2010

X5 RETAIL GROUP
Annual Report






Пятёрочка
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2010 Financial Statements

ул. Бирюлевская, д.51, к.1 1000м

Пятёрочка

АКЦИЯ!

2010 Highlights

In 2010 X5:

- Delivered on full-year revenue growth target with **24% consolidated net sales growth** in RUR terms (29% in USD terms)
- Added nearly **1,100 stores,** including 437 stores organically and the rest through the **acquisition of Kopeyka** retail chain
- Reported solid **like-for-like** (LFL) sales **growth** of **7%** in RUR terms
- Recorded over **1.2 billion customer visits** to our stores

X5 in 2010

- USD **13.0** billion in Pro-Forma Net Sales
- USD **11.3** billion in Consolidated Net Sales
- **24%** Consolidated Net Sales Growth in RUR
- **29%** Consolidated Net Sales Growth in USD

X5 at 31 December 2010

- Number **1** Russian Retailer
- **2,469** Multi-Format Stores in Russia & Ukraine
- **1.6** million sq. m. of Selling Space
- Operations in **52** Cities of Russia and in Ukraine

Financial Highlights

	2010[1]	2009	% change, y-o-y
Net Sales, USD million	11,280	8,717	*29%*
Gross Profit, USD million	2,629	2,108	*25%*
Gross Margin, %	*23.3%*	*24.2%*	
EBITDA, USD million	844	736	*15%*
EBITDA Margin, %	*7.5%*	*8.4%*	
Net Income, USD million	271	165	*64%*
Net Margin, %	*2.4%*	*1.9%*	

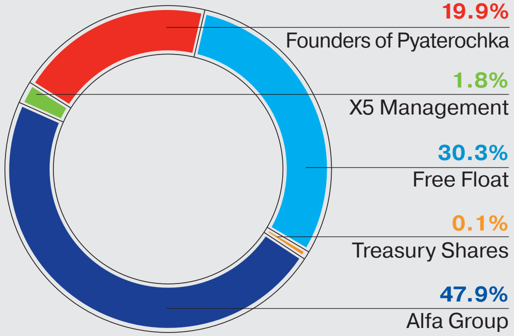
[1] Kopeyka results are consolidated from 1 December 2010.

Shareholder Information

The Company'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 of one ordinary share.

As at 31 December 2010, X5's share capital consisted of 67,893,218 issued ordinary shares, with a nominal value of €1.00 each. This represents an equivalent of 271,572,872 GDRs. As at 31 December 2010, X5's share ownership structure was as follows: Alfa Group – 47.9%, founders of Pyaterochka – 19.9%, X5 Management – 1.8%, treasury shares – 0.1%, free float – 30.3%.

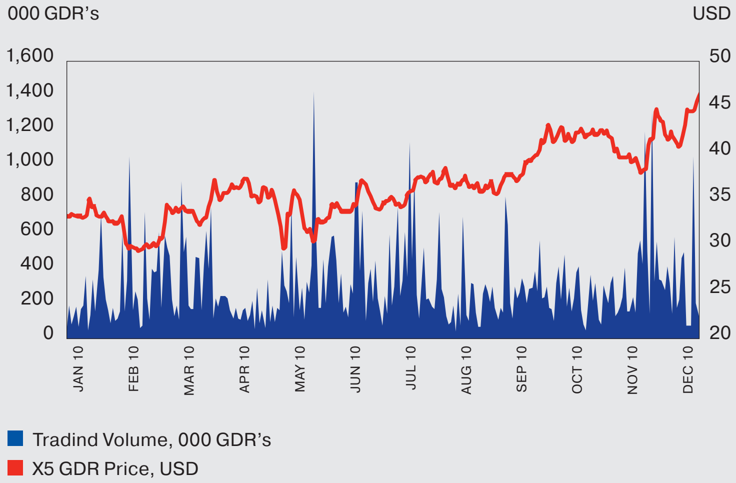
X5 Share Capital as at 31 December 2010



Total number of shares – 67,893,218
Equivalent of 271,572,872 GDRs

In 2010, X5's GDR price increased by 45% to close the year at USD 46.25 per GDR. As at 31 December 2010, X5's total market capitalisation amounted to USD 12.6 billion.

X5 2010 GDR Price Performance



Перекресток
зелёный

Hervé
DEFFOREY

Message from the Chairman of the Supervisory Board

I believe X5's strongest qualities are its long-term strategic focus, consistent delivery of results and ability to manage and respond to change. These qualities were prominently on display this year as the Company met its growth targets and emerged from the economic downturn as the unrivalled number one leader in the Russian retail market.

X5's continued investment in customer value during the downturn was rewarded with increased traffic and a healthy surge in sales as consumer confidence recovered toward the end of 2010. X5 also learned to be a more efficient retail operator and further strengthened its logistics, IT infrastructure and business processes to enhance its competitive advantages and manage growth effectively for the future.

The Board oversaw the execution of X5's stepped up growth plans in 2010, including a record organic expansion programme and the acquisition of Kopeyka. We expect these investments to generate substantial value for shareholders. The Board also monitored X5's efforts to refinance the balance sheet, maintain CapEx discipline and implement efficiency measures.

In March 2011 Lev Khasis resigned as CEO after a successful five-year tenure during which the Company more than quadrupled in size. We would like to thank Lev for his hard work and outstanding contributions to X5's organisation, shareholders and customers and we wish him great success in his future endeavors.

The Board elected Andrei Gusev as successor with immediate effect and recommended his appointment as Chief Executive Officer to the Annual General Meeting of Shareholders. Andrei Gusev has been part of X5's executive team for five years. The Board is confident that X5 will sustain its growth as the dominant player in Russian retail under his leadership.

X5 is also delighted to welcome Kieran Balfe as our Company's new Chief Financial Officer with effect from February 2011. He has almost two decades of management experience in Russia, and will contribute invaluable global consumer industry expertise and operational best practice knowledge. He succeeds Evgeny Kornilov, who prior to stepping down as CFO in October, continuously demonstrated the value and importance of this position for X5.

Finally, I would especiable like to thank the nearly 90,000 associates of X5 without whom last year's performance could have never been achieved.

Russia is one of the world's most promising consumer markets. Macro-economic conditions have clearly improved and consumers are trading up, although inflation remains a concern. X5 has successfully navigated the changing environment and is positioned to remain the dominant player in the Russian retail sector.

Hervé Defforey

Andrei
GUSEV

Letter from the Chief Executive Officer

X5 consistently delivers results and this year is no exception. We met our 2010 growth outlook with a net retail sales increase of 24% in ruble terms. The Company ended the year with USD 11.3 billion in consolidated net sales, added nearly 1,100 stores and extended its number one position far beyond the nearest competitor.

We have kept our focus on the customer in good times and bad. As the economy picked up in 2010, our multi-format approach clearly showed its value. X5 powered to a strong finish as consumer confidence finally rebounded and customers began spending again towards year-end thanks to a strengthening Russian economy.

This year we ramped up organic growth with record new store openings. Net of the Kopeyka acquisition, we added 437 stores, exceeding the Company's plan while remaining below our CapEx limit.

Acquisitions added to our growth potential. We successfully integrated Paterson's 75 stores acquired in December 2009, and delivered on our objective for a substantial increase in sales densities. We capped the year by acquiring Kopeyka, giving X5 the number one position in discounters and enhancing our platform for growth. The deal gave us over 650 discounter stores, establishing X5 as the number one leader in our best performing format and significantly increasing our geographic footprint in Moscow and Moscow region.

X5 thus begins 2011 in a prime position to strengthen its leadership in Russian retail. The Company has an ambitious, opportunity-rich agenda – and 2011 will be a critical year for execution. As the management team focuses on making X5 an even stronger and more efficient business, I want to emphasise our key priorities for success.

Staying close to our customers is essential to everything we do.
The Company has a proven strategy to be the best competitor in the marketplace. With a recovery in consumer spending supported by an economic upturn, we are focused on strengthening performance across all our formats. Our multi-format approach to customer segmentation has served us well, offering stores, assortment and value for every consumer lifestyle and budget. We will continue to win customers and grow sales by ensuring a quality shopping experience at affordable prices.

We will add a record number of stores to power organic growth.
We are stepping up new store openings, particularly discounters, which is a great format for Russian consumers with low to average incomes. Execution of X5's store opening programme has always been high quality, and our team will continue to manage the economics and operational planning of our expansion strategy to get the best locations and ramp up sales quickly.

X5 is fast-tracking the Kopeyka integration plan. Following a thorough analysis, X5 set an ambitious goal to execute the integration plan in one year instead of two. This will position the Company to seize opportunities for growing sales densities and improving efficiency to get the synergies and generate value for our shareholders. Customers will also benefit as we rebrand Kopeyka to deliver even better assortment and prices.

We will further focus our efforts on supply chain efficiency. A major focus of X5's strategic efficiency programme has been the creation of a fully integrated supply chain and IT systems platform. Successful implementation of SAP and higher centralisation of distribution increase X5's operational efficiency potential, including greater focus on productivity gains going forward.

Commercial development is an essential sales driver. We will continue improving assortment with expansion of sourcing from local producers and an increased share of private label and better non-food offerings.

Tight financial discipline remains a key priority. We have clear goals for disciplined growth through execution of our CapEx plan, cost control, cash generation and working capital management.

Regional expansion is becoming more important. X5 is the leader in Moscow, St. Petersburg and other large cities with higher population density and incomes. We will continue to strengthen our position in our largest markets, while also building out our store presence to leverage X5's regional logistics infrastructure and win customers in areas under-served by the competition.

We build X5's team in a way that creates competitive advantages. The Company's strategic focus on HR management gives X5 a major competitive advantage. We hire the best industry professionals, our team is cross-functional and this makes X5's organisation the strongest in the retail sector.

I am enthusiastic about the opportunity to lead X5's management team as we pursue X5's next phase of profitable growth. Russia is one of the world's most exciting consumer markets, and X5's strategy provides excellent potential upside for shareholder returns in the years to come.

Andrei Gusev

Executive Board

Anton Mironenkov
Mergers, Acquisitions and Business Development Director

Ekaterina Stolypina
General Director of Supermarket and Hypermarket Format

Teimur Shternlib
Deputy CEO, Chief Business Support Officer

Ekaterina Ishevskaya
Commercial Director

Andrei Gusev
Chief Executive Officer

Oleg Vysotsky
General Director of Discounter Format

Kieran Balfe
Chief Financial Officer

Igor Pletnev
Director for Regional Branch Management and Organic Development

Dmitry Ishevskiy
Logistics Director

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Delivering for Our Customers

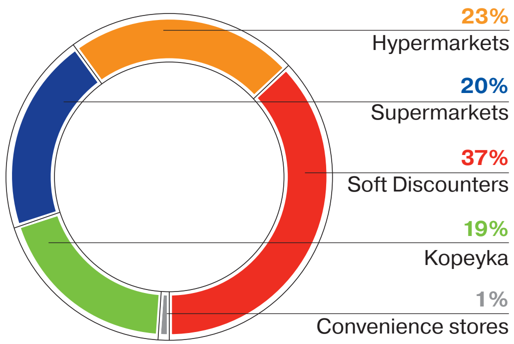
As Russia's largest retailer, X5 is uniquely positioned to capitalise on consumer growth trends. Our goal is to be the number one choice for customers and reinforce X5's leadership in the Russian retail market. With our three retail formats – discounters, supermarkets and hypermarkets – we have stores for every lifestyle and family budget.

Our "Close to the Customer" policy aims to ensure that each of our formats leads its market segment by offering the right products at the most attractive prices. We continue to invest in our value propositions, quality and service to build customer loyalty while differentiating the shopping experience through *Private Label*, *Retail Innovation* and other initiatives.

X5 grew net sales by 24% in RUR terms in 2010, or 22% excluding the initial contribution of the acquired Kopeyka retail chain. Performance was driven by new store expansion and a LFL sales increase of 7% in RUR terms, on a 3% increase in customer traffic and 4% increase in average purchase size.

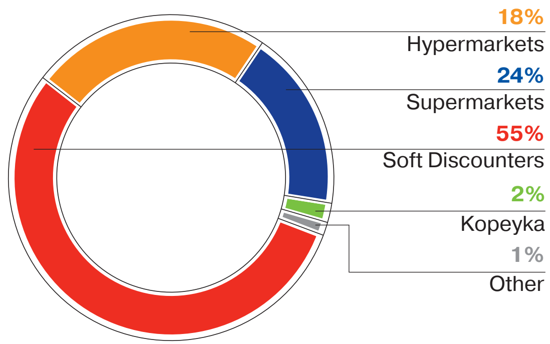
2010 Net Selling Area Break-Down by Format

At 31 Dec 2010 total net selling area was 1,555 thousand sq.m.



2010 Net Retail Sales Break-Down by Format

Total FY 2010 net retail sales were USD 11,248 mln



Пятёрочка

Discounters again delivered strong performance in terms of sales growth, LFL sales and sales per sq. m., outperforming the competition, winning customers and strengthening market positions in key regions as the chain for ordinary Russians. At the end of 2010 X5 acquired the Kopeyka discounter chain to become the clear leader in the segment. In 2011 we plan to accelerate growth in discounters and focus on integration and rebranding of Kopeyka.

Перекресток супермаркет Перекресток зелёный

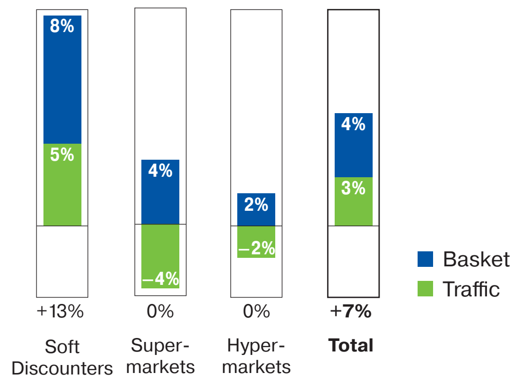
Supermarkets improved significantly towards the end of the year as consumer spending recovered and shoppers began trading up. After a tough macro environment in first half 2010, price promotions and assortment changes at supermarkets and the successful integration of Paterson combined with a strengthening Russian economy to drive positive LFL sales increases in the third and fourth quarters. In 2011, our goal is to sustain this recovery and grow sales and market share through investments in new stores and older store remodeling.

гипермаркет КАРУСЕЛЬ

Hypermarkets saw improving LFL sales in Moscow and the regions but overall 2010 performance was flat year-on-year due to sharp declines in the intensely competitive St. Petersburg market. We are executing performance improvement plans to strengthen management of non-food assortment, which is critical to success in the hypermarket business. X5 will continue to open new stores selectively in 2011 to develop hypermarkets' potential in Russia in line with trends in other countries.

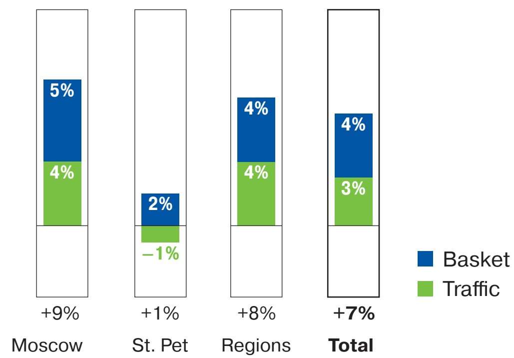
2010 LFL Performance by Format

Based on RUR-denominated gross sales



2010 LFL Performance by Region

Based on RUR-denominated gross sales



Soft Discounters: Pyaterochka – Russia's Price Leader

Пятёрочка

Value Proposition

- Lowest price on the market on 100% of assortment
- Close to your home

Target Customer Base

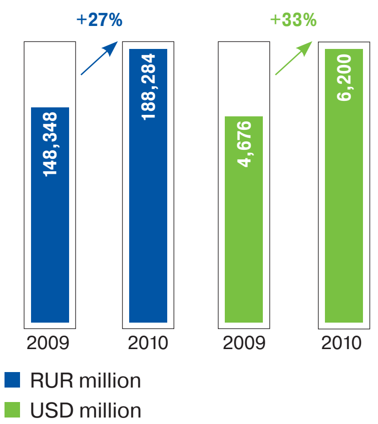
- Over 100 million Russians or 70% of the country's population
- Low to average income
- Price-conscious or looking for value
- Walk to shops
- Shop several times a week
- Food is a simple, affordable pleasure

Pyaterochka Fact Sheet

As at 31 December 2010	Total	Average per Store
Selling Space, sq.m.	586,331	421
Number of stores	1,392	
Assortment, # of SKUs	from 2,200 to 3,900	
Number of check-out transactions per day	Over 2.2 mln	~ 1,900
Full Year 2010	**All Stores**	**LFL Stores**
Average check[1], RUR	266	271
Sales per square meter[1][2], RUR/year	424,110	471,310

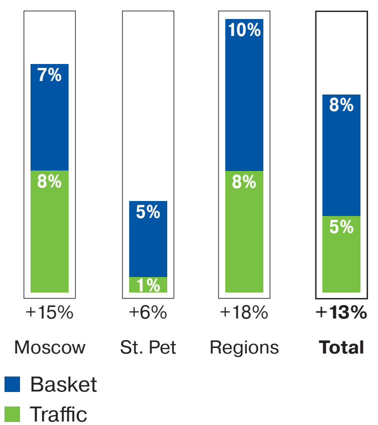
(1) Based on gross retail sales, i.e. including VAT.
(2) In 2010 X5 changed its calculating methodology to a more accurate one. If calculated using this methodology, 2009 sales per sq.m. would have been RUR 438,869 for all stores and RUR 445,123 for LFL stores.

Soft Discounters' 2010 Net Retail Sales



Soft Discounters' 2010 LFL Performance

Based on RUR-denominated gross sales



2010 Performance

For 2010, soft discount stores reported net retail sales of RUR 188,284 million, a year-on-year increase of 27% in RUR terms. Pyaterochka's sales amounted to 55% of X5's total net retail revenue for the year.

Discounters delivered impressive performance in terms of sales growth, like-for-like (LFL) sales and sales per sq. m. LFL growth of 13% this year was achieved against the high comparable base in 2009 when the aggressive launch of Pyaterochka's new brand promise of *lowest price on the market on 100% of assortment* drove LFL growth of 17% despite the economic downturn. LFL performance in 2010 benefited from a stronger contribution from the regions, as Pyaterochka increased its market share and regional stores delivered 18% LFL growth.

Discounters outperformed the competition, winning customers and strengthening market positions thanks to aggressive price leadership. We also scored well with advertising campaigns promoting Pyaterochka as the chain for ordinary Russians. And we reinforced this image with our continued high-profile sponsorship of the Russian National Football Team.

In addition to price leadership, we continue to improve discounters' attractiveness for customers in other ways that also improve operational efficiency and profitability. For example, we have expanded the number of products sourced from local suppliers, which have strong appeal for shoppers in our regional stores. Additionally, we are creating more visually engaging and convenient product displays, packaging and price-tags, which not only provide customers with a better shopping experience but also simplify in-store labour processes. We also upgraded the IT platform at regional stores as part of the IT transformation programme to support future in-store improvements.

2010 was a record year for new store additions in discounters. We opened 353 new discounters organically and acquired the Kopeyka retail chain with 660 stores, almost all of which will be converted to Pyaterochkas.

Plans for 2011

We set ambitious goals for 2011 – to open a new record number of discounters and rebrand the majority of Kopeyka stores[1]. In addition to opening stores in Moscow and other big cities, we see opportunities for growth in smaller towns located in regions, where brand recognition is high, Pyaterochka's offer is in strong demand while competition at the moment is low. We will continue to invest in Pyaterochka's position as the Russian price leader, and evolve assortment towards lower price points and private label offerings.

(1) Please see more information on Kopeyka integration progress in Strategic Acquisitions Section of this Annual Report.

Supermarkets: Perekrestok – Improving the Quality of Your Life

Value Proposition

- Best in fresh
- Best in service

Target Customer Base

- ~30 million Russians
- Middle to higher income levels
- Look for quality assortment and service
- Highly value convenience and time
- Shop several times a week

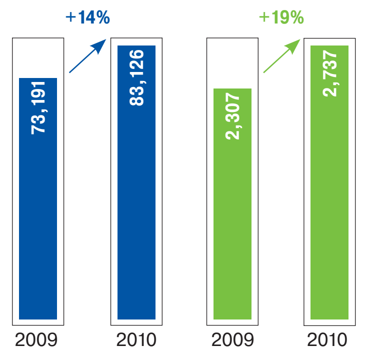
Perekrestok Fact Sheet

As at 31 December 2010	Total	Average per Store
Selling Space, sq.m.	313,024	1,040
Number of stores	301	
Assortment, # of SKUs	From 6,000 to 16,000	
Number of check-out transactions per day	~ 720,000	Over 2,500
Full Year 2010	**All Stores**	**LFL Stores**
Average check(1), RUR	364	378
Sales per square meter(1)(2), RUR/year	332,585	370,793
Customer Loyalty Fact		

In 2010, the number of members of Club Perekrestok, a personalised loyalty programme at X5's supermarkets has almost doubled from 1.1 million to more than 2.4 million people. Club members account for almost 40% of total Perekrestok sales, while average purchase size is typically 50% higher than for regular purchases.

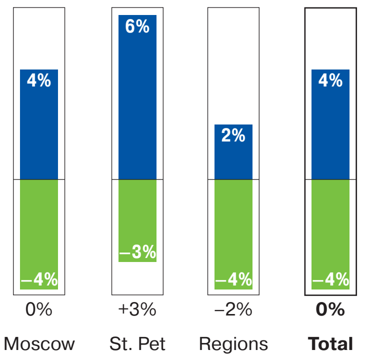
(1) Based on gross retail sales, i.e. including VAT.
(2) In 2010 X5 changed its calculating methodology to a more accurate one. If calculated using this methodology, 2009 sales per sq.m. would have been RUR 364,661 for all stores and RUR 370,930 for LFL stores.

Supermarkets' 2010 Net Retail Sales



RUR million
USD million

Supermarkets' 2010 LFL Performance
Based on RUR-denominated gross sales



Basket
Traffic

2010 Performance

Supermarkets reported net retail sales of RUR 83,126 million in 2010, a year-on-year rise of 14% in RUR terms. Supermarkets performance improved significantly towards the end of 2010 as consumer spending recovered and shoppers began trading up. As a result, Perekrestok's sales amounted to 24% of X5's total net retail revenue for the year.

Economic uncertainty resulted in declining supermarket like-for-like (LFL) sales in the first half of the year. In June 2010, in order to help Perekrestok's target customers make the right decision and come back to supermarkets, we launched price cuts of 20%, on average, on more than 3,500 items. In line with our "Close to the Customer" policy, we supported these investments in our value propositions with continuous gains in operating efficiency and purchasing terms, while working with suppliers to get the right mix of products for every budget.

Thanks to these initiatives and a more favourable macroeconomic environment, supermarket LFL sales increased 2% in the third quarter and jumped 11% in the fourth quarter 2010 on higher ticket and traffic, resulting in flat LFL performance for the year. Very positively, supermarket customer traffic growth was not accompanied by an outflow from discounters, but rather was driven by taking market share from competitors.

At the end of 2010, X5 operated seven Green Perekrestok stores, which have gained in popularity among upscale customers looking for a high level of service and competitive prices on an attractive range of premium and specialty items. We are making competitive inroads against players already operating in the premium retail segment.

Paterson stores, acquired at the end of 2009, were successfully integrated and re-launched by May 2010. By the end of the year, 53 stores operated under the Perekrestok brand while an additional 22 stores were turned into Pyaterochkas. Post-integration performance improved significantly, with LFL sales of converted stores surging over 40% in the fourth quarter 2010 compared to pre-acquisition levels one year earlier.

Plans for 2011

In 2011, the key objective in the supermarket segment is growing market share, particularly via new store openings. Additionally, we plan to continue remodelling and upgrading Perekrestok supermarkets to "next generation" stores with a refreshed brand identity, improved product displays and traffic flow and enhanced assortment and service. The five stores already remodeled in 2010 were an instant hit with customers and resulted in a significant increase in sales densities.

We will continue to build Perekrestok's brand on focus on fresh assortiment and outstanding service, while maintaining price leadership supported by active promotions. We will further develop merchandising and private label, and upgrade our loyalty programme.

Hypermarkets: Karusel – Everything Under One Roof

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Value Proposition

- Everything under one roof
- At low prices
- Family shopping

Target Customer Base

- ~120 million Russians
- Families with a wide range of household budgets
- Want attractive range of food and non-food items at low prices
- Drive to shops, mainly on weekends
- Want to have fun shopping!

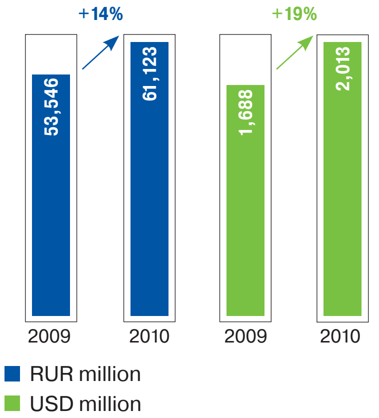
Karusel Fact Sheet

As at 31 December 2010	Total	Average per Store
Selling Space, sq.m.	351,753	4,954
Number of stores	71	
Assortment, # of SKUs	From 20,000 to 50,000	
Number of check-out transactions per day	Over 300,000	~ 4,900
Full Year 2010	**All Stores**	**LFL Stores**
Average check[1], RUR	619	626
Sales per square meter[1][2], RUR/year	219,653	230,606
Customer Loyalty Fact		

In 2010 we launched the “Magic Card” bonus customer loyalty programme, replacing Karusel’s previous discount card. By the end of 2010 more than 900,000 customers had joined the new programme. Card holders’ purchases accounted for 35% of total Karusel check-out transactions, while average purchase size was typically 50% higher than for purchases made without the card.

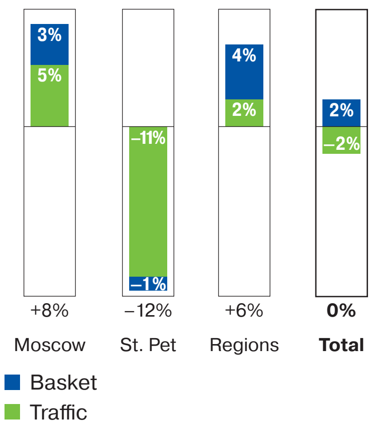
[1] Based on gross retail sales, i.e. including VAT.
[2] In 2010 X5 changed its calculating methodology to a more accurate one. If calculated using this methodology, 2009 sales per sq.m. would have been RUR 231,912 for all stores and RUR 232,151 for LFL stores.

Hypermarkets' 2010 Net Retail Sales



Hypermarkets' 2010 LFL Performance

Based on RUR-denominated gross sales



2010 Performance

For 2010, hypermarkets reported net retail sales of RUR 61,123 million, a year-on-year increase of 14% in RUR terms. As a result, Karusel's sales amounted to 18% of X5's total net retail revenue for 2010.

