X5 RETAIL GROUP

Transforming together

Annual Report 2011

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Highlights & Shareholder Information

Highlights

X5 is the number one food retailer, in terms of sales, in Russia one of the most exciting consumer markets in the world. We operate three main formats – soft discounters, supermarkets and hypermarkets – that provide distinct offerings for every customer and budget. In 2011, X5 embarked on a multi-year transformation strategy to position the Company for long-term market leadership and financial success. We are stepping up investments and executing on our objectives for delivering sustainable profitable growth, including plans for driving:

- Successful, customer-centric formats
- Regional penetration and scale
- Efficient operations and supply chains
- Cash generation and financial strength
- Profitable growth and higher ROE

X5 in 2011

Over 1.6 billion
customer visits
up 35% year-on-year

Over 3,000
stores – 1.7 million sq. m. of selling space
Record 577 net new stores opened
Rebranding of 616 Kopeyka stores

USD 15.5 billion
in net sales
37% growth in USD terms
33% growth in RUR terms

USD 1,130 million
of EBITDA
EBITDA margin of 7.3%

2.5-fold
increase in operating cash flow (OCF)
CAPEX fully financed by OCF

USD 302 million
of net income
11% increase over 2010

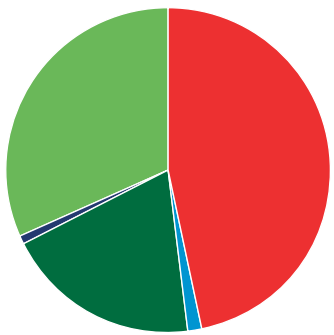
14%
return on equity
Up from 13% in 2010

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.

X5 Share Capital

as at 31 December 2011



47.86%
Alfa Group

32.09%
Free Float

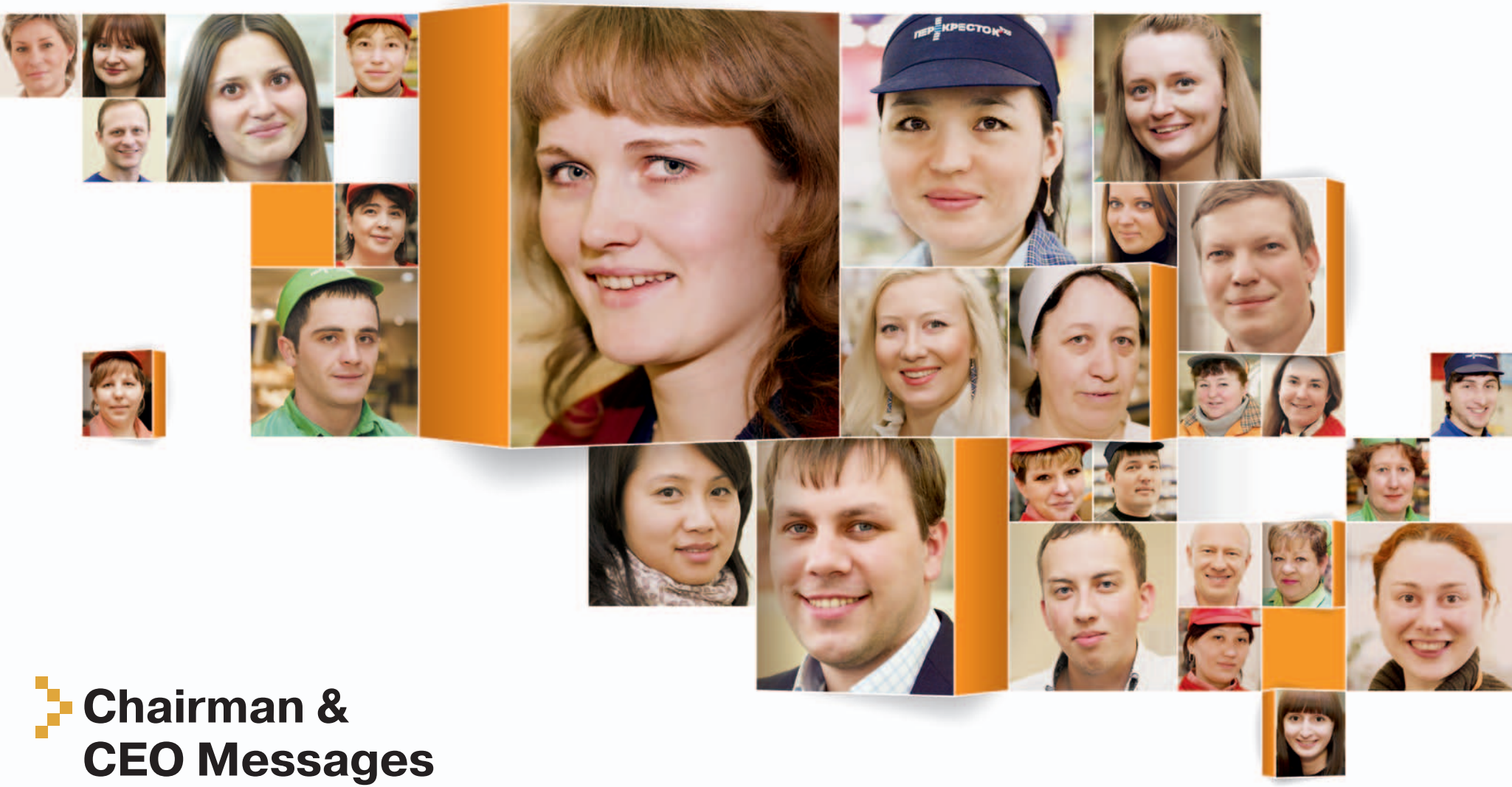
67,893,218
Total number of shares

19.85%
Founders of Pyaterochka

0.11%
Treasury Shares

271,572,872
Equivalent number of GDRs

0.09%
X5 Directors



Chairman & CEO Messages

Hervé Defforey

Message from the Chairman of the Supervisory Board

In 2011, X5 grew sales and EBITDA by more than a third and enhanced its number one position in the Russian retail market in terms of market share and customer visits. Under the leadership of the new management team, the Company exceeded its expansion objectives with record new store openings and the successful fast-tracked integration of Kopeyka, while increasing efficiency to drive cash flow and profit performance. We are stepping up plans to drive sustainable, profitable growth, which creates value for our shareholders.

