting risks have worked properly during 2008, and provide reasonable assurance that the financial statements 2008 do not contain any errors of material importance.

In view of the above, the Management Board believes that it is in compliance with the requirements of II.1.4 of the Dutch Corporate Governance Code, taking into account the proposed new best practices thereon in the revised Dutch Corporate Governance Code as presented by the Corporate Governance Code Monitoring Committee on 10 December 2008.

In addition, in accordance with section 5.25c of the Dutch Financial Supervision Act the Management Board confirms that to the best of its knowledge:

- The annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its consolidated companies; and
- The Annual Report gives a true and fair overview of the situation as per the balance sheet date, the state of affairs during the financial year of the Company and its group companies included in the annual financial statements, together with a description of principal risks it faces.

Lev Khasis, CEO
Evgeny Kornilov, CFO

9 April 2009

Report of the Supervisory Board

The Supervisory Board is charged with supervising the policies of the Management Board and the general course of affairs of the Company and the business connected with it, as well as assisting the Management Board by providing advice.

In performing its duties the Supervisory Board is charged with acting in accordance with the interests of the Company and its affiliated businesses. It shall take into account the relevant interest of the Company's stakeholders and, to that end, consider all appropriate interests associated with the Company.

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its five permanent committees: The Audit Committee, the Remuneration Committee, the Selection and Appointment Committee, the Related Party Committee and the Strategy Committee.

Composition Supervisory Board

The composition of the Supervisory Board changed in 2008. Three members resigned: Mr. Kosiyanenko resigned on 13 February 2008, Mr. Rogachev resigned on 11 April 2008 and Ms. Franus resigned on 23 April 2008. The Supervisory Board expresses its gratitude for the contributions that Mr. Kosiyanenko, Mr. Rogachev and Ms. Franus have made to the Company. Two new members were appointed: Mr. Tynkovan was appointed by the Annual General Meeting of Shareholders held on 16 June 2008 and Mr. DuCharme was appointed by the Extraordinary General Meeting of Shareholders held on 29 October 2008. Both Mr. Tynkovan and Mr. DuCharme are independent board members with a considerable track record of doing business in Russia with Mr. Tynkovan having considerable experience in the Russian retail segment. An overview of the current composition of the Supervisory Board is presented in the Corporate Governance Report.

Mr. Ashurkov was re-appointed by the Annual General Meeting of Shareholders on 16 June 2008 for an additional four year term. In accordance with the retirement and re-appointment schedule of the Supervisory Board, the terms of both Mr. Fridman and Mr. Savin will expire in 2009. Both Mr. Fridman and Mr. Savin are eligible for re-appointment.

Composition Committees

The following changes to the composition of the committees took place in 2008: Following Ms. Franus' resignation from the Supervisory Board, Mr. Ashurkov took over her position as member of the Audit Committee. Mr. DuCharme took over Mr. Ashurkov's position as chairman of the Remuneration Committee and the Selection and Appointment Committee while Mr. Ashurkov remains a member of these committees. Mr. Tynkovan replaced Mr. Savin as member of the Selection and Appointment Committee, the Remuneration Committee and the Related Party Committee. In addition, Mr. Tynkovan was appointed as a member of the Strategy Committee. An overview of the current composition of the committees is presented in the Corporate Governance Report.

Induction

Following their appointment both Mr. Tynkovan and Mr. DuCharme went through the strategic, financial, legal and reporting affairs of X5 Retail Group with senior directors of the Company. In addition, prior to his appointment in October, Mr. DuCharme attended a meeting of the Supervisory Board and meetings of the Audit Committee, Selection and Appointment Committee and Remuneration Committee.

Meetings of the Supervisory Board

The Supervisory Board meets at least four times per year. In 2008 the Supervisory Board held seven meetings, including three meetings by teleconference. On each of four occasions in 2008 the meeting of the Supervisory Board was combined with meetings of the Audit Committee, the Remuneration Committee and the Selection and Appointment Committee.

All meetings were attended by the full Supervisory Board apart from the meeting on 10 April 2008 which was not attended by Mr. Rogachev and Ms. Franus and the meeting on 25 August 2008 which was not attended by Mr. Criado-Pérez Trefault. All Supervisory Board meetings were attended by the members of the Management Board, who stepped out of the meeting with respect to their performance assessment. A standard practice of inviting a senior manager at each meeting was institutionalized by the Supervisory Board in April 2008. The Chairman had frequent (telephone) meetings with the CEO, and from time to time with other members of the Management Board, in between the Supervisory Board meetings.

The year 2008 was marked by the Company's acquisition of the Karusel hypermarket chain in June (the "Karusel Transaction") and the impact of the global financial crisis during the fourth quarter of the year. Karusel, the fifth largest hypermarket operator in Russia by revenue, was acquired in June 2008 by acquisition of the entire issued share capital in the Dutch company Formata Holding B.V. for a total amount of USD 925 million, including an in-kind payment of 1,746,505 shares in X5. Certain intellectual property rights related to Karusel's business were acquired separately for a consideration of USD 15 million.

In April 2008 the Supervisory Board, upon approval of the General Meeting of Shareholders, engaged in an offering of rights to acquire 2 new GDRs for every 9 existing GDRs held by holders of GDRs on 18 April 2008 (the "Rights Offering"). The Company issued in total 48,106,700 GDRs with a subscription price of USD 21.32 per GDR (excluding Depositary issuance fee). The proceeds of the Rights Offering were allocated to finance the Karusel Transaction and general corporate purposes.

Until their resignation on 11 and 23 April 2008 respectively, both Mr. Rogachev and Ms. Franus did not participate in the decision-making process of the Supervisory Board with respect to the Karusel Transaction and the Rights Offering in view of their controlling interest in Formata Holding B.V.

On an ongoing basis the Supervisory Board reviewed various matters related to the Company's activities, its operational results, its strategies and its management, including:

- The financial reporting process and in particular the approval of the 2007 Annual Report and review of the half-yearly and quarterly financial statements and management accounts.

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- A review of strategies at the annual strategy meeting in March, including the business strategy and financial strategy, in particular the Karusel Transaction and the Rights Offering. An additional strategy meeting was held in November reviewing the business and financial strategy, and in particular the Company's debt and liquidity position in view of the global financial crisis.
- The functioning of the members of the Management Board and, based on a self-assessmen, the functioning of the Supervisory Board, its profile, composition and competence and the functioning of its committees.
- The changes in the composition of the Supervisory Board, in view of the resignation of Mr. Kosiyanenko, Mr. Rogachev and Ms. Franus, the re-appointment of Mr. Ashurkov, and the nomination of Mr. Tynkovan and Mr. DuCharme.
- The composition of the Committees of the Supervisory Board.
- The remuneration of the Management Board.
- The appointment and remuneration of senior managers of the Company, and the role of the Supervisory Board in relation thereto.
- The appointment of Mr. Kornilov as Deputy CEO.
- The review and update of the Code of Conduct on Insider Trading, observing recent changes in insider trading rules in the United Kingdom and The Netherlands.
- The Employee Stock Option Programme, in particular the granting of options under the third tranche and adjustments to the plan (see: Remuneration Report).
- The amendment of X5's Articles of Association, in line with recent changes in Dutch corporate law and pending legislation upon implementation of the Second EU Directive.
- Indemnity arrangements for members of the Management Board and certain senior managers.
- The information technology of the Company.
- The budget and key performance indicators for 2009.
- The assessment of the Code for Reporting of Alleged Irregularities ("Whistleblower Policy").
- The review and approval of reports of the various committees of the Supervisory Board, including the reports in respect of the risk management process, with the assistance of the Audit Committee.

Meetings of the Committees

Audit Committee

The role of the Audit Committee is described in its charter which is available on the Company's website. On 31 December 2008 the Audit Committee consisted of Mr. Gould (Chairman), Mr. Defforey and Mr. Ashurkov.

In 2008 the Audit Committee held four meetings. All meetings were attended by the CFO (except in one case), the external auditor (except in one case) and the Head of the Corporate Audit Department. Other members of senior management where invited when necessary or appropriate.