In 2010, hypermarkets did not perform to our expectations. Overall, like-for-like (LFL) sales were flat year-on-year due to 2% negative traffic offset by 2% increase in average purchase size. While growth in Moscow and the regions was positive and improved throughout the year, this was offset by sharp declines in St. Petersburg due to competitive and operational pressures.

Managing non-food assortment to offer the right range of products at the right prices is critical to success in the hypermarket business. Last year we strengthened our non-food purchasing team with executives from a leading multinational non-food retail chain with extensive experience and a strong track record in Russia. Improving performance in non-food is not an overnight process, but we can already report progress in a number of key areas:

Assortment: We are optimising Karusel's non-food range and shaping our value proposition within five strategic categories – Home, Beauty, Electronics, Kids and Seasonal – while introducing new commercial brands to satisfy customer demand.

Merchandising: We are ensuring that the right products are displayed in a visible and attractive way to promote sales at the point of purchase.

Store Replenishment: Availability of products in the stores has increased throughout 2010, enabling us to offer a complete range to our customers during busy weekend shopping.

Logistics Efficiency: Supplier service level reached 90-95% thanks to better cooperation and implementation of contractual conditions to reduce errors and improve deliveries.

Inventory Clearance: Aged stock has decreased during the last year through promotions and returns to suppliers.

Global Sourcing: Direct imports account for 15% of non-food sales today. To grow this further we are building relationships with Chinese producers, and continue to increase share of direct contracts with other suppliers.

IT Transformation: SAP for Retail is fully integrated as of 2010, creating a platform for more efficient non-food management.

Plans for 2011

X5 expects the hypermarket format to increase penetration in the Russian market in line with trends in other countries. Our goal is to develop a strong, differentiated value proposition aimed at typical Russian families and grow sales densities. Doing this requires continuous improvement to food and non-food assortment with expansion of private label, own-production, ready meals and other offerings. We will continue opening hypermarkets in 2011 on a selective basis.

Progress in Private Label

In 2010 we made good progress in private label penetration, nearly doubling its as a share of X5's sales. Private label is a major opportunity to enhance X5's differentiation and value for customers while supporting profit margins.

Russian consumers have a love affair with branded products, but during the economic downturn they showed increased willingness to give private label offerings a try. Now as the economy recovers, interest in X5's own brands has only continued to grow. And more and more producers see private label as a way to secure large, stable volumes with the market's leading retail chain. We are taking our private label strategy to the next level by:

- Establishing a unified, coordinated approach across our three formats.
- Developing a segmented range of offerings, each with a distinct own-brand identity.
- Improving quality and promoting our offerings to increase customer acceptance.

We achieved impressive results in 2010, nearly doubling private label share of total sales, from 5 to 9%. The upward trend is visible across our formats: discounters rose from 5% to 11%; supermarkets from 5% to 6% and hypermarkets – from 2% to 5%.

X5 is very focused on building customer trust by ensuring that they are getting a private label product that is equal to, or better in quality than, the branded equivalents. The Company has implemented strict quality control processes within the entire product development and production chain. This includes annual external audits of each manufacturing facility: in 2010 we conducted audits of 123 private label producers. We also use certified independent testing centres to ensure the quality of private label goods, with over 3,000 items tested in 2010.

X5's efforts in private label are winning increased industry recognition:

- X5 won four out of six Retail TM AWARDS 2010 at Russian Agricultural Outlook Forum – 2010 based on taste and design criteria.
- X5 won the Homey Award in the Retail category from Century Fox Consumer Products, for the success of our private label product promotional tie-ins with the movie Ice Age 3.
- X5 won the Consumer Rights 2010 Annual Award in the Private Label category from the Federal Service for Consumer Rights and Human Welfare Protection (Rospotrebnadzor) and the Russian Social Projects Fund. X5's quality control system for private label goods was ranked the highest of any retailer. This is an award with important social standing in Russia for achievements in the field of consumer rights protection and service quality improvement.

Retail Innovation

X5 leads the Russian market in offering its customers new shopping experiences and innovative retail services. This is our way to increase differentiation versus competitors, strengthen customer loyalty and broaden our appeal to new customers.

- Convenience stores represent a very lucrative market niche that is virtually untapped by modern retailers in Russia. While focusing on our three key formats, we apply a selective approach to developing convenience stores. In the second quarter of 2010 X5 gained operational control of Express-Retail, a business that is focused on developing convenience stores in Moscow and Moscow region, and by the end of 2010, we operated 45 Perekrestok-Express and Pyaterochka-Mini stores.

- X5 also continues to develop its e-commerce business. As internet retailing is still very young in Russia, X5 has the opportunity to build a leading online retail operator, leveraging our store network, distribution infrastructure and marketing capabilities to drive the growth of e-commerce.

Shoppers at X5 stores can also access various additional services that provide convenience, value and bonus points that can be redeemed right at the cash register.

- In December 2010, X5 and Russia's Alfa-Bank launched two co-branded debit and credit cards, "Perekrestok – MasterCard – Alfa-Bank" and "Magic Card – VISA – Alfa-Bank". When making purchases with these banking cards, customers accumulate bonus points that can be spent at Karusel and Perekrestok stores.

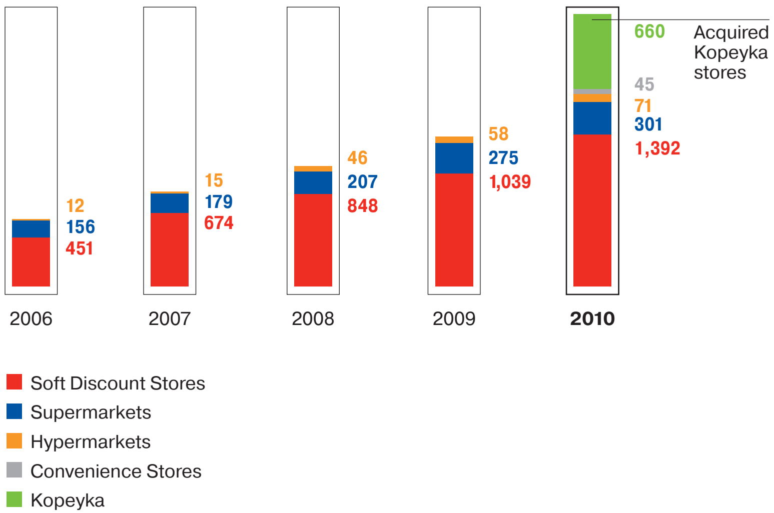
- "No Matter What" is an insurance product developed by X5 and Alfa-Bank that was launched in December 2010. The policy insures your home and property against loss from fire, floods, theft and other risks up to a set coverage limit, with a simple pricing structure and issuance process.

All these offerings can be purchased at most of our supermarkets, hypermarkets and some discounters. Trained personnel at in-store information points advise on the products and services best suited to each customer's needs. Aside from adding another income stream for X5, we view retail services as a valuable source of cross-functional support for customer loyalty programmes due to the ability to collect and redeem bonus points.

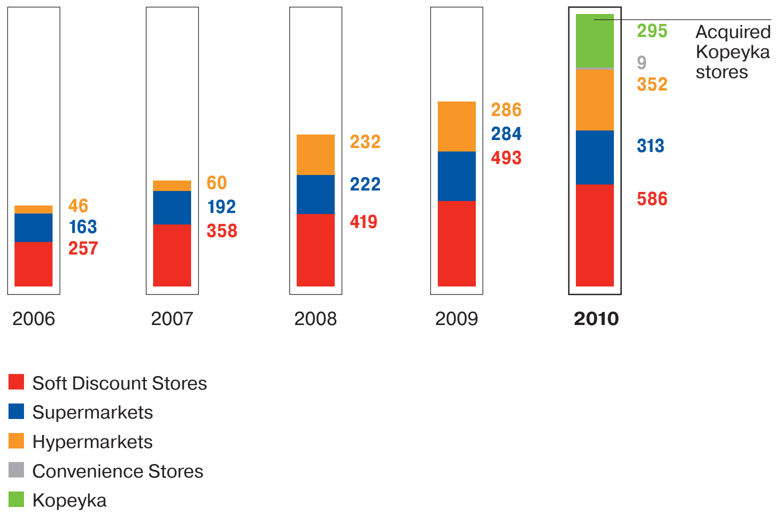
- In 2010 X5 launched a unique smart-phone bonus programme and application software for customers of our premium Green Perekrestok supermarkets. Called "Special Relationship", this loyalty programme app allows customers to scan their iPhone (or iPad or iPod Touch) at the cash register to collect bonus points. Customers can always locate the nearest Green Perekrestok store and the best way to get there on an electronic map, and view information on store hours, parking and special offers. Additionally, customers can make their shopping lists and locate recipes using the "Special Relationship" app.

Stepped-Up Growth

Number of Stores



Net Selling Space
'000 sq.m.



2010 was a year of strong growth for X5. X5 delivered on its 2010 outlook with a net retail sales increase of 24% in ruble terms and record store openings.

Acquisitions are adding to X5's organic growth potential. 2010 was marked by successful integration of acquired Paterson supermarkets, and the strategic acquisition of Kopeyka to enhance X5's growth and leadership in discounters.

North-West

358	X5 discounters
33	X5 supermarkets
17	X5 hypermarkets

Central

567	X5 discounters
172	X5 supermarkets
14	X5 hypermarkets
+ 467 stores	Kopeyka

Centr.-Chernozemny

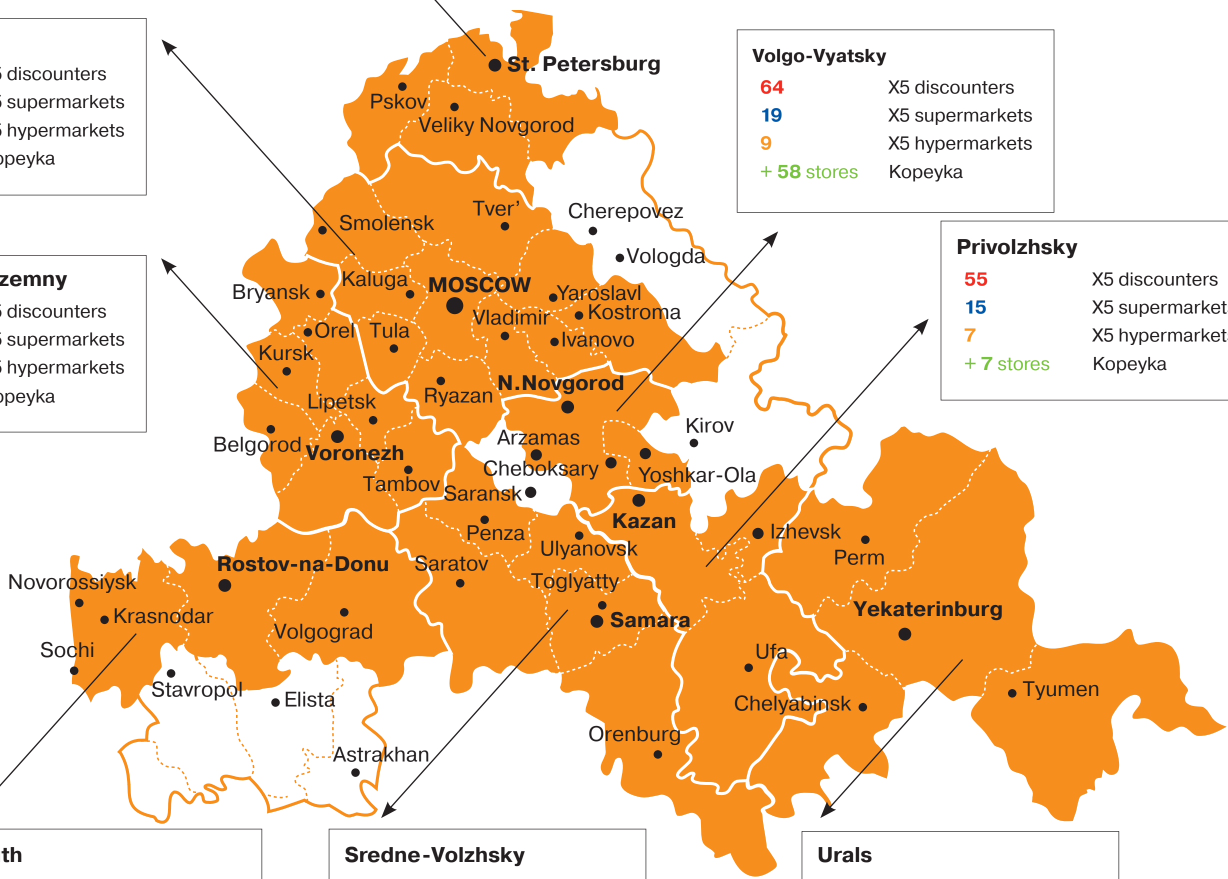
42	X5 discounters
9	X5 supermarkets
6	X5 hypermarkets
+ 78 stores	Kopeyka

Volgo-Vyatsky

64	X5 discounters
19	X5 supermarkets
9	X5 hypermarkets
+ 58 stores	Kopeyka

Privolzhsky

55	X5 discounters
15	X5 supermarkets
7	X5 hypermarkets
+ 7 stores	Kopeyka



South

67	X5 discounters
14	X5 supermarkets
6	X5 hypermarkets

Sredne-Volzhsky

58	X5 discounters
26	X5 supermarkets
7	X5 hypermarkets
+ 50 stores	Kopeyka

Urals

181	X5 discounters
7	X5 supermarkets
5	X5 hypermarkets

Record Organic Expansion

Record store additions were an important driver for top-line growth in 2010. Net sales growth totalled 24% in ruble terms, with 15% coming from organic expansion of selling space, 7% from like-for-like growth and a 2% initial contribution from acquired Kopeyka stores.

For the year, we added 437 stores organically, exceeding the annual plan while remaining below our CapEx limit of RUR 18 billion. X5 added a net 197,354 sq. m. of selling space for a 19% increase year-on-year. Including the 660 stores acquired from Kopeyka, X5's store base grew by nearly 1,100 in 2010 with a net addition of 492,122 sq. m. of selling space.

X5 increased its organic store count with 353 soft discounters, 26 supermarkets, 13 hypermarkets and 45 convenience stores. Only 12 stores were closed due to weak performance, underscoring the quality and discipline of X5's expansion programme.

As at 31 December 2010, X5 was present in 52 cities of European Russia, the Urals and Ukraine, operating 2,469 stores in total (1,555 thousand sq.m. in selling space). This includes 1,392 soft discounters, 301 supermarkets, 71 hypermarket stores, 45 convenience stores and 660 Kopeyka stores. The Company's franchisee store network totalled 665 stores across Russia, including 618 Pyaterochkas, 19 Patersons, 27 convenience stores and one Perekrestok.

Strategic Acquisitions

Paterson Integration Success

Acquisitions are adding to X5's growth potential. In 2010, we successfully integrated the Paterson retail chain of 75 stores. We acquired Paterson at the end of 2009 with the objective to reinforce our leadership in supermarkets with attractive locations while substantially raising performance of acquired stores towards X5 levels. During the first half of 2010, we executed a major remodeling and rebranding programme, bringing stores onto X5's operational platforms and leveraging our purchasing, IT and distribution advantages. This paid off in the fourth quarter of the year as like-for-like sales of rebranded stores surged over 40% year-on-year compared to Paterson's pre-acquisition levels.

Acquisition of Kopeyka

In December 2010 we announced the strategic acquisition of Kopeyka, in a transaction with an equity value of RUR 35 billion and net debt of no more than RUR 16.5 billion. The deal established X5 as the number one leader in soft discounters, our most popular format with Russian consumers. X5's soft discounter format, Pyaterochka, has delivered industry-beating performance and is a key growth driver of our multi-format strategy. Kopeyka is a strong retail operator that has built the number three position in the soft discounter segment, with more than 50% of its business in Moscow and the Moscow region. For the year ended 31 December 2010, Kopeyka had net sales of RUR 61.6 billion and EBITDA of RUR 3.0 billion. X5 purchased 660 Kopeyka stores with total selling area of over 290,000 sq.m.

Kopeyka's stores are highly compatible with Pyaterochka's standards but offer significant opportunities to raise sales performance closer to X5 levels. We have also identified substantial scope for efficiency improvement. Kopeyka's gross margins will be supported by X5's superior purchasing terms as Russia's largest retailer. We will also cut administrative costs and raise operating efficiency to fund partial reinvestment in value propositions of future converted stores.

This is an attractive deal that meets the Company's financial objectives. We have decided to accelerate the integration plan and expect all Kopeyka stores to be fully rebranded and re-launched in 2011. Customers will also benefit from the acquisition as we rebrand Kopeyka to deliver even better quality assortment and value.

Kopeyka Integration Plan

X5 acquired control of Kopeyka on 6 December 2010. Based on an in-depth business review and analysis following the acquisition, X5 has revised its initial integration plan and made a decision to complete the integration within one year instead of two.

Key integration milestones include:

- Purchasing: As Russia's largest retailer, X5 has better purchasing terms than Kopeyka, and we have moved swiftly to capture synergies from enhanced purchasing power. Full integration of the purchasing function is expected to happen by the end of 2011, after the IT platform switch-over is completed in all Kopeyka stores.
- Logistics: At the time of the acquisition, Kopeyka operated seven distribution centres (DCs) and owned about 300 trucks. We will keep Kopeyka's efficient DCs and fully integrate them into our supply chain management system. Few inefficient or duplicative DCs will be closed. We will also install our Warehouse Management System (WMS) at operational Kopeyka DCs by the end of 2011.
- Personnel: Store personnel training is under way since January 2011, and is conducted gradually region-by-region in line with our store rebranding schedule. As part of the integration process, we are gradually liminating duplicative functions for management staff. At the same time, we highly value the professionalism of Kopeyka's management team and will be delighted to provide their best professionals with new job opportunities within X5.
- Rebranding, IT Systems Change and Stores Re-Launch: We will undertake substantial store remodeling efforts as we rebrand Kopeyka stores to X5's banners. Additionally, we will change Kopeyka's in-store IT systems to X5's unified IT-platform. We expect that on average it will take about 10 days to rebrand and re-launch each discounter store and approximately 45 days for the stores that will be converted to Perekrestok supermarkets (less than 10 stores).
- All Financial Functions, including accounting, management reporting and tax planning will be fully integrated, following store rebranding and re-launch.

X5's goal is to complete the Kopeyka integration and rebranding process by the end of 2011.

Strategic Efficiency Programme

X5's Strategic Efficiency Programme is a multi-year initiative to drive operational excellence in line with international benchmarks. Covering virtually every area of X5's operations, it has made good progress in 2010:

Integrated Supply Chain Management: A well-developed logistics infrastructure is vital to maintain efficient retail operations and ensure sustainable growth. During 2010, X5 made substantial progress in upgrading its supply chain management system, enhancing the efficiency of its operations and strengthening the Company's competitive advantages.

IT Systems Transformation: X5 successfully installed and fully integrated SAP for Retail and SAP for HR. SAP for Enterprise Management has been tested and will be fully launched by the end of 2011.

In-Store Labour Productivity Improvement: After considerable groundwork to fully integrate SAP and increase logistics centralisation, we are now positioned to increase our focus on productivity gains at the store level.

Asset Efficiency: X5's energy savings programme is an important part of its overall strategic efficiency initiatives. In addition to providing economic benefits, it is the responsible thing to do. By the end of 2012, we plan to bring X5 energy consumption level per sq.m. closer to global standards.

Business Processes Improvement: X5 is moving to a more coordinated management approach for key business processes throughout the Company. Legal structure optimisation plays an important role in transforming X5 into an efficient and agile organisation.

Integrated Supply Chain Management

A well-developed logistics infrastructure is vital to maintain efficient retail operations and ensure sustainable growth. During 2010, X5 made substantial progress in upgrading its supply chain management system, enhancing the efficiency of its operations and strengthening the Company's competitive advantages.

Distribution Centre Network

In 2010, X5 made significant investments to expand its warehouse capacity and develop an optimised distribution network by utilising the most up-to-date technologies. Already we have seen positive effects in service levels, product quality and availability, inventory turnover and shrinkage. For example, today X5 has one of the highest service levels in Russian retail – during 2010, it increased from 88% to 92% for centralised deliveries and from 78% to 85% for direct purchasing.

Also in 2010, X5 substantially increased its supply centralisation level. For the year, supply centralisation exceeded 70% compared to 61% for 2009 and 67% targeted for 2010. This provides important support for our aggressive store roll-out plan for 2011 and the coming years. At the end of 2010, the Company operated 24 distribution centres (DCs) or 406,000 sq. m. of retail space (excluding DCs operated by acquired Kopeyka chain). During the year, the Company opened two new food DCs in Moscow and Yekaterinburg and expanded warehouse space at several existing DCs. X5 also launched a national food DC and a national non-commercial purchasing DC (for IT equipment). One small DC in Lipetsk was closed.

Warehouse Productivity

As of early 2011, all X5 DCs operate using a single Warehouse Management System (WMS) which enables efficient control over the movement and storage of goods within our warehouses and supports the optimisation of processes and transactions involved in shipping, receiving and picking. By the end of 2012, the WMS in every DC will be complemented by voice technology to improve order picking accuracy and productivity of warehouse personnel.

Plans for 2011

Our plans for 2011 include further expansion of warehouse capacity and improvement of warehouse utilisation and functionality. We plan to open our first national alcohol DC, and add “fresh” and “frozen” functionalities to a majority of our DCs.

We will expand our truck fleet from about 700 to over 1,000 and substantially increase the share of transportation by owned trucks from 55% at the end of 2009.

	Warehouse space, '000 sq. m.		# of DCs	Functionality				
Region	**31-Dec-10**	**Net Added in FY 10**	**31-Dec-10**	**Dry**	**Fruit & Veg**	**Fresh**	**Frozen**	**Non-Food**
Central	217.8	63.9	9	v	v	v	v	v
North-West	70.4	5.3	5	v	v	v	v	
Volgo-Vyatsky	17.5	0.0	1	v	v	v		
Urals	34.7	13.0	5	v	v	v		
Centralno-Chernozemny	23.5	11.7	1	v	v	v	v	
Sredne-Volzhsky	13.4	0.0	1	v	v	v		
South	15.6	3.1	1	v	v	v		
Privolzhsky	13.1	0.0	1	v	v	v		
X5 Retail Group Total[(1)]	**406.0**	**96.9**	**24**					

[(1)] Excluding acquired Kopeyka’s DCs.

IT Systems Transformation

X5 is implementing SAP as its Company-wide enterprise resource planning system. This is part of a multi-year project to transform our IT platform, support scalable growth and drive efficiency across our organisation from store operations to strategic planning.

SAP is being implemented in three stages – SAP for Retail, SAP HCM ("SAP for HR") and SAP for Enterprise Management ("SAP for EM").

We achieved a major milestone in October 2010, with company-wide implementation of SAP for Retail completed ahead of schedule. SAP for Retail covers all operations related to the management of stores, supplier relationships and logistics. We have created a reliable information system to support our rapid growth that fully meets industry standards and is highly productive. In addition, SAP for Retail enables us to standardise and optimise key business processes. For example, the automated ordering system now allows us to save a considerable amount of time for store personnel. These extra resources can be put toward customer service and sales activities.

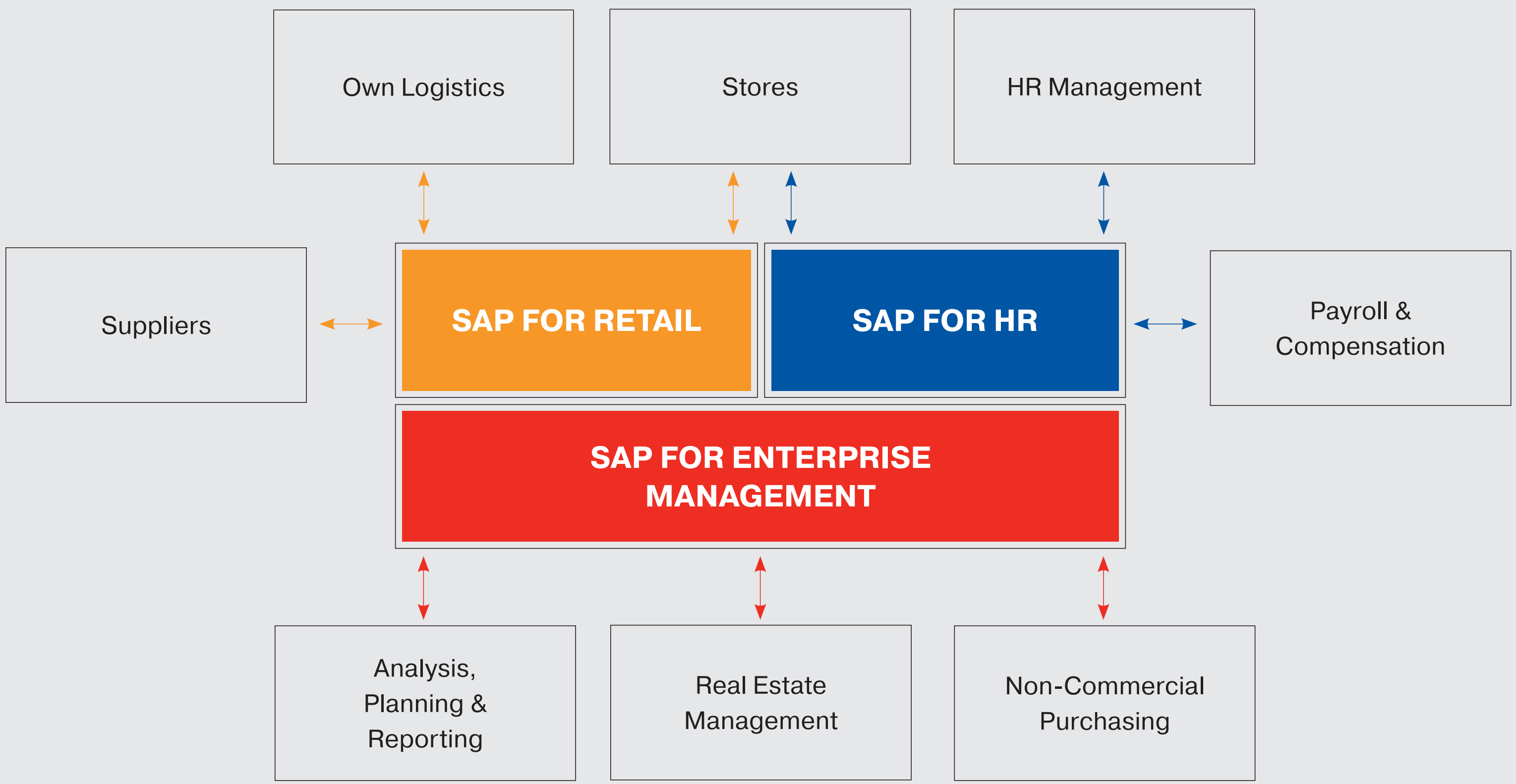
SAP for HR, which has modules for managing and standardising the human resources and payroll functions, was also fully integrated in 2010. It automatically generates HR analytical data on turnover, staffing levels, staff costs, etc., which was previously done manually and required substantial time. Introduction of the web-time-book enables daily tracking of labour hours in stores and distribution centres (DCs).