Oversight of X5's management transition, business strategy and financial performance were high on the agenda for the Supervisory Board in 2011. Andrei Gusev, X5 CEO, has built a strong management team with Russian and international industry experience to execute on key priorities and move the Company forward. There is much to be proud of in X5's achievements in this transitional year – with our customers, in our operations and on our bottom-line – giving us confidence that X5 is on the right track.

Together with the management team, the Board reviewed X5's medium-term strategy and defined multi-year parameters for business development. Our key priorities, which Andrei reviews in detail in his letter to shareholders, include:

- Successful, customer-centric formats
- Regional penetration and scale
- Efficient operations and supply chains
- Cash generation and financial strength
- Profitable growth and higher ROE

We believe a sustained focus on these priorities is the best way to deliver long-term shareholder returns and a higher stock market valuation. The Board approved a three-year plan to step up investments in expansion of selling space, distribution and IT platforms while strengthening operational efficiency, in order to grow sales and profits and support healthy margins and return on equity. The Long-term Incentive Plan aligns senior management with these objectives for shareholder value creation.

This annual report provides information on the Company's 2011 performance and future plans. We are committed to increasing communications in the coming year to build a better understanding of the Company's key developments and financial prospects. I would like to thank X5's management and our approximately 100,000 employees for their hard work and commitment for the benefit of our customers and shareholders, and look forward to reporting on our continued progress in 2012.

Hervé Defforey

Andrei Gusev

Letter from the Chief Executive Officer

2011 was a year of positive change for X5 Retail Group. We executed successfully on our three critical priorities: opening organically a record number of new stores, integrating the largest acquisition since the Company's founding and strengthening X5's focus on efficiency and cash generation. The Company's total net sales increased by 37% to USD 15.5 bln and EBITDA exceeded USD 1.1 bln for a healthy margin of 7.3%. Net income increased to USD 302 mln, producing an improved return on equity[1] of 14%.

We are making changes to transform our business for future success and equip X5 to grow sales and profits in a more efficient and competitive retail sector. I believe we made solid progress in 2011, and there is significant scope for improvement to deliver on X5's potential and capitalise on Russian consumer growth trends. In this report, we have outlined our plans for building on the Company's powerful advantages in order to win customers, drive growth, sustain margins and deliver meaningful increases in net income and return on equity in 2012 and beyond.

2011 Performance

In reviewing X5's performance this year, I would like to focus on a few key themes:

Sales and traffic grew by a third: Shareholders should consider total sales and customer visits as key success indicators in a period of rapid expansion. I'm proud to report that X5 maintained its position as Russia's number one retailer in terms of sales and grew sales and traffic by more than a third in 2011. Our stores attracted over 1.6 bln customer visits – a 35% improvement year-on-year and the biggest traffic increase of any Russian retailer – underscoring the customer appeal of X5's formats.

Gross retail sales increased 32% in RUR terms, driven by a 6% increase in like-for-like (LFL) sales, a 12% increase from organic store expansion and a 14% contribution from acquired Kopeyka stores. Top-line growth was 8% below the Company's initial 2011 sales outlook, however.

For the first half of 2011, LFL performance stood at double-digit range but there was significant deterioration in the third and fourth quarters due to a hesitant consumer spending environment as well as traffic redistribution from older stores to newly opened ones. This redistribution effect is to some extent inevitable as we increased the managed store base by over 65% during the course of 12 months. Nevertheless, sales in the second half of 2011 were also impacted by disruptions in the transition to a new multi-format organisation and the Kopeyka integration process. We were also not able to maximise promotions due to shortfalls in volume commitments for the vendors and communication with the customers. We are currently addressing these issues and improving performance in these areas.

[1] Return on equity = Net income / Book equity.

Our focus on cash and margins paid off: X5's profit margin and bottom-line performance this year gives me confidence our team is fundamentally on the right track. We strengthened our financial organisation with the ultimate goal of generating more cash from the business. In particular, we worked to localise pricing policy and obtain better terms from regional suppliers in order to support gross margin and improve the Company's working capital position. In addition, we successfully undertook a range of cost control and productivity improvement measures to offset upward pressure on operating costs resulting from the Kopeyka integration and declining sales densities during the second half of the year.

Thanks to these efforts, operating cash flow more than doubled, which is a healthy achievement on the back of 37% top line growth. Our EBITDA totaled USD 1,130 mln, which represents a healthy EBITDA margin of 7.3%. Net income amounted to USD 302 mln in 2011 and I am pleased to note that as a result, return on equity increased to 14%, double the level of just three years ago.

Our development team did a great job in managing capital expenditures (CapEx) in a critical year for execution of our organic growth capabilities. CapEx of RUR 27 bln was well below our RUR 35 bln plan for 2011, first because the Kopeyka integration was completed at half the initial projected cost without compromising on quality; second, thanks to better terms from contractors on store equipment and other services; and third, in 2011 we relied almost entirely on organic new store additions as opposed to historically high share of M&A deals, lowering overall expansion costs.

Moreover, these investments were 100% financed internally through operating cash flow, demonstrating how efficiency and cash generation support our ability to grow aggressively while strengthening X5's balance sheet. The Company's net debt/EBITDA ratio has declined from 3.7x by the end of 2010 to 3.1x by the end of 2011. We also improved X5's financial position by fully refinancing our remaining US dollar debt in Russian rubles. This move is expected to reduce risk for our shareholders by minimizing the impact of USD/RUR exchange rate volatility on X5's future financial results.

Record store additions and enhanced platform for growth: X5 increased its store footprint to more than 3,000 stores (or 1.7 mln square meters (sq. m.) of selling space) and we demonstrated strong execution on our expansion plans and the integration of Kopeyka. We opened a record 577 net new stores organically, well in excess of the 540 stores targeted in our CapEx plan. In all, we added 526 soft discounters, 20 supermarkets, six hypermarkets and 25 convenience stores. New stores are a major growth driver for X5, but their contribution to 2011 results was relatively modest as most opened in the final months of the year and were still ramping up sales.