The Audit Committee discussed and approved the full year 2007 and quarterly 2008 consolidated financial statements of the Company audited by PricewaterhouseCoopers, the Company's external auditor. It also reviewed press releases and analyst reports related thereto and compliance with the Company's policy on external auditor independence, audit scope and approach. The Audit Committee reviewed the external auditors' report with respect to accounting and audit issues in respect of their audit of the 2007 consolidated financial statements. In April 2008, the Audit Committee met with the auditors without the presence of management. Audit fees and permitted non-audit fees for 2008 were approved in July 2008.

In April the Audit Committee assessed the financial and management reporting function of the Company. On the basis of a Report on Progress in Financial Statements Preparation the Audit Committee reviewed progress made in 2007 in improving the quality of both IFRS and management reporting. In July, the Audit Committee addressed audit findings and remedial measures in respect of financial reporting and control. The Audit Committee concurred with management's decision to discontinue the semi-annual audit at 30 June and instead engage the external auditor to perform quarterly reviews at 31 March, 30 June and 30 September. In this respect the Audit Committee discussed timing and alignment of quarterly audit reviews and Management Accounts.

In July the Audit Committee reviewed the implementation of the EU Transparency Directive and the implications for X5's reporting requirements. The EU Transparency Directive will be applicable to the reporting year 2008 and is intended to enable listed companies in the European Union to provide more uniform information to their stakeholders in order to ensure more effective protection for investors and to increase market efficiency. The Company will be subject to the EU Transparency Directive via, inter alia, the Disclosure and Transparency Rules in the United Kingdom and the Financial Supervision Act (*Wet op het Financieel Toezicht*) in The Netherlands.

IT matters including SAP for Retail and SAP for Finance were presented and discussed in April and in July 2008 in the presence of X5's CIO and CFO including issues regarding implementation and timing. Additionally, outside of the Audit Committee, the Chairman of the Audit Committee conducted a number of meetings during 2008 with key IT staff including X5's CIO to discuss strategic and other IT issues of importance.

The Audit Committee reviewed the financing strategy 2008/2009, both at the occasion of the Rights Offering in April, and again against the background of the important macro-economic developments in November. During the year the Audit Committee reviewed the Company's

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estimated range of contingent tax liabilities and tax planning issues in general, including a tax risk assessment performed by the Company.

In 2008 the Audit Committee reviewed the Company's internal risk management and control systems, and the proper functioning of operational and business processes mainly through the work of the Corporate Audit Department (CAD). The CAD assisted various departments to perform control self-assessment testing and conducted their own diagnostic reviews, developed risk maps and built such findings into its annual audit plan. Significant findings of the CAD were reported to the Audit Committee on a regular basis. The CAD's internal audit plan 2009 was discussed with the external auditor, and approved by the Audit Committee.

The Audit Committee reviewed regular updates on integrity matters. The Statute of the CAD's internal Forensic Investigations Team and the Code for Reporting of Alleged Irregularities ("Whistleblower Policy") were reviewed in November. Also during 2008 the Audit Committee approved the Company's financial reporting calendar and the black-out trading calendar.

Remuneration Committee

The role of the Remuneration Committee is described in its charter which is available on the Company's website. On 31 December 2008 the Remuneration Committee consisted of Mr. DuCharme (Chairman), Mr. Defforey, Mr. Ashurkov, Mr. Criado-Pérez Trefault and Mr. Tynkovan.

The Remuneration Committee held five meetings in 2008. Further resolutions in writing were taken when necessary during the year. Early in the year, the Remuneration Committee discussed and proposed to the Supervisory Board the targets and remuneration of the members of the Management Board, and the amendments of the Remuneration Policy for the Management Board, which policy was adopted by the annual general meeting of shareholders on 16 June 2008.

The Remuneration Committee reviewed the remuneration packages of senior managers, and proposed the granting of options to participants under the third tranche of the Employee Stock Option Programme. Simultaneously, the Remuneration Committee initiated a restructuring of the Employee Stock Option Programme, to be finalized in the course of 2009. The restructuring should lead to a sustainable plan appropriately designed in function of the long-term objectives of the Company, against the background of rapidly changing market circumstances.

In November the Remuneration Committee discussed the role of the Supervisory Board in relation to the remuneration of senior managers of the Company.

The Remuneration Report on page 75 provides further details on remuneration for the Management Board and the Supervisory Board, and includes the updated Remuneration Policy for the Management Board. The Remuneration Policy is also available on the website of the Company.

Selection and Appointment Committee

The role of the Selection and Appointment Committee is described in its charter which is available on the Company's website. On 31 December 2008 the Selection and Appointment Committee consisted of Mr. DuCharme (Chairman), Mr. Defforey, Mr. Ashurkov, Mr. Criado-Pérez Trefault and Mr. Tynkovan.

The Selection and Appointment Committee held five meetings in 2008. Further resolutions in writing were taken when necessary during the year. During the first half of 2008 the Selection and Appointment Committee evaluated the functioning of the members of the Management Board and, based on a self-assessment, the functioning of the Supervisory Board, and reported the results thereof to the Supervisory Board. In April and May the Selection and Appointment Committee discussed the vacancies in the Supervisory Board, and proposed the re-appointment of Mr. Ashurkov and the appointment of Mr. Tynkovan.

The composition and profile of the Supervisory Board and its committees, as well as the retirement and re-appointment schedule of the Supervisory Board, was reviewed during the second half of the year. In September the Selection and Appointment Committee proposed the appointment of Mr. DuCharme as additional independent member of the Supervisory Board. In November the Selection and Appointment Committee discussed the role of the Supervisory Board in relation to the selection and appointment of senior managers of the Company.

Related Party Committee

The role of the Related Party Committee is described in its charter which is available on the Company's website. On 31 December 2008 the Related Party Committee consisted of Mr. Criado-Pérez Trefault (Chairman), Mr. Defforey and Mr. Tynkovan.

The Related Party Committee had three meetings in 2008. Further resolutions in writing were taken when necessary during the year. The Related Party Committee considered a number of transactions which gave rise to -the appearance of- a conflict of interest with the Company. The following transactions were discussed and/or approved by the Related Party Committee and the Supervisory Board during 2008, with due observance of the rules set forth in Chapter VI (Conflict of Interests) of the Rules Governing the Principles and Practices of the Supervisory Board, which Rules are available on the Company's website:

- The acquisition of Formata Holding B.V. ("Karusel").
- The issue and offering of 48,106,700 new GDRs for the financing of the Karusel acquisition.
- The approval of the budget 2008-2009 for advisory and administrative services rendered by CTF Holdings Ltd.
- The X5 Loyalty Program with Alfa Bank as co-branding partner.
- A Ruble Bond issue with Alfa Bank as Mandated Lead Arranger.
- The acquisition of the retail chain Venetsiya operating under the tradename "Globus Gurme".

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Strategy Committee

The role of the Strategy Committee is described in its charter which is available on the Company's website. On 31 December 2008 the Strategy Committee consisted of Mr. Ashurkov (Chairman), Mr. Defforey, Mr. Carlos Criado-Pérez Trefault and Mr. Tynkovan.

The responsibilities of the Strategy Committee include the review of the general strategy of the Company including but not limited to the following main areas: overall growth and development strategy, financing strategy, budget and key-performance indicators, mergers and acquisitions.

The Strategy Committee had its annual conference in March and a second meeting in November. The meeting in March was attended by the CEO and CFO and covered the Company's M&A and financing strategies, in particular in view of the acquisition of the Karusel hypermarket chain, and IT strategy.

In November the Strategy Committee, with the CFO and various senior managers of the Company in attendance, reviewed the impact of the changing market circumstances on the Russian retail industry and X5 in particular. Apart from a general update on X5's business and financial strategies in the context of the global financial crisis, the strategy session included detailed reports and discussions on the Company's retail format strategies, supply chain and logistics, HR strategy, IT strategy and investment strategy. In addition, the Strategy Committee discussed the Company's key-performance indicators and budget for 2009.