SAP for EM covers management functions such as business and financial analysis, planning and reporting, real estate management and non-commercial purchasing. X5 began the roll-out of SAP for EM in 2011 following the successful completion of the planning and testing phases last year. A pilot launch last year demonstrated a simplification of business processes, for example, the automation of account entries shortened the payment period, and lease payments were done automatically in accordance with terms of agreement. We expect that the roll-out of SAP for EM will be finalized by the end of 2011.

In parallel, X5 is standardising and upgrading the IT systems in all store formats, Company-wide.

	IT Infrastructure in 2009	IT Infrastructure in 2012
In-Store	› No unified IT platform	› Unified IT platform across formats, scalable and fully compatible with SAP
Logistics	› Several Warehouse Management Systems (WMS) › No single Transportation Management System (TMS)	› Single WMS, complemented by voice-picking, fully compatible with SAP › Single TMS, fully compatible with SAP
Head Office	› 1C for Finance and HR, a number of database management systems, Excel	› SAP for Retail, SAP HCM, SAP for EM

2012 IT Infrastructure



In-Store Labour Productivity Improvement

X5 actively hired new staff throughout 2010 to support rapid growth rates. At year-end, X5 employed 75,548 people (excluding approximately 13,000 people employed by the acquired Kopeyka chain) compared to 68,457 as of December 31, 2009 – a year-on-year increase of 7,000 or 10%.

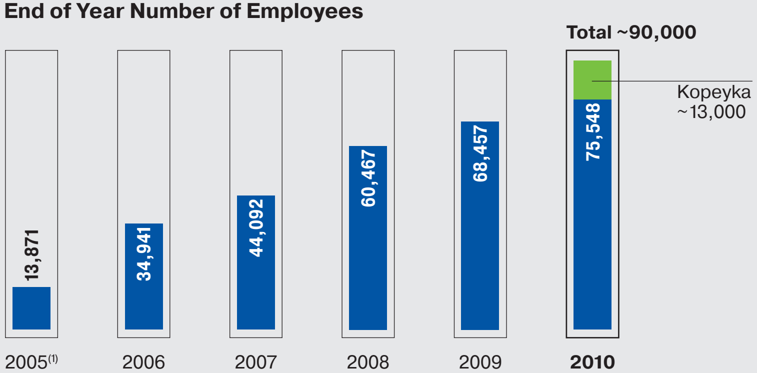
The increase is primarily due to new store additions in 2010, when X5 added a net 437 new stores (excluding Kopeyka acquisition). Headcount growth was noticeably below the 19% organic increase in selling space for the year as X5 began to implement its store labour productivity improvement project.

While X5 outperforms most of its Russian competitors in terms of sales per employee, we still see potential to drive productivity improvements when compared to Western retailers. Over 80% of employees of X5 are in-store personnel, so in 2009, X5 began to focus on ways to optimise staff levels toward international benchmarks. And we can already report that significant progress has been achieved. As of the end of 2008, the average number of employees per store was 30 in discounters, 80 in supermarkets and 275 in hypermarkets. As of the end of 2010, the average number of employees per store decreased to 22 in discounters, 72 in supermarkets and 217 in hypermarkets.

We see further opportunities for driving productivity, such as optimising packing processes, workplace organisation and more accurate employee scheduling. The implementation of SAP for Retail creates a major platform for driving further efficiencies.

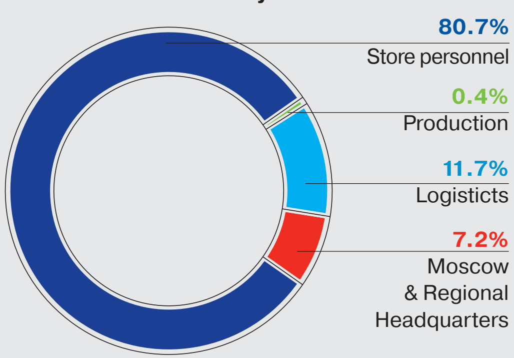
We expect X5 employment will continue to increase steadily in coming years as we open new stores. The productivity improvement measures we are introducing will ensure that we have the financial and human resources required to sustain efficient growth.

End of Year Number of Employees



(1) Perekrestok only.

2010 Staff Breakdown by Function(1)



(1) Excluding Kopeyka.

Asset Efficiency – Energy Savings

X5's energy savings initiative is an important part of our Strategic Efficiency Programme. In addition to providing economic benefits, it is the responsible thing to do.

X5 is planning for energy savings gains in the following areas:

- Refrigeration – installing up-to-date refrigeration systems that regulate energy consumption depending on external temperature, moisture and operating mode.
- Lighting equipment – optimised light planning for sales areas, back rooms, shop-windows, advertisement panels and parking zones; usage of more efficient luminous and light-emitting-diode lights.
- Power equipment – optimising ventilation, air conditioning, heating systems and own foodstuff production equipment.
- Control and dispatching – coordinating all energy-consuming components to achieve energy consumption savings. This includes running all above mentioned systems according to a schedule, maintaining the equipment in good condition, introducing KPIs for energy consumption, energy loss reduction and equipment load management.

X5 did a pilot launch of the above-mentioned initiatives in 2010 and plans to roll them out throughout 2011-2012. The full impact of those initiatives is expected to be realized by the end of 2012.

Свежая рыба

Перекресток
СУПЕРМАРКЕТ

Profit & Loss – Key Trends and Developments

P&L Highlights[1]

USD million	FY 2010	FY 2009	% change y-o-y
Net Sales	**11,280.5**	**8,717.4**	***29%***
incl. Retail	11,248.1	8,674.5	*30%*
Gross Profit	**2,628.8**	**2,107.9**	***25%***
Gross Margin, %	*23.3%*	*24.2%*	
EBITDA	**843.6**	**736.0**	***15%***
EBITDA Margin, %	*7.5%*	*8.4%*	
Operating Profit	**545.1**	**467.8**	***17%***
Operating Margin, %	*4.8%*	*5.4%*	
Net Profit / (Loss)	**271.2**	**165.4**	***64%***
Net Margin, %	*2.4%*	*1.9%*	

Net Sales & Gross Margin Performance

USD million	FY 2010	FY 2009	% change y-o-y
Net Sales	**11,280.5**	**8,717.4**	***29%***
incl. Retail	11,248.1	8,674.5	*30%*
Hypermarkets	2,012.7	1,687.9	*19%*
Supermarkets	2,737.2	2,307.2	*19%*
Soft Discounters	6,199.8	4,676.3	*33%*
Convenience stores[2]	61.2	-	*n/a*
Online[3]	20.3	3.1	*552%*
Kopeyka[4]	217.0	-	*n/a*
Gross Profit	**2,628.8**	**2,107.9**	***25%***
Gross Margin, %	*23.3%*	*24.2%*	

(1) Please note that in this and other tables of this Annual Report immaterial deviations in the calculation of percentage changes, subtotals and totals are explained by rounding. Kopeyka results are consolidated from 1 December 2010.
(2) Consolidated from April 2010.
(3) Consolidated from October 2009.
(4) Consolidated from December 2010.

For 2010 X5 reported net sales of USD 11,280 million – a year-on-year increase of 29% in USD terms. In RUR terms net revenue for the year increased 24%. This comprises 7% growth in like-for-like (LFL)[(1)] sales with the rest coming from expansion (+15%) as well as the initial contribution from acquired Kopeyka stores (+2%).

2010 LFL sales growth totalled 7%. X5 recorded over 1.2 billion store visits by our customers, thanks to our "Close to the Customer" policy of reinvesting in prices to enhance customer loyalty and drive traffic growth. Throughout 2010 we kept average prices for our products well below the country's official inflation rate and provided meaningful savings to Russian consumers: prices on X5's shelves rose on average by 8.7% year-on-year in December 2010 versus December 2009 compared to Russia's official food inflation rate of 12.9% for December 2010. This approach supported strong LFL growth but put pressure on gross margin and EBITDA.

As a result full year 2010 gross margin totalled 23.3% – a 90 bp decline compared to 2009, which is attributable to continuous investment in prices. In 2010 EBITDA totalled USD 844 million, for an EBITDA margin of 7.5%.

Selling, General and Administrative Expenses (SG&A)

USD million	FY 2010	FY 2009	% change y-o-y
Staff Costs, incl.	(1,002.1)	(761.2)	*32%*
% of Net Sales	*8.9%*	*8.7%*	
ESOP	(63.2)	(59.3)	*6%*
% of Net Sales	*0.6%*	*0.7%*	
Lease Expenses	(372.1)	(264.2)	*41%*
% of Net Sales	*3.3%*	*3.0%*	
Other Store Costs	(151.0)	(110.8)	*36%*
% of Net Sales	*1.3%*	*1.3%*	
D&A	(298.5)	(268.2)	*11%*
% of Net Sales	*2.6%*	*3.1%*	
CIP & Fixed Assets Impairment	-	(48.3)	*n/a*
% of Net Sales	-	*0.6%*	
Utilities	(214.3)	(154.6)	*39%*
% of Net Sales	*1.9%*	*1.8%*	
Third Party Services	(99.7)	(76.5)	*30%*
% of Net Sales	*0.9%*	*0.9%*	
Other Expenses	(86.6)	(105.2)	*(18%)*
% of Net Sales	*0.8%*	*1.2%*	
Total SG&A	**(2,224.4)**	**(1,740.6)**	***28%***
% of Net Sales	***19.7%***	***20.0%***	

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

2010 SG&A expenses (including D&A) totalled USD 2,224 million or 19.7% of sales – a decrease of 30 bp as a percentage of sales year-on-year. 2010 SG&A expenses were affected by the overall cost base inflation, including wages, leases and utilities. Additional cost pressure came from a significant step-up in store openings in the second half of the year with sales still ramping up.

2010 staff costs increased by 20 bp as a percentage of sales, from 8.7% to 8.9%. Staff costs excluding ESOP increased to 8.3% of sales in 2010 versus 8.0% a year ago. At year-end, X5 employed about 90,000 people (including approximately 13,000 people employed by the acquired Kopeyka chain). Without Kopeyka, which was acquired in December 2010, X5 headcount stood at 75,548 employees compared to 68,457 a year ago, an increase of 10%. This increase is attributable to the expansion of X5's store base and logistics capacity. It is notable that headcount growth was well below the 19% increase in selling space for the year (excluding Kopeyka), thanks to the initial progress of X5's in-store labour productivity project. Wages increased by approximately 10% due to salary indexation in line with Russian labour market trends.

Lease expenses as a percentage of revenue rose by 30 bp year-on-year due to higher rents as a consequence of the gradual recovery of the commercial real estate market and also a higher share of leased stores in X5's portfolio. At the end of 2010, 52% of X5's total selling space was leased compared to 43% at the end of 2009.

In 2010 electricity and heating rates rose on average by 20%, which resulted in a 10 bp year-on-year increase in utility costs as a percentage of revenue.

Non-Operating Gains and Losses

USD million	FY 2010	FY 2009	*% change y-o-y*
Operating Profit	**545.1**	**467.8**	*17%*
Finance Costs (Net)	(146.2)	(154.1)	*(5%)*
Net FX Result	(13.0)	(45.7)	*(72%)*
Share of Loss of Associates	0.4	(4.0)	*n/a*
Profit before Tax	**386.3**	**264.0**	*46%*
Income Tax Expense	(115.1)	(98.6)	*17%*
Net Profit	**271.2**	**165.4**	*64%*
Net Margin, %	*2.4%*	*1.9%*	

Finance Costs

Net finance costs for 2010 decreased by 5% year-on-year in USD terms and 9% in RUR terms due to lower interest rates on borrowings. The effective annualised interest rate on X5's total debt for the full year 2010 was approximately 7% compared to 8% in 2009.

Foreign Exchange (FX) Gain/(Loss)

The Company posted a USD 13 million net FX loss for 2010. This is a primarily non-cash item, resulting from revaluation of the Company's long-term USD-denominated debt. In the second half of 2010 X5 significantly reduced its FX exposure by bringing down USD-denominated debt to USD 391 million from USD 1.1 billion a year ago.

Income Tax

In 2010 X5's effective tax rate amounted to 30% versus 37% a year ago. X5's effective tax rate is higher than the statutory tax rate for three main reasons: inventory shrinkage is not tax deductible in Russia, ESOP cost is only partially tax deductible and FX loss is only partially tax deductible. The year-on-year decrease in FX loss reported in 2010, among other things, had a positive impact on the effective tax rate for the year.

Consolidated Cash Flow – Key Trends and Developments

USD million	FY 2010	FY 2009	% change y-o-y
Net Cash Flows from Operating Activities	378.1	733.7	*(48%)*
Net Cash from Operating Activities before Changes in Working Capital	*900.2*	*835.5*	*8%*
Change in Working Capital	*(250.9)*	*166.0*	*n/a*
Net Interest and Income Tax Paid	*(271.2)*	*(267.9)*	*1%*
Net Cash Used in Investing Activities	(1,548.2)	(433.8)	*257%*
incl. Kopeyka acquisition	*(1,090.1)*	-	*n/a*
Net Cash Generated From/ (Used In) Financing Activities	1,066.0	(194.3)	*n/a*
Effect of Exchange Rate Changes on Cash & Cash Equivalents	(36.9)	29.3	*n/a*
Net (Decrease)/Increase in Cash & Cash Equivalents	**(140.9)**	**134.8**	***n/a***

Full year 2010 net cash generated from operating activities totalled USD 378 million versus USD 734 million a year ago.

This is attributable to the changes in working capital primarily as a result of the implementation of the new Retail Law which came into effect on 1 August 2010. The new law, among other things, regulates relationships between suppliers and retailers, and its implementation negatively affected retailers' payment days. We did not react quickly enough to address the complexity of the implementation process, and the effect on working capital was greater than initially anticipated.

Increase in inventories is another factor that affected working capital. The increase is explained by key two reasons: (i) stocking up for extensive new store openings at the end of the year, and (ii) continuous efforts to improve service levels, which at the end of 2010 reached 92% for centralised deliveries and 85% for direct purchasing.

Net cash used in investing activities totalled USD 1,548 million in 2010, which includes USD 1,090 million paid for the Kopeyka acquisition. Organic CapEx totalled USD 458 million or RUR 14 billion, which is substantially below the targeted limit of RUR 18 billion. At the same time, the Company exceeded its store expansion plan and continued to invest in infrastructure projects, including logistics and IT. In 2010, net of Kopeyka acquisition, X5 opened 437 new stores, added 97 thousand sq.m. of logistics space and fully launched SAP for Retail and SAP for HR.

Net cash from financing activities in 2010 amounted to USD 1,066 million as the Company raised funds to finance Kopeyka acquisition.

Debt Financing and Liquidity Management

USD million	31-Dec-10	% in total	31-Dec-09	% in total	% change y-o-y
Total Debt	**3,684.8**		**1,944.0**		*90%*
Short-Term Debt	508.0	*14%*	1,656.6	*85%*	*(69%)*
Long-Term Debt	3,176.8	*86%*	287.4	*15%*	*1,005%*
Net Debt	**3,414.0**		**1,532.3**		*123%*
Denominated in USD	382.1	*11%*	1,162.8	*76%*	*(67%)*
Denominated in RUR	3,031.9	*89%*	369.5	*24%*	*720%*
FX, EoP	30.48		30.24		
Net Debt/EBITDA	**3.69x[1]**		**2.08x**		

[1] Based on 2010 pro-forma EBITDA of USD 926 million, i.e. including Kopeyka from 1 January 2010.

X5's debt rose from USD 1,944 million at 31 December 2009 to USD 3,685 million at 31 December 2010. The year-on-year increase of USD 1,741 million is attributable to the acquisition of Kopeyka, which X5 financed with debt in addition to absorbing Kopeyka's borrowings in the amount of USD 599 million (net debt of Kopeyka stood at USD 534 million). Debt is reported in USD on X5's balance sheet but nearly 90% of debt at 31 December 2010 was denominated in RUR as a result of the Company's efforts to reduce FX exposure. Dollar debt is currently limited to USD 391 million or about 11% of the total debt portfolio.

X5's short-term debt decreased by 69%, from USD 1,657 million as at 31 December 2009 to USD 508 million as at 31 December 2010, mostly due to refinancing of the USD 1.1 billion syndicated loan. This was replaced in the third quarter 2010 mainly with a new USD 800 million three-year club facility denominated half in RUR and half in USD. The remainder was refinanced under the existing credit lines. In addition, X5 secured financing for the Kopeyka acquisition through a combination of long-term facilities from Sberbank. Thus, X5 successfully extended its debt maturities with mainly long-term ruble financing (the majority of X5's borrowings mature in 2013-2015), and reduced FX exposure by nearly two-thirds. In addition, the Company managed to shift all of its financing to an unsecured basis.


X5
& Society
Пятёрочка МАКСИ

РАЗГРОМ!
цен

Пятёрочка МАКСИ

Communities – Bettering the Lives of Ordinary Russians

X5 Retail Group is committed to bettering the lives of our employees, our customers and our neighbours in the regions and communities in which we operate. Strong corporate citizenship is fundamental to our success, helping us attract and cultivate talented staff and earn customer loyalty. We invest substantial time and money in community improvement to create a better, more healthful lifestyle for those around us.

Access to Affordable Products

Ensuring that our products are affordable for our customers is a key priority for X5. The economic crisis is now behind us, but we understand that there is still a lingering burden for many in Russia. As inflation on food products continued in 2010, X5 made every effort to minimise the costs passed on to its customers. We did this by leveraging efficiencies across our business, which in turn enabled us to absorb some of these price increases. Prices on X5's shelves rose on average by 8.7% year-over-year in December 2010 compared to December 2009. By comparison, Russia's official food inflation rate in December 2010 was 12.9% year-over-year.

X5 cares about product affordability especially for socially vulnerable segments of the population. We offer special discounts and other benefits to Russian war veterans, pensioners and disabled persons. At Karusel hypermarkets and Perekrestok supermarkets, these groups receive an additional 5% discount on their purchases during our "Care Time" hours from 9 a.m. to 1 p.m. every weekday, except holidays.

Education and Health Initiatives

Each year, X5 Retail Group conducts its "Perekrestok Goes to Schools!" education initiative. From September 1 through October 31, Perekrestok customers can vote for their favourite school to win valuable prizes. In 2010, 270 Perekrestok supermarkets in more than 70 Russian cities participated in the programme. A total of 5,285 schools located in Perekrestok operating areas competed for their share of RUR 19 million worth of prizes and gifts. The 860 schools that got the most votes received new IT equipment.

The Company is proud of its partnership with the Liniya Zhizni (Life Line) charity fund, which works to reduce child mortality from serious, treatable illnesses. Our customers provide their generous support to Liniya Zhizni by making contributions in special collection boxes displayed in our stores (Perekrestok and Karusel added in 2010.) Collection boxes were also installed at our headquarters in Moscow in 2010. During the year, X5's customers raised RUR 4.5 million in this way. The funds were given to Liniya Zhizni and were used to pay for surgical operations for severely ill children. During 2010, 19 young lives were saved by medical procedures that would have otherwise been unaffordable for these patients.

In November 2010, X5 Retail Group and Liniya Zhizni held a fund-raising event in Rostov-on-Don. Area residents were able to donate at their discretion at a collection point opened by Liniya Zhizni. The amount raised in a single day was 30,550 rubles, which was put toward medical treatment for one-year-old Anastasia Lesteva, who suffers from a heart defect.

In 2010, X5 Retail Group in partnership with the child welfare departments in Stary Oskol, Belgorod and Voronezh launched “They Are All Our Children”, a project to promote child adoptions in Russia. Each family who adopted a child was awarded a Karusel loyalty card with 30,000 rubles (300 thousand points) already on the account.

In March 2010, X5 launched another charitable programme, “The Magic of New Life”. In April and May, 5,000 bonus points were granted on Karusel loyalty cards to all families with newborn babies who shopped at Karusel stores.

Support for Russian Football

X5 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. Additionally, in September 2010, X5 donated 10 million rubles for the reconstruction of a children’s sports complex in St. Petersburg.

Employees – Developing Our People as a Competitive Advantage

X5 is a major investor in the development of the Russian economy. We do our best to promote social well-being by introducing modern retail stores, investing in infrastructure projects and implementing social programmes. The Company is also one of the largest employers in the country. Together with the 13,000 new emloyees from the acquired Kopeyka chain X5 employed almost 90,000 people at the end of 2010.

In 2010, over 63,000 employees were trained in our regional multi-format training centres, as compared to 43,000 employees in 2009. The Company pays significant attention to staff education and development, to enhance staff loyalty, efficiency and customer service.

Corporate Culture

As our corporate culture has evolved, we have updated our Mission, Vision and Values to better reflect changes at the Company. Our updated philosophy is designed to encourage greater employee involvement in achieving the Company's strategic goals.

Our Mission: "Satisfied Customers" – This reflects our belief that knowledge and satisfaction of customer needs is a key requirement for building customer loyalty and is critical to our long-term business success. Each strategic decision we make should be aimed at achieving customer satisfaction.

Our Vision: "Best-in-Class" – Each employee's commitment to excellence is a prerequisite for professional success and critical to the success of the Company as a whole.

Our Values: "Integrity, Effectiveness and Partnership" – These are the fundamental principles that dictate how we operate and ensure the success of our long-term relationships.

Managing Toward Corporate Goals

We understand that managers on all levels play a key role in the implementation of proposed corporate changes. They are the main driver behind the development of our business. To effectively inspire and lead a team, a manager has to share the Company's corporate values and be an active participant in achieving its strategic goals. In early 2011, a project aimed at aligning our managers with the Company's goals and values was launched.

In 2009, we introduced the X5 Employee Survey as a powerful new HR tool for evaluating employee satisfaction and engagement in driving the Company's success. The inaugural survey was such a success that it is now done on an annual basis. To take this a step further, in 2011 we will conduct the first poll aimed exclusively at managers. Its results will help us identify the potential for increasing managers' involvement and make decisions about implementing change.

HR Support for X5's Strategic Goals

We are updating our HR policies to support the Company's strategic goals. We launched a number of important projects this year, facilitated by the introduction of SAP for HR.

Recruitment

X5's pool of candidates for store manager positions is quickly absorbed by our rapid growth. At the same time, store directors and deputy directors are difficult to find in the market and command significant compensation packages. As a result, X5 expanded its external pool of candidates by scouting and attracting talented college graduates. Through strategic agreements with colleges, X5 can select the best undergraduate students, train them to hold managerial positions in stores and prepare them to become store directors. We also recruit cooks, bakers and confectioners. In October 2010, this programme was launched in four Russian cities: Yekaterinburg, Yaroslavl, Tver and Nizhni Novgorod. In 2011-2012 we plan to expand this programme for implementation in all our branches.

Personnel Training and Development

X5 places great importance on the training and professional development of managers and personnel working in our stores and distribution centres ("DC").

The talent of our top managers and expertise of our in-store employees are fundamental to the Company's operating success and achievement of its strategic objectives. Educated and well-trained employees are best equipped to ensure the appropriate level of customer service and sales growth in our stores.

Modernisation of Training Centers. The Company operates 15 regional multi-format training centres and runs a number of training programmes that offer opportunities for professional development. In 2010, over 63,000 employees were trained in our training centres, as compared to 43,000 employees in 2009. We began actively updating our training centres in 2010 to meet the requirements of our fast-growing business. We are upgrading infrastructure and attracting new training specialists to keep up with increasing enrollment. An important part of our training centre development will be updated programming for in-store employees, aimed at reducing shrinkage, ensuring our continued growth and raising the quality of customer service.

In-Store Training. In October 2010, we began providing basic personnel training in our stores. We will continue to expand "training stores" in all formats and regions and develop post-training support for new employees in stores and DCs. In-store training of personnel ensures a more efficient transfer of knowledge and skills thanks to on-site supervision by store directors and managers. We have developed a new approach to training personnel as we expand into new regions. One in every five stores in each new region will function as a "training store" which will be fully equipped to train new employees.

DC Employee Training. As we continue to develop our logistical infrastructure and make improvements to our supply chain management, HR continues to grow in importance. In 2010, we launched a training and development programme for managers of logistics divisions and implemented professional training for DC employees. In 2011, we are planning to operate training classes at distribution centres in order to train personnel on site.

Remuneration System

The Company made significant progress in creating a more efficient compensation system in 2010. In the summer, we reviewed employees' salaries based on comprehensive market data and individual performance evaluations. We continually monitor the market for independent salary reviews to help better inform our decisions. In order to ensure competitive levels of compensation, we use the market mid-point as a benchmark when choosing base salaries for the majority of employees.

At the same time, we see potential for improvement in our existing compensation and benefits system. In 2010, we evaluated our compensation system to identify the main areas for improvement. These were as follows:

- Further development of fixed-payment systems based on a grading system, including modeling of base-pay ranges.
- Improvement of short-term incentives to reward success in achieving aggressive 2011 targets; more consistent and transparent rules for disbursement of premium payments.
- In 2010, X5's social benefits package was expanded to include various gift certificates, bonus cards and discounts for shopping with X5 and our partners in non-food products, cleaning services, entertainment and transportation. We have also allocated special funds for employee celebrations, store anniversaries and professional milestones. In addition, we are enhancing the quality of the work environment, including renovation of canteens and staff rooms and providing transportation services for night-shift workers, among other improvements.

Health & Safety

In the area of quality management, our goal is to ensure that goods sold in our stores – both branded and private label goods – have a consistent, high level of quality. To this end, X5 set up the Quality Control Department that applies a process-based, systematic approach to quality control and employs modern control methods such as laboratory testing, external audits of producers and measures aimed at product quality improvement.

The Company has local quality control departments in all regions in which we operate. Quality control managers were trained in accordance with ISO 9001:2008, ISO 22000:2005 International Quality Standards. Professionals working in these departments include technologists specializing in various food categories, merchandise specialists and certified quality experts.

Our quality control team actively engages in every stage of a product life cycle – from sampling at the time of product introduction to incoming inspections at our distribution centres to working directly with producers on quality improvement. The Company invests in laboratory tests of food products so that our customers can be sure that they purchase safe and high-quality goods in our stores. X5 does not cut corners when it comes to protecting the health and safety of our customers.

Quality Control at All Stages of the Product Life Cycle

Product Introduction

Before any supply contracts are signed, our suppliers submit samples of their products to the Quality Control Department, where our experts check the products' compliance with current legal requirements. Often at this stage the Company rejects goods raising suspicion as possibly counterfeit and goods that do not contain required consumer information or lack documentation certifying their safety and quality (conformity certificates or declarations, state registration certificates, etc.).