We also converted 616 Kopeyka stores to X5's formats – 607 rebranded as Pyaterochka soft discounters and nine as Perekrestok supermarkets. The integration of X5's largest acquisition ever was completed by the third quarter of the year, and stores converted in the first part of 2011 were delivering solid double-digit sales growth as of Q4 2011. The Company is now realising substantial synergies, including upside in sales densities as rebranded stores ramp up to X5 performance levels, as well as benefits from our larger purchasing power and efficiencies from administrative restructuring.

This expanded store base could not be managed efficiently without the requisite investment in IT and logistics infrastructure. In 2011, X5 expanded its warehouse capacity by a net 118 thousand sq. m., including integration of five Kopeyka distribution centres (DCs), to provide a backbone for scaling our presence. We also made significant progress with the rollout of our SAP platform as part of X5's IT systems transformation. The next step will be to introduce cutting edge software in various parts of our supply chain, and other systems for analysing efficiencies and increasing profitability throughout our business.

Transforming X5 for Long-term Success

The changes we are making flow from management's strategic view of how the Russian market will develop over the next few years – and the near-term imperative to compete for customers and improve bottom-line performance to increase shareholder value.

Russia is one of the world's most exciting and fast-growing consumer markets. Growth has been led by consistently rising income levels, especially in Moscow and St. Petersburg and now increasingly in other regions. The opportunity for major retailers is even more compelling as the modern trade channel grows its share of what is still a very fragmented market. X5 is the number one player in

terms of sales, but we still only account for 6% of the total market – and the top 10 retailers, including X5, represent only 20% of retail sales in Russia.

That's a bright picture but it does not tell the whole story. We see three overall trends in Russia and we will need to stay ahead of the curve if we are to be successful. First, consumers have become much more discerning about where they shop and what they buy, and retailers have to work harder to offer the right assortment, value and shopping experience for various segments of the market. Second, the market has gotten more competitive and costs are rising as well, and we have to continuously increase efficiency across the entire Company. And third, the next few years will be characterized by aggressive expansion of retail space and sales volumes by the largest retailers, and we need to keep pace to grow our market share and secure the advantages of larger scale.

I believe the Company is in an excellent position to grow and seize new opportunities, and we will continue to invest in building unique competitive advantages. As I said, we also see considerable scope for improvement to deliver on X5's potential. To this end, we recruited senior executives with a good mix of Russian and international retailing experience and promoted talented managers to strengthen control over our business, including format offerings and supply chain management, in order to take us to the next level in managing the expanded scale. This transformation, which will help us connect with customers, grow our leadership and deliver sustainable, profitable growth, is underpinned by three basic goals:

1. **Successful formats and customer-centric mission:** Our ultimate goal is to be the shopping destination of choice for customers in each of our formats. We can do a better job of engaging with our customers by offering new services and assortment choices. The response to our new-generation stores has been strong, and there is considerable interest in our new E5 online ordering service, which enables customers to select from over 300,000 items – electronics, books, audio, video, household appliances – and pick them up at their preferred store. We are also making fundamental changes in how we approach purchasing, category management, market research and supplier relationships, to power our customer-centric retail mission. X5 will also assert its price leadership, with stronger promotional activity, and support it with marketing communications to give customers clear reasons to shop at our stores.
2. **Expanded market leadership and economies of scale:** We are planning a step-up in organic expansion to generate billions of dollars' worth of additional sales volumes. Over the course of approximately the next three years, we expect to increase selling space by at least 50%. The next major growth story for X5, besides the Moscow and St. Petersburg regions, will be in other regions of European Russia, where incomes are rising and competition is fragmented. As we build out our store base and market share in each region, we can drive major economies of scale: there are many regions where X5 has only a handful of stores and the operating leverage from running common logistics, local sourcing, and spreading fixed overheads over a larger store base is still largely untapped. Over time, we plan to reach a level of 50-60 stores in such regions to unlock that profit potential.
3. **Sustained margins and increased shareholder returns:** We see significant opportunities for delivering value for shareholders by continuing to grow our market leadership to drive top-line growth while continuing to increase efficiency to protect profit margins. We are placing increased emphasis on improving net income and maintaining a return on equity of approximately 15% as measures of shareholder value creation in 2012 and future years. We think a sustained focus on this metric is the best way of increasing X5's market valuation relative to Russian and international retail sector peers.

These goals will be supported by changes we are driving across our business, including:

New multi-format organisation: Our multi-format strategy has served us well, offering stores assortment and value for every consumer lifestyle and budget. In October 2011, we put in place a new organisational management structure and moved all employees into three newly created business units that represent soft discounters, supermarkets and hypermarkets, respectively. This replaces X5's functional organisation (which featured cross-format activities in areas like marketing, pricing, HR, etc.) and puts our format leaders in the driver's seat. They now control decisions on pricing, assortment, category management, marketing and promotions – that is, everything that will make a difference in how our formats go to market and compete for customers. We are also bringing new leadership into the Company and establishing regional P&L responsibilities for operational management to manage our growing scale more effectively.

New deal with suppliers: In 2011, X5 took aggressive actions to secure better terms with suppliers and improve the Company's working capital position and gross margin. This approach helped us more than double cash flow generation while keeping prices for our customers the lowest on the market. We also announced that we intend to shift relationships with suppliers to enable our formats to define, select and buy the assortment that the customer wants, not what the vendor wants us to order. We expect this gradual rebalancing of supplier relationships – which we are executing over the course of 2012 – to have a long-term positive impact on our sales while protecting profitability.

Technological and logistical productivity: X5's infrastructure investments are creating fundamental competitive advantages for running our business efficiently. We are working to maximise the power of our technology platform and we now have a great deal more transparency throughout our operations. We started this transformation three years ago with the implementation of SAP for retail and HR modules, while the finance module was rolled out in 2011. With this foundation in place we now plan to upgrade the systems of the stores, logistics and supply chain management to interface with SAP and drive major productivity improvements throughout our retail chain. These investments in software will enable a fundamentally new technological platform in the years to come.

In addition, we will continue to evolve our distribution and logistics model in order to grow profitably in the regions. We now have 29, mostly leased, DCs and a logistics backbone that covers all regions of operations. Over the next few years, we expect to shift to a smaller number of larger, owned warehouses with an expanded Company transportation fleet. This will increase our scale advantages and flexibility, enabling X5 to manage its logistics network and supply chain more efficiently – with productivity benefits flowing to the bottom line.