Corporate Governance

Both the Supervisory Board and the Management Board continued their efforts to ensure that the Company's practices and procedures comply with the Dutch Corporate Governance Code. In accordance with the Code and the recommendations of the Dutch Corporate Governance Code Monitoring Committee, a broad outline of the corporate governance structure of the Company is presented in the Corporate Governance Report.

Financial Statements

This Annual Report and the 2008 consolidated financial statements, audited by PricewaterhouseCoopers Accountants, were presented to the Supervisory Board in the presence of the Management Board and the external auditor. PricewaterhouseCoopers' report can be found on page 185.

The Supervisory Board recommends that the Annual General Meeting of Shareholders adopts the 2008 consolidated financial statements of X5 Retail Group N.V. The Annual General Meeting of Shareholders will be asked to release the members of the Management Board from liability for the exercise of the management of the Company's affairs and management. The appropriation of results approved by the Supervisory Board can be found on page 183.

The Supervisory Board wishes to thank the Management Board and all employees of X5 for their outstanding contributions in 2008.

The Supervisory Board
9 April 2009

Remuneration Report

This report has been prepared by the Supervisory Board of X5 Retail Group N.V. (the "Company") in accordance with the Dutch Corporate Governance Code. It contains the remuneration policy of the Management Board of the Company (the "Remuneration Policy") (section A) as well as the remuneration specifics of both the Management Board and the Supervisory Board for the financial year 2008 (section B). This report will also address the way in which the Remuneration Policy will be pursued for the financial year 2009 and beyond (section C).

The Supervisory Board determines the remuneration of the individual members of the Management Board, on a proposal by the Remuneration Committee, within the scope of the Company's Remuneration Policy. The current members of the Remuneration Committee are Stephan DuCharme (chairman), Hervé Defforey, Vladimir Ashurkov, Carlos Criado-Pérez Trefault and Alexander Tynkovan.

A. Remuneration Policy

The 2007 Annual General Meeting adopted the Remuneration Policy 2007, which was amended and adopted in 2008 to reflect the further developments and insights gained in this area.

The objective of the Remuneration Policy is twofold:

a. to create a remuneration structure that will allow the Company to attract, reward and retain qualified executives who will lead the Company in achieving its strategic objectives and
b. to provide and motivate these executives with a balanced and competitive remuneration.

The remuneration structure of the members of the Management Board may include four elements: base salary, annual incentive (cash bonus), long-term incentive (stock options and/or equity linked instruments), and other arrangements. The remuneration structure mirrors short-term and long-term elements of the responsibilities of members of the Management Board.

Upon proposal of the Remuneration Committee, and if in the interest of the Company, the Supervisory Board may at its own discretion deviate from the Remuneration Policy when offering a remuneration package to a newly appointed member of the Management Board or when amending the remuneration package of a current member of the Management Board, in the event of exceptional circumstances or if deemed appropriate.

Base Salary

Base salaries are specified in the individual contracts with members of the Management Board and reflect competence and responsibilities of a member of the Management Board, the relevant experience of a member of the Management Board, and other factors. The levels of base salaries are determined by (i) benchmarking with industry peers of comparable size and complexity, operating in comparable geographical areas and (ii) the specific responsibilities and achievements of the individual member of the Management Board. The annual review date for the base salary is December 31.

Annual Incentive (Cash Bonus)

As a general rule, in accordance with the Remuneration Policy adopted in 2007, and amended and adopted in 2008, the annual performance bonus has an on target level of 100% of the base salary, to be increased with a maximum of 50% of the base salary subject to extraordinary achievement and qualitative performance in relation to the specific responsibilities of the Management Board member. Upon proposal of the Remuneration Committee, and if in the interest of the Company, the Supervisory Board may deviate from the Remuneration Policy and further increase the annual performance bonus in the event of exceptional circumstances or if deemed appropriate.

Performance criteria are specified in advance per Management Board member. They mainly consist of quantitative criteria related to the performance of the Company which are determined from time to time by the Supervisory Board and include net revenues and EBITDA. These performance measures are considered success factors for the Company in the short-term. The specific targets related to the financial performance measures can not be disclosed as these qualify as commercially sensitive information. Performance criteria also include qualitative targets that are relevant to the responsibilities of an individual Management Board member.

Long-Term Incentive: Employee Stock Option Programme

In 2007 the Company launched its long-term incentive plan for key employees and members of the Management Board through its Employee Stock Option Programme (the "ESOP"). The ESOP was approved by the General Meeting of Shareholders on 15 June 2007. The options granted under the ESOP each confer the right to a number of Global Depositary Receipts ("GDRs"), each GDR representing one fourth of an ordinary share of Euro 1 par value in the capital of the Company. The aggregate number of GDRs for which options may be granted under the ESOP amounts to 11,261,264 GDRs, which number is within the limit approved by the General Meeting of Shareholders on 15 June 2007 (i.e. 5% of the issued share capital of the Company). The options are granted in four tranches issued over a period of three years (2007 through 2009). The options outstanding are conditional upon employment with the Group. The number of options that are granted to Management Board members and key employees are linked to pre-determined criteria of participation in the program, based on the level of responsibility within the Company.

Other Remuneration Components

A number of other arrangements may be offered to members of the Management Board, such as expense and relocation allowance, medical insurance and accident insurance. The Company's policy does not allow personal loans and guarantees to members of the Management Board.

Severance Payment

The severance payment is in principle limited to one year's base salary (the "fixed" remuneration component) of the relevant member of the Management Board. The Supervisory Board reserves the right to agree to a different amount should individual circumstances require this.

Contracts of Employment

The members of the Management Board have a written contract of employment with X5 Retail Group N.V. in The Netherlands and/or its operational Russian subsidiaries. The fixed and variable salary components stipulated in each employment contract reflect the relevant responsibilities of each member of the Management Board in The Netherlands and Russia.

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The current members of the Management Board are employed and appointed for a four year period, in accordance with the Dutch Corporate Governance Code. For future new appointments to the Management Board, the term of the contract is also set at four years.

B. Remuneration 2008

Management Board Remuneration

On January 18, 2008 the Annual General Meeting accepted the resignation of Vitaliy Podolskiy as CFO of the Company as per 1 January 2008, and appointed Evgeny Kornilov as his successor.

As announced in the Remuneration Report for the financial year 2007, the USD denominated base salary of the CEO was increased to USD 2,000,000 in line with compensation levels in peer group companies. The level of short-term incentive for the reporting year 2008 is determined at the "on target" policy level of 100% of the base salary for the CEO and CFO, and 25% for the Company Secretary.

For the year ended 31 December 2008 the Management Board was entitled to a short-term compensation of USD 5,932,441 (2007: USD 7,389,666). In 2008 the members of the Management Board were granted 1,080,625 share options under the ESOP. The total outstanding number of options amounted to 2,730,625 options (31 December 2007: 1,650,000 options). All options were outstanding as at the end of 2008. The intrinsic value* of the options at 31 December 2008 was zero (31 December 2007: USD 19,610,000).

Specification of the fixed and variable cash remuneration of the Management Board for the financial year 2008

Amounts in USD	Base salary	Cash Bonus	
L. Khasis	1,973,493	2,000,000	
E. Kornilov	806,323	800,000	Appointed 18 January 2008
F. Lhoëst	282,100	70,525	
Total	**3,061,916**	**2,870,525**	

* Intrinsic value is calculated as a difference between the exercise price of the option and market quote of the underlying GDR as at the end of respective reporting period multiplied by number of vested options.

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All amounts are paid in either Russian Rubles or Euro and converted to USD for reporting purposes, using the average USD rate for 2008 to convert RUR amounts into USD, and year-end cross-rate EUR/USD for amounts paid in Euro. The rates are available in Note 2 to the consolidated financial statements included in this Annual Report.