Inbound Inspection at Distribution Centres

Each lot of food product received at a distribution centre is subject to quality control by a number of sensory characteristics, such as look, consistency, taste and odor. Quality of fruits and vegetables (including exotic varieties) is checked in accordance with the national standards of the Russian Federation, European standards (UNECE), X5 Quality Catalogue and approved acceptance criteria (size, maturity level, etc.). Based on this evaluation, if any suspicions arise as to the possible poor quality or counterfeit origin of the goods, a rejection is made in the presence of the supplier's representative or, in the case of long distance supplies, sample products are sent to certified external centres for testing and the lot is retained in custody until the test results are received.

In-Store Quality Control

At the beginning of 2008, X5 introduced the "Quality Hour", which now takes place in each of our stores every day between 9:00 and 10:00 am. During this time, store employees sort fresh fruits and vegetables and check all the goods on the shelves to see if any of them are expiring or have visual defects.

Addressing Customer Complaints

Our Customer Complaints Department closely analyses each logged complaint. In some cases, it makes sample purchases of a particular product to verify information received.

Samples are tested externally, and based on the test results, the Department will submit a claim to the producer as needed or take measures to improve quality control in the store if appropriate.

In-House Product Evaluation

As our business grows, in-house tasting and expert evaluation of private label products becomes more of a challenge. To date, products have been sampled by specialists in this segment – the technicians of the Quality Control Department, or specialists and managers of the Commercial and Marketing Departments – who formed tasting groups of five to seven people. However, the situation is changing with the expansion of our business and growth in private label sales.

Only a year ago, we had to evaluate five to ten private label “candidates” per week – however, since the introduction of electronic bidding, that number has increased to 300 per week in certain categories. As a result, in 2010 we sent over 3,000 food and non-food products to certified testing centres and set up an internal tasting commission. The commission members – X5 employees who completed special questionnaires and tests – were divided into groups by taste preferences, age, sex and income. The tastings are held anonymously, and all products are de-identified and numbered, in order to eliminate any psychological influence of a well-known producer or brand. The products are evaluated by taste, color, odor, consistency and appearance.

It is very important to also involve members of our target demographic in tastings – shoppers who come to our stores every day. For this reason, X5 utilises external organisations, such as ROMIR, to help study preferences through tastings in shopping malls. In organising these tastings, we take into account many factors, such as age of participants (for example, 50-year old people still remember the “old” taste of cheeses and sausages), their income (a person who cannot afford to buy caviar or expensive sorts of fish would not differentiate tastes of such products) and sex (tastes differ quite substantially between men and women).

КАРУСЕЛЬ

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 corporate governance structure, 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 consists of three members, the CEO, the CFO and the Company Secretary. Since the third quarter of 2010 the composition of the Management Board changed. On 29 September 2010 Mr. Evgeny Kornilov resigned as CFO of the Company. His successor, Mr. Kieran Balfe, was appointed by the General Meeting of Shareholders on 22 February 2011. Furthermore, on 10 March 2011 Mr. Lev Khasis resigned as CEO of the Company. The Supervisory Board nominated Mr. Andrei Gusev as his successor, to be appointed by the upcoming Annual General Meeting of Shareholders in June 2011. Finally, the Supervisory Board proposes to the General Meeting of Shareholders the re-appointment of Mr. Frank Lhoëst, whose first term of appointment comes to an end in 2011.

The table below shows the 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. Andrei Gusev(1)	1972	Chief Executive Officer, Chairman of Management Board (appointment pending(1))	2011	2015
Mr. Kieran Balfe	1969	Chief Financial Officer	2011	2015
Mr. Frank Lhoëst(2)	1962	Company Secretary	2007	2011

(1) The Supervisory Board nominated Mr. Andrei Gusev as member of the Management Board and CEO, to be appointed by the upcoming 2011 Annual General Meeting of Shareholders.
(2) Mr. Frank Lhoëst's first term of appointment comes to an end in 2011. He is nominated by the Supervisory Board for re-appointment.

Andrei Gusev, a Russian citizen, joined X5 in 2006 as M&A and Business Development Director. Prior to joining X5 Mr. Gusev worked in Alfa Group as Director for Investment Planning and Director for Group Portfolio Management and Control since 2001. Mr. Gusev was leading the merger process that led to the creation of X5 Retail Group. Prior to joining Alfa Group, Mr. Gusev worked many years in strategic consulting at Bain & Company and at Deloitte & Touche. Mr. Gusev graduated with honors from the Moscow State University, and holds an MBA degree from the Wharton School of Business at the University of Pennsylvania.

Kieran Balfe, an Irish citizen, was appointed Chief Financial Officer of X5 on 22 February 2011. Mr. Balfe has been working in Russia since 1994. Prior to his appointment at X5 Mr. Balfe was Deputy General Manager and CFO for Emerging Markets of the confectionary leader Wrigley. Following the acquisition of Wrigley by Mars Inc., Mr. Balfe played a key role in the integration of the two companies' Russian operations.

Previously, Mr. Balfe was Financial Controller at Japan Tobacco International, Deputy General Manager and Finance Director at American Home Products Corporation responsible for both operational and corporate finance for Russia and the CIS countries, and Finance Director for Glencore's copper operations in Kazakhstan. Mr. Balfe started his career as an Audit Supervisor and Audit Manager for Coopers & Lybrand, with whom he initially relocated to Moscow in 1994. Mr. Balfe graduated from the University College Dublin with a Master's degree in accountancy. He qualified as a Chartered Accountant in 1993 and was awarded a fellowship in the Institute of Chartered Accountants in Ireland in 2005.

Frank Lhoëst, a Dutch citizen, was appointed as statutory director and Company Secretary of X5 on 5 November 2007. Since 1991, Mr. Lhoëst has held several positions at Intertrust Group, from account manager in the Netherlands Antilles to founder and director of the Intertrust office in Vienna, Austria. In 2002, Mr. Lhoëst established the Intellectual Property Group of 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 internal control systems 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 seven members.

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 generally aims for a diverse composition, but diversity is not a decisive factor when finding the most suitable candidate in line with the Supervisory Board profile. 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.

Hervé Defforey, a French citizen, is an operating partner in GRP Partners, Los Angeles, and sits on the boards of IFCO Systems N.V., Ulta Corp., Chicago and Kyriba S.A., Paris. Prior to joining GRP in 2001, Mr. Defforey was CFO and Managing Director of Carrefour S.A., from 1993 to 2001, where he remained on the board until 2004. Previously, Mr. Defforey was Treasurer at BMW Group and General Manager of various BMW AG group subsidiaries, and also held senior positions at Chase Manhattan Bank, EBRO Agricolas, S.A. and Nestlé S.A. Mr. Defforey 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 Alfa Finance Holdings S.A. and of TNK-BP and is a member of the Board of Directors of ABH Holdings S.A. (holding company for Alfa-Banking Group) and of 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.

David Gould, a U.S. citizen, has been serving as Deputy Director for Corporate Development, Finance and Control at Alfa Group Consortium since 2000. He also serves as a member of the Board of Directors of Alfa Finance Holdings S.A. and of ABH Holdings S.A. (holding company for Alfa-Banking Group). From 1992 to 2000, Mr. Gould held various positions at PricewaterhouseCoopers in Boston and in Moscow. He received his BA with honours from Colgate University in 1991 (concentration in Liberal Arts and minor concentration in Economics) and received his MBA-MS (Accounting) from Northeastern University in 1992. He qualified as a Certified Public Accountant in 1993 and as a Chartered Financial Analyst in 1999.

Name	Year of Birth	Position	Year of Initial Appointment	End of Current Term of Appointment
Mr. Hervé Defforey	1950	Chairman	2006	2014
Mr. Mikhail Fridman	1964	Member	2006	2013
Mr. David Gould	1969	Member	2006	2014
Mr. Vladimir Ashurkov	1972	Member	2006	2012
Mr. Alexander Tynkovan	1967	Member	2008	2012
Mr. Stephan DuCharme	1964	Member	2008	2012
Mr. Christian Couvreux	1950	Member	2010	2014

Vladimir Ashurkov, a Russian citizen, serves as Director of Group Portfolio Management and Control in Alfa Group. His main non-executive/ancillary positions include member of the Supervisory Board of Alfa Group, member of the Advisory Committee of Rosvodokanal, member of the Altimo Advisory Committee and member of the A1 Group 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 the Moscow Institute of Physics and Technology with a Bachelor of Science (Physics) and from the Wharton School, University of Pennsylvania, with an MBA.

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.

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.

Christian Couvreux, a French citizen, currently acts as a retail consultant in Asia, in particular, in Thailand, Vietnam, Indonesia and the Philippines. He formerly held several leadership positions at Group Casino, including the position of CEO from 1997 until 2003, as well as at CFAO (now part of PPR), in particular, of CFAO-Congo and La Ruche Meridionale. Mr. Couvreux holds a Master’s degree in Economic Sciences from the University of Paris and an MBA from the French business school H.E.C.

Committees of the Supervisory Board

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its four permanent committees: the Audit Committee, the Nomination and Remuneration 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.

Nomination and Remuneration Committee. The Nomination and 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. The Nomination and Remuneration Committee also advises in respect of the selection and appointment of members of the Supervisory Board and the Management Board. At least annually the Nomination and Remuneration 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, on the one hand, and conflicted persons or entities, including but not limited to its shareholders, members of the Supervisory Board and members of the Management Board, on the other hand.

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	Nomination & Remuneration Committee	Related Party Committee	Strategy Committee
Mr. Hervé Defforey	Member	Member		Member
Mr. Mikhail Fridman				
Mr. Vladimir Ashurkov	Member	Member		Member
Mr. David Gould	Chairman			
Mr. Alexander Tynkovan		Member	Chairman	Member
Mr. Stephan DuCharme		Chairman	Member	
Mr. Christian Couvreux				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.

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 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 Nomination and 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 to immediately 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.

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 Global Depositary Receipts (GDRs) 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). The notice for a General Meeting of Shareholders needs to be published not later than the 42nd day prior to the day of the meeting. The mandatory record date, establishing which shareholders are entitled to attend and vote at the General Meeting of Shareholders, is fixed at the 28th day prior to the date of the meeting.

One or more shareholders or holders of GDRs representing at least 1% of X5's issued share capital or representing a value of EUR 50 million are entitled to request a matter to be included on the agenda of the General Meeting of Shareholders. Such requests, if sufficiently substantiated and received by the Company at least sixty days before the date of the meeting, can only be refused on the grounds of exceptional circumstances, to be checked against the principles of reasonableness and fairness.

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. X5 uses the Bank of New York Mellon, the depositary for X5's GDR facility, to enable GDR holders to exercise their voting rights represented by the shares underlying the GDRs. As described in the "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 applicable laws, and may be submitted electronically.

On 1 July 2010 a bill on shareholders' rights came into force in the Netherlands, implementing the European directive on the exercise of rights of shareholders in listed companies. Apart from certain rules reflected in this section, the new bill introduces amendments relating to publication and content of the notice for a shareholders' meeting, publication of voting results and further rules on circulation of information. At the 2011 Annual General Meeting of Shareholders, X5's shareholders will be requested to approve the amendment of the Company's Articles of Association in accordance with the new bill on shareholders' rights.

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.

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.

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.

Significant Ownership of Voting Shares
According to the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht), any person or legal entity who, directly or indirectly, acquires or disposes of an interest in X5's capital and/or voting rights must immediately give written notice to the Netherlands Authority for the Financial Markets ('AFM'), if the acquisition or disposal causes the percentage of outstanding capital interest and/or voting rights held by that person or legal entity to reach, exceed or fall below any of the following thresholds: 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

The following table lists the shareholders on record on 10 March 2011 in the AFM's public register that hold an interest of 5% or more in the share capital of the Company:

Shareholder	Date of Disclosure	Capital Interest and Voting Rights[1]
CTF Holdings Ltd.	2 August 2007	47.86%
Axon Trust	22 December 2009	11.43%
The Baker Trust	11 December 2009	8.42%

[1] In accordance with the filing requirements the percentages shown include both direct and indirect capital interests and voting rights. Further details can be obtained at www.afm.nl.

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 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 Dutch Financial Markets Supervision Act, members of the Management Board and Supervisory Board shall notify the AFM of X5 securities and voting rights at their disposal. These positions can be viewed on the AFM's public register.

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.

Repurchase by the Company of Its Own Shares

The Company may acquire fully paid shares, or depositary receipts thereof, in its capital for a consideration only following authorization of the General Meeting of Shareholders and subject to certain provisions of Dutch law and the Company's Articles of Association, if:

- Shareholders' equity minus the purchase price is not less than the sum of X5's issued and fully paid-in capital plus any reserves required to be maintained by Dutch law or X5's Articles of Association; and
- X5 and its subsidiaries would not, as a result, hold shares or depositary receipts thereof with an aggregate nominal value exceeding half of the issued share capital.

The Management Board has been authorized to acquire up to 10% of the shares or depositary receipts thereof. This authorization is valid through 25 December 2011. In addition, the Supervisory Board has resolved that in case a purchase of shares or depositary receipts thereof by X5 would lead to X5 holding more than 5% of the shares or depositary receipts thereof, the Management Board requires the Supervisory Board's prior approval for such purchase.

Authorization by the General Meeting of Shareholders is not required if X5's own shares are acquired for the purpose of transferring those shares to X5 employees pursuant to any arrangements applicable to such employees.

Shares or depositary receipts thereof held by X5 or a subsidiary may not be voted on and are not taken into account for determining whether quorum requirements, if any, are satisfied.

Issue of New Shares and Pre-Emptive Rights

Shares in X5 may be issued, and rights to subscribe for shares may be granted, pursuant to a resolution of the General Meeting of Shareholders or another corporate body of X5 to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. The General Meeting of Shareholders approved a delegation of this authority to the Supervisory Board, relating to the issuance and/or granting of rights to acquire up to 16,226,820 shares (23.90% of the issued share capital) through 25 December 2011.

Upon the issue of new shares, holders of X5's shares have a pre-emptive right to subscribe for shares in proportion to the aggregate amount of their existing holdings of X5's shares. According to the Company's Articles of Association, this pre-emptive right does not apply to any issue of shares to employees of X5 or a group company. Pre-emptive rights may be restricted or excluded pursuant to a resolution of the General Meeting of Shareholders or another corporate body of X5 to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. The General Meeting of Shareholders has delegated the authority to restrict or exclude the pre-emptive rights of shareholders upon the issue of shares and/or the granting of rights to subscribe for shares to the Supervisory Board through 25 December 2011.

Articles of Association

X5's Articles of Association contain rules on organization and corporate governance of the Company. The current text of the Articles of Association is available at the Trade Register of the Chamber of Commerce and Industry for Amsterdam and on X5's website.

The amendment of the Articles of Association of the Company requires a resolution of the General Meeting of Shareholders. The proposal to amend the Articles including the text of the proposed amendment must be made available to holders of shares and GDR holders for inspection at the offices of X5 as of the date of the notice convening the meeting of the General Meeting of Shareholders until the end of the meeting of the General Meeting of Shareholders at which the proposed amendment is voted on.

At the 2011 Annual General Meeting of Shareholders, X5's shareholders will be requested to approve the amendment of the Company's Articles of Association in accordance with the new Dutch bill on shareholders' rights which came into force on 1 July 2010, implementing the European directive on the exercise of rights of shareholders in listed companies.

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

X5 is subject to the Dutch Corporate Governance Code (the "Code"), which came into effect on 1 January 2004. On 10 December 2008 the Dutch Corporate Governance Code Monitoring Committee (the "Committee") presented an amended Code, which became effective on 1 January 2009. The full text of the amended Code can be viewed on X5's website.

Some of the Code's best practice provisions have been incorporated into Dutch law, including the obligation for a listed company to state each year in its annual report how it applied the recommendations of the Code in the past financial year and to explain carefully, where applicable, why a provision was not applied in circumstances where the listed company departed from the recommendations of the Code.

X5's corporate governance policy with respect to the implementation of the Code was last discussed with its shareholders at the 2010 Annual General Meeting of Shareholders. Since then, there were no substantial changes in the corporate governance structure of the Company. X5 generally adheres to the Code, as amended, but does not comply with the following recommendations:

II.2.4: Grant of Options to Members of the Management Board
Pursuant to the Code, if a company grants options to members of its 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 Company's Employee Stock Option Plan (the "ESOP"), under which options are granted to employees in four tranches over a period of three years with varying vesting periods. The vesting requirement of the programme is the continued employment of participants. The final tranche of options under the ESOP vested on 19 May 2010.

While the ESOP is considered a long-term compensation for its participants, and the grant of options was linked to pre-determined, measurable performance based targets, X5 acknowledges that in terms of vesting period the ESOP deviates from the Code. However, since X5's operational activities are mainly based in the Russian Federation and the Ukraine, and the grant of unconditional options with a shorter than three year vesting period was customary in these markets at the time the ESOP was designed (2007), it was important for X5 to deviate on this point from the Code in order to attract and reward the best professionals in these markets.

The Company's next generation long-term incentive plan launched in 2010 (the "Restricted Stock Unit Plan", see Remuneration Report on page 75) provides for vesting and lock-in periods in line with the Code's best practices.

II.3.4, III.6.3 and III.6.4: Disclosure of Transactions with Related Parties in the Annual Report
In accordance with the Code, transactions with members of the Management Board, Supervisory Board, or persons holding at least 10% of shares or depository receipts thereof in which there are significant conflicting interests will be published in X5's Annual Report. However, in deviation from the Code, a detailed statement of the relevant conflict of interest is not published if (i) this conflicts with the law, (ii) the confidential, share-price sensitive or competition-sensitive nature of the transaction prevents publication and/or (iii) the information is so competition-sensitive that the publication could damage X5's competitive position.

III.2.1: Independence of Members of the Supervisory Board
Pursuant to the Code, all, but one, of the members of the Supervisory Board must be independent.

Three out of seven members of the Supervisory Board have a substantial shareholder interest in X5, or 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. Hervé Defforey, Mr. Alexander Tynkovan, Mr. Stephan DuCharme and Mr. Christian Couvreux 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 retail specifically in the markets in which X5 operates, which is of particular advantage to X5 and its stakeholders.

III.5: Committees of the Supervisory Board and Deviation from the Maximum of One Non-Independent Member of the Audit Committee

In 2009, the Supervisory Board resolved to merge the Supervisory Board's Remuneration Committee and Selection and Appointment Committee to one 'Nomination and Remuneration Committee.' X5 currently deviates from the Code, which requires these two committees to be separate committees. However, in light of the respective duties, responsibilities and composition of each of the Remuneration Committee and the Selection and Appointment Committee, and for reasons of practicality, X5 believes that it was in X5's best interest to merge these Committees.

In addition, X5 acknowledges that Mr. David Gould and Mr. Vladimir Ashurkov are non-independent members of the Audit Committee within the meaning of the Code whereas, pursuant to the Code, the terms of reference of each committee of the Supervisory Board may provide that a maximum of one member of each committee may not be independent. Considering Mr. David Gould's and Mr. Vladimir Ashurkov's financial expertise, and for reasons of continuity, X5 believes that it is in X5's best interest that Mr. David Gould's and Mr. Vladimir Ashurkov's membership of the Audit Committee be continued.

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

Pursuant to the Code, members of the Supervisory Board shall not be granted any shares and/or rights to subscribe for shares as remuneration for their membership of the Supervisory Board.

On 15 June and 5 November 2007, 16 June 2008 and 15 January 2010 the General Meeting of Shareholders approved the granting of options to Mr. Hervé Defforey and Mr. Stephan DuCharme, both members of the Supervisory Board. Furthermore, on 25 June 2010, the General Meeting of Shareholders approved the conditional grant of Restricted Stock Units to the Supervisory Board members Mr. Hervé Defforey, Mr. David Gould, Mr. Alexander Tynkovan, Mr. Stephan DuCharme and Mr. Christian Couvreux. X5 acknowledges that such grants deviate from the Code. However, in order to attract and reward experienced individuals with a track record that is of specific relevance to the Company, X5 believes it is necessary to allow members of the Supervisory Board to participate in the Company's long-term incentive plans.

Risk Management & Internal Control

Overview

X5, as any other company, is constantly dealing with risks and opportunities that can either negatively or positively influence its business. In order to minimize the negative impact of risks and in order to capitalize on opportunities a Company-wide risk management and internal control system should be established and fully integrated into the Company's operations.

The overall objective of this system is to obtain reasonable assurance that the Company's goals and objectives will be achieved and that the resources used for this will be effectively employed. This assurance can be achieved by identification of potential risk events encountered or likely to be encountered by the Company, the creation of risk-oriented decision-making processes and the implementation of internal controls that effectively mitigate identified risks. Moreover, this risk management and internal control system should provide X5 with the ability to identify and act with confidence in capitalizing on identified opportunities.

We do, however, understand that risk management and internal control gives a reasonable, but not an absolute guaranty we will achieve our goals. This is because:

- Risk identification and assessment are almost always subject to uncertainty as they deal with the future;
- Certain risks are out of the Company's sphere of influence and as such, preventive measures cannot be implemented;
- Certain control procedures may be degraded by human mistake and/or neglect.

Accountability

We believe that the risk management and internal control system will only be effective when every X5 employee is risk conscious and control oriented in their daily activities. Therefore, we define roles and responsibilities of X5 personnel as follows:

The Supervisory Board and its Audit Committee, as stated in Corporate Governance section of this Annual Report, is responsible for overall supervision and monitoring activities in respect of the internal control and risk management system.

The Management Board and the Executive Board have primary accountability for implementation and proper functioning of risk management and internal control system in the Company while X5's Management is responsible for identification and mitigation of risks, creation of necessary control procedures and action plans and their implementation.

The Enterprise Risk Management (ERM) Team is responsible for facilitation of the risk management process implementation and creation of an appropriate risk management methodology. Moreover it is performing all necessary reporting procedures based on the results of monitoring of risk management and internal control effectiveness.

The Corporate Audit Department is performing an independent assessment of overall risk management and internal control system effectiveness.

Approach

Risk management and internal control strategy is aimed at the establishment of simple risk identification, assessment, mitigation and reporting framework that can be built on existing X5 processes. A way to implement the strategy is a "top-down" approach: from the strategic to the business-process level. This approach gives a common methodology and unique standards making it possible to identify, prioritize and compare all the risks and opportunities throughout the Company.

The risk management and internal control process in X5 is guided by the recommendations of the Committee of Sponsoring Organizations (COSO) and its "Enterprise Risk Management – Integrated Framework" and "Internal Control – Integrated Framework".

Since 2009 the annual risk assessment has been based on X5's "Risk Universe for Retail" by means of interviews, self-assessment workshops and questionnaires. In 2010 the ERM Team performed the annual risk assessment, including effectiveness of controls and residual risks status, based on interview sessions with senior management. Risks have been assessed and quantified based on available financial and other information on previous years' performance, and on the existence and effectiveness of controls which are currently in place. The results of this assessment – X5' Risk Profile – have been agreed with the Executive Board and the Management Board, discussed with the Corporate Audit Department and then presented to the Supervisory Board and its Audit Committee and X5's external auditors.

Risk Profile

This section describes the main risks X5 currently faces that can have a significant impact on the achievement of the Company's strategic goals and objectives. X5 is of course exposed to additional risks that apply to all companies operating on the Russian market, and the retail market globally, as well as other risks that are not presently known to us.

Strategy

The consumer climate in Russia continues to improve as a result of gradually improving macro conditions, a healthier labour market and a likely increase in social spending ahead of the Duma elections in December 2011 and the Presidential elections in 2012. Nevertheless, the Russian retail market is still fragmented, immature and growing fast. These factors pose both opportunities and risks for X5.

› X5's leadership on the Russian retail market and its reputation depend largely on how well we establish, communicate and follow the right strategic vision.

To ensure the Company continues to pursue the right strategy, the Supervisory Board and its Strategy Committee, together with senior management, hold specific sessions to discuss and take decisions on internal and external issues that may influence our strategy.

Our strategic initiatives are described in detail in the "Strategic Review" section of this Annual Report.

As a result, we believe that by choosing and pursuing a proper and well executed strategic vision we achieve long-term profitable growth for the benefit of our stakeholders and for enhancing X5's leadership in the Russian retail market.

Human Resources

The ability and quality of the achievement of the X5 strategy highly depends on our greatest asset – our employees. In order to be an attractive and stable employer we seek, develop and remunerate our employees using leading HR practices.

We constantly assess our HR policies in order to promptly address the following risk factors:

- Our ability to recruit and retain the necessary number of staff on both the management and operational levels.
- Our ability to create a balanced organizational structure that allows and motivates our personnel to achieve our objectives and corporate goals.
- Success of our internal cross-functional communication that facilitates efficient and effective decision-making process.

A competitive compensation package is provided to our executive and line managers, whose performance is evaluated through key performance indicators (KPIs) to ensure their commitment to the Company's goals.

Due to X5's rapid growth we are constantly attracting a significant number of employees from the market and are constantly improving and developing new recruitment methods. In general, we have a strong commitment to employee integration and education, with programmes in place to develop and promote talented employees with vertical and horizontal career-building opportunities. Corporate activities organized during the year help us build a strong and motivated team eager to work for X5 and achieve its objectives.

Expansion

The general recovery after the economic crisis both in the real estate sector and in consumer spending strongly contributed to X5's accelerated growth. Our 2010 results and expansion plans for the ensuing years are highly influenced by:

- Our ability to find and effectively manage necessary properties and negotiate appropriate purchase and lease terms.
- Success in creation and implementation of effective procedures to support the organic growth process.

In the process of identifying and leasing and/or purchasing suitable properties, our internal real estate professionals perform 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 or refurbishment of stores. In addition, for all the potential investments into property we use a range of financial and non-financial metrics taking into account store locations, traffic and accessibility studies, etc. to make sure that we obtain attractive sites at an attractive price.

X5 Management pays particular attention and allocates significant management resources to optimization of its organic expansion strategy and supporting processes. As a result an increased number of store openings has been achieved in 2010.

Apart from organic growth an important part of X5's expansion strategy remains the selective acquisition of attractive retail chains. The pursuit of any acquisition strategy requires the proper selection and valuation of appropriate targets, which is effectively performed by our experienced M&A team. Once acquired the success depends mainly on:

- Our ability to effectively perform integration process to realize economies of scale and synergies.

To ensure timely and effective integration, a special integration team is created including representatives from all major functions in the Company.

This integration team is creating and monitoring appropriate integration plans and taking into account the experience learned in previous integration processes. Importantly, we put in place an appropriate system of monitoring and direct accountability for achievement of operational integration.

Operations
Our customers are our major focus. In order to provide them with the best quality of goods and services on the market at a reasonable price, we constantly analyze and improve key operational processes such as assortment management (including private label), pricing, supplier relationships, merchandising, sales and customer management. The key risks and points of attention are:

- Our ability to define assortment that is in line with customer needs.
- Success in building long-term relationships with suppliers and producers of private label goods in the necessary amounts and corresponding to our highest quality standards.
- Our ability to create and control strict food products safety procedures at all times.
- Our ability to maintain "price leadership" and a socially responsible status.
- Success of stock management system which minimizes shrinkage and excessive inventory.
- Transport and warehouse logistics facilities and our ability to ensure a proper delivery of goods.