Corporate responsibility: X5 is committed to complying with the highest standards of ethical business conduct while bettering the lives of our employees, our customers and our neighbours in the regions and communities in which we operate. We are a major investor in the development of the Russian economy, directly employing approximately 100,000 people and providing economic opportunity for thousands of local businesses throughout our supply chain. Playing a positive role in Russian society is fundamental to our success, helping us attract and cultivate talented staff and earn customer loyalty.

2012 Objectives

This brings me to the Company's objectives for the coming year:

1. Grow sales and customer base while maintaining profit margins

Our 2012 outlook for organic sales growth of 15% to 20% in RUR terms, with an aim to generate an EBITDA margin above 7%.

On the back of rising oil prices and stable political environment, the Russian economy is expected to perform generally well in 2012, which should provide good prospects for X5 and the retail sector. We expect to deliver strong sales results, particularly in the second half of the year, and will manage the trade-offs between sales, marketing investments and gross margin with the objective of delivering sustainable, profitable growth.

We will continue to focus on efficiency improvements to support our EBITDA margin. This includes introducing new processes and technologies to improve energy consumption, inventory management, in-store and warehouse productivity and transportation fleet management among other areas to offset rising labor, energy and real estate costs in Russia. We will also work with our suppliers to support X5's top-line growth by increasing the volume of promotions in 2012 and shifting towards a more customer focused assortment and value offerings, while managing working capital and gross margin to generate cash.

2. Step up organic expansion and infrastructure investments

The Company has established a 2012 CapEx plan of approximately RUR 45 bln to enable record organic expansion, renovation of older stores and IT and logistics infrastructure development. X5's strong execution in these areas in 2011 gives us confidence that our team will manage this significant increased investment level efficiently.

We are targeting an approximately 18% net increase in retail selling space for the year from 1.7 mln to about 2.0 mln sq. m. Much of the growth in selling space will focus on scaling up in Russian regions outside of the central Moscow and St. Petersburg regions to build our regional market presence and leverage local distribution and sourcing efficiencies. In terms of formats, we expect to substantially increase openings in soft discounters and supermarkets but will add fewer hypermarkets while we fine-tune the business model for this format.

Over 70% of added space will be soft discounters, with supermarkets, hypermarkets and convenience stores taking up the rest.

In addition, X5 will increase investment in maintenance and remodeling of older stores by 50% to bring them up to the standard of our innovative new store models to increase their customer appeal. We will double investments in X5's logistics network compared to 2011, to handle the planned growth in total sales volumes and increase productivity. This includes investments in launching construction of wholly owned DCs and expansion of X5's truck fleet to take control of deliveries from suppliers. In addition, IT and strategic projects spending will increase fivefold as we roll out software systems to interface with SAP, and further pursue projects like energy saving.

3. Deliver progress in each of our formats and build on their strengths
Soft Discounters: X5 holds the number one position in soft discounters and has built Pyaterochka into one of Russia's leading consumer brands with a price leadership position. Customer surveys show that convenience and price are the two factors that matter most for Russian consumers, and on both counts, X5's soft discounters repeatedly win the top ranking. In 2012, we plan to increase promotions and lead the market in offering the lowest prices. We will also step up marketing and communications activities to ensure strong customer awareness of special deals when they are shopping at our stores. In addition, increasing the number of private label offerings and expanding the range of local and regionally sourced products will be important drivers for building customer loyalty and sales at Pyaterochka stores.

Supermarkets: Our Perekrestok supermarkets give us an incredible competitive advantage with middle class customers who value quality, wider choice of fresh goods and customer service. None of our competitors come close to X5 in this format. In 2012, we plan to take our supermarket stores to the next level with upgrades including stricter quality controls and enhanced fresh offerings (especially fruits and vegetables), supported by original promotions and advertising campaigns. We will also upgrade our commitment to customer service through improved employee hiring and training procedures. As always, we will execute a very selective approach to adding supermarkets in areas with the right customer demographics.

Hypermarkets: With the separation of the supermarket and hypermarket organisations and the appointment of a new director for hypermarkets, our goal is to bring uniformity to Karusel's business model and strategy. Our hypermarkets produce impressive EBITDA margin, but sales development has been weak. The format operates with several types of hypermarkets of radically different sizes and does not offer a consistent and differentiated experience for the customer. Over the next 12 months, we will move gradually to uniform, smaller-size stores with improved assortment and layout – and create a unique hypermarket value proposition with strong customer appeals. New management priorities regarding the format, among others, are to reduce queues at cash registers to minimize waiting time, enhance fresh category offerings and raise the level of promo-campaigns. In addition, decision-making will be decentralized and store managers will be given more flexibility over assortment, pricing and marketing policies to compete for customers in their local communities.

We are determined to deliver on these objectives and will work consistently to increase X5's share price and returns relative to our Russian and international retailing peers. We will also increase our engagement with the investment community to ensure that X5's business developments and prospects are well understood during a period of rapid change. I am encouraged by X5's accomplishments and look forward to reporting on our progress in the coming year.
Andrei Gusev

Executive Board

1.
Andrei Gusev
Chief Executive Officer

2.
Oleg Vysotsky
General Director of Discounter Format

3.
Jan Fuchs
General Director of Hypermarket Format

4.
Igor Sotnikov
General Director of Supermarket Format

5.
Anton Mironenkov
Mergers, Acquisitions and Business Development Director

6.
Igor Pletnev
Director for Regional Branch Management and Organic Development

7.
Kieran Balfe
Chief Financial Officer

8.
Alexander Ermolenko
Logistics Director

9.
Teimur Shternlib
Chief Business Support Officer

10.
Tatiana Kozhevnikova
HR Director

11.
Paul Martins
Commercial Director

12.
Leonid Terentiev
Asset Management Director

2011 Financial Review

Income Statement – Key Trends and Developments

Income Statement Highlights[1]