Supervisory Board Remuneration

The remuneration principle of the Supervisory Board, as approved at the General Meeting of Shareholders on 16 October 2006, was amended and approved at the General Meeting of Shareholders on 5 November 2007 as follows:

- Chairman of the Board: EUR 24,000 per meeting of the Supervisory Board with a minimum of EUR 120,000 per year;
- Board members who chair one or more committees: EUR 75,000 per year;
- Board members who chair no committee: EUR 50,000 per year;
- Independent Board members: EUR 120,000 per year;
- Independent Board members may be granted options.

In the reporting year, the total remuneration of the Supervisory Board amounts to EUR 610,416 or USD 860,993 (2007: USD 827,105). In 2008 the members of the Supervisory Board were granted 63,750 share options under the ESOP. The total outstanding number of options amounted to 83,750 options (31 December 2007: 50,000 options). The intrinsic value of the options at 31 December 2008 was zero (31 December 2007: USD 185,000).

Specification of the cash remuneration of the Supervisory Board for the financial year 2008

Amounts in USD	Remuneration 2008	
Hervé Defforey (Chairman)	169,260	
Mikhail Fridman	70,525	
Alexander Savin	70,525	
Vladimir Ashurkov	105,788	
David Gould	105,788	
Alexander Kosiyanenko	8,816	Resigned 13 February 2008
Tatyana Franus	20,569	Resigned 23 April 2008
Andrey Rogachev	20,569	Resigned 11 April 2008
Carlos Criado-Pérez Trefault	169,260	
Alexander Tynkovan	91,683	Appointed 16 June 2008
Stephan DuCharme	28,210	Appointed 29 October 2008
Total	**860,993**	

The remuneration amounts are presented on a pro rata basis, subject to appointment or resignation during the year. All remuneration amounts are paid in Euro and converted to USD for reporting purposes, using the year-end cross-rate EUR/USD. The rate is available in Note 2 to the consolidated financial statements included in this Annual Report.

Stock Options

During the reporting year the Supervisory Board took measures to neutralize the effects of the Company's Rights Offering in May 2008. As a result the exercise price of options granted under the first tranche was adjusted from USD 18.00 to USD 15.96 and the exercise price of options granted under the second tranche was adjusted from USD 30.62 to USD 28.58. Furthermore, the General Meeting of Shareholders approved an increase of the number of GDRs in respect of which options may be granted under tranches 3 and 4 of the ESOP from 6,991,008 GDRs to 7,428,264 as a result of which the total number of GDRs in respect of which options may be granted under the ESOP increased to 11,261,264 GDRs.

During the second half of the financial year 2008 the GDR price dropped significantly as a result of the global financial crisis and its impact on

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the Russian economy. In an effort to preserve and optimize the long-term incentive character of the ESOP, the Supervisory Board resolved to propose to the General Meeting of Shareholders to extend the exercise period of options granted under tranches 2, 3 and 4 up to four and a half years from the grant date of each respective tranche.

In 2008 the third tranche of options under the ESOP was granted. The vesting date for these options is 19 May 2009. Details of stock options held by members of the Management Board and Supervisory Board are set forth below.

	Granted in 2008	Tranche	Exercised in 2008	Position Dec. 31, 2008	Exercise price	Share price on exercise date	Expiration date
L. Khasis		1		810,000	$15.96		19-11-2010
		2		810,000	$28.58		16-12-2011
	860,625	3		860,625	$33.43		20-11-2012
E. Kornilov		2		30,000	$28.58		16-12-2011
	220,000	3		220,000	$33.43		20-11-2012
Total Management Board	**1,080,625**			**2,730,625**			
H. Defforey		1	10,000		$15.96	$30.00	19-11-2010
		2	20,000		$28.58	$30.00	16-12-2011
	42,500	3		42,500	$33.43		20-11-2012
C. Criado-Pérez Trefault		2		20,000	$28.58		16-12-2011
	21,250	3		21,250	$33.43		20-11-2012
Total Supervisory Board	**63,750**			**83,750**			

* The exercise price, before adjustment, of the options under the first tranche is defined as the share price at the date of the merger between Pyaterochka Holding N.V. and Perekrestok Holdings Limited on 16 May 2006.
The exercise price, before adjustment, of the options under the second tranche is defined as the price equal to the Average Market Value (as defined below) per Depositary receipt as of 18 May 2007.
The exercise price of the options under the third tranche is defined as the price equal to the Average Market Value (as defined below) per Depositary receipt as of the grant date 19 May 2008.
The Average Market Value is defined as "on any particular day the volume weighted average price of a Depositary Receipt over the 30 immediately preceding calendar days. The volume weighted average price is calculated using the closing price of a Depositary Receipt taken from the Official List of the LSE".

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Corporate Governance & Risk Management

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Insurance and Indemnity Arrangements

Members of the Management Board and Supervisory Board, as well as certain senior management members, are insured under X5's Directors and Officers Insurance Policy. Although the insurance policy provides for a wide coverage, X5's directors and officers may incur uninsured liabilities.

During the reporting year the Supervisory Board proposed that members of the Management Board, as well as members of senior management, may be indemnified by the Company against any claims arising out of or in connection with the general performance of their duties, provided that such claim is not attributable to gross negligence, willful misconduct or intentional misrepresentation by such director or officer.

As the granting of an indemnity by the Company is to be considered as an additional element of remuneration, not covered by the current Remuneration Policy, approval of the General Meeting of Shareholders was obtained on 16 June 2008. In addition, the General Meeting of Shareholders approved the indemnity arrangements to be granted by the Company to members of the Supervisory Board.

C. Remuneration Policy in 2009 and Beyond

As a consequence of the global financial crisis and its impact on the Russian economy, the design and structure of the variable remuneration (cash bonus and long-term incentive scheme) will be subject to a review and scenario analyses to be performed by the Remuneration Committee in the course of 2009, taking into account all factors relevant to the long-term objectives of the Company. Also, starting 2009 the short-term compensation payable to the members of the Management Board by the operational Russian subsidiaries will be denominated in Russian Rubles.

Any material changes to the Remuneration Policy as described in Section A of this report will be submitted for approval to the General Meeting of Shareholders.

On 10 December 2008 the Dutch Corporate Governance Code Monitoring Committee presented an amended Corporate Governance Code which becomes effective from the financial year starting on 1 January 2009 (the "Revised Code"). The Remuneration Committee is currently reviewing the revised remuneration requirements for the Management Board as set forth in section II of the Revised Code which are relating to (i) the level and composition of the remuneration, and (ii) the determination and disclosure of remuneration. The Company will report on its compliance with the Revised Code in its Annual Report and Remuneration Report for the year ended 31 December 2009.

The Supervisory Board
9 April 2009

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Financial Statements

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X5 Retail Group N.V.

International Financial Reporting Standards Consolidated Financial Statements,

Dutch GAAP Company's Financial Statements and

Independent Auditor's Report

31 December 2008

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Directors' Responsibility Statement

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

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

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

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

Management is also responsible for:

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

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

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

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Consolidated Financial Statements

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

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

Consolidated Financial Statements

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

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

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Consolidated Financial Statements

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

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

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

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

X5 Retail Group N.V.
Notes to Consolidated Financial Statements for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

1. PRINCIPLE ACTIVITIES AND THE GROUP STRUCTURE

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

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

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2008 the Group operated a retail chain of soft-discount, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel" in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Krasnodar, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg and Kiev, with the following number of stores:

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

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

The Group is a member of the Alfa Group Consortium. As of 31 December 2008 the Company's immediate principal shareholders were Luckyworth Limited and Cesaro Holdings Limited owning 25.54% and 21.62% of total issued shares, respectively. As of 31 December 2008 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share, except for 1,746,505 shares issued within the Karusel acquisition (Note 7). As of 31 December 2008 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTF"), a company registered at Suite 2, 4 Irish Place, Gibraltar, owning directly 0,7% of total issued shares. CTF is under the common control of Mr Fridman, Mr Khan and Mr Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or owns 50% or more in CTF.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These consolidated financial statements for the year ended 31 December 2008 have been prepared in accordance with, and comply with International Financial Reporting Standards as adopted by the European Union.