Our "Close to the Customer" policy highlights the progress made and our plans towards improvement in pricing, assortment and safety controls based on each format's value proposition strategy. Apart from this, the "Progress in Private Label" section describes how our private label policy creates a major opportunity to enhance X5's differentiation and value for customers. The details are described in the "Strategic Review" section of this Annual Report.

Our social activities and commitments, as well as the projects and procedures on food products safety are described in the "X5 and Society" section of this Annual Report.

Business Support
In order to realize the current plans for organic growth as well as to build a base for future development, X5 plans in advance for the long-term development of business support processes and necessary infrastructure. The key risk factors that we are considering while developing those processes are:

- Sufficiency of IT facilities (programmes, servers, etc.) that provide business continuity.
- Availability of internal electronic and physical document-flow systems.

We are constantly optimizing our efficiency by following our "Strategic Efficiency Programme". In 2010, X5 made substantial progress in implementing this programme.

2010 has been a crucial year for establishing the base for further development and growth, including the roll-out of SAP for Retail and HR. We believe that these systems should provide a strong platform that not only supports our Company's development, but also enhances internal control of major processes and drives Company-wide efficiency gains.

The details of the SAP implementation progress and other business support activities are described in detail in the "Strategic Review" section of this Annual Report.

Financial and Management Reporting
While SAP for Finance implementation in 2011 will allow to perform parallel accounting and automatic preparation of the consolidated IFRS reporting, we still believe that risk of 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 should be further decreased. Another crucial risk factor in this area is:

- Availability of sufficient, useful and correct management reporting systems that support analysis of the results and provide the basis for effective decision–making processes.

We see even more considerable opportunities in the utilization of SAP for Finance – improvement of internal controls over the financial reporting process and availability of a wide range of management reports which will support decision-making process.

Fraud
- Effective resource allocation depends highly on our ability to prevent corruption and fraud at all levels in the Company.

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 behavior to employees through its Company values and its Guiding Principles of Business Conduct. The Company constantly emphasizes its Corporate Code for Reporting of Alleged Irregularities ("Whistleblower Policy") and operates an ethics hot line. The Fraud Investigation Team of the Corporate Audit Department and/or the Security Department undertake investigations into fraud cases. Results of such investigations are highlighted to the CEO, the Executive Board, the Management Board, and the Supervisory Board and its Audit Committee, as necessary.

Regulatory Environment
X5's operations are subject to supervision 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. Apart from this, new regulations have become applicable to X5 in 2010 or are expected to become applicable in 2011 such as UK Bribery Act and PCI DSS (payment card industry data security standard) and there is uncertainty regarding their application and enforcement. That is why our success depends on:

- Our ability to prevent or detect and quickly respond to unfavorable changes in applicable laws and regulations due to changes in political and economic conditions.
- Our ability to identify, and establish compliance with, newly applicable standards in a timely manner.

The Company monitors regulatory developments and enforces a strong compliance regime. Moreover we engage with public and governmental organizations to ensure that the interests of our customers are represented. In addition, X5 is consulted and invited to contribute to important government regulations regarding the retail industry.

Legal Risks
X5's size, number of employees and amount of operations in various spheres of business including leasing or buying sites, conducting M&A transactions, dealing with suppliers, logistics providers, etc. make contract and litigation risks pervasive to our organization.

Our professional legal team participates in every stage of each transaction and analyses the acceptability of contract terms to minimize risks. In addition, we protect ourselves against these risks by seeking to comply with all applicable laws and regulations, and by vigorously preparing and defending our position in litigation and enforcing our rights in relation to contracts and using all means provided by law.

Taxation
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 activities of X5 may be challenged by the relevant regional and federal tax authorities.

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 resulting from tax disputes of other companies operating in Russia. The Company further protects itself against tax risks by establishing appropriate provisions in its IFRS consolidated financial statements.

Note 34 "Commitments and Contingencies" to the consolidated financial statements in this Annual Report contains the description of the main tax uncertainties and an estimate of the related liability.

Financial Risks
The main financial risks faced by the Company relate to the availability of funds to meet business needs (liquidity and credit risks) 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.

Note 30 "Financial Risks Management" to the consolidated financial statements in this Annual Report contains the detailed description of financial risks the Company faces as well as the description of financial instruments the Company uses to mitigate risk exposures.

Management Summary

The Management Board has reviewed and analyzed the risks to which the Company is exposed, as well as the effectiveness of the Company's internal risk management and control systems over 2010. The outcome of this review and analysis has been shared with the Audit Committee and the Supervisory Board and has been discussed with X5's external auditors.

The Management Board believes that the risk management & control system regarding the financial reporting risks have worked properly during 2010, and provide reasonable assurance that the financial statements 2010 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 and II.1.5 of the Dutch Corporate Governance Code.

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.

The Management Board[1]

F. Lhoëst

12 April 2010

[1] Mr. Andrei Gusev, acting CEO, was nominated as member of the Management Board and CEO on 10 March 2011, for appointment by the General Meeting of Shareholders in June 2011. Mr. Kieran Balfe was appointed to the Management Board as CFO on 22 February 2011. In view of Mr. Balfe's appointment after the end of the financial year 2010, the Company considers it inappropriate for him to sign this Annual Report.

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 four permanent committees: the Audit Committee, the Nomination and Remuneration Committee, the Related Party Committee and the Strategy Committee.

Composition of the Supervisory Board

X5's General Meeting of Shareholders determines the number of members of the Supervisory Board. Currently X5's Supervisory Board consists of seven members.

The Supervisory Board reviews, on an annual basis, the profile of its size and composition, taking into account the evolving nature of X5's business and activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board profile is published on X5's corporate website.

At the Extraordinary General Meeting of Shareholders on 15 January 2010, Mr. Christian Couvreux was appointed as member of the Supervisory Board, following the resignation of Mr. Criado-Pérez Trefault as per 1 January 2010. Mr. Christian Couvreux is an independent Supervisory Board member with a considerable track record in the global retail industry.

Furthermore, at the Annual General Meeting of Shareholders on 25 June 2010, Mr. Hervé Defforey and Mr. David Gould were re-appointed for an additional four-year term.

An overview of the current composition of the Supervisory Board is presented in the Corporate Governance Report.

Composition of the Committees

When Mr. Christian Couvreux was appointed to the Supervisory Board in January 2010, he took over Mr. Vladimir Ashurkov's position as chairman of the Strategy Committee, with Mr. Vladimir Ashurkov remaining a member of this committee. Mr. Criado-Pérez Trefault's position as chairman of the Related Party Committee was taken over by Mr. Alexander Tynkovan, while Mr. Stephan DuCharme replaced Mr. Hervé Defforey as a member of the Related Party.

There were no further changes in the composition of the committees in 2010 and until the date of publication of this report. An overview of the current composition of the committees is presented in the Corporate Governance Report.

Induction

Following his appointment, Mr. Christian Couvreux 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 January 2010, Mr. Christian Couvreux attended the meetings of the Supervisory Board in November and December 2009. Throughout the year, members of the Supervisory Board visited several operating companies and other parts of the business to gain greater familiarity with senior management, and to develop deeper knowledge of local operations, opportunities and challenges.

Meetings of the Supervisory Board

The Supervisory Board meets at least four times per year. In 2010 the Supervisory Board held six meetings, including one meeting by teleconference. Further resolutions in writing were taken when necessary during the year. On each of five occasions in 2010 the meeting of the Supervisory Board was preceded by meetings of the Audit Committee, the Nomination and Remuneration Committee and the Strategy Committee.

All meetings were attended by the full Supervisory Board. The members of the Management Board attended the meetings, and other members of senior management were regularly invited to present to the Supervisory Board. On two occasions the Supervisory Board meetings included private sessions, with no members of the Management Board present, to independently discuss matters related to the performance, functioning and development of the Management Board and members of senior management. The external auditor attended the meeting in April at which the 2009 Annual Report and financial statements were endorsed. In April 2010 the Supervisory Board discussed its own functioning, its profile, competence and composition. This evaluation was conducted on the basis of an elaborate self-assessment, using the recommendations following the Board's assessment in the preceding year. The members of the Supervisory Board had frequent (telephone) meetings with members of the Management Board and other Company management in between the Supervisory Board meetings.

Throughout the year the Supervisory Board reviewed and/or resolved 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 2009 Annual Report and review of the 2010 half-yearly and quarterly financial statements and management accounts;
- The regular assessment of the members of the Management Board and the Executive Board, including the Company's talent management and succession planning;
- The remuneration of the Management Board, in accordance with the Remuneration Policy;
- The appointment and remuneration of senior managers of the Company;
- The amendment of the Remuneration Policy for members of the Management Board;
- The launch of the Company's next generation long-term incentive plan for members of the Management Board and other senior executives, and the conditional grant of Restricted Stock Units under the first tranche of the new Plan (see: Remuneration Report);
- The composition of the Committees of the Supervisory Board;
- The amendment of the Rules governing the Principles and Practices of the Supervisory Board;
- The nomination of Mr. Hervé Defforey and Mr. David Gould for re-appointment to the Supervisory Board;
- The appointment of Mr. Anton Volyanskiy as acting CFO, and subsequently the nomination of Mr. Kieran Balfe as CFO, following the resignation of Mr. Evgeny Kornilov in September;
- The federal law on Retail Trade in Russia which came into force on 1 August 2010, and its impact on the retail industry and X5 in particular;

- A review of the Company's three-year business plan, including a review of strategies as part of the annual strategic planning cycle;
- The launch of a new retail format operating under the brand name "Pyaterochka-Maxi";
- The Company's financing strategy, in particular the refinancing of the syndicated loan facility with maturity December 2010;
- The Company's M&A Strategy, in particular the acquisition of the retail chains "Ostrov" in September and "Kopeyka" in December;
- The progress of post-merger integration efforts and synergy effects throughout the various operational and staff divisions of the Group;
- The assessment of the Company's organization structure in line with the evolution of the business;
- Reviews of updates on the functioning IT systems, in particular the implementation of SAP;
- The review of the Enterprise Risk Management (ERM) and control systems of the Group;
- The budget and key performance indicators for 2011.

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 2010 the Audit Committee consisted of Mr. David Gould (Chairman), Mr. Hervé Defforey and Mr. Vladimir Ashurkov.

In 2010 the Audit Committee held five meetings in person. All meetings were attended by the CFO, the external auditor and the Head of the Corporate Audit Department (CAD). Other members of the Supervisory Board and senior management where invited when necessary or appropriate. Additional meetings were held by conference call to review the publication of financial press releases and trading updates.

The Audit Committee discussed with X5'external auditor the 2009 annual results and the 2010 first quarter, half-year and third quarter results. It also reviewed press releases (financial results and trading updates) and analyst reports related thereto. The Audit Committee reviewed the external auditors' report with respect to accounting and audit issues in respect of their audit of the 2009 consolidated financial statements. In April 2010, the Audit Committee met with the auditors without the presence of management. Audit fees for 2011were approved in September.

In July and November the Audit Committee reviewed the financing strategy 2010/2011, including hedging strategies, with particular emphasis on the re-financing of X5's syndicated loan facility maturing in December 2010, and in view of short- and medium-term M&A activities of the Company. In March the Audit Committee reviewed the Company's estimated range of contingent tax liabilities and tax planning issues in general, including a tax risk assessment performed by the Company.

An update of IT matters, in particular the implementation of SAP for Retail and SAP for Finance, was presented and discussed in July. Additionally, outside of the Audit Committee, the Chairman of the Supervisory Board conducted a number of meetings during 2010 with key IT staff to discuss strategic and other IT issues of importance.

Throughout the year the Audit Committee reviewed the Company's risk management and internal control systems, and the proper functioning of operational and business processes mainly through the work of the CAD. The CAD assessed processes in a number of departments in terms of their effectiveness and efficiency, compliance with laws and regulations, their safety and proper reflection in the Company reporting systems and developed recommendations to the Company management on enhancing controls and decreasing the inherent risks. Significant audit and forensic investigation findings of the CAD were reported to the Audit Committee on a regular basis. Status of follow-up actions by management in addressing CAD findings were regularly reviewed by the Audit Committee. In November, the CAD's internal audit plan 2011 was discussed with the external auditor, and approved by the Audit Committee.

In November, management shared with the Audit Committee its risk management strategy and updated risk mapping with assignment to specific personnel, and general evolution of the enterprise risk management function in the ensuing years.

In 2010 the Audit Committee continued to assess the financial and management reporting function of the Company. In conjunction with the Strategy Committee, particular attention was given to ageing inventory, and progress made under the 'Aged Stock Action Plan'. In July the Audit Committee approved the Coordination Plan between CAD and the external auditor with respect to review of internal controls over financial accounting and reporting.

In September and November the Audit Committee reviewed the Company's investment process, with particular emphasis on periodic evaluation of completed investments, both in terms of synergies and return on investment.

The Audit Committee reviewed regular updates on integrity matters, in particular through reports of the CAD's Fraud Investigation Team. In November the Audit Committee approved the Company's financial reporting calendar and the black-out trading calendar for the year 2010.

Additionally, after conducting a thorough search for a replacement for the Head of CAD, the Audit Committee appointed a new Head of CAD in July 2010.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is described in its charter which is available on the Company's website. On 31 December 2010 the Nomination and Remuneration Committee consisted of Mr. Stephan DuCharme (Chairman), Mr. Hervé Defforey, Mr. Vladimir Ashurkov and Mr. Alexander Tynkovan.

The Nomination and Remuneration Committee held six meetings in 2010, including one meeting by teleconference. All meetings were attended by the chairman of the Audit Committee and four meetings were attended by the chairman of the Strategy Committee. A joint meeting with the Strategy Committee was held in April. One meeting was attended by the CEO. Other members of senior management where invited when necessary or appropriate.

During the first half of 2010 the Nomination and Remuneration Committee evaluated the performance of the members of the Management Board based on the achievement of corporate and personal objectives for 2009. In this context, and based on the Company's 2010 overall objectives and its budget, the Committee also discussed and proposed to the Supervisory Board the targets and remuneration levels for the members of the Management Board in 2010.

In the second half of the year, the components of the remuneration of the Company's Management Board and senior management were checked against market practice and trends.

The Nomination and Remuneration Committee discussed and proposed the re-appointment of the Supervisory Directors Mr. Hervé Defforey and Mr. David Gould for a new term until 2014, in accordance with the retirement and re-appointment schedule of the Supervisory Board. In April the Committee discussed the composition and profile of the Supervisory Board and its committees, as well as the retirement and re-appointment schedule of the Supervisory Board. The Committee evaluated the functioning of the Supervisory Board based on a self-assessment, and reported the results thereof to the Supervisory Board.

The composition and profile of the Management Board was reviewed, within the context of a broader review of the organization structure, including talent management and succession planning at top executive level. During the second half of the year the Committee particularly focused on the selection of a new CFO following the resignation of Mr. Evgeny Kornilov in September. Furthermore, following Mr. Lev Khasis' resignation as CEO of the Company in March 2011, the Committee proposed the nomination of Mr. Andrei Gusev as his successor, to be appointed by the upcoming Annual General Meeting of Shareholders in June 2011. Finally, the Committee proposed the re-appointment of Mr. Frank Lhoëst, whose first term as Company Secretary comes to an end in 2011.

Further to the thorough review of the Remuneration Policy for the Management Board (and the Executive Board) in 2009, the Committee proposed a new Remuneration Policy in 2010 which was supported by the Supervisory Board. The new Remuneration Policy, which also reflects the Company's next generation long-term incentive plan launched in 2010, was approved by the General Meeting of Shareholders in June.

The Remuneration Report on page 75 provides further details on the remuneration for the Management Board and the Supervisory Board, and includes the current Remuneration Policy for the Management Board, as well as the outlook for 2011 and beyond. The Remuneration Policy is also available on the website 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 2010 the Related Party Committee consisted of Mr. Alexander Tynkovan (Chairman) and Mr. Stephan DuCharme.

The Related Party Committee held five meetings in 2010, including one meeting held by teleconference. 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 main transactions were discussed and/or approved by the Related Party Committee and the Supervisory Board during 2010, with due observance of best practice provisions II.3.2 to II.3.4 and III.6.1 to III.6.4 of the Dutch Corporate Governance Code, and 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 approval of the budget 2010-2014 for advisory and administrative services rendered by CTF Holdings Ltd.;
- The engagement of Alfa Bank for the potential purchase of RUR 4.5 billion of Ruble bonds issued by X5 Finance LLC;

- The X5 Loyalty Card Project with Alfa Bank as co-branding partner;
- A Treasury Master Agreement with Alfa Bank;
- An insurance contract with "AlfaStrahovanie" (by auction);
- A RUR 10 million guarantee from Alfa Bank in favour of X5's group company LLC "IT-Business";
- Revolving credit facilities, and other credit products within approved credit limits, with Alfa Bank; increase of the credit limit with Alfa Bank to refinance the debt portfolio of "Kopeyka";
- The acquision of land (by auction) from an A1 group company for the hypermarket project "Perm, Kosmonavtov";
- The acquisition of the retail chain "Globus Gurmet".

Strategy Committee
The role of the Strategy Committee is described in its charter which is available on the Company's website. On 31 December 2010 the Strategy Committee consisted of Mr. Christian Couvreux (Chairman), Mr. Hervé Defforey, Mr. Vladimir Ashurkov and Mr. Alexander 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 held six meetings in 2010 including its annual two-day conference in September. All meetings were attended by the CEO, the CFO and other senior managers, as well as the chairmen of the Audit Committee and the Nomination and Remuneration Committee. Joint meetings with the Nomination and Remuneration Committee and the Audit Committee were held in April and November, respectively.

The Committee addressed in particular the Company's retail format strategy, the logistics development plan, food and non-food assortment strategy, loyalty programmes, private label and M&A strategy. During the year, the Committee evaluated the impact of the draft federal law on Retail Trade on the Russian retail industry and X5 in particular. The annual strategy conference in September was dedicated to the Company's three-year business plan, including detailed reports and discussions on X5's organizational strategy, talent management and succession planning, as well as IT and investment strategy.

Furthermore, the Committee discussed the Company's key-performance indicators and budget for 2011, as well as the organizational structure and performance indicators for the Company in the years to come.

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 Dutch Corporate Governance Code, 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 2010 consolidated financial statements, audited by PricewaterhouseCoopers Accountants N.V., were presented to the Supervisory Board in the presence of the Management Board and the external auditor. PricewaterhouseCoopers' report can be found on page 172.

The Supervisory Board recommends that the Annual General Meeting of Shareholders adopts the 2010 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 171.

The Supervisory Board wishes to thank the Management Board and all employees of X5 for their outstanding contributions in 2010.

The Supervisory Board

12 April 2011

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") as well as the remuneration specifics of both the Management Board and the Supervisory Board for the financial year 2010. This report also addresses the way in which the Remuneration Policy will be pursued for the financial year 2011 and beyond.

Nomination and Remuneration Committee

Apart from its responsibilities in the area of selection, appointment and assessment of the Management Board and Supervisory Board members, the Nomination and Remuneration Committee (the "Committee") is responsible for:

- Preparing proposals for the Supervisory Board concerning the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders;
- Preparing proposals concerning the remuneration of individual members of the Management Board.

In carrying out its work in the area of remuneration, the Committee also takes into account the assessment and remuneration of the senior management reporting to the Management Board (the "Executive Board") and the remuneration climate in general within the Company.

The Committee prepares its proposals independently after careful consideration, including taking into account the advice of independent advisors, when necessary. These advisors do not advise the members of the Management Board personally on their remuneration.

The current members of the Nomination and Remuneration Committee are Mr. Stephan DuCharme (chairman), Mr. Hervé Defforey, Mr. Vladimir Ashurkov and Mr. Alexander Tynkovan.

Current Remuneration Policy

X5's Remuneration Policy for the Management Board was reviewed in 2009 in view of further developments and insights gained in this area, against the background of the Dutch Corporate Governance Code, as revised on 10 December 2008. The amended policy was adopted by the General Meeting of Shareholders on 25 June 2010.

The objective of the Remuneration Policy is twofold:

- 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
- To balance short-term operational performance with the long-term objectives of the Company and value creation for its shareholders, with due regard for the risks to which variable remuneration may expose the Company.

The remuneration structure of the members of the Management Board includes four elements: base salary, annual cash incentive (performance-based cash bonus), long-term incentive (performance-based equity instrument), and other arrangements.

Upon proposal of the Nomination and 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.

The Supervisory Board resolved that the Remuneration Policy shall equally apply to members of the Executive Board.

Benchmarking with Industry Peers

As a company with operations mainly in Russia, however, with international exposure due to its governance structure and listing on the London Stock Exchange, distinct benchmarking is applied to X5 base salaries as well as variable salary components. Base salaries are benchmarked against mainly Russian peers while variable salary components, including long-term incentive elements, are benchmarked against western peers as well. More specifically, the peer groups are currently composed of (i) major Russian companies, equivalent in terms of size, complexity of operations and corporate governance, operating in different sectors of the economy and (ii) multinational companies in retail and fast moving consumer goods.

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, his/her relevant experience, and other factors. The levels of base salaries are determined by (i) benchmarking with industry peers, as described above, 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 Cash Incentive

The bonus scheme for the members of the Management Board rewards both quantitative corporate indicators and personal, mission-related, key objectives. Members of the Management Board receive an 'on target' bonus opportunity equal to 50% of their base salary for achieving quantitative corporate indicators and 50% of their base salary for achieving personal key objectives as set by the Supervisory Board. An additional 50% for 'stretch' performance is possible in case of extraordinary achievement.

The Supervisory Board sets the targets for the bonus scheme at the beginning of each financial (calendar) year. The quantitative corporate indicators include net sales and EBITDA, which are to be achieved cumulatively. The personal performance targets include targets related to divisional performance, mission-related or key project-related targets, as well as qualitative behavioral targets. Both the corporate and personal performance measures are considered success factors for the Company in the short-term, while also contributing to the achievement of the long-term objectives of the Company, including in particular building out and strengthening the Company's leading position in the Russian retail sector. X5 does not disclose the actual targets set, as this qualifies as commercially sensitive information.

Long-term Incentive

Employee Stock Option Plan

In 2007 the Company launched its long-term incentive plan for key employees and members of the Management Board through its Employee Stock Option Plan (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 were 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 granted to Management Board members and key employees were linked to pre-determined criteria of participation in the program, based on the level of responsibility within the Company.

Restricted Stock Unit Plan

The Company launched its next generation long-term incentive plan in 2010, in the form of a Restricted Stock Unit Plan (the "Plan"). The purpose of the Plan is to motivate and retain a small group of high-performance and high-potential senior executives while increasing the commitment of such participants to the business of X5 and promoting the alignment of their interests with those of the shareholders of the Company. The Plan was approved by the General Meeting of Shareholders on 25 June 2010.

Over a period of four calendar years starting 2010, the Plan provides for the annual grant of conditional rights to receive restricted stock units ('RSUs'), subject to (i) the achievement of specific performance criteria of the Group ('KPIs') and (ii) continuous employment with the Group until the completion of the vesting period. Up to one third of the conditional RSUs granted to the CEO, and up to one quarter of the conditional RSUs granted to other participants, will be subject to the employment condition only. Also members of the Supervisory Board may be granted conditional RSUs. These RSUs shall not be subject to performance criteria. The General Meeting of Shareholders determines the number of conditional RSUs granted to members of the Supervisory Board.

The number of conditional RSUs granted on any grant date shall in principle be based on 200% of each participant's annual base salary, divided by the average market value[1] of a GDR on the relevant grant date. On the first anniversary of each respective grant date, and based on the audited Company's financial results, the Supervisory Board shall evaluate whether the KPIs have been met. The actual number of RSUs subsequently awarded will depend on the level of achievement of the KPIs and will be 0%, 50% or 100% of the number of conditional RSUs granted, in addition to the RSUs granted subject to the employment condition only.

The KPIs mainly relate to (i) the performance of the Group compared to the performance of a selected group of (comparable) competitors in achieving sustained growth and an increasing presence in its markets of operation and (ii) without sacrificing the EBITDA of the Company.

All RSUs to be awarded are subject to a further two-year vesting period and the condition of continuous employment with the Group. The vesting dates of the RSUs awarded under the Plan shall therefore be 19 May 2013, 19 May 2014, 19 May 2015 and 19 May 2016. Upon vesting, the RSUs will be converted into GDRs registered in the participant's name, whereby each RSU is converted into one GDR. Subsequently, these GDRs are subject to a two-year lock-in period during which period the GDRs cannot be traded. As a result, any GDR acquired under a RSU awarded on (e.g.) 19 May 2011 shall not become freely transferable before 19 May 2015.

The Plan features standard "good leaver", "bad leaver" and accelerated vesting provisions in accordance with current international market practices for long-term incentive plans.

[1] The Average Market Value is defined as "on any particular day the volume weighted average price of a GDR over the thirty immediately preceding calendar days. The volume weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange".

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, and life insurance, in accordance with general policies approved by the Supervisory Board. The Company's policy does not allow personal loans and guarantees to members of the Management Board. The Company does not provide for pension arrangements in favor of members of the Management Board.

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 in Russia.

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.

The Supervisory Board may recover from the Management Board members any variable remuneration awarded on the basis of incorrect financial information. Furthermore, the Supervisory Board has the discretionary authority to adjust the value of variable pay components originally awarded if the outcome proves to be unfair as a result of exceptional circumstances during the performance period.

The severance payment is in principle limited to a maximum of 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 if required under individual circumstances.

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. 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. In addition, the General Meeting of Shareholders approved the indemnity arrangements to be granted by the Company to members of the Supervisory Board.

Remuneration 2010

Management Board Remuneration
In 2010 the base salary of a selected number of senior executives, including the CFO, was increased in line with compensation levels in peer group companies. Apart from this, and as in the preceding year, 2009 base salaries (in Russian Rubles) were maintained in 2010. In addition, no salary indexation was applied.

As described in the Corporate Governance Report on page 49, the composition of the Management Board changed substantially since the third quarter of 2010. On 29 September 2010 Mr. Evgeny Kornilov resigned as CFO of the Company. His successor, Mr. Kieran Balfe, was appointed by the General Meeting of Shareholders on 22 February 2011. Furthermore, on 10 March 2011 Mr. Lev Khasis resigned as CEO of the Company.

The Supervisory Board nominated Mr. Andrei Gusev as his successor, to be appointed by the upcoming Annual General Meeting of Shareholders in June 2011.

For the year ended 31 December 2010 the Management Board was entitled to a total short-term compensation of USD 3,402,025 (2009: USD 5,326,668).

Specification of the fixed and variable cash remuneration of the Management Board for the financial year 2010:

Amounts in USD	Base Salary 2010	Cash Bonus 2010[1]	
Mr. Lev Khasis	2,213,063	0	Resigned 10 March 2011
Mr. Evgeny Kornilov	764,767	0	Resigned 29 September 2010
Mr. Frank Lhoëst	265,387	158,808	
Total	**3,243,217**	**158,808**	

[1] Bonus for the performance of the year reported and paid in cash in 2011.