USD mln	FY 2011	FY 2010	% change y-o-y
Net Sales	**15,455.1**	**11,280.5**	***37.0%***
incl. Retail	15,397.3	11,248.1	*36.9%*
Gross Profit	**3,679.0**	**2,628.8**	***40.0%***
Gross Margin, %	*23.8%*	*23.3%*	
EBITDA	**1,130.2**	**843.6**	***34.0%***
EBITDA Margin, %	*7.3%*	*7.5%*	
Operating Profit	**702.0**	**545.1**	***28.8%***
Operating Margin, %	*4.5%*	*4.8%*	
Net Profit	**302.2**	**271.2**	***11.4%***
Net Margin, %	*2.0%*	*2.4%*	

Net Sales & Gross Margin Performance

USD mln	FY 2011	FY 2010	% change y-o-y
Net Sales	**15,455.1**	**11,280.5**	***37.0%***
incl. Retail	15,397.3	11,248.1	*36.9%*
Hypermarkets	2,267.3	2,012.7	*12.7%*
Supermarkets	3,358.2	2,737.2	*22.7%*
Soft Discounters	7,840.9	6,199.8	*26.5%*
Convenience stores[2]	101.8	61.2	*66.5%*
Online[3]	7.8	20.3	*(61.6%)*
Kopeyka[4]	1,821.3	217.0	*739.5%*
Gross Profit	**3,679.0**	**2,628.8**	***40.0%***
Gross Margin, %	*23.8%*	*23.3%*	

In 2011, X5 reported net sales of USD 15,455 mln, a year-on-year increase of 37.0% in USD terms or 32.6% in RUR terms. Gross retail sales increased by 32.0%, in RUR terms, driven by a 6.0% increase in like-for-like (LFL)[5] sales, a 12.1% increase from organic store expansion and a 13.9% contribution from acquired Kopeyka stores. Full year 2011 gross margin totaled 23.8%, a 50 basis point (bp) increase compared to 2010.

(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 1 April 2010.
(3) Online business was sold on 29 April 2011.
(4) Consolidated from 1 December 2010.
(5) Like-for-like (LFL) comparisons of retail sales between two periods are comparisons of gross retail sales in local currency (including VAT) generated by the relevant stores. The stores that are included in LFL comparisons are those that have operated for at least twelve full months preceding the beginning of the last month of the reporting period. Their sales are included in LFL calculation starting from the first day of the month following the month of the store opening.

Selling, General and Administrative Expenses (SG&A)

USD mln	FY 2011	FY 2010	% change y-o-y
Staff Costs	(1,294.3)	(1,002.1)	*29.2%*
% of Net Sales	*8.4%*	*8.9%*	
Lease Expenses	(565.4)	(372.1)	*52.0%*
% of Net Sales	*3.7%*	*3.3%*	
Other Store Costs	(211.7)	(151.0)	*40.1%*
% of Net Sales	*1.4%*	*1.3%*	
D&A	(428.3)	(298.5)	*43.5%*
% of Net Sales	*2.8%*	*2.6%*	
Utilities	(326.8)	(214.3)	*52.5%*
% of Net Sales	*2.1%*	*1.9%*	
Third Party Services	(110.7)	(99.7)	*11.0%*
% of Net Sales	*0.7%*	*0.9%*	
Other Expenses	(234.1)	(86.6)	*170.3%*
% of Net Sales	*1.5%*	*0.8%*	
Total SG&A	**(3,171.2)**	**(2,224.4)**	***42.6%***
% of Net Sales	***20.5%***	***19.7%***	

In 2011, SG&A expenses, as a percentage of net sales, increased by 80 bp year-on-year to 20.5% primarily due to the Kopeyka integration during 2011. The integration process required the temporary closing of stores for rebranding to the Pyaterochka and Perekrestok formats, which put pressure on SG&A margins as we continued to incur staff costs, lease expenses, utilities and other expenses at these stores during rebranding.

Staff costs, as a percentage of net sales, decreased 50 bp year-on-year in 2011, to 8.4%. The decrease was primarily driven by income recognized on the Employee Stock Option Plan (ESOP) resulting from the re-measurement of the associated ESOP liability at 31 December 2011, compared to an expense recognized on the ESOP in the corresponding period of 2010, and to a lesser degree productivity initiatives, both of which helped mitigate increases in the social tax rate and one-off costs associated with the integration of Kopeyka.

The Company's 2011 lease expenses, as a percentage of net sales, rose 40 bp year-on-year to 3.7% due to an increase in leased space as a percentage of our real estate portfolio. As a percentage of X5's total real estate portfolio, leased space accounted for 53.6% at 31 December 2011 compared to 51.6% in the corresponding period of 2010.

In 2011, other general and administrative expenses increased by 75 bp, as a percentage of net sales, to 1.5% primarily due to the provision of USD 59.3 mln for impairment of trade and other accounts receivable. The provision was created in accordance with the Company's accounting policies and after a review of these policies X5 believes it has sufficient controls in place to mitigate the need for future impairments.

As a result of the factors discussed above, EBITDA in 2011 totaled USD 1,130 mln, or 7.3% of net sales.

Non-Operating Gains and Losses

USD mln	FY 2011	FY 2010	% change y-o-y
Operating Profit	**702.0**	**545.1**	***28.8%***
Finance Costs (Net)	(297.7)	(146.2)	*103.6%*
Net FX Result	0.8	(13.0)	*n/a*
Share of Income of Associates	-	0.4	*n/a*
Profit before Tax	**405.1**	**386.3**	***4.9%***
Income Tax Expense	(102.9)	(115.1)	*(10.6%)*
Net Profit	**302.2**	**271.2**	***11.4%***
Net Margin, %	*2.0%*	*2.4%*	

Finance Costs

Net finance costs for 2011 increased 103.6% year-on-year in USD terms, and 97.0% in RUR terms, due to an increase in our average borrowings as a result of the financing of the acquisition of Kopeyka. The effective weighted average interest rate on X5's total debt for the full year 2011 was approximately 7.7% per annum compared to approximately 7.0% per annum for the corresponding period in 2010. As at the end of 2011, the Company's long-term debt is 100% denominated in Russian Roubles.

Foreign Exchange (FX) Result

The Company posted a USD 0.8 mln net FX gain for 2011. This was the net effect of FX gains in Q1, Q2 and Q4 2011, which was offset by a FX loss of USD 53 mln in Q3 2011 due to the sharp movement in the RUR/USD exchange rate. This is a non-cash item, resulting from revaluation of the Company's long-term USD-denominated debt and the ESOP. In Q4 2011, X5 fully refinanced its debt portfolio into Russian Roubles, reducing the impact of future exchange rate volatility on X5's reported financial results.