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

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

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

X5 Retail Group N.V.
Notes to Consolidated Financial Statements for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

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

2.2 Accounting for the effects of inflation

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

2.3 Consolidated financial statements

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

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

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

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

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

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

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

2.4 Minority interest

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

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

2.5 Foreign currency translation and transactions

(a) Functional and presentation currency

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

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

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

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

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

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

(b) Transactions and balances

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

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

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

2.6 Segment reporting

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

2.7 Property, plant and equipment

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

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

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

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

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

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

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

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

2.8 Investment property

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

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

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

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

2.9 Intangible assets

(a) Goodwill

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

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

(b) Lease rights

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

(c) Brand and private labels

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

	Useful lives
Brand	20 years
Private labels	5-8 years

(d) Franchise agreements

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

(e) Other intangible assets

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

(f) Impairment of intangible assets

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

2.10 Operating leases

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

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

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

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

2.11 Finance lease liabilities

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

2.12 Trade receivables

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

2.13 Inventories of goods for resale

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

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

2.14 Financial assets and liabilities

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

Initial recognition of financial instruments

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

Impairment

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

Derecognition of financial assets

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

Derivative financial instruments and hedging activities

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

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

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

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

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

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

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the income statement within "Other finance costs, net" (Note 26).

Loans and receivables

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

Available-for-sale

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

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

Financial liabilities

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

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2.15 Cash

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

2.16 Provisions

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

2.17 Value added tax

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

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

2.18 Employee benefits

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

2.19 Share-based payments

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

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

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

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

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

2.20 Borrowings

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

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2.21 Trade and other payables

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

2.22 Share capital

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

2.23 Dividends

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

2.24 Treasury shares

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

2.25 Earnings per share

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

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

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

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

2.26 Taxes

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

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

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

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

2.27 Income and expense recognition

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

(a) Revenue

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

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

(b) Cost of sales

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

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

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

(c) Interest income and expense

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

(d) Selling, general and administrative expenses

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

2.28 Impairment of non-current assets other than goodwill

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

2.29 Fair value of assets and liabilities at the acquisition date

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

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

Korzinka

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

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

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

Strana Gerkulesia

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2008);
- *IFRIC 12, Service Concession Arrangements* (effective for annual periods beginning on or after 30 March 2009); and
- *IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 31 December 2008).

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

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amendment to the standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; not yet adopted by the EU). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

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Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to have a material effect on its financial statements.

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

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

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 for financial statements pepared under IFRS; adopted by the EU with an effective date postponed to annual periods beginning after 31 December 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. It is the policy of the Group to recognise the deferred revenue on their customer loyalty program as a reduction of revenue, thus, this interpretation will have no impact on consolidated financial statements.

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

- *IFRIC 15, Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009; not yet adopted by the EU);
- *IFRIC 16, Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008; not yet adopted by the EU);
- *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1* and *IAS 27 Amendment* (revised May 2008; effective for annual periods beginning on or after 1 January 2009;
- Eligible Hedged Items – Amendment to *IAS 39, Financial Instruments: Recognition and Measurement* (effective with retrospective application for annual periods beginning on or after 1 July 2009, not yet adopted by the EU).

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

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

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

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

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

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

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5. SEGMENT REPORTING

The Group has the following business segments:

	Retail trade	Other	Group
Year ended 31 December 2008			
Sales – external	8,319,821	33,429	8,353,250
	8,319,821	**33,429**	**8,353,250**
Segment result	(1,716,078)	23,648	(1,692,430)
Unallocated expenses			(21,412)
Operating profit			**(1,713,842)**
Finance costs, net			(148,505)
Share of result of associates			(647)
Unallocated expenses			(267,187)
Loss before income tax			**(2,130,181)**
Income tax expense			(8,106)
Loss for the year			**(2,138,287)**
Capital expenditure	895,865	3,033	898,898
Depreciation and amortisation	199,587	25,651	225,238
Doubtful debtors expense	7,350	-	7,350
As at 31 December 2008			
Segment assets	5,318,690	161,030	5,479,720
Investment in associate	10,054	-	10,054
Current and deferred tax assets			157,051
Other unallocated assets			13,994
Total assets			**5,660,819**
Segment liabilities	1,174,144	-	1,174,144
Current and deferred tax liability			253,319
Other unallocated liabilities			2,594,923
Total liabilities			**4,022,386**
Year ended 31 December 2007			
Sales – external	5,295,091	25,333	5,320,424
Sales to other segments			
Total revenue	5,295,091	25,333	**5,320,424**
Segment result	424,505	19,390	443,895
Unallocated expenses			(106,978)
Operating profit			**336,917**
Finance costs, net			(125,789)
Share of result of associates			
Unallocated expenses			31,545
Profit before income tax			**242,673**
Income tax expense			(98,925)
Profit for the year			**143,748**
Capital expenditure	610,634	9,173	619,807
Depreciation and amortisation	132,730	9,646	142,376
Doubtful debtors expense	1,370	-	1,370
As at 31 December 2007			
Segment assets	6,310,592	192,823	6,503,415
Current and deferred income tax assets			36,249
Other unallocated assets			9,945
Total assets			**6,549,609**
Segment liabilities	971,570	-	971,570
Current and deferred income tax liability			246,625
Other unallocated liabilities			2,087,747
Total liabilities			**3,305,942**

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The Group has the following geographical segments:

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

X5 Retail Group N.V.
Notes to Consolidated Financial Statements for the year ended 31 December 2008
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6. SUBSIDIARIES

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

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

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7. ACQUISITION OF SUBSIDIARIES

Karusel

In June 2008 the Group acquired 100% of the voting shares of Formata Holding B.V. Formata Holding B.V. is the owner of the Karusel hypermarket chain ("Karusel"), pursuant to the conditions of the Call Option Agreement, obtained in 2006 as a part of Pyaterochka acquisition. Karusel owns and operates hypermarkets located in St. Petersburg and the North West of Russia, the Moscow region, Nizhny Novgorod, Dzerzhinsk, Volgograd and Izhevsk. There are currently 24 hypermarkets operating under the Karusel brand. Three more hypermarkets are under construction, and the Group owns eight land plots potentially suitable for hypermarket construction.

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

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Notes to Consolidated Financial Statements for the year ended 31 December 2008
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Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount, Russian GAAP*	Provisional values
Cash and cash equivalents	25,699	25,699
Inventory of goods for resale	102,509	84,277
Loans originated	612	612
Trade and other accounts receivable	248,849	244,813
Intangible assets (Note 13)	-	124,610
Property, plant and equipment (Note 10)	492,235	1,013,711
Prepaid lease	9	622
Deferred tax assets	6,994	7,052
Other assets	582	251
Short-term borrowings	(293,492)	(293,492)
Trade and other accounts payable	(258,384)	(262,488)
Provisions and liabilities for tax uncertainties (Note 19)	-	(56,478)
Long-term borrowings	(120,985)	(120,986)
Deferred tax liability	(8,467)	(161,334)
Net assets acquired	**196,161**	606,869
Goodwill (Note 12)		309,467
Total acquisition cost		**916,336**
Net cash outflow arising from the acquisition for the year ended 31 December 2008		**658,927**

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

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

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

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

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

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Agrotorg Rostov

In December 2008 the Group acquired 100% of the voting shares of OOO "Agrotorg Rostov" operating retail grocery stores in Rostov-na-Donu and Rostov region. The Group acquired a total of 15 discount stores.

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

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

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

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

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

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

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

No goodwill was recognized on the acquisition.

Chelyabinsk and Yekaterinburg

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

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

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

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

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

Kama retail

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

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

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

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

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

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

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

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

Korzinka

In November 2007 the Group acquired a 100% shareholding in OOO “Uzhnyi” operating the largest and fastest growing retail chain in the Lipetsk region under “Korzinka” brand. The Group acquired a total of 22 stores, of which 15 will be integrated into the Group’s discounter format, 6 into the supermarket format and one store has been added to the hypermarket network.