Base salary amounts were paid in either Russian Rubles or Euro and converted to USD for reporting purposes, using the average USD rate for 2010 to convert RUR amounts into USD, and average cross-rate EUR/USD for amounts paid in Euro. Cash bonus amounts will be paid in either Russian Rubles or Euro and converted to USD for reporting purposes, using the closing USD rate for 2010 to convert RUR amounts into USD, and closing 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

In the reporting year, the total remuneration of the Supervisory Board amounts to EUR 1,170,000 or USD 1,552,514 (2009: USD 1,197,294).

Specification of the cash remuneration of the Supervisory Board for the financial year 2010:

Amounts in USD	Remuneration 2010
Mr. Hervé Defforey (Chairman)	331,734
Mr. Mikhail Fridman	132,694
Mr. Vladimir Ashurkov	132,694
Mr. David Gould	265,387
Mr. Alexander Tynkovan	159,232
Mr. Stephan DuCharme	265,387
Mr. Christian Couvreux	265,387
Total	**1,552,514**

All remuneration amounts are paid in Euro and converted to USD for reporting purposes, using the average cross-rate EUR/USD. The rate is available in Note 2 to the consolidated financial statements included in this Annual Report.

Stock Options

Details of options held and options exercised in 2010 by members of the Management Board and Supervisory Board, are set forth below.

	Granted in 2007	Granted in 2008	Granted in 2009	Tranche	Vesting Date	Value per Vesting Date[1]	Exercised in 2010	Position 31 Dec. 2010	Exercise Price[2]	GDR Price on Exercise Date	Expiration Date
Mr. Lev Khasis[3]	810,000			2	18.05.2008	$8,237,700		810,000	$28.58		01.09.2011
		860,625		3	19.05.2009	nil		860,625	$33.43		01.09.2011
			860,625	4	19.05.2010	$16,515,394		860,625	$13.91		01.09.2011
Mr. Evgeny Kornilov	30,000			2	18.05.2008	$305,100	30,000		$28.58	$36.87	16.12.2011
		220,000		3	19.05.2009	nil	220,000		$33.43	$36.87	20.11.2012
			220,000	4	19.05.2010	$4,221,800	220,000		$13.91	$32.52	20.11.2013
Mr. Frank Lhoëst			20,000	4	19.05.2010	$383,800	20,000		$13.91	$34.00	20.11.2013
Total Management Board			**1,100,625**					**2,531,250**			
Mr. Hervé Defforey		42,500		3	19.05.2009	nil		42,500	$33.43		20.11.2012
			70,000	4	19.05.2010	$1,343,300		70,000	$13.91		20.11.2013
Mr. Stephan DuCharme			32,500	4	19.05.2010	$623,675		32,500	$13.91		20.11.2013
Total Supervisory Board			**102,500**					**145,000**			

(1) Intrinsic value (GDR closing price per 19 May 2008: USD 38.75; 19 May 2009: USD 15.18; 19 May 2010: USD 33.10).

(2) 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 and fourth tranche is defined as the price equal to the Average Market Value (as defined below) per Depositary Receipt as of the grant dates 19 May 2008 and 19 May 2009 respectively. 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'.

(3) Mr. Lev Khasis' employment contract terminates effective 1 June 2011. In accordance with the ESOP Rules, his vested options shall expire on 1 September 2011, three months after the employment termination date.

Restricted Stock Units

Details of conditional RSUs granted to members of the Management Board and Supervisory Board are set forth below:

	Tranche	Grant Date	Conditional RSUs Granted	RSU Value on Grant Date	Award Date	Vesting Date	End of Lock-Up Period
Mr. Lev Khasis[1]	1	19.05.2010	128,817	$4,573,004	19.05.2011	19.05.2013	19.05.2015
Mr. Frank Lhoëst	1	19.05.2010	14,438	$512,549	19.05.2011	19.05.2013	19.05.2015
Total Management Board			**143,255**	**$5,085,553**			
Mr. Hervé Defforey	1	19.05.2010	9,024	$320,352	19.05.2011	19.05.2013	19.05.2015
Mr. David Gould	1	19.05.2010	7,219	$256,275	19.05.2011	19.05.2013	19.05.2015
Mr. Stephan DuCharme	1	19.05.2010	7,219	$256,275	19.05.2011	19.05.2013	19.05.2015
Mr. Alexander Tynkovan	1	19.05.2010	4,331	$153,751	19.05.2011	19.05.2013	19.05.2015
Mr. Christian Couvreux	1	19.05.2010	7,219	$256,275	19.05.2011	19.05.2013	19.05.2015
Total Supervisory Board			**35,012**	**$1,242,926**			

(1) Mr. Lev Khasis' employment contract terminates effective 1 June 2011. Consequently, two thirds of the number of RSUs to be awarded shall be forfeited, in accordance with the rules of the Restricted Stock Unit Plan.

Further details of the share based remuneration to managing and supervisory directors can be found in Notes 28 and 43 to the consolidated financial statements included in this Annual Report.

Remuneration Policy in 2011 and beyond

In 2010 the Remuneration Policy as described in this report was applied. Starting from the performance year 2011, the Supervisory Board proposes to adjust the reward mechanism for the annual cash incentive. In particular, it is proposed that the quantitative corporate indicators, including net sales and EBITDA, are no longer to be achieved cumulatively, but separately with equal weight depending on the exact number of quantitative targets set. The proposed adjustment to the Remuneration Policy will be submitted for approval at the 2011 Annual General Meeting of Shareholders.

Apart from this, it is the intention that the current policy will in principle be continued in the next financial year and beyond.

The Supervisory Board

12 April 2011


ПЕРЕКРЕСТОК
ПЕРЕКРЕСТОК X5
Перекресток
СУПЕРМАРКЕТ
2010 Financial Statements
ул. Бирюлевская, д.51, к.1
1000м

Financial Statements
X5 Retail Group

International Financial Reporting Standards
Consolidated Financial Statements,

Dutch GAAP Company's Financial Statements and

Independent Auditor's Report

31 December 2010

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X5 Retail Group
Consolidated Statement of Financial Position at 31 December 2010

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

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	10	3,602,412	2,990,086
Investment property	11	145,643	133,425
Goodwill	12	1,999,269	777,961
Intangible assets	13	718,854	496,111
Prepaid leases	10	86,419	84,805
Investment in associates		-	5,609
Other non-current assets		7,457	1,304
Deferred tax assets	29	131,312	146,359
		6,691,366	4,635,660
Current assets			
Inventories of goods for resale	14	1,015,742	612,093
Indemnification asset	7	43,737	–
Loans originated		1,314	2,848
Current portion of non-current prepaid lease	10	13,443	13,705
Trade and other accounts receivable	16	381,849	311,657
Current income tax receivable		76,149	18,497
VAT and other taxes recoverable	17	262,828	174,762
Cash and cash equivalents	9	270,762	411,681
		2,065,824	1,545,243
Total assets		**8,757,190**	**6,180,903**

X5 Retail Group
Consolidated Statement
of Financial Position at 31 December 2010
(expressed in thousands of US Dollars,
unless otherwise stated)

	Note	31 December 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	21	93,712	93,712
Share premium		2,049,144	2,049,144
Cumulative translation reserve		(574,268)	(559,576)
Retained earnings		470,980	199,292
Hedging reserve	18	-	(10,108)
Share based payment reserve	28	5,965	-
		2,045,533	**1,772,464**
Non-controlling interest	7	**1,501**	**-**
Total equity		**2,047,034**	**1,772,464**
Non-current liabilities			
Long-term borrowings	20	3,176,792	287,378
Long-term finance lease payable		2,737	4,586
Deferred tax liabilities	29	261,374	207,985
Long-term deferred revenue		135	1,839
Share-based payments liability	28	13,157	25,986
Other non-current liabilities		1,339	-
		3,455,534	527,774
Current liabilities			
Trade accounts payable		1,851,454	1,556,325
Short-term borrowings	20	508,004	1,656,622
Share-based payments liability	28	76,141	59,559
Derivative financial liabilities	18	-	10,108
Short-term finance lease payables		1,680	1,950
Interest accrued		16,678	8,863
Short-term deferred revenue		13,165	18,979
Current income tax payable		47,249	33,790
Provisions and other liabilities	19	740,251	534,469
		3,254,622	3,880,665
Total liabilities		**6,710,156**	**4,408,439**
Total equity and liabilities		**8,757,190**	**6,180,903**

X5 Retail Group
Consolidated Income Statement for the year ended 31 December 2010

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

	Note	31 December 2010	31 December 2009
Revenue	23	11,280,492	8,717,399
Cost of sales	24	(8,651,734)	(6,609,522)
Gross profit		**2,628,758**	**2,107,877**
Selling, general and administrative expenses	24	(2,224,355)	(1,740,604)
Lease/sublease and other income	25	140,666	100,496
Operating profit		**545,069**	**467,769**
Finance costs	26	(147,903)	(157,964)
Finance income	26	1,690	3,817
Share of profit/(loss) of associates		438	(3,964)
Net foreign exchange loss		(12,982)	(45,692)
Profit before tax		**386,312**	**263,966**
Income tax expense	29	(115,066)	(98,615)
Profit for the year		**271,246**	**165,351**
Profit for the year attributable to:			
Equity holders of the parent		271,688	165,351
Non-controlling interest		(442)	-
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	22	4.01	2.44
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	22	3.99	2.43

X5 Retail Group
Consolidated Statement of Comprehensive income for the year ended 31 December 2010

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

	31 December 2010	31 December 2009
Profit for the year	**271,246**	**165,351**
Other comprehensive income/(loss)		
Exchange differences on translation from functional to presentation currency	(14,692)	(39,392)
Changes in fair value of financial instruments	10,108	8,072
Other comprehensive loss	**(4,584)**	**(31,320)**
Total comprehensive income for the year	**266,662**	**134,031**
Total comprehensive income for the year attributable to:		
Equity holders of the parent	**266,662**	**134,031**

X5 Retail Group
Consolidated Statement of Cash Flows for the year ended 31 December 2010

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

	Note	31 December 2010	31 December 2009
Profit/(Loss) before tax		**386,312**	**263,966**
Adjustments for:			
Depreciation, amortisation and impairment	24	298,523	268,243
Loss on disposal of property, plant and equipment		16,180	3,113
Finance costs, net	26	146,213	154,147
Impairment of trade and other accounts receivable	24	11,447	12,955
Share-based options expense	28	63,166	59,316
Amortisation of deferred expenses		14,652	10,226
Net foreign exchange loss		12,982	45,692
(Income)/Loss from associate		(438)	3,964
Other non-cash items	34, 10	(48,846)	13,877
Net cash from operating activities before changes in working capital		**900,191**	**835,499**
Increase in trade and other accounts receivable		(167,413)	(91,463)
Increase in inventories of goods for resale		(277,351)	(128,095)
Increase in trade payable		177,695	343,752
Increase in other accounts payable		16,133	41,844
Net cash generated from operations		**649,255**	**1,001,537**
Interest paid		(132,110)	(156,914)
Interest received		2,028	4,449
Income tax paid		(141,094)	(115,390)
Net cash from operating activities		**378,079**	**733,682**

X5 Retail Group
Consolidated Statement of Cash Flows
for the year ended 31 December 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2010	31 December 2009
Cash flows from investing activities			
Purchase of property, plant and equipment		(366,160)	(175,317)
Purchase of investment property		-	(8,574)
Non-current prepaid lease		(17,324)	(4,555)
Acquisition of subsidiaries	7	(1,140,629)	(229,367)
Proceeds from sale of property, plant and equipment		5,319	3,290
Purchase of intangible assets		(29,387)	(19,321)
Net cash used in investing activities		**(1,548,181)**	**(433,844)**
Cash flows from financing activities			
Proceeds from short-term loans		386,227	259,934
Repayment of short-term loans		(921,994)	(656,357)
Proceeds from long-term loans		1,609,419	248,733
Repayment of long-term loans		(3,899)	(40,074)
Acquisition of derivative financial assets		-	(2,512)
Principal payments on finance lease obligations		(3,717)	(4,018)
Net cash generated from/(used in) from financing activities		**1,066,036**	**(194,294)**
Effect of exchange rate changes on cash and cash equivalents		(36,853)	29,300
Net (decrease)/increase in cash and cash equivalents		**(140,919)**	**134,844**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		411,681	276,837
Net (decrease)/increase in cash and cash equivalents		(140,919)	134,844
Cash and cash equivalents at the end of the year		**270,762**	**411,681**

X5 Retail Group
Consolidated Statement of Changes In Equity for the year ended 31 December 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Attributable to equity holders of the parent								Non-controlling interest	Total
	Number of shares	Share capital	Share premium	Hedging reserve	Share based payment reserve	Cumulative translation reserve	Retained earnings	Total shareholders' equity		
Balance as at 1 January 2009	**67,813,947**	**93,712**	**2,049,144**	**(18,180)**	**-**	**(520,184)**	**33,941**	**1,638,433**	**-**	**1,638,433**
Other comprehensive income/(loss) for the year	-	-	-	8,072	-	(39,392)	-	(31,320)	-	(31,320)
Profit for the year	-	-	-	-	-	-	165,351	165,351	-	165,351
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**8,072**	**-**	**(39,392)**	**165,351**	**134,031**	**-**	**134,031**
Balance as at 31 December 2009	**67,813,947**	**93,712**	**2,049,144**	**(10,108)**	**-**	**(559,576)**	**199,292**	**1,772,464**	**-**	**1,772,464**
Other comprehensive income/(loss) for the year	-	-	-	10,108	-	(14,692)	-	(4,584)	-	(4,584)
Profit for the year	-	-	-	-	-	-	271,688	271,688	(442)	271,246
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**10,108**	**-**	**(14,692)**	**271,688**	**267,104**	**(442)**	**266,662**
Acquisition of subsidiaries (Note 7)	-	-	-	-	-	-	-	-	1,943	1,943
Share based compensation (Note 28)	-	-	-	-	5,965	-	-	5,965		5,965
Balance as at 31 December 2010	**67,813,947**	**93,712**	**2,049,144**	**-**	**5,965**	**(574,268)**	**470,980**	**2,045,533**	**1,501**	**2,047,034**

X5 Retail Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010

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

1. PRINCIPAL 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").

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 2010 the Group operated a retail chain of 2,469 soft-discount, supermarket, hypermarket and convenience stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Pyaterochka-Maxi" and "Kopeyka" in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg and Kiev, Ukraine (31 December 2009: 1,372 soft-discount, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel"), with the following number of stores:

	31 December 2010	31 December 2009
Supermarket		
Central	172	152
North-West	33	33
Sredne-Volzhsky	26	22
Privolzhsky	15	15
South	14	14
Volgo-Vyatsky	19	19
Central-Chernozem	9	9
Ukraine	6	6
Ural	7	5
	301	**275**

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

	31 December 2010	31 December 2009
Discounter		
Central	567	433
North-West	358	306
Ural	181	152
Volgo-Vyatsky	64	39
South	67	32
Sredne-Volzhsky	58	28
Privolzhsky	55	25
Central-Chernozem	42	24
	1,392	**1,039**
Hypermarket		
North-West	17	17
Central	14	13
Privolzhsky	7	6
Volgo-Vyatsky	9	6
Sredne-Volzhsky	7	5
South	6	4
Central-Chernozem	6	4
Ural	5	3
	71	**58**
Convenience stores	45	-
Kopeyka	660	-
Total stores	**2,469**	**1,372**

In addition as at 31 December 2010, the Group's franchisees operated 665 stores (31 December 2009: 620 stores) across Russia.

The Group is a member of the Alfa Group Consortium. As at 31 December 2010 the Company's immediate principal shareholders were Luckyworth Limited and Cesaro Holdings Limited, Alfa Group Consortium companies, owning 25.54% and 21.62% of total issued shares, respectively. As at 31 December 2010 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share (Note 21). As at 31 December 2010 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTF"), an Alfa Group Consortium company registered at Suite 2, 4 Irish Place, Gibraltar, owning directly 0.7% of total issued shares. CTF is under the common control of Mr. Fridman, Mr. Khan and Mr. Kousmichoff (the "Shareholders"). None of the Shareholders individually controls and/or owns 50% or more in CTF.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these 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 2010 have been prepared in accordance with, and comply with International Financial Reporting Standards as adopted by the European Union and with Part 9 Book 2 of The Netherlands Civil Code. In accordance with article 402 Book 2 of The Netherlands Civil Code the income statement in the Company Financial Statements is presented in abbreviated form.

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

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

Certain reclassifications have been made to prior year balances in the consolidated statement of financial position and notes to consolidated 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 consolidated 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 acquisition 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, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. 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.

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

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in consolidated income statement, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

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. Non-controlling interest
Non-controlling 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. Non-controlling interest forms a separate component of the Group's equity.

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

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"). Currently the Group's Ukraine business unit's contribution to the financial results of the Group is immaterial. The Group's presentation currency is the US Dollar ("USD"), which management believes is the most useful currency to adopt for users of these 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 statement of financial position presented are translated at the closing rates at the date of that statement of financial position;

(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 other comprehensive income 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 2010, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 30.4769 (31 December 2009: USD 1 = RR 30.2442). The average rate for year ended 31 December 2010 was USD 1 = RR 30.3692 (12 months 2009: USD 1 = RR 31.7231).

2.6. Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Management Board. The Management Board determined retail operations as a single reportable segment.

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 including construction in progress. 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 consolidated income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a favourable change in circumstances affecting estimates used to determine the asset's value in use or fair value less costs to sell.

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

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

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

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

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

2.8. 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 owned shopping centres that are leased to third party retailers as investment property, unless they represents insignificant portions of the property and are used primarily to provide auxiliary services to retail customers not provided by the Group rather than to earn rental income. After purchase or construction of the building the Group assesses the main purpose of its use, if the main purpose is to earn rental income or for capital appreciation, or both, the building is classified as investment 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 consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date over the fair value of the net assets of the acquired subsidiary at the date of exchange.

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.

(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 5 to 50 years (20 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	5-20 years
Private labels	1-8 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 7 to 10 years (8 on average).

(e) Other intangible assets
Expenditure on acquired patents, software, trademarks and licenses is capitalized and amortised using the straight-line method over their useful lives ranging from 1 to 10 years (5 on average).

(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 consolidated income statement on a straight-line basis over the period of the lease.

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 34).

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 consolidated 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 recognised in the consolidated 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. The Group also provides for slow moving inventory where the expected time to sell exceeds norms established by the Group.

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 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 other comprehensive icome.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the consolidated income statement.

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 other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

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

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

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

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

2.17. Value added tax

Output VAT 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 output VAT upon receipt of the VAT invoice and fulfilment of other conditions in compliance with Russian tax legislation.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability, except for VAT, presented within other non-current assets. 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

Employee stock option program

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 option 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 behavioural 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.

Employee stock plan

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

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

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

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 consolidated 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. Borrowing costs directly attributable to the acquisition, construction or production of assets necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

2.21. Trade and other payables

Trade and other payables are accrued when the counterparty performs 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 consolidated 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.

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.

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 29 and 34).

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 contractual term. 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 has a loyalty card scheme. 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.

(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 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 assets and other general and administrative expenses. Selling, general and administrative expenses are recognised on an accrual basis as 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 consolidated income statement.

2.29. Fair value of assets and liabilities at the acquisition date
In October 2009 the Group has acquired 51% of voting shares of Epylon Limited. Epylon Limited is the owner of the internet stores ("Internet Retail"). In December 2009 the Group acquired 100% of the business and assets of Paterson, a non-public supermarket chain.

A primary valuation of assets and liabilities of acquired companies was performed on a provisional basis.

During the reporting period provisional values of Internet Retail and Paterson were updated based on final fair value estimates. As a consequence of the adjustment the previously reported Consolidated Statement of Financial Position as at 31 December 2009 was changed to reflect the updated provisional values from the date of acquisition (Note 7).

2.30. Indemnification asset
The indemnification asset equivalent to the fair value of the indemnified liabilities is deducted from consideration transferred for the business combination if the selling shareholders of acquiree agreed to compensate possible claims or contingencies. Subsequent measurement of the indemnification asset and contingent liability will have no net impact on future earnings, unless the indemnification asset becomes impaired.

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 include:

Impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amount of a cash-generating unit has been determined based on the higher of fair value less costs to sell or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 12. No impairment loss on goodwill was recognized for the year ended 31 December 2010 and ended 31 December 2009.

Provisional fair values of net assets of acquired businesses. During the reporting period the Group made a several acquisitions (Note 7) and applied a number of estimates to define the provisional fair value of acquired businesses' 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 34).

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. The Group performs assets impairment testing (Note 10). 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 consolidated income statement.

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

Inventories of goods for resale provisions. The Group provides for estimated inventory shrinkage on the basis of a historical shrinkage as a percentage of cost of sales. This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results. The Group also provides for slow moving inventory where the expected time to sell exceeds norms established by the Group (Note 14).

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.

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 option model. Major assumptions are summarized in Note 28.

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

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

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

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs are accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer has to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date is recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. Amended standard did not have material effect on the Group consolidated financial statements except disclosed in the Note 7.

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

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets are recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 does not have effect on the Group's consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 does not have effect on the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the amendments as adopted by the EU are effective for annual periods starting after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments do not have effect on the Group's consolidated financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2011 and have not been early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its financial statements.

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

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Group's financial statements.

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

5. SEGMENT REPORTING

The Group identifies retailing operations as a single reportable segment.

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

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

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

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

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

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

The accounting policies used for segments are the same as accounting policies applied for these consolidated financial statements as described in Note 2.

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

The segment information for the year ended 31 December 2010 is as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Retail sales	11,263,827	8,683,821
Other revenue	16,665	33,578
Revenue	**11,280,492**	**8,717,399**
EBITDA	**843,592**	**736,012**
Capital expenditure	405,599	169,597
Total assets	**8,757,190**	**6,180,903**
Total liabilities	**6,710,156**	**4,408,439**

Assets and liabilities are presented in a manner consistent with that in the consolidated financial statements. Capital expenditure does not include additions to intangible assets (Note 13).

A reconciliation of EBITDA to profit for the year is provided as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
EBITDA	843,592	736,012
Depreciation and amortization	(298,523)	(268,243)
Operating profit	**545,069**	**467,769**
Finance cost, net	(146,213)	(154,147)
Net foreign exchange result	(12,982)	(45,692)
Share of profit/(loss) of associates	438	(3,964)
Profit before income tax	**386,312**	**263,966**
Income tax expense	(115,066)	(98,615)
Profit for the year	**271,246**	**165,351**

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

6. SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2010 and 31 December 2009 are as follows:

			Ownership (%)	
Company	**Country**	**Nature of operations**	**31 December 2010**	**31 December 2009**
Agroaspekt OOO	Russia	Retailing	100	100
Agrotorg OOO	Russia	Retailing	100	100
Alpegru Retail Properties Ltd.	Cyprus	Real estate	100	100
GSWL Finance Ltd.	Cyprus	Financing	100	100
Kama Retail OOO	Russia	Retailing	100	100
Key Retail Technologies Ltd.	Gibraltar	Holding company	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	Holding company	100	100
TH Perekrestok ZAO	Russia	Retailing	100	100
Ural Retail OOO	Russia	Retailing	100	100
Ural-Agro-Torg OOO	Russia	Retailing	100	100
X5 Finance OOO	Russia	Bond issuer	100	100
X5 Nedvizhimost ZAO	Russia	Real estate	100	100
X5 Retail Group Ukraine ZAT	Ukraine	Retailing	100	100
TD Kopeyka OAO	Russia	Holding Company	100	-
Kopeyka-Moscow OOO	Russia	Retailing	100	-
TF Samara-Product OOO	Russia	Retailing	100	-
Kopeyka-Voronezh OOO	Russia	Retailing	100	-
Kopeyka-Privolzhye OOO	Russia	Retailing	100	-

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

7. ACQUISITION OF SUBSIDIARIES

Kopeyka

In December 2010 the Group acquired 100% of the business and assets of Kopeyka, a Russian retail chain which operates soft discounter stores in the European part of Russia with more than 50% of its business in Moscow and the Moscow region.

In the year ended 31 December 2010 the acquired business of Kopeyka contributed revenue of USD 217,504 and a net loss of USD 373 from the date of acquisition. If the acquisition of Kopeyka had occurred on 1 January 2010, the Group's revenue for the year ended 31 December 2010 would have been USD 13,118,063 and the Group's net profit for the year ended 31 December 2010 would have been USD 256,276. Estimates of contribution of revenue and profit to the Group are based on proforma information derived from Kopeyka consolidated financial statements prepared in accordance with IFRS.

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

	Provisional values at the acquisition date
Cash and cash equivalents	59,846
Inventories of goods for resale	121,062
Loans originated	4,195
Trade and other accounts receivable	117,379
Intangible assets (Note 13)	237,238
Property, plant and equipment (Note 10)	459,867
Investment property (Note 11)	16,227
Deferred tax assets (Note 29)	7,628
Short-term borrowings	(98,518)
Trade and other accounts payable	(306,670)
Provisions and liabilities for tax uncertainties (Note 34)	(53,266)
Long-term borrowings	(541,285)
Deferred tax liability (Note 29)	(67,655)
Net liability acquired	(43,952)
Goodwill (Note 12)	1,124,798
Total acquisition cost	**1,080,846**
Net cash outflow arising from the acquisition for the year ended 31 December 2010	**1,090,090**

The Group assigned provisional values to net assets acquired based on estimates of the independent appraiser. 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 1,149,936 compensated by contingent consideration of USD 15,453 to be payable by previous shareholders of Kopeyka and indemnification asset deducted from consideration transferred for the business combination.

The contingent consideration arrangement requires the former owners of the Kopeyka to pay the Group an excess of the net debt over agreed amount. The fair value of the contingent consideration arrangement was estimated based on unaudited financial statements of acquiree.

An indemnification asset of USD 53,636, equivalent to the fair value of the indemnified liability, has been recognised by the Group. The selling shareholders of Kopeyka have contractually agreed to indemnify potential tax and other contingencies that may become payable in respect of the Kopeyka companies, indemnification arrangement is capped to USD 295,306.

Acquisition-related costs recognized as other expense in the consolidated statement of comprehensive income amounted to USD 7,578.

The goodwill recognised is attributable to: i) the business concentration in the Moscow, Moscow region, other Russian regions and their neighbouring areas and ii) expected cost synergies from the business combination.

Ostrov

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

In the year ended 31 December 2010 the acquired business of Ostrov contributed revenue of USD 12,602 and a net loss of USD 1,418 from the date of acquisition. If the acquisition of Ostrov had occurred on 1 January 2010, the Group's revenue for the year ended 31 December 2010 would have been USD 11,365,567 and the Group's profit for the year ended 31 December 2010 would have been USD 268,032.