Income Tax

In 2011, X5 reported income tax expense of USD 103 mln. The effective tax rate decreased in 2011 to 25.4%, as compared to 29.8% for 2010, due to tax planning initiatives implemented throughout the year. Historically, X5's effective tax rate is higher than the Russian statutory tax rate of 20.0% as inventory shrinkage, ESOP costs and FX results are only partially tax deductible in Russia.

Consolidated Cash Flow – Key Trends and Developments

USD mln	FY 2011	FY 2010	*% change y-o-y*
Net Cash Flows from Operating Activities	926.1	378.1	*145.0%*
Net Cash from Operating Activities before Changes in Working Capital	*1,189.4*	*900.2*	*32.1%*
Change in Working Capital	*174.1*	*(250.9)*	*n/a*
Net Interest and Income Tax Paid	*(437.4)*	*(271.2)*	*61.3%*
Net Cash Used in Investing Activities	(893.9)	(1,548.2)	*(42.3%)*
Net Cash Generated from Financing Activities	111.1	1,066.0	*(89.6%)*
Effect of Exchange Rate Changes on Cash & Cash Equivalents	(29.0)	(36.9)	*(21.2%)*
Net Increase/(Decrease) in Cash & Cash Equivalents	**114.2**	**(140.9)**	***n/a***

Full year 2011 net cash generated from operating activities totaled USD 926 mln compared to USD 378 mln in 2010. The increase was driven by a significant improvement in X5's working capital position in 2011, compared to 2010, resulting in a USD 174 mln net cash inflow due to more efficient management of both inventory levels and payable terms with suppliers. As a result of the strong operating cash flow generation, the Company was able to fully finance its capital expenditures ("CapEx") from internal sources, an important objective for the year.

Net cash used in investing activities decreased to USD 894 mln in 2011 from USD 1,548 mln in 2010. Actual CapEx for 2011 amounted to only RUR 27 bln, significantly below guidance of RUR 35 bln, primarily due to three reasons: first, the Kopeyka integration was completed at half the initial projected cost without compromising on quality; second, as a result of better terms from contractors on store equipment and other services due to the volume of X5's purchases; and third, we relied almost entirely on organic new store additions as opposed to acquisitions in 2011, lowering overall expansion costs.

During 2011, the Company exceeded its store expansion plan, successfully completed the Kopeyka integration and continued to invest in infrastructure projects, including logistics and IT. In 2011, X5 opened a net 577 new stores organically, while adding 118 thousand sq. m. of warehouse space and fully launching the final part of the new SAP platform – SAP for Finance. We fully integrated over 600 Kopeyka stores at significantly less expense than targeted thanks to improved terms from contractors and better store conditions than expected (CapEx of RUR 2.6 bln compared to RUR 4.6 bln in our initial plan).

Net cash generated from financing activities in 2011 amounted to USD 111 mln due to short-term movements in cash flow, primarily RUR denominated bilateral loans used to finance working capital needs.

Debt Financing and Liquidity Management

USD mln	31-Dec-11	*% in total*	31-Dec-10	*% in total*
Total Debt	**3,610.0**		**3,684.8**	
Short-Term Debt	913.2	*25.3%*	508.0	*13.8%*
Long-Term Debt	2,696.9	*74.7%*	3,176.8	*86.2%*
Net Debt/(Net Cash)	**3,225.0**		**3,414.0**	
Denominated in USD	(9.5)	*n/a*	385.8	*11.3%*
Denominated in RUR	3,234.5	*100.0%*	3,028.2	*88.7%*
FX, EoP	32.20		30.48	
Net Debt/EBITDA (RUR)(1)	**3.13 x**(2)		**3.70 x**(3)	

X5's net debt to EBITDA ratio improved significantly to 3.13x compared to 3.70x at the end of 2010. Russian Rouble-denominated borrowings accounted for 100% of X5's debt at 31 December 2011. The Company reported total debt of USD 3,610 mln (at a RUR exchange rate of 32.20), of which 25.3% was short-term (USD 913 mln) and 74.7% long-term debt (USD 2,697 mln).

As of 31 December 2011, the Company had access to RUR-denominated credit facilities of approximately RUR 134.4 bln (approximately USD 4.2 bln). Of this amount, approximately RUR 53.1 bln (USD 1.6 bln) represented available undrawn credit lines with major Russian and international banks.

(1) Debt covenants are set in RUR terms in accordance with loan facilities the Company maintains.
(2) Based on consolidated EBITDA of RUR 33,215 mln, i.e. including Kopeyka from 1 January 2011.
(3) Based on pro-forma EBITDA of RUR 28,131 mln, i.e. including Kopeyka from 1 January 2010.

X5 & Society

X5 & Society

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 a substantial amount of time and money into these communities to improve the quality of life for those around us.

Access to Affordable Products

X5 cares about product affordability for socially vulnerable segments of the population. We offer special discounts and other benefits to pensioners, war veterans and disabled persons at our stores. At our Pyaterochka discounter stores, these groups receive an additional 5% discount on their purchases during our "Care Time Hours". Those hours are set by each regional division and last from 9 a.m. to 12 p.m., on average, every day. In a number of regions, including Central and North-West, we have "Care Time Hours" that apply to all clients, generally from 9 a.m. to 10 a.m. In Perekrestok and Karusel, pensioners receive a 5% discount during morning hours as well (except on weekends and holidays).

Education and Health Initiatives

Each year, X5 Retail Group conducts its "Perekrestok Goes to Schools!" education initiative. Every September, each "Perekrestok" supermarket provides its customers with the opportunity to vote for their favorite school in order to help that school win a valuable prize. The feature that distinguishes this program from similar charitable initiatives is that the program allows the public to select the charitable recipients. In 2011, the seventh national "Perekrestok Goes to Schools!" charity program was implemented by the Company, with support from education departments in more than 60 Russian cities. In 2011, voting took place in more than 290 "Perekrestok" supermarkets, with customers submitting votes for more than five thousand schools. The winning schools receive different prizes, including a gift certificate for 350 thousand Roubles to buy up-to-date sporting equipment (for the school with the most votes, city-wide) and a table tennis set (for the school with the most votes in each supermarket).