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

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Notes to Consolidated Financial Statements for the year ended 31 December 2008
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Details of assets and liabilities acquired and the related goodwill are as follows:*

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

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

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

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

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

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

Strana Gerkulesia

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

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

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

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

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

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

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

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

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

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

Other acquisitions

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

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

Details of assets and liabilities acquired are as follows:

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

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

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

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

Associate
Retail Express

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

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

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

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

A5 Pharmacy chain

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

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

8. RELATED PARTY TRANSACTIONS

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

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

Alfa Group

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

	Relationship	2008	2007
CTF Holdings Ltd.	Ultimate parent company		
Management services received		1,302	1,315
Recharged expenses		545	
OAO "Alfa-Bank"	Under common control		
Interest expense on loans received		21,578	2,622
Bank charges		1,487	495
Rent revenue		200	208
Penalty		29	-
Other accounts payable		570	-
Receivables from related parties		118	225
Short-term loans payable		168,480	2,649
Cash and cash equivalents		17,261	10,684
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services rendered by VimpelCom to the Group		469	532
Commission for mobile phone payments processing rendered by the Group to VimpelCom		765	633
Other accounts payable		213	18
Receivables from related parties		271	102
Golden Telecom	Under significant influence of CTF Holdings Ltd.		
Communication services received		3,132	2,010
Other accounts payable		226	-
Receivables from related parties		674	159

Other related parties

	Relationship	2008	2007
OOO "Makromir"	Under common control		
Construction services provided to the Group		2,653	1,512
Other operating income		121	-
Other operating expenses		44	-
Advances for construction in progress		8,629	742
Accounts payable		10,181	-
Retail Express Ltd	Associate of the Group (Note 7)		
Interest income		37	-
Loans and receivables		27	-
Investment in associate		12,000	

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

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

Alfa-Bank

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

Key management personnel compensation

Key management personnel compensation is disclosed in Note 28.

9. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

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10. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

11. INVESTMENT PROPERTY

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

	2008	2007
Cost:		
Cost at 1 January	132,595	41,446
Additions	3,034	9,173
Assets from acquisitions	-	77,524
Transfer from fixed assets	22,810	-
Translation movement	(27,442)	4,452
Cost at 31 December	130,997	132,595
Accumulated depreciation:		
Accumulated depreciation at 1 January	(3,589)	(1,426)
Charge for the year	(4,668)	(1,976)
Translation movement	2,953	(187)
Accumulated depreciation at 31 December	(5,304)	(3,589)
Net book value at 31 December	**125,693**	**129,006**
Net book value at 1 January	**129,006**	**40,020**

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

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

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12. GOODWILL

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

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

Goodwill Impairment Test

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

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

Goodwill is tested for impairment at the CGU level by comparing carrying values of CGU assets including allocated goodwill to their recoverable amounts. The recoverable amount of CGU is determined as the higher of fair value less cost to sell or value in use.

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

Fair value less costs to sell

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

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

Value in use

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

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

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

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

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

Impairment Test

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

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

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

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13. INTANGIBLE ASSETS

Intangible assets comprise the following:

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

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14. INVENTORIES OF GOODS FOR RESALE

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

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

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

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

15. FINANCIAL INSTRUMENTS BY CATEGORY

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

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

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

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

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

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16. TRADE AND OTHER ACCOUNTS RECEIVABLE

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

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

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

Trade receivables

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

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

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

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

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

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

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

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

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

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

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Other receivables and receivables for franchise services

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

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

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

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

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

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

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

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

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

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

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

17. VAT AND OTHER TAXES RECOVERABLE

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

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

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18. DERIVATIVES

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

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

None of the derivatives are past due or impaired.

19. PROVISIONS AND OTHER LIABILITIES

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

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

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20. BORROWINGS

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

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

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

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

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

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

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

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

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

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

21. SHARE CAPITAL

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

During 2007 the Group repurchased 40,000 ordinary shares for general corporate purposes, including funding the employees` share option program (ESOP) liabilities and potential acquisitions. As at 1 January 2008 the Group had 942,278 ordinary shares held as treasury stock.

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

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

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

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

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

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

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

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

22. EARNINGS PER SHARE

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

Earnings per share are calculated as follows:

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

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

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23. REVENUE

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

24. EXPENSES BY NATURE

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

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

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

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25. OPERATING LEASE INCOME

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

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

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

26. FINANCE INCOME AND COSTS

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

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

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

27. NET FOREIGN EXCHANGE (LOSS)/GAIN

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

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

28. STAFF COSTS

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

Key executive management personnel

X5's key management personnel consists of Management and Supervisory Board members, having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Members of the Management Board and Supervisory Board of the Group receive compensation in the form of a short-term compensation in cash (including, for Management Board members, a cash bonus) and share-based payments (Note 29).

For the year ended 31 December 2008 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 6,793 (2007: USD 8,217), including bonuses of USD 2,871 (2007: USD 4,437). The compensation is made up of annual remuneration and a performance bonus depending on, inter alia, operating results. As at 31 December 2008 the total amount of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 2,814,375 (31 December 2007: 1,950,000 GDRs). The total intrinsic value of vested share options amounted to zero as at 31 December 2008 (31 December 2007: USD 19,795).

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29. SHARE-BASED PAYMENTS

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

The first and second tranches were approved for granting at 15 June 2007. The first tranche vested immediately and the second tranche vested on 18 May 2008. The initial exercise prices of the first and second tranches were USD 18.00 and USD 30.62 per GDR accordingly. As a result of a new share issue in May 2008 the share price dilution could affect expected market value of the GDRs granted under the ESOP. To mitigate the effect the Group decided to adjust the exercise price of the options granted under the first and second tranches to USD 15.96 for the first tranche and USD 28.58 for the second tranche and increase the total number of GDRs under the ESOP to 11,261,264 GDRs (31 December 2007: 10,824,008 GDRs). In May 2008 the third tranche was granted at the exercise price of USD 33.43. The third tranche will vest on 19 May 2009. Participants of the ESOP can exercise their share options granted under first, second and third tranches any time over the period from vesting till 19 November 2010, 16 December 2011 and 20 November 2012 respectively. However, as noted below management considers that the participants will not exercise their options within the next 12 months.

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

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

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

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

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

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

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30. INCOME TAX

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

The theoretical and effective tax rates are reconciled as follows:

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

* Profit before taxation on Russian operations is assessed based on the statutory rate of 24%, profit before taxation on Ukrainian operations is assessed based on the statutory rate of 25%.
** An income tax rate of 20% has been enacted in November 2008 which becomes effective starting from 1 January 2009.

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Deferred income tax

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

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

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Deferred income tax

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

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

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

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

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

31. FINANCIAL RISKS MANAGEMENT

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

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

(a) Market risk

Currency risk

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

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

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

Interest rates risk

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

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

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

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

(b) Credit risk

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

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(c) Liquidity risk

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

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

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

Year ended 31 December 2008	During 1 year	In 1 to 3 years
Borrowings	593,485	1,643,696
Trade payables	1,174,144	-
Gross finance lease liabilities	2,197	1,843
Derivative financial liabilities	18,180	-
Other finance liabilities	258,769	-
	2,046,775	**1,645,539**

Year ended 31 December 2007	During 1 year	In 1 to 3 years
Borrowings	374,030	1,665,661
Trade payables	971,570	-
Gross finance lease liabilities	2,280	1,280
Other finance liabilities	163,124	-
	1,511,004	**1,666,941**

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

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

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

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

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

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

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

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

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

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32. OPERATING ENVIRONMENT OF THE GROUP

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

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

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

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

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

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

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

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

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

The availability of external funding in financial markets has significantly reduced since August 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Although, as noted in Note 31 the Group management considers that the available credit lines and expected cash flows are sufficient to finance the Group's current operations.