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

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

	Provisional values at the acquisition date
Cash and cash equivalents	900
Inventories of goods for resale	2,733
Loans originated	2
Trade and other accounts receivable	1,331
Intangible assets (Note 13)	7,090
Property, plant and equipment (Note 10)	14,088
Deferred tax assets (Note 29)	3
Short-term borrowings	(5,771)
Trade and other accounts payable	(11,478)
Provisions and liabilities for tax uncertainties (Note 34)	(25,148)
Deferred tax liability (Note 29)	(3,006)
Net liabilities acquired	(19,256)
Goodwill (Note 12)	49,655
Total acquisition cost	**30,399**
Net cash outflow arising from the acquisition	**25,659**

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

The purchase consideration comprises cash and cash equivalents of USD 26,559 and deferred consideration of USD 3,840.

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

Retail Express

In April 2010 the Group acquired an additional 20% of the voting shares of Retail Express Ltd. Retail Express Ltd is the owner of Perekrestok-Express convenience store chain ("Express Retail").

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

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

	Provisional values at the acquisition date
Net assets acquired	4,857
Consideration transferred	6,020
Fair value of interest acquired previously	6,570
Non-controlling interest	1,943
	14,533
Goodwill (Note 12)	9,676
Net cash outflow arising from the acquisition	**5,262**

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

Other acquisitions

In 2010 the Group acquired several businesses by purchasing lease agreements of other retail chains in Russian regions.

These businesses did not prepare financial statements immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2010 as though the acquisition date had been the beginning of that period.

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

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

	Provisional values at the acquisition date
Inventories of goods for resale	49
Intangible assets (Note 13)	4,086
Property, plant and equipment (Note 10)	3,081
Deferred tax assets (Note 29)	2,480
Net assets acquired	9,696
Goodwill (Note 12)	9,922
Total acquisition cost	**19,618**
Net cash outflow arising from the acquisition	**19,618**

The Group assigned provisional values to net assets acquired, in estimating provisional values of lease rights direct references to observable prices in an active market are used (market approach). The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents of USD 19,618.

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

Paterson

In December 2009 the Group acquired 100% of the business and assets of Paterson, a non-public supermarket chain of 82 stores located in Moscow, the Moscow region, St. Petersburg, Kazan and other cities of European Russia and Urals.

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

The Group has finalized the purchase price allocation within 12 months from the acquisition date. Details of assets and liabilities acquired and the related goodwill are as follows:

	Fair values at the acquisition date	Effect of change in purchase price allocation on the Consolidated Statement of Financial Position as at 31 December 2009
Cash and cash equivalents	3,311	-
Inventories of goods for resale	14,829	-
Loans originated	1,728	-
Trade and other accounts receivable	16,524	1,920
Intangible assets	22,677	-
Property, plant and equipment (Note 10)	120,829	(5,243)
Deferred tax assets	-	(5,427)
Short-term borrowings	(82,385)	-
Trade and other accounts payable	(69,587)	367
Provisions and liabilities for tax uncertainties (Note 34)	(41,253)	-
Long-term borrowings	(6,883)	-
Deferred tax liability	(14,424)	(296)
Net liability acquired	(34,634)	(8,679)
Goodwill (Note 12)	225,503	8,679
Total acquisition cost	**190,869**	
Net cash outflow arising from the acquisition for the year ended 31 December 2009	**187,508**	

Internet Retail

The Group has finalized the purchase price allocation within 12 months from the acquisition date. Effect of change in purchase price allocation on the Consolidated Statement of Financial Position as at 31 December 2009 is as follows:

	Effect of change in purchase price allocation
Inventories of goods for resale	(629)
Trade and other accounts payable	(1,130)
Goodwill (Note 12)	1,759

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

Alfa Group

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

	Relationship	2010	2009
CTF Holdings Ltd.	Ultimate parent company		
Management services received		1,302	1,178
Recharged expenses		347	749
Alfa-Bank	Under common control	9,353	17,970
Interest expense on loan received		769	1,458
Interest income		1,677	1,114
Bank charges		866	794
Rent revenue			
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services received		3,371	3,585
Commission for mobile phone payments processing rendered by the Group to VimpelCom		801	698
Rent revenue		195	105
AlfaInsurance	Under common control		
Insurance expenses		157	5
Megafon	Under common control		
Commission for mobile phone payments processing rendered by the Group to Megafon		570	259
Rent revenue		223	201

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

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

	Relationship	31 December 2010	31 December 2009
CTF Holding Ltd.	Ultimate parent company		
Other accounts payable		7	115
Alfa-Bank	Under common control		
Cash and cash equivalents		43,274	208,610
Receivable from related party		306	277
Short-term loans payable		127,966	75,000
Other accounts payable		307	112
Long-term loans payable		98,435	-
AlfaInsurance	Under common control		
Receivable from related party		69	1,098
Other accounts payable		-	10
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Receivable from related party		346	512
Other accounts payable		743	536
Megafon	Under common control		
Receivable from related party		189	71
Other accounts payable		95	87

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of RUR 15,100 mln or USD 495,457 (31 December 2009: RUR 9,100 mln or USD 300,884). At 31 December 2010 the Group's liability under this credit line amounted to USD 226,401 with interest rates of 5.10 – 7.83% p.a. (31 December 2009: USD 75,000) and available credit line of USD 269,056 (31 December 2009: USD 225,884). The Group has certain purchase agreements under which the Group settles its liabilities to Alfa-Bank in accordance with factoring arrangements concluded between vendors of goods and Alfa-Bank.

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

Key management personnel compensation
Key management personnel compensation is disclosed in Note 27.

9. CASH AND CASH EQUIVALENTS

	31 December 2010	31 December 2009
Cash in hand – Roubles	35,610	22,930
Cash in hand – Ukrainian Hryvnia	208	188
Bank current account – Roubles	107,626	252,956
Bank current account – Ukrainian Hryvnia	637	13
Bank current accounts and deposits – US Dollars	8,467	5,286
Cash in transit – Roubles	93,956	70,477
Cash in transit – Ukrainian Hryvnia	647	632
Short term deposits – Roubles	18,636	54,820
Other cash equivalents	4,975	4,379
	270,762	**411,681**

The bank accounts represent current accounts. Interest income on overnights/term deposits is immaterial. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

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

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

Credit quality of cash and cash equivalents balances are summarized as follows (current ratings):

Bank	Moody's	Fitch	S&P	31 December 2010	31 December 2009
Alfa-Bank	Ba1	BB	BB-	43,274	208,610
Raiffeisenbank	Baa3	BBB+	BBB	10,823	20,314
Sberbank	Baa1	BBB	-	30,905	51,273
VTB	Baa1	BBB	BBB	1,954	19,031
Credit Europe	Ba3	BB-	-	16,408	-
Uralsib	Ba3	B+	B+	14,557	-
Gazprombank	Baa3	-	BB	7,577	-
Other banks				9,868	13,847
Cash in transit and in hand				130,421	94,227
Other monetary assets				4,975	4,379
Total				**270,762**	**411,681**

X5 Retail Group
Notes to Consolidated Financial Statements
for the year ended 31 December 2010
(expressed in thousands of US Dollars,
unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress	Total
Cost:							
At 1 January 2009	2,418,184	270,052	162,411	24,233	88,467	415,776	3,379,123
Additions	26,784	10,840	1,901	5,086	3,546	112,866	161,023
Transfers (Note 11)	135,435	87,038	18,292	4,710	23,680	(276,673)	(7,518)
Assets from acquisitions (Note 7)	100,802	4,522	10,542	3	398	4,575	120,842
Disposals	(3,251)	(3,748)	(1,167)	(32)	(642)	(410)	(9,250)
Translation movement	(60,687)	(6,498)	(3,808)	(245)	(2,254)	(20,710)	(94,202)
At 31 December 2009	2,617,267	362,206	188,171	33,755	113,195	235,424	3,550,018
Additions	16,174	18,776	2,752	147	16,703	351,047	405,599
Transfers (Note 11)	173,456	7,342	50,284	23,218	78,262	(334,999)	(2,437)
Assets from acquisitions (Note 7)	348,555	47,501	29,797	26,729	10,090	17,692	480,364
Disposals	(19,777)	(11,853)	(5,891)	(971)	(6,988)	(10,285)	(55,765)
Translation movement	(11,122)	(1,663)	(946)	374	(906)	(1,312)	(15,575)
At 31 December 2010	3,124,553	422,309	264,167	83,252	210,356	257,567	4,362,204
Accumulated depreciation:							
At 1 January 2009	(160,282)	(87,929)	(47,021)	(6,033)	(38,814)	-	(340,079)
Charge for the year	(108,387)	(45,490)	(21,131)	(4,898)	(21,696)	(20,187)	(221,789)
Disposals	222	1,600	449	16	560	-	2,847
Translation movement	(1,540)	807	420	(35)	428	(991)	(911)
At 31 December 2009	(269,987)	(131,012)	(67,283)	(10,950)	(59,522)	(21,178)	(559,932)
Charge for the year	(113,223)	(32,101)	(30,942)	(8,277)	(42,930)	-	(227,473)
Disposals	3,968	7,258	5,273	597	5,487	-	22,583
Translation movement	2,492	1,122	608	112	535	161	5,030
At 31 December 2010	(376,750)	(154,733)	(92,344)	(18,518)	(96,430)	(21,017)	(759,792)
Net book value at 31 December 2010	**2,747,803**	**267,576**	**171,823**	**64,734**	**113,926**	**236,550**	**3,602,412**
Net book value at 31 December 2009	**2,347,280**	**231,194**	**120,888**	**22,805**	**53,673**	**214,246**	**2,990,086**
Net book value at 1 January 2009	**2,257,902**	**182,123**	**115,390**	**18,200**	**49,653**	**415,776**	**3,039,044**

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 34). Certain land leases are prepaid for a 49 year term. Such prepayments are presented as prepaid leases in the consolidated statement of financial position and amount to USD 99,862 (31 December 2009: USD 98,510). Loans from Kopeyka acquisition (Note 20) were collaterized by land and buildings including investment property with a net book value of USD 207,045.

Impairment Test

At the end of 2010 management performed impairment test of land, buildings and construction in progress. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally at the individual store level. The variability of these factors depends on a number of conditions, including uncertainty about future events and changes in demand.

An impairment review has been carried out by comparing recoverable amount of the individual store with their carrying values. The recoverable amount of store is determined as the higher of fair value less cost to sell or value in use.

Fair value less costs to sell

The Group defines fair value less costs to sell of the item of land and buildings and construction in progress by reference to current observable prices on an active market.

Value in use

Discounted free cash flow approach is applied and covered a 10 year period from 2011. The free cash flows are based on the current budgets and forecasts approved by key management. For the subsequent years, the data of the strategic plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. The projections are made in the functional currency of the Group and discounted at the Group weighted average cost of capital (12%-15%). EBITDA growth rate used for projections was 8.5%, inflation rates are inline with consumer price index forecast published by Ministry of Economical Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best estimates.

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 recoverable amount of the stores exceeded its carrying amount therefore no impairment was recognised.

11. INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2010 and 31 December 2009:

	2010	2009
Cost:		
Cost at 1 January	144,136	130,997
Additions	-	8,574
Assets from acquisitions (Note 7)	16,227	-
Transfer from property, plant and equipment (Note 10)	2,437	7,518
Disposals	(14)	-
Translation movement	(667)	(2,953)
Cost at 31 December	162,119	144,136
Accumulated depreciation:		
Accumulated depreciation at 1 January	(10,711)	(5,304)
Charge for the year	(5,871)	(5,299)
Disposals	4	-
Translation movement	102	(108)
Accumulated depreciation at 31 December	(16,476)	(10,711)
Net book value at 31 December	**145,643**	**133,425**
Net book value at 1 January	**133,425**	**125,693**

Rental income from investment property amounted to USD 25,628 (2009: USD 22,967). Direct operating expenses incurred by the Group in relation to investment property amounted to USD 9,882 (2009: 7,759).

Management estimates that the fair value of investment property at 31 December 2010 amounted to USD 198,826 (31 December 2009: USD 164,641). Assets from acquisitions of Kopeyka were pledged (Note 10).

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

12. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries at 31 December 2010 and 31 December 2009 are:

	2010	2009
Cost:		
Gross book value at 1 January	2,970,518	2,811,579
Acquisition of subsidiaries (Note 7)	1,194,051	247,829
Translation to presentation currency	10,517	(88,890)
Gross book value at 31 December	4,175,086	2,970,518
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(2,192,557)	(2,257,020)
Translation to presentation currency	16,740	64,463
Accumulated impairment losses at 31 December	(2,175,817)	(2,192,557)
Carrying amount at 31 December	**1,999,269**	**777,961**
Carrying amount at 1 January	**777,961**	**554,559**

Goodwill Impairment Test

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

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

Fair value less costs to sell

The Group defines fair value less costs to sell of the CGU by reference to an active market, i.e. as a market capitalization of the Group on the London Stock Exchange, since the Group's activities other than retail trade in Russia do not have a significant effect on the fair value. For indication purposes fair value less costs to sell of the CGU will be lower than its carrying amount if the share price falls below the level of USD 30.16 per share. The market capitalization of the Group at 31 December 2010 amounted to USD 12,545,580 significantly exceeded the carrying amount of the CGU.

Value in use

Discounted free cash flow approach was utilized. For the 10 year period from 2011 the free cash flows are based on the current budgets and forecasts approved by key management. For the subsequent years, the data of the strategic plan are extrapolated based on the consumer price indexes as obtained from external resources and based on key performance indicators inherent to the strategic plan. The projections are made in the functional currency of the Group and discounted at the Group weighted average cost of capital (12%-15%). EBITDA growth rate used for projections was 8.5%, inflation rates are inline with consumer price index forecast published by Ministry of Economical Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best estimates.

Model applied for impairment testing is not sensitive to assumptions used by management because fair value less cost to sell and value in use are significantly greater than carrying values of cash generating unit assets.

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

Impairment Test

The recoverable amount of CGU exceeded its carrying amount therefore no impairment was recognised.

X5 Retail Group
Notes to Consolidated Financial Statements
for the year ended 31 December 2010
(expressed in thousands of US Dollars,
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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 2009	398,565	63,873	12,922	123,023	598,383
Additions	-	-	31,022	-	31,022
Acquisition of subsidiaries (Note 7)	2,176	670	926	18,909	22,681
Disposals	(780)	(1,431)	-	-	(2,211)
Translation movement	(11,508)	(1,920)	1,147	(4,271)	(16,552)
At 31 December 2009	388,453	61,192	46,017	137,661	633,323
Additions	-	-	31,440	-	31,440
Acquisition of subsidiaries (Note 7)	171,123	34,736	18,382	29,865	254,106
Disposals	(2,851)	(8,933)	(4,959)	(295)	(17,038)
Translation movement	1,691	495	(51)	(768)	1,367
At 31 December 2010	558,416	87,490	90,829	166,463	903,198
Accumulated amortisation:					
At 1 January 2009	(44,232)	(28,536)	(7,454)	(18,837)	(99,059)
Charge for the year	(21,196)	(8,775)	(1,887)	(9,297)	(41,155)
Disposals	780	1,431	-	-	2,211
Translation movement	266	455	(40)	110	791
At 31 December 2009	(64,382)	(35,425)	(9,381)	(28,024)	(137,212)
Charge for the year	(26,184)	(15,608)	(5,445)	(17,942)	(65,179)
Disposals	2,620	8,933	4,957	295	16,805
Translation movement	575	290	126	251	1,242
At 31 December 2010	(87,371)	(41,810)	(9,743)	(45,420)	(184,344)
Net book value at 31 December 2010	**471,045**	**45,680**	**81,086**	**121,043**	**718,854**
Net book value at 31 December 2009	**324,071**	**25,767**	**36,636**	**109,637**	**496,111**
Net book value at 1 January 2009	**354,333**	**35,337**	**5,468**	**104,186**	**499,324**

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

14. INVENTORIES OF GOODS FOR RESALE

Inventories of goods for resale as of 31 December 2010 and 31 December 2009 comprise the following:

	31 December 2010	31 December 2009
Inventories of goods for resale	1,085,158	675,257
Less: provision for shrinkage and slow moving stock	(69,416)	(63,164)
	1,015,742	**612,093**

Inventory shrinkage and slow moving stock recognised as cost of sales in the consolidated income statement amounted to USD 222,556 (2009: USD 191,287).

15. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables
31 December 2010 **Assets as per consolidated statement of financial position**	
Trade and other receivables excluding prepayments	272,191
Loans originated	1,314
Cash and cash equivalents	270,762
Total	**544,267**

	Financial liabilities at amortised cost
31 December 2010 **Liabilities as per consolidated statement of financial position**	
Borrowings (excluding finance lease liabilities)	3,684,796
Interest accrued	16,678
Finance lease liabilities	4,417
Derivative financial instruments	-
Trade and other payables excluding statutory liabilities and advances	2,289,620
Total	**5,995,511**

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

	Loans and receivables
31 December 2009 **Assets as per consolidated statement of financial position**	
Trade and other receivables excluding prepayments	216,799
Loans originated	2,848
Cash and cash equivalents	411,681
Total	**631,328**

	Derivatives used for hedging	Financial liabilities at amortised cost	Total
31 December 2009 **Liabilities as per consolidated statement of financial position**			
Borrowings (excluding finance lease liabilities)	-	1,944,000	1,944,000
Interest accrued	-	8,863	8,863
Finance lease liabilities	-	6,536	6,536
Derivative financial instruments	10,108	-	10,108
Trade and other payables excluding statutory liabilities and advances	-	1,841,585	1,841,585
Total	**10,108**	**3,800,984**	**3,811,092**

16. TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 December 2010	31 December 2009
Trade accounts receivable	242,957	214,403
Advances made to trade suppliers	18,732	25,752
Other receivables	65,535	21,406
Prepayments	90,926	69,106
Accounts receivable for franchise services	105	1,814
Receivables from related parties (Note 8)	910	5,290
Provision for impairment of trade and other receivables	(37,316)	(26,114)
	381,849	**311,657**

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

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 42,737 that in accordance with accounting policies are past due but not impaired as at 31 December 2010 (31 December 2009: USD 27,715).

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

	31 December 2010	31 December 2009
2-6 months	28,730	23,313
Over 6 months	14,007	4,402
	42,737	**27,715**

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

	2010	2009
At 1 January	(13,119)	(11,233)
Accrual of provision for receivables impairment	(16,707)	(12,020)
Release of provision for receivables impairment	5,224	9,821
Translation movement	141	313
At 31 December	**(24,461)**	**(13,119)**

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

(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 2010	31 December 2009
3-6 months	1,838	643
Over 6 months	22,623	12,476
	24,461	**13,119**

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

Other receivables and receivables for franchise services

There are balances of USD 10,168 that in accordance with accounting policies are past due but not impaired as at 31 December 2010 (31 December 2009: USD 4,961).

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

	31 December 2010	31 December 2009
2-6 months	5,153	3,522
Over 6 months	5,015	1,439
	10,168	**4,961**

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

	2010	2009
At 1 January	(12,995)	(1,661)
Accrual of provision for receivables impairment	(7,641)	(11,639)
Release of provision for receivables impairment	7,677	883
Translation movement	104	(578)
At 31 December	**(12,855)**	**(12,995)**

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

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

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

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

	31 December 2010	31 December 2009
3-6 months	433	461
Over 6 months	12,422	12,534
	12,855	**12,995**

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 2010	31 December 2009
VAT recoverable	240,602	161,397
Other taxes recoverable	22,226	13,365
	262,828	**174,762**

VAT recoverable related to property, plant and equipment of USD 27,564 (31 December 2009: USD 20,542) is recorded within current assets because management expects it will be recovered within 12 months after the balance sheet date. The terms of recovery of VAT depends on the registration of certain property, plant and equipment or stage of completion of the construction works and fulfilment of other conditions in compliance with Russian tax legislation, therefore there are risks that recovering the balance may take longer than twelve months.

18. DERIVATIVES

During 2010 interest rate swaps initiated by the Group in 2008 and in 2009 (Note 30) ended. As at 31 December 2010 the fair value of the interest rate swaps was nil (31 December 2009: USD 10,108).

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

19. PROVISIONS AND OTHER LIABILITIES

	31 December 2010	31 December 2009
Taxes other than income tax	85,542	61,961
Provisions and liabilities for tax uncertainties (Note 34)	165,896	147,087
Accrued salaries and bonuses	115,251	102,653
Payables to landlords	7,779	6,462
Other accounts payable and accruals	214,462	141,767
Accounts payable for services received	51,004	16,244
Accounts payable for property, plant and equipment	49,670	18,134
Advances received	50,647	40,161
	740,251	**534,469**

There are no significant amounts of payables to foreign counterparties as at 31 December 2010 and 31 December 2009.

20. BORROWINGS

		31 December 2010		
	Interest rate, % p.a.	Current During 1 year	Non-current In 1 to 3 years	Total
USD Club loan	USD Libor +2.5%	-	388,595	388,595
RUR Club loan	MosPrime +2.5%	-	405,292	405,292
RUR Bonds	7.95%-18.46%	253,589	227,700	481,289
RUR Bilateral Loans	MosPrime +2.7%-3.1%	5,790	1,494,738	1,500,528
RUR Bilateral Loans	4.7%-7.83%	210,005	98,435	308,440
RUR Bonds from Kopeyka acquisition	9%-16.5%	-	329,069	329,069
RUR Loans from Kopeyka acquisition	7%-10.5%	36,620	232,963	269,583
USD Loans from Retail Express acquisition	12%	2,000	-	2,000
Total borrowings		**508,004**	**3,176,792**	**3,684,796**

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

		31 December 2009		
	Interest rate, % p.a.	Current During 1 year	Non-current In 1 to 3 years	Total
USD Syndicated loan	USD Libor+1.5%	1,093,135	-	1,093,135
USD Bilateral Loans	3.6%-3.86%	75,000	-	75,000
RUR Bonds	7.6% – 18.46%	297,390	262,403	559,793
RUR Bilateral Loans	MosPrime +3.1% – +4.25%	57,874	24,972	82,846
RUR Bilateral Loans	15.25%-19%	133,223	3	133,226
Total borrowings		**1,656,622**	**287,378**	**1,944,000**

In June 2009 the Group placed RUR 8 billion corporate bonds with a maturity of 7 years including a put option in 2 years. Coupon rates for 5-14 coupon payments are defined by the Issuer, according to issue documents.

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

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

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

In December 2010 the Group financed acquisition of Kopeyka via long-term facility with Sberbank. RUR 31 billion was financed through a new long-term ruble financing, while the rest was withdrawn under the existing credit lines. The new Sberbank facility took the form of a five-year unsecured RUR-denominated line of credit with final maturity date in December 2015. Credit terms are comparable with those provided by leading western banks.

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

All borrowings at 31 December 2010 are shown net of related transaction costs of USD 30,219 which are amortised over the term of loans using the effective interest method (31 December 2009: USD 10,056).

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

21. SHARE CAPITAL

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

As at 31 December 2010 the Group had 190,000,000 authorized ordinary shares of which 67,813,947 ordinary shares are outstanding and 79,271 ordinary shares held as treasury stock with nominal par value of Euro 1.

No dividends were paid or declared during the year ended 31 December 2010 and the year ended 31 December 2009.

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:

	2010	2009
Profit/(Loss) attributable to equity holders of the Parent	271,688	165,351
Weighted average number of ordinary shares in issue	67,813,947	67,813,947
Effect of share options granted to employees	295,912	149,281
Weighted average number of ordinary shares for the purposes of diluted earnings per share	68,109,859	67,963,228
Basic earnings per share for profit from continuing operations (expressed in USD per share)	**4.01**	**2.44**
Diluted earnings per share for profit from continuing operations (expressed in USD per share)	**3.99**	**2.43**

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

23. REVENUE

	2010	2009
Revenue from sale of goods	11,263,827	8,683,821
Revenue from franchise services	7,150	8,060
Revenue from other services	9,515	25,518
	11,280,492	**8,717,399**

24. EXPENSES BY NATURE

	2010	2009
Cost of goods sold	8,331,891	6,409,199
Staff costs (Note 27)	1,131,564	855,189
Operating lease expenses	404,807	267,857
Depreciation, amortisation and impairment	298,523	268,243
Other store costs	180,612	150,760
Utilities	221,251	159,577
Other	307,441	239,301
	10,876,089	**8,350,126**

Operating lease expenses include USD 388,956 (2009: USD 248,379) of minimum lease payments and contingent rents of USD 15,851 (2009: USD 19,478).

Provision for impairment of trade and other receivables amounted to USD 11,447 for the year ended 31 December 2010 (2009: USD 12,955).

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

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:

	31 December 2010	31 December 2009
Not later than 1 year	46,151	40,072
Later than 1 year and no later than 5 years	23,653	17,726
Later than 5 years	4,019	7,965
	73,823	**65,763**

The rental income from operating leases recognised in the consolidated income statement amounted to USD 112,122 (2009: USD 92,391). There were no contingent rents recognised in the consolidated income statement in the year ended 31 December 2010 (2009: nil).

26. FINANCE INCOME AND COSTS

	2010	2009
Interest expense	133,197	148,275
Interest income	(1,690)	(3,817)
Other finance costs, net	14,706	9,689
	146,213	**154,147**

Other finance costs include transaction costs of USD 12,268 written-off to the consolidated income statement (2009: USD 6,950) (Note 20).

27. STAFF COSTS

	2010	2009
Wages and salaries	881,872	662,947
Social security costs	186,526	132,926
Share-based payments expense	63,166	59,316
	1,131,564	**855,189**

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

Key executive management personnel

The Group key management personnel consists of Management Board 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 28). For the year ended 31 December 2010 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 4,954 (2009: USD 6,524), including bonuses of USD 159 (2009: USD 2,060) payable on an annual basis subject to meeting annual performance targets. As at 31 December 2010 the total amount of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 2,676,250 (31 December 2009: 3,187,500 GDRs) and conditional rights under LTI plan was 178,268. The total intrinsic value of vested share options amounted to USD 57,038 as at 31 December 2010 (31 December 2009: 1,245).

28. SHARE-BASED PAYMENTS

Employee stock option program

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

In total, during the year ended 31 December 2010 the Group recognized an expense related to the ESOP in the amount of USD 52,975 (during the year ended 31 December 2009: USD 59,316). At 31 December 2010 the share-based payments liability amounted to USD 89,298 (31 December 2009: USD 85,545). The equity component was effectively zero at 31 December 2010 (31 December 2009: zero).