The Company is also 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. Collection boxes have also been installed at our Moscow headquarters since 2010.

In 2011 alone, the partnership with "Life Line" charity fund led to 16 mln Roubles being raised for the treatment of children's heart diseases. Two-thirds of this total was collected in the regions; the remainder was generated in Moscow. The funds were used to finance surgical procedures for 64 children.

During the 2010-2012 period, the Company's strategic plans for charity and sponsorship include further expansion of the partnership with "Life Line" charity fund.

X5 Personnel

X5 is one of the largest employers in the Russian labour market, with a workforce exceeding 100,000 people as of the end of 2011. During the year, more than 9,300 people joined X5 as a result of the integration of Kopeyka; with almost 400 people joining our head office at various levels, including management positions.

X5 Employee Benefits Policies

In 2011, the Company offered the following social benefits for its employees:

- Medical insurance;
- Life insurance;
- Short-term disability payments;
- Additional payments to employees (financial support);
- Additional vacation days;
- Discounts for purchases in our stores;
- Transportation / Corporate busses.

In 2011, X5 allocated additional resources for medical insurance and life insurance programmes for its employees. Insurance programmes now cover not just office employees but senior store employees as well. In addition, new members of our team now receive insurance coverage immediately upon joining the Company rather than having to wait for the three-month probation period as in prior years.

Those employees, and their family members, who do not qualify for the insurance programme may buy insurance coverage at X5's corporate rates.

X5 develops and promotes its "Discount" programme, which provides our employees with special deals from our vendor partners including tourism agencies, fitness clubs, banks and educational centres. In 2011, the programme covered only head office staff, but in 2012, we plan to include our regional branches, retail and logistics divisions.

Employee Annual Review System
In 2011, X5 continued to develop its "Compass X5" annual employee review system. This is a critical tool for efficient HR management and performance measurement that:

- Facilitates employee feedback from team leaders on results and achievements, determines key strengths and areas for further professional development and growth;
- Supports managers in making staffing decisions and establishing transparent links between employees' performance and remuneration; and
- Enables the Company to take professional standards to a new level and increase the efficiency of the business.

The review process assigns each employee an individual score used in calculating annual bonuses, making the process transparent and understandable. This score is also used in training schedules for employees and is taken into account in HR decisions with regard to career development and promotions.

Employee Awards
X5 uses awards for employees as a major tool for motivating, recognising and rewarding employee contributions to the Company. Our inter-corporate award programme selects up to 2,000 employees for various awards in our branch offices and retail and logistics operations.

Internal Communications
In 2011, as a part of the transformation of the Company to a true multi-format organisation, we have reorganized internal communications to support each of our formats' specific needs. For instance, X5 has corporate newsletters for Pyaterochka, Perekrestok, Karusel, logistics personnel and office employees.

Our internal communications have received distinguished recognition from the business community – in 2011 we received three awards for our corporate media activities, including the award for best media for employees in the corporate communication category of the Retail Business Russia Summit 2011.

Partners in Education
X5 seeks to recruit promising young specialists with degrees in economics and finance. In 2011, the Company established links with top Russian educational establishments including Moscow State University, Plekhanov Russian University of Economics, Russian University of Economy and Trade and various technical schools. X5 gives students internship opportunities at the Company's head office or in our Perekrestok and Green Perekrestok stores. For professional search and recruitment of qualified personnel, X5 actively participates in the career expos held at various universities.

X5 employees participate in roundtables and conferences for high-school students and graduates and we help to develop high school curricula that foster the skills needed by businesses today. We also organise master-classes for students of technical schools located in Moscow in our "Karusel" stores so they can develop their practical skills in the retail industry.

Attracting and Developing Talented Employees
Our "HR Reserve" programme helps the Company plan to meet the expected demand for new employees, defining potential candidates for management and administrative positions in retail operations as well as conducting reviews and training for new positions. In 2011, the number of participants passing through our assessment centres exceeded 1,900 people – 63% of which were X5 employees looking for internal advancement and 37% external candidates – enabling us to fill nearly 600 managerial positions in our stores.

At the end of 2011, X5 revised and developed the scope of professional qualities required for each level of personnel. One of the key objectives for 2012 is the renewal of internal review techniques and personnel development. We are also planning to further enhance and develop the "HR Reserve" programme for retail. In addition, we intend to launch a "Talent Management" programme to identify promising employees that may be promoted to management positions, develop the careers of our high-potential employees and analyze HR risks.

Personnel Training and Development
X5 pays special attention to the training and professional development of managers and personnel working in our stores and distribution centres ("DCs").

The talent of our top managers and expertise of our in-store employees are fundamental to the Company's operating success and achievement of X5 strategic objectives. Educated and well-trained employees are best equipped to deliver quality customer service and support sales growth in our stores.

In 2011, the number of employees who went through our training centres decreased relative to the previous year to 56,000 as we transferred some educational functions to the store level with the development of in-store training initiatives.

During the year, training programmes focused on practical in-store skills, including ways to reduce shrinkage and improve customer service quality.

In 2011, we conducted a number of trainings for store directors and deputy store directors that were attended by approximately 7,200 employees. These covered various aspects of HR management, including: allocation of responsibilities, motivation and control, business situation analysis and management, service quality management and conflict management and leadership.

Key trends in training and development at X5 in 2012 will be standardisation and optimisation of curricula for different levels of employees, and further development of our in-store training programmes with specific objectives for each format. We will focus on trainings for operational management at all levels: store directors, supervisors, regional and operational directors.

Another area under development is distance learning. We will launch our training software platform and pilot trainings for the stores including computer testing of personnel.

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 where we operate. Quality control managers are 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 the product life cycle and 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.

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 appearance, consistency, taste and odor. The 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.).

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 a.m. and 10:00 a.m. 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. Historically, products have been sampled by specialists in this segment – the Quality Control Department, Commercial and Marketing Departments.

However, starting from 2010, the number of products we had to evaluate significantly increased and in 2011 we sent over 5,500 food and non-food products to certified testing centres and to our internal tasting commission. The commission members, who are X5 employees and divided into groups by taste preferences, age, sex and income, evaluate the products according to taste, color, odor, consistency and appearance.