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

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

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

33. CAPITAL RISK MANAGEMENT

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

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

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

35. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

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

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

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

Consolidated Financial Statements

Capital expenditure commitments

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

Legal contingencies

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

Taxation environment

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

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

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

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

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

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

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

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Company's Financial Statements

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

	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Financial assets	37	3,138,016	2,285,304
		3,138,016	2,285,304
Current assets			
Deferred tax assets	38	14,980	7,827
Amounts due from subsidiaries		130,871	44,587
Prepayments		16	1,237
Cash		226	779
		146,093	54,430
Total assets		**3,284,109**	**2,339,734**
EQUITY AND LIABILITIES			
Paid up and called up share capital	39	95,764	79,226
Share premium account		1,993,385	1,217,341
Other reserves		(34,906)	1,985
Unappropriated profit /(loss) of the year		149,664	(31,990)
Currency translation reserve		(36,537)	(13,485)
Total equity		**2,167,370**	**1,253,077**
Non-current liabilities			
Bank loans	40	1,087,616	1,083,226
		1,087,616	1,083,226
Current liabilities	41		
Financial liabilities		18,180	-
Accrued expenses		10,943	3,431
		29,123	3,431
Total equity and liabilities		**3,284,109**	**2,339,734**

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Company's Financial Statements

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X5 Retail Group N.V. Company's Income Statement for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

	Notes	31 December 2008	31 December 2007
Share in result of participations after tax		-	-
Other income and expenses after tax	42	149,664	(31,990)
Profit/(Loss) after taxation		**149,664**	**(31,990)**

36. ACCOUNTING PRINCIPLES

General

The Company was incorporated as a limited liability Company under the laws of The Netherlands on 13 August 1975 and has its statutory seat in Amsterdam. The Company is publicly owned. The principal activity of the Company is to act as a retail chain.

Basis of presentation

The Company financial statements of X5 Retail Group N.V. have been prepared in accordance with Part 9, of Book 2 of the Dutch Civil Code.

Accounting principles

The statutory financial statements of the Company have been prepared in accordance with accounting principles generally accepted in The Netherlands, in accordance with Part 9 of Book 2 of the Dutch Civil Code. The Dutch GAAP accounting principles applied for the entity accounts are similar to those used in the IFRS Consolidated Financial Statements (refer to note 2 to the Consolidated Financial Statements), unless stated otherwise below. The consolidated accounts of companies publicly listed in the European Union must be prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and adopted by the European Commission. Consequently the consolidated financial statements of the group for the year ending 31 December 2008 have been prepared accordingly.

In accordance with Section 362 paragraph 7, Part 9 of Book 2 of the Dutch Civil Code, the presentation currency in the annual report is USD as a result of the international bifurcation of the Company. As the Company exploits Russian grocery stores in three formats (hypermarkets, supermarkets and discounters), the functional currency of the Company is the Russian Rouble as this is the currency of its primarily business environment and reflects the economic reality. Reference is made to section 2.5 (a) of the notes to the Consolidated Financial Statements with regard to the accounting policy in regard of the translation from functional currency to presentation currency.

Financial assets and liabilities

Due to the international structure of the Company, the participations in group companies are valued at historical cost. Provisions for impairment are taken into account when necessary.

Derivative financial instruments are recognized at cost. Changes in the value of these derivatives are recognized in the income statement upon transfer of the instrument to another party or if the instrument is impaired.

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

Deferred income tax asset

Deferred income tax asset is valued at nominal value and recognized as a part of current assets based on estimated recoverability timing.

Shareholders' Equity

Issued and paid up share capital, which is denominated in Euro, is restated into US Dollar at the exchange rate as of balance date in accordance with section 373 sub 5 of book 2 of the Dutch Civil Code. The difference is settled with the currency translation adjustment reserve.

Foreign exchange differences realised on translation of EUR denominated Share capital to RUR at closing rate are accounted for in "Other reserves".

37. FINANCIAL ASSETS

	31 December 2008	31 December 2007
a. Movements in the interests in group companies have been as follows:		
Opening balance	1,635,439	1,481,539
Acquisitions	210,342	-
Provision for Impairment of investments	(29,519)	
Other movements/foreign currency exchange differences	(269,092)	153,900
Closing balance	**1,547,170**	**1,635,439**

A complete list of group companies has been disclosed in the consolidated financial statements. Acquisions and impairment are related to 25 % interest in Formata Holding B.V. and 40 % interest in Retail Express Ltd (Note 7). The Group has pleged as collaterial for the syndicated loan 100 % of voting shares in its subsidiares (Note 20).

Company's Financial Statements

X5 Retail Group N.V.
Notes to the Company's Financial Statements for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

	31 December 2008	31 December 2007
b. Movements in the loans to group entities have been as follows:		
Opening balance	649,865	454,123
Disbursement/repayments	940,981	187,891
Other movements/foreign currency translation differences	-	7,851
Closing balance	**1,590,846**	**649,865**
Total Financial assets	**3,138,016**	**2,285,304**

The long-term loans provided to following Group entities:	Date of maturity
Speak Global Ltd	March 2010
Alpegru Retail Properties Ltd.	January 2010
Grasswell Ltd.	January 2010, December 2010
TH Perekrestok ZAO	June 2011

The loans have not been secured and attract up to 10.5% interest per annum.

Company's Financial Statements

X5 Retail Group N.V.
Notes to the Company's Financial Statements for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

38. DEFERRED INCOME TAX ASSET

	31 December 2008		31 December 2007	
	Recognised in current assets	Not recognised	Recognised in current assets	Not recognised
Tax losses	14,980	1,560	7,827	13,289
Total	**14,980**	**1,560**	**7,827**	**13,289**

39. SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other Reserves	Profit/(Loss)	Translation adjustment	Total
Balance as per 1 January 2007	**71,196**	**1,104,453**	**(126)**	**(5,392)**	**(5,257)**	**1,164,874**
Contribution of subsidiary	-	-	-	-	-	-
Transfer	-	-	(5,392)	5,392	-	-
Currency translation adj.	8,030	112,888	7,503		(8,228)	120,193
Result for the period	-	-	-	(31,990)	-	(31,990)
Balance as per 31 December 2007	**79,226**	**1,217,341**	**1,985**	**(31,990)**	**(13,485)**	**1,253,077**
Contribution of subsidiary	-	-	-	-	-	-
Paid in	21,648	1,207,967	-	-	-	1,229,615
Transfer	-	-	(31,990)	31,990	-	-
Currency translation	(5,110)	(431,923)	(4,901)	-	(23,052)	(464,986)
Result for the period	-	-	-	149,664	-	149,664
Balance as per 31 December 2008	**95,764**	**1,993,385**	**(34,906)**	**149,664**	**(36,537)**	**2,167,370**

Statutory undistributable reserve is maintained for currency translation adjustment recorded as the result of translation between functional and presentation currencies

Company's Financial Statements

X5 Retail Group N.V.
Notes to the Company's Financial Statements for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

Movements in the differences between the Company and consolidated equity and profit/loss in the financial year are as follows:

	31 December 2008	31 December 2007
Equity per Company financial statements	**2,167,370**	**1,253,077**
Revaluation reserve re PP&E only in consolidated financial statements	27,847	27,847
Increase in share premium not in consolidated financial statements	(58,188)	(58,188)
Distribution to shareholders only in consolidated financial statements	(59,635)	(59,635)
Historical result of group	445,700	269,962
Acquisition of treasury shares	(14,150)	(5,048)
Hedging instruments	(18,180)	-
Acquisition of subsidiaries	-	220
Results from subsidiaries for the year	(2,287,951)	175,738
Sale of treasury shares	144,217	-
Currency exchange differences	(237,722)	110,569
Equity change as an effect of reverse acquisition transaction	1,529,125	1,529,125
Equity per consolidated financial statements	**1,638,433**	**3,243,667**

Difference in profit/loss	**31 December 2008**	**31 December 2007**
Profit /(loss) according to Company annual accounts	149,664	(31,990)
(Loss)/profit from subsidiaries for the year	(2,287,951)	175,738
(Loss)/Profit according to consolidated annual accounts	**(2,138,287)**	**143,748**

Share capital issued

The authorised share capital of the Company amounts to EUR 190,000,000 divided into 190,000,000 shares of EUR 1 each.

As at 31 December 2008, the issued and paid-up share capital amounts to EUR 67,893,218 and consists of 67,893,218 shares of EUR 1 each (2007: 54,120,038). This has been recalculated into USD with an exchange rate of 1 EUR = 1,5717 USD (2007: 1 EUR = 1,4639 USD).