Details of the share options outstanding during the year ended 31 December 2010 are as follows:

	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the period	7,586,950	24.4
Exercised during the period	(3,489,150)	22.7
Forfeited during the period	(41,250)	24.0
Outstanding at the end of the period	**4,056,550**	**25.7**
Exercisable at 31 December 2010	4,056,550	25.7

The fair value of services received in return for the share options granted to employees is measured by reference to the fair value of the share options granted which is determined at each reporting date. The estimate of the fair value of the services received is measured based on the Black-Scholes model. Expected volatility is determined by calculating the historical volatility of the Group's share price over the period since May 2006. Management assumes that holders will exercise the options on the expiry date of the options due to behavioral considerations. Other key inputs to the calculation of ESOP liability at 31 December 2010 were as follows:

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

Expected GDR price	44.39
Expected volatility	55%
Risk-free interest rate	2%
Dividend yield	0%

Employee stock plan

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

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

In total, during the year ended 31 December 2010 the Group recognized expenses related to the RSU plan in the amount of USD 10,191. At 31 December 2010 the equity component was USD 5,965. The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding during the year ended 31 December 2010 are as follows:

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

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

29. INCOME TAX

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax charge	104,336	168,438
Deferred income tax charge/(benefit)	10,730	(69,823)
Income tax charge for the year	**115,066**	**98,615**

The theoretical and effective tax rates are reconciled as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before taxation	386,312	263,966
Theoretical tax at the effective statutory rates *	77,265	52,793
Tax effect of items which are not deductible or assessable for taxation purposes:		
Share-based payments expense	8,654	2,561
Effect of income taxable at rates different from standard statutory rates	(5,690)	9,283
Effect of different tax regime in parent company	330	(3,169)
Recognition of DT asset on prior losses for which no DT asset was previously recognised	(1,691)	(7,225)
Expenses on inventory shrinkage and surpluses	34,115	37,409
Other non-deductible expenses and non-taxable income	2,083	6,963
Income tax charge for the year	**115,066**	**98,615**

* Profit before taxation on Russian operations is assessed based on the statutory rate of 20%, profit before taxation on Ukrainian operations is assessed based on the statutory rate of 25%.

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

Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated income statement are attributable to the following items for the year ended 31 December 2010:

	31 December 2009	Credited to profit and loss	Deferred tax on business combinations (Note 7)	Recognised in equity for translation differences	31 December 2010
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carry forward	42,832	(1,191)	3,671	(451)	44,861
Property, plant and equipment	47,673	(7,985)	73	(338)	39,423
Intangible assets	76	581	-	(3)	654
Inventories of goods for resale	37,215	2,602	576	(278)	40,115
Accounts receivable	15,898	4,536	3,770	(143)	24,061
Accounts payable	70,583	8,917	478	(585)	79,393
Other	10,624	4,720	5,751	422	21,517
Gross deferred tax asset	**224,901**	**12,180**	**14,319**	**(1,376)**	**250,024**
Less offsetting with deferred tax liabilities	(78,542)	(40,736)	(264)	830	(118,712)
Recognised deferred tax asset	**146,359**	**(28,556)**	**14,055**	**(546)**	**131,312**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(157,415)	(1,053)	(20,543)	695	(178,316)
Intangible assets	(98,741)	7,040	(49,144)	(492)	(141,337)
Inventories of goods for resale	(4,222)	(2,618)	–	42	(6,798)
Accounts receivable	(13,991)	(29,601)	–	211	(43,381)
Accounts payable	(1,157)	1,152	–	5	-
Other	(11,001)	2,170	(1,472)	49	(10,254)
Gross deferred tax liability	**(286,527)**	**(22,910)**	**(71,159)**	**510**	**(380,086)**
Less offsetting with deferred tax assets	78,542	40,736	264	(830)	118,712
Recognised deferred tax liability	**(207,985)**	**17,826**	**(70,895)**	**(320)**	**(261,374)**

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

Deferred tax assets and liabilities and the deferred tax charge in the consolidated income statement are attributable to the following items for the year ended 31 December 2009:

	31 December 2008	Credited to profit and loss	Deferred tax on business combinations (Note 7)	Recognised in equity for translation differences	31 December 2009
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carry forward	51,155	(6,555)	14	(1,782)	42,832
Property, plant and equipment	16,273	30,379	–	1,021	47,673
Intangible assets	396	(294)	–	(26)	76
Inventories of goods for resale	14,832	21,156	641	586	37,215
Accounts receivable	36,896	(24,773)	6,288	(2,513)	15,898
Accounts payable	10,810	56,346	1,020	2,407	70,583
Other	11,550	(636)	110	(400)	10,624
Gross deferred tax asset	**141,912**	**75,623**	**8,073**	**(707)**	**224,901**
Less offsetting with deferred tax liabilities	(47,354)	(32,306)	1,118	–	(78,542)
Recognised deferred tax asset	**94,558**	**43,317**	**9,191**	**(707)**	**146,359**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(158,698)	13,139	(17,727)	5,871	(157,415)
Intangible assets	(93,118)	(3,745)	(4,533)	2,655	(98,741)
Inventories of goods for resale	–	(4,025)	–	(197)	(4,222)
Accounts receivable	(4,660)	(8,877)	(160)	(294)	(13,991)
Accounts payable	(618)	(531)	-	(8)	(1,157)
Other	(9,421)	(1,761)	(63)	244	(11,001)
Gross deferred tax liability	**(266,515)**	**(5,800)**	**(22,483)**	**8,271**	**(286,527)**
Less offsetting with deferred tax assets	47,354	32,306	(1,118)	–	78,542
Recognised deferred tax liability	**(219,161)**	**26,506**	**(23,601)**	**8,271**	**(207,985)**

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 580,597 (2009: USD 570,943) 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 25,785 (31 December 2009: USD 16,730), the current portion of the deferred tax asset amounted to USD 126,161 (31 December 2009: USD 25,280).

Management believes that the future taxable profits in tax jurisdictions that suffered a loss in the current or preceding years will be available to utilise the deferred tax asset of USD 44,861 recognised at 31 December 2010 for the carryforward of unused tax losses (31 December 2009: USD 42,832). Unused tax losses are available for carry forward for a period not less than 7 years depending on the tax residence of every certain company of the Group.

30. FINANCIAL RISKS MANAGEMENT

Financial risk management is a part of integrated risk management and internal control framework described in “Corporate Governance” section of this Annual report. The primary objectives of the financial risk management are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Financial risk management is carried out by Corporate Finance Department. Corporate Finance Department monitors and measures financial risks and undertakes steps to limit their influence on the Group’s performance. In this connection the Group used certain derivative financial instruments to mitigate financial risk exposures. These instruments where intended to cap foreign currency and interest rate risks associated with the most significant long-term borrowings.

In 2010 the Group implemented a Hedging Strategy which formalized management of interest rate risk, currency rate risk and maturity risk by approval of certain ratios that should be maintained by the Group. The Hedging Strategy was approved by Management Board and confirmed by Supervisory Board.

(a) Market risk

Currency risk

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

The Group has significantly reduced its foreign currency exposure through refinancing of the syndicated loan, foreign exchange risk is mostly limited to USD 400,000 tranche of the new club loan (Note 20). Foreign exchange risk is therefore considered to be insignificant.

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

At 31 December 2010, 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 60,173 (31 December 2009: USD 166,725) lower/higher as a result of foreign exchange losses/gains on USD denominated borrowings and USD 17,038 lower/higher (31 December 2009: USD 13,614 higher/lower) as a result of foreign exchange losses/gains on share-based payments and cash and cash equivalents.

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.

In September 2010 the Group minimized interest rate risk related to LIBOR rate by refinancing of USD 1,100,000 syndicated facility through RUR and USD borrowings. MosPrime rate risk is managed through the balanced credit portfolio, using different types of financing instruments on the basis of fixed and floating rates.

If LIBOR had been 200 basis points lower/higher in 2010 with all other variables held constant, post-tax profit for the year would have been USD 13,108 (2009: USD 16,288) higher/lower without taking into account effect of interest rate hedge. If MosPrime had been 200 basis points lower/higher in 2010 with all other variables held constant, post-tax profit for the year would have been USD 4,577 (2009: USD 556) 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 wholesale customers only those with an appropriate credit history are selected. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant.

(c) Liquidity risk

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

X5 Retail Group
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The Group finances its operations by a combination of internal cash flows, long and medium-term debt, capital market issues, commercial paper, bank borrowings and leases. The objective is to ensure continuity of funding on the best available market terms. The policy is to keep the Group's credit portfolio diversified structure, continue to improve 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.

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 2010	During 1 year	In 1 to 3 years
Borrowings	782,376	3,554,263
Trade payables	1,851,454	-
Gross finance lease liabilities	1,680	2,737
Derivative financial liabilities	-	-
Other finance liabilities	438,165	-
	3,073,675	**3,557,000**

Year ended 31 December 2009	During 1 year	In 1 to 3 years
Borrowings	1,761,560	312,283
Trade payables	1,556,325	-
Gross finance lease liabilities	1,950	4,586
Derivative financial liabilities	10,108	-
Other finance liabilities	285,261	-
	3,615,204	**316,869**

At 31 December 2010 the Group has negative working capital of USD 1,188,798 (31 December 2009: USD 2,335,950) including short-term borrowings of USD 508,004 (31 December 2009: USD 1,656,622).

At 31 December 2010 the Group had available bank credit lines of USD 1,129,063 (31 December 2009: USD 555,170).

At 31 December 2010 the Group short-term borrowings mainly comprised of a corporate bonds and bilateral loans of USD 508,004.

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

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

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

31. OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

32. 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.

In accordance with new signed facilities the Group maintains an optimal capital structure by tracking certain capital requirements: the maximum level of Net Debt/EBITDA (4.00 / 4.25 after acquisition), minimum level of EBITDA/Net Interest expense (2.75). These ratios are included as covenants into loan agreements (Note 20). The Group is in compliance with externally imposed capital requirements.

33. 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.

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

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

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

The fair value of X5 Finance and Kopeyka bonds traded on the MICEX is determined based on active market quotations and amounted to USD 496,539 and USD 331,939 at 31 December 2010 (31 December 2009: 586,450). The carrying value of these bonds amounted to USD 482,759 and USD 329,069 at 31 December 2010 (31 December 2009: 558,899) (Note 20). The fair value of long-term borrowings approximates their carrying value (31 December 2009: 327,241) as interest rates on long-term borrowings were not materially different from current market rates. The fair value of short-term borrowings was not materially different from their carrying amounts.

X5 Retail Group
Notes to Consolidated Financial Statements
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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. As at 31 December 2010 the Group had no derivative financial instruments (Note 18).

34. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 December 2010, the Group operated 1,612 stores through rented premises (31 December 2009: 802). 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 present value of future minimum lease payments and their nominal amounts under non-cancellable operating leases of property are as follows (net of VAT):

	31 December 2010 (present value)	31 December 2009 (present value)	31 December 2010 (nominal value)	31 December 2009 (nominal value)
During 1 year	309,303	199,983	331,691	215,389
In 2 to 5 years	646,304	351,996	947,133	525,354
Thereafter	264,161	139,307	825,790	474,981
	1,219,768	**691,286**	**2,104,614**	**1,215,724**

A discount rate applied in determining the present value of future minimum lease payments is based on the Group weighted average cost of capital (12-15%).

Capital expenditure commitments

At 31 December 2010 the Group contracted for capital expenditure of USD 83,425 (net of VAT), (2009: USD 100,068).

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.

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

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

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

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.

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

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

Provisions and liabilities for tax uncertainties recognized on acquisitions (Note 7) are attributable to profit tax and non-profits tax risks with expiration within three years from the year when acquisition occurred, in 2010 the Group released provision of USD 60,262 including USD 11,398 indemnified by previous shareholders of acquired companies, non-income tax of USD 47,420 and income tax of USD 1,444.

At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 165,896 at 31 December 2010 (31 December 2009: USD 147,087) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2009	**110,619**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	41,253
Translation movement	(4,785)
Balance at 31 December 2009	**147,087**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	78,414
Release of provision	(60,262)
Translation movement	657
Balance at 31 December 2010	**165,896**

X5 Retail Group Company's Balance Sheet at 31 December 2010

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

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Financial assets	36	2,747,511	2,474,217
		2,747,511	2,474,217
Current assets			
Financial assets	36	84,491	770,833
Amounts due from subsidiaries		263,840	349,713
Accounts receivable		124	988
Cash		1,773	1,513
		350,228	1,123,047
Total assets		**3,097,739**	**3,597,264**
EQUITY AND LIABILITIES			
Paid up and called up share capital	37	89,850	97,400
Share premium account		1,921,667	1,936,452
Share-based payments	40	5,965	-
Other reserves		202,678	111,480
(Loss)/Profit of the year		(497)	92,757
Currency translation reserve		(28,318)	(35,394)
Total equity		**2,191,345**	**2,202,695**

X5 Retail Group
Company's Balance Sheet
at 31 December 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2010	31 December 2009
Non-current liabilities			
Bank loans	38	793,887	-
Share based payment liability	40	13,157	25,986
		807,044	25,986
Current liabilities			
Bank loans	38	-	1,093,135
Amounts due to subsidiaries		8,897	189,500
Financial liabilities	39	-	10,108
Accrued expenses and other liabilities	39	12,434	10,415
Share based payment liability	40	76,141	59,559
Corporate income tax	42	1,878	5,866
		99,350	1,368,583
Total equity and liabilities		**3,097,739**	**3,597,264**

X5 Retail Group
Company`s Income Statement
for the year ended 31 December 2010

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

	Note	31 December 2010	31 December 2009
Other income and expenses after tax	41	(497)	92,757
Result on participating interest after tax		-	-
(Loss)/Profit after taxation		**(497)**	**92,757**

X5 Retail Group
Notes to Company's Financial Statements for the year ended 31 December 2010

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

35. 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 holding company for a retail chain.

Basis of presentation

The Company financial statements of X5 Retail Group N.V. 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 (art 362.8).

Accounting principles

Unless stated otherwise below, 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). 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 consolidated financial statements of the group for the year ending 31 December 2010 has 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 result of the international bifurcation of the Company. As the Company mainly exploits Russian grocery stores in four formats (soft-discount, supermarket, hypermarket and convenience stores), 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 fair value. Changes in the value of these derivative financial instruments 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)

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.

36. FINANCIAL ASSETS

	31 December 2010	31 December 2009
a. Movements in the interests in group companies have been as follows:		
Opening balance	1,705,831	1,547,170
Acquisitions / capital contribution	506,020	209,079
Divestment of Group companies	(180,295)	-
Foreign exchange differences/other movements	(14,063)	(50,418)
Closing balance	**2,017,493**	**1,705,831**

A complete list of group companies has been disclosed in the consolidated financial statements (refer to note 6 of consolidated financial statements).

b. Movements in the loans to group entities have been as follows:		
Opening balance	1,539,219	1,590,846
Disbursement	(1,045,213)	(55,199)
Additions	313,569	-
Other movements/foreign exchange differences	6,934	3,572
Closing balance	**814,509**	**1,539,219**
Total Financial assets	**2,832,002**	**3,245,050**

The long-term loans provided to following Group entities:	Currency	Date of maturity
Speak Global Ltd.	USD	December 2012
GSWL Finance Ltd.	USD	December 2010
GSWL Finance Ltd.	RUR	June 2011
Perekrestok Holdings Ltd.	RUR	January 2012
Perekrestok Holdings Ltd.	USD	January 2012

X5 Retail Group
Notes to Company's Financial Statements
for the year ended 31 December 2010
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In the loans receivable there are amounts to GSWL Finance Ltd. and Perekrestok Holdings Ltd. denominated in RUR, the total amount of the loans is RUR 12,352,040. Furthermore an amount of USD 84,491 is classified as short term. The loans have not been secured and attract up to 10.5% interest per annum.

In 2010 year the Company entered into two intercompany agreements, according to which the Indemnifier protects the Company against currency exchange risks and credit risks on the intercompany financing.

37. SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other Reserves	Profit/(Loss)	Share-based payments	Currency translation adjustment	Total
Balance as per 1 January 2009	**95,764**	**1,993,385**	**(34,906)**	**149,664**	**-**	**(36,537)**	**2,167,370**
Transfer	-	-	149,664	(149,664)	-	-	-
Currency translation	1,636	(56,933)	(3,278)	-	-	1,143	(57,432)
Result for the period	-	-	-	92,757	-	-	92,757
Balance as per 01 January 2010	**97,400**	**1,936,452**	**111,480**	**92,757**	**-**	**(35,394)**	**2,202,695**
Other	-	-	-	-	5,965	-	5,965
Transfer	-	-	92,757	(92,757)	-	-	-
Currency translation	(7,550)	(14,785)	(1,559)	-	-	7,076	(16,818)
Result for the period	-	-	-	(497)	-	-	(497)
Balance as per 31 December 2010	**89,850**	**1,921,667**	**202,678**	**(497)**	**5,965**	**(28,318)**	**2,191,345**

Statutory undistributable reserve is maintained for currency translation adjustment recorded mainly as the result of translation between functional and presentation currencies.

X5 Retail Group
Notes to Company's Financial Statements
for the year ended 31 December 2010
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A reconciliation of the differences between the Company and consolidated equity and profit/loss in the financial year is as follows:

	31 December 2010	31 December 2009
Equity per Company financial statements	2,191,345	2,202,695
Accumulated result of group	(1,769,657)	(1,842,251)
Acquisition of treasury shares	(14,150)	(14,150)
Hedging instruments	-	(10,108)
Results from subsidiaries for the year	271,743	72,594
Acquisition of subsidiaries	1,943	-
Sale of treasury shares	144,217	144,217
Currency exchange differences	(217,556)	(219,682)
Equity change as an effect of reverse acquisition transaction	1,439,149	1,439,149
Equity per consolidated financial statements	**2,047,034**	**1,772,464**

Difference in loss/profit	31 December 2010	31 December 2009
(Loss)/Profit according to Company's annual accounts	(497)	92,757
Profit from subsidiaries for the year	271,743	72,594
Profit according to consolidated annual accounts	**271,246**	**165,351**

Share capital issued

The authorized 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 2010, the issued and paid-up share capital amounts to EUR 67,893,218 and consists of 67,893,218 shares of EUR 1 each (2009: 67,893,218). This has been recalculated into USD with an exchange rate of 1 EUR = 1.3234 USD (2009: 1 EUR = 1.4346 USD).

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

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

38. BANK LOANS

Movement in the bank loans have been as follows:

	31 December 2010	31 December 2009
Opening balance	1,093,135	1,087,617
Repaid (Syndicate loan)	(1,100,000)	-
Received (Club loan)	798,166	-
Transaction costs capitalized (Club loan)	(12,500)	-
Amortization of transaction costs capitalized (Club loan)	1,223	5,518
Release of prepaid commission (Syndicate loan)	6,936	
Currency rate exchange differences	6,927	-
Closing balance	**793,887**	**1,093,135**

In September 2010 the Group signed and effected drawdown of the new club loan with a total amount of USD 800,000 for partially refinancing the existing USD 1,100,000 syndicated facility, which was due to mature in December 2010. The rest of the syndicated facility was refinanced through other existing facilities. The new club loan is for three years, consists of USD-denominated and RUR-denominated facilities (USD equivalent of USD 400,000 and RUR equivalent of USD 405,000) and will pay a margin of 250 basis points over MosPrime/LIBOR for both the RUR and USD lines. No collateral is provided for these facilities (Note 20).

39. CURRENT LIABILITIES

The current liabilities contain accrued expenses and non-income tax payable. In 2009 year current liabilities included a derivative liability (note 18).

There is income tax payable of 1,878 included in current liabilities.

40. SHARE BASED PAYMENT LIABILITY

Employee stock-option program

X5 Retail Group N.V. accounts for a receivable insofar the options granted to employees of the group are recharged. For employees of the company an expense is recorded in the profit and loss account. The receivable or expense is accounted for at the fair value determined in accordance with the policy on share-based payments as included in the consolidated financial statements, including the related liability for cash settled plans or as equity increase for equity settled plans (note 28).

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	2010	2009
Share based payments liability	(89,298)	(85,545)
Accounts receivable	109,898	94,012
Profit & loss	2,269	1,378

Employee stock plan

In 2010 year the group has introduced a new employee stock plan that consists of two parts: performance based award and award to be payable to participants if they stay with the Group during vesting period (2010-2012 year). For employees of the company an expense is recorded in the profit and loss account. The receivable or expense is accounted for at the fair value determined in accordance with the policy on share-based payments as included in the consolidated financial statements, including the related liability for cash settled plans or as equity increase for equity settled plans (note 28).

	2010	2009
Equity	(5,965)	-
Other accounts receivable	5,430	-
Profit & loss	696	-

41. OTHER INCOME AND EXPENSES AFTER TAX

	31 December 2010	31 December 2009
Interest income from subsidiaries	52,990	152,057
Other income	801	-
Interest expenses	(34,857)	(43,508)
General and administrative expenses	(12,614)	(12,101)
Result of financial instruments	10,186	7,201
Share based payment	(2,965)	(2,096)
Currency exchange rate differences	(1,616)	10,670
Income tax charge	(1,699)	(19,466)
Loss from sale of subsidiaries	(10,723)	-
	(497)	**92,757**

In 2010 year the Company sold 100% of shares of Paterson invest and Omega-97 with the loss of USD 10,723.

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

In accordance with the Dutch legislation article 2:382a the total audit fees related to the accounting organisation Pricewaterhouse Coopers Accountants N.V. amounted to USD 166 (2009: USD 179). Fees for other services amounted to USD 39 (2009: USD 47).

42. INCOME TAX EXPENSE

	31 December 2010	31 December 2009
Operating (loss)/profit	(497)	92,757
Deferred income tax credit/(expense)	468	(13,874)
Current income tax	(2,167)	(5,592)
Effective tax rate	(342)%	21%
Applicable tax rate	25.5%	25.5%

The effective tax rate differs from the applicable tax rate mainly due to tax losses for which no deferred income tax assets was recognized and currency exchange rate gains and share based expenses that are not taxable/tax deductible.

The Company forms a fiscal unity with X5 Operations B.V. Under the Dutch Collection of State Taxes Act, the companies belonging to the fiscal unity are jointly and severally liable for all corporate income tax due by the Company. This liability is limited to the corporate income tax due for periods during which the companies are part of the fiscal unity.

43. 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 below. Further reference is made to Notes 27 and 28 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. 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 shown below. For calculation of intrinsic value refer to Note 27.

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

The Supervisory Board members received a remuneration of:

	Base salary 2010	Shared based expenses/ (income) 2010	
Mr. Hervé Defforey	332	1,797	
Mr. Mikhail Fridman	133	-	
Mr. David Gould	265	102	
Mr. Vladimir Ashurkov	133	-	
Mr. Alexander Tynkovan	159	61	
Mr. Stephan DuCharme	265	763	
Mr Criado-Pérez Trefault	-	(239)	Resigned 1 January 2010
Mr. Christian Couvreux	265	102	
	1,552	**2,586**	

Number of Employee Stock Options issued to Supervisory Board members:

	No. of options granted prior 2010	No. of options exercised in 2008/2009/2010	Cancellation	No. of options outstanding as at 31.12.2010
Mr. Hervé Defforey	142,500	30,000	-	112,500
Mr. Stephan DuCharme	32,500	-	-	32,500
Mr Criado-Pérez Trefault	62,500	20,000	42,500	-
	237,500	**50,000**	**42,500**	**145,000**

No options were granted to Supervisory Board in 2010 year.

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

Number of Restricted Stock Units issued to Supervisory Board members:

	Max. conditional RSU's granted	Min. conditional RSU's granted
Mr. Hervé Defforey	9,024	9,024
Mr. David Gould	7,219	7,219
Mr. Stephan DuCharme	7,219	7,219
Mr. Alexander Tynkovan	4,331	4,331
Mr. Christian Couvreux	7,219	7,219
	35,012	**35,012**

Management Board

Remuneration of the Management Board members consists of cash salary and annual bonus. All 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 shown below. For calculation of intrinsic value refer to Note 27.

	Base salary 2010	Bonus 2010	Shared based expenses/ (income) 2010	
Mr. Lev Khasis	2,213	-	27,904	
Mr. Evgeny Kornilov	765	-	(190)	Resigned 29 September 2010
Mr. Frank Lhoëst	265	159	380	
	3,243	**159**	**28,094**	

Number of Share options issued to Management Board members:

	No. of options granted prior 2010	No. of options exercised in 2008/2009/2010	No. of options outstanding as at 31.12.2010
Mr. Lev Khasis	3,341,250	810,000	2,531,250
Mr. Evgeny Kornilov	470,000	470,000	-
Mr. Frank Lhoëst	20,000	20,000	-
	3,831,250	**1,300,000**	**2,531,250**

No options were granted to Management Board in 2010 year.

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

Number of Restricted Stock Units issued to Management Board members

	Max. conditional RSU's granted	Min. conditional RSU's granted
Mr. Lev Khasis	128,817	42,939
Mr. Frank Lhoëst	14,438	3,610
	143,255	**46,549**

The Company standalone financial statements include salaries and bonuses payable to statutory directors of USD 1,420 (2009: 423).

Per 10 March 2011 Mr. Lev Khasis stepped down as CEO of the Company but will remain with the Company through 01 June 2011.

44. 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, other than those for the Management and Supervisory Board.

45. CONTINGENT RIGHTS AND LIABILITIES

Reference is made to the commitments and contingencies as disclosed in Note 34 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 2010	31 December 2009
Irrevocable offer to holders of X5 Finance bonds	481,277	562,091
Guarantee for Agrotorg	1,018,650	-
Guarantee for TD Perekrestok	463,697	-
Irrevocable offer to holders of Pyaterochka Finance bonds	-	881

46. RELATED PARTY TRANSACTION

Refer to Note 8 of the consolidated financial statements; all group companies are also considered related parties.

Statutory director's compensation

Statutory director's compensation is disclosed in Note 43.

Loans to group companies

For loans issued to and interest income from group companies refer to Note 36.

47. SUBSEQUENT EVENTS

In March 2011 the Group received Sberbank approvals for partial conversion of existing indebtedness under Sberbank loans of the Group to fixed rate basis.

In April 2011 the Group received Sberbank approval for improvement of terms under Kopeyka credit agreements including but not limited to removal of collateral initially provided for these facilities by Kopeyka companies.

Amsterdam, 12 April 2011

Management Board*

Mr. Frank Lhoëst

Supervisory Board

Mr. Hervé Defforey

Mr. Mikhail Fridman

Mr. David Gould

Mr. Vladimir Ashurkov

Mr. Alexander Tynkovan

Mr. Stephan DuCharme

Mr. Christian Couvreux

* Mr. Andrei Gusev, acting CEO, was nominated as member of the Management Board and CEO on 10 March 2011, for appointment by the General Meeting of Shareholders in June 2011. Mr. Kieran Balfe was appointed to the Management Board as CFO on 22 February 2011. In view of Mr. Balfe's appointment after the end of the financial year 2010, the Company considers it inappropriate for him to sign this Annual Report.

OTHER INFORMATION

Auditor's report

Auditor's report is included on the page 172.

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 result	2010
Loss for the year transferred to other reserves	(497)

It will be proposed to transfer the result to the other reserves.

For subsequent events refer to Note 47.

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Independent auditor's report

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

Report on the financial statements

We have audited the accompanying financial statements 2010 of X5 Retail Group N.V., Amsterdam as set out on pages 83 to 170. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010, the company income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 management, 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 give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2010, 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 Dutch Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Amsterdam, 13 April 2011
PricewaterhouseCoopers Accountants N.V.

P.C. Dams RA