X5 Retail Group N.V.
Notes to the Company's Financial Statements for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

40. BANK LOANS

Movement in the bank loans have been as follows:

	31 December 2008	31 December 2007
Opening balance	1,083,226	784,197
Paid	-	(800,000)
Received	-	1,083,226
Finance costs	4,390	-
Currency rate exchange differences	-	15,803
Closing balance	**1,087,616**	**1,083,226**

The bank loans comprise of a syndicated loan from a consortium of banks. The loans have been secured, attract LIBOR + 2.25% interest per annum for the first year. Subsequently, the margin will move in accordance with a Net Debt/EBITDA grid with a maximum margin at the top of the grid of 2.0% per annum over LIBOR. In this respect reference is made to Note 20 of the Consolidated Financial Statements. Redemption shall take place as follows:

In the December 2010:	1,100 million
Total	**1,100 million**

The correction contains prepaid commissions for the syndicated loan. These commissions have been transferred to the prepayments.

41. CURRENT LIABILITIES

The current liabilities contain accrued expenses and non - income tax payable.

X5 Retail Group N.V.
Notes to the Company's Financial Statements for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

42. OTHER INCOME AND EXPENSES AFTER TAX

	31 December 2008	31 December 2007
Interest income from subsidiaries	(116,020)	(46,332)
Interest expenses	53,966	65,640
General and administrative expenses	21,396	7,823
Result of financial instruments	21,490	35,650
Currency exchange rate differences	(150,038)	(22,964)
Income tax charge	(9,977)	(7,827)
Provision for impairrment of investments	29,519	-
	(149,664)	**31,990**

In accordance with the Dutch legislation article 2:382a the total audit fees related to the accounting organisation PricewaterhouseCoopers Accountants N.V. amounted to USD 223 (2007: USD 170)

43. INCOME TAX EXPENSE

	31 December 2008	31 December 2007
Operating (profit)/loss	(149,664)	31,990
Deferred income tax credit	(9,977)	(7,827)
Effective tax rate	(7)%	24%
Applicable tax rate	25.5%	25.5%

The effective tax rate differs from the applicable tax rate due to deferred income tax asset recognised in respect of losses for the 2004-2007 financial years and currency exchange rate gain and provision for value of investments that are not tax deductible. The effective tax rate is different from last year`s rate due to not recognized of deferred income tax assets in respect of losses for the 2004-2007 financial years.

X5 Retail Group N.V.
Notes to the Company's Financial Statements for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

44. DIRECTORS

The Company has a Management Board and a Supervisory Board. The remuneration of all board members paid through the Company and through interests in group companies is disclosed as follows. Further reference is made to Notes 29 and 30 in the consolidated financial statements.

Supervisory Board

Remuneration of the Supervisory Board members consists of cash salary which accrued evenly throughout the year in proportion to the period of service.

	Base salary 2008	Bonus 2008	
H. Defforey	169	-	
M. Fridman	71	-	
A. Rogachev	20	-	Resigned 11 April 2008
T. Franus	20	-	Resigned 23 April 2008
D. Gould	106	-	
A. Kosiyanenko	9	-	Resigned 13 February 2008
A. Savin	71	-	
C. Criado-Perez Trefault	169	-	
V. Ashurkov	106	-	
A. Tynkovan	92	-	Appointed 16 June 2008
S. DuCharme	28	-	Appointed 29 October 2008
	861	**-**	

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

Company's Financial Statements

Two members of the Supervisory Board are participating in the share option programme of the Group. The number of options granted and outstanding to the members of the Supervisory Board is as follows:

	No. of options granted in 2008	No. of options granted prior 2008	No. of options exercised in 2008/2007	No. of options outstanding as at 31.12.2008
H. Defforey	42,500	30,000	30,000	42,500
C. Criado-Pérez Trefault	21,250	20,000	-	41,250
	63,750	**50,000**	**30,000**	**83,750**

The intrinsic value of the Share options amounted to zero as at 31 December 2008. Intrinsic value is calculated as the difference between the exercise price of the option and the market quote of the underlying GDR as at 31 December 2008 multiplied by number of vested options. Fair value is measured based on the Black-Scholes model (Note 29 in the consolidated financial statements). As a result of decrease in the Group's share price the Group recognised a reversal of part of the share option liabilities accrued in 2007 for H. Defforey and C. Criado-Pérez Trefault of USD 311 and USD 88 respectively.

Management Board

Remuneration of the Management Board members consists of cash salary and an annual bonus.

	Base salary 2008	Bonus 2008	
L. Khasis	1,973	2,000	
E. Kornilov	806	800	Appointed 18 January 2008
F. Lhoest	282	70	
	3,061	**2,870**	

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

Two members of the Management Board are participating in the share option programme of the Group. The number of options granted and outstanding to the members of the Management Board is as follows:

	No. of options granted in 2008	No. of options granted prior 2008	No. of options exercised in 2008/2007	No. of options outstanding as at 31.12.2008
L. Khasis	860,625	1,620,000	-	2,480,625
E. Kornilov	220,000	30,000	-	250,000
	1,080,625	**1,650,000**	**-**	**2,730,625**

The intrinsic value of the Share options amounted to zero as at 31 December 2008. Intrinsic value is calculated as the difference between the exercise price of the option and the market quote of the underlying GDR as at 31 December 2008 multiplied by number of vested options. Fair value is measured based on the Black-Scholes model (Note 29 in the consolidated financial statements). As a result of decrease in the Group's share price the Group recognised a reversal of part of the share option liabilities accrued in 2007 for L. Khasis of USD 19,241. Additional accrual in the amount of USD 151 was recognised in respect of change in the fair value of options outstanding to E. Kornilov as at 31 December 2008.

Company accounts include salaries and bonuses payable to statutory directors of USD 357 (2007: 452).

45. STAFF NUMBERS AND EMPLOYMENT COSTS

The Company has no employees and hence incurred no wages, salaries or related social security charges during the reporting period, nor during the previous year.

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

46. CONTINGENT RIGHTS AND LIABILITIES

Reference is made to the commitments and contingencies as disclosed in Note 35 in the consolidated financial statements. Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Group has the following guarantees issued under obligations of its subsidiaries:

	31 December 2008	31 December 2007
Guarantee issued to Barclays Bank Plc	-	122,219
Guarantee issued to Commerzbank	100,000	90,500
Guarantee issued to Raiffeisenbank	100,000	-
Irrevocable offer to holders of X5 Finance bonds	306,327	364,763
Irrevocable offer to holders of Pyaterochka Finance bonds	907	15,261

X5 Retail Group N.V.
Notes to the Company's Financial Statements for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

47. RELATED PARTY TRANSACTION

Statutory director's compensation

Statutory director's compensation is disclosed in Note 44.

Amsterdam, 09 April 2009

Managing Directors:	Supervisory Directors:
L. Khasis	H. Defforey
	M. Fridman
	D. Gould
E. Kornilov	A. Savin
	C. Criado-Perez Trefault
	V. Ashurkov
F. Lhoest	A. Tynkovan
	S. DuCharme

Other Information

Auditor’s report

Auditor’s report is included on the page 185.

Statutory profit appropriation

In Article 28 of the company statutory regulations the following has been stated concerning the appropriation of result.

On proposal of the Supervisory Board, the General meeting shall determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits.

Proposed appropriation of profit

	2008
Profit for the year added to other reserves	149,664

It will be proposed to transfer the profit to the other reserves.

Subsequent Events

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

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

Auditor's Report

PRICEWATERHOUSECOOPERS

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

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2008 of X5 Retail Group N.V., Amsterdam as set out on pages 82 until 182. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2008, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2008, the company profit and loss account for the year then ended and the notes.

The management board's responsibility

The management board of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report set on pages 5 until 81 in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements, set out on pages 82 until 168, give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements, set out on pages 169 until 182, give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 10 April 2009
PricewaterhouseCoopers Accountants N.V.

drs P.C. Dams R.A.