X5 2011 Awards

X5 Retail Group's achievements and professional excellence were recognised this year with numerous industry awards.

- X5 Retail Group was named the best retail chain in 2010 by Infoline Retailer Russia Top-100;
- X5 Retail Group received an award for "Deal of the year" at the Retail Business Russia 2011 Summit for acquisition of the Kopeyka retail chain;
- X5 Retail Group received an award for "Corporate media of the year" at the Retail Business Russia 2011 Summit for the corporate newspaper "Time of X5";
- X5 Retail Group won a gold medal for "Implementation of new software application" at the SAP Quality Awards 2011; and
- X5 Retail Group received the "Time of innovations – 2011" prize in the category "Best innovation project" for our "Store of the future" project.

Corporate Governance & Risk Management

Corporate Governance Report

As a public company established under the laws of the Netherlands, with global depositary receipts of shares listed on the London Stock Exchange, X5 Retail Group N.V. is subject to the Dutch Corporate Governance Code adopted in 2003 and amended in 2008 (the "Code"). The full text of the Code can be viewed on X5's website.

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's management and supervision structure is organized in a so-called two-tier system, 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 functions.

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.

Composition of the Management Board

The Management Board consists of three members, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary. In 2011 the composition of the Management Board changed: Mr. Balfe was appointed as Chief Financial Officer by the General Meeting of Shareholders on 22 February 2011, as successor of Mr. Kornilov. On 10 March 2011 Mr. Khasis left his position as Chief Executive Officer of the Company. His successor, Mr. Gusev, was appointed by the Annual General Meeting of Shareholders on 20 June 2011. At that same meeting, Mr. Lhoëst was reappointed as Company Secretary for another four year term.

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
Andrei Gusev	1972	Chief Executive Officer, Chairman of Management Board	2011	2015
Kieran Balfe	1969	Chief Financial Officer	2011	2015
Frank Lhoëst	1962	Company Secretary	2007	2015

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, consecutively since 2001, Director for Investment Planning and Director for Group Portfolio Management and Control. 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 Deloitte & Touche. Mr. Gusev graduated with honors from 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 at Wrigley, a leading confectionery company. 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 degree in accounting. He qualified as a Chartered Accountant in 1993 and was awarded a fellowship with 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 systems of internal controls as well as the financial reporting process. The Supervisory Board meets at least four times per year.

Composition 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 a defined size and composition profile, which takes into account the nature of the Company's business and 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 to fit the Supervisory Board profile. The Supervisory Board evaluates its 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 reappointment schedule to prevent, to the greatest extent possible, reappointments 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. The terms of Mr. Ashurkov, Mr. Tynkovan and Mr. DuCharme will expire in 2012. All three board members are eligible for reappointment

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

Hervé Defforey, a French citizen, is an operating partner at GRP Partners, Los Angeles. 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 served 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 honors 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.

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 range of positions, including advisor to the Supervisory Board at First Ukraine International Bank. 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, formerly held several leadership positions at Group Casino, including the position of CEO from 1997 until 2003. He also held leadership positions at CFAO (now part of PPR), specifically at CFAO-Congo and La Ruche Meridionale. More recently he was a retail consultant in Asia, with a particular focus on Thailand, Vietnam and the Philippines. 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. Each committee has a charter describing its role and responsibilities and the manner in which it discharges its duties and reports to the full Supervisory Board. These charters are included in the Rules governing the Principles and Practices of the Supervisory Board, which can be viewed on X5’s website.

Audit Committee. The Audit Committee assists the Supervisory Board in ensuring the integrity of X5’s financial statements, supervising internal business controls and risk management and with financing and finance related strategies and tax planning. It also advises on the appointment of the external auditor by the General Meeting of Shareholders and its 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 on 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 performance

of the individual members, and reports the results of these evaluations to the Supervisory Board.

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

Strategy Committee. The Strategy Committee advises on the general strategy of X5, including, but not limited to, the future direction of X5 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 and Remuneration Committee	Related Party Committee	Strategy Committee
Hervé Defforey	Member	Member		Member
Mikhail Fridman				
David Gould	Chairman			
Vladimir Ashurkov	Member	Member		Member
Alexander Tynkovan		Member	Chairman	Member
Stephan DuCharme		Chairman	Member	
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 dissented against 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. These suspensions may be discontinued by the General Meeting of Shareholders at any time.

Remuneration

In line with the remuneration policy adopted by the General Meeting of Shareholders, the remuneration of the individual members of the Management Board will be decided by the Supervisory Board on the recommendation of its Nomination and Remuneration Committee. 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, as well as the remuneration of members of the Supervisory Board is incorporated in the Remuneration Report on page 41, and is available on the Company's website.

Reporting on Conflicts of Interest

A member of the Management Board or 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. The Related Party Committee advises the Supervisory Board on the evaluation of and decision on (potential) conflicts of interest and prepares

resolutions of the Supervisory Board in relation thereto. An account of related party transactions in 2011 is included in the Report of the Supervisory Board on page 37.

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, 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, among other things.

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.

The notice for a General Meeting of Shareholders needs to be published no 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.

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 the 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 12 March 2012 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%
T. Rowe Price Associates Inc.	8 March 2012	5.03%

[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.

In 2011 the Management Board has been authorized to acquire up to 10% of the shares or depositary receipts thereof. This authorization is valid through 20 December 2012. 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 13,578,643 shares (20% of the issued share capital) through 20 December 2012.

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 20 December 2012.

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 adopted 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. The main amendments are reflected in the section 'General Meeting of Shareholders' in this report.

Anti-Takeover Measures and Change-of-Control Provisions
According to provision IV.3.11 of the Code, the Company is required to provide a survey of its actual or potential anti-takeover measures, and to indicate in what circumstances it is expected that they may be issued. No special rights of control as referred to in Article 10 of the EU Directive on takeover bids are

attached to any share or GDR in X5. X5 and X5 subsidiaries may have customary change of control arrangements included in agreements, such as credit facilities, ISDA-agreements and debt instruments. Following a change of control of X5 (as the result of a public bid or otherwise), such agreements may be amended or terminated, leading, for example, to an early repayment of amounts due under existing credit facilities.

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.

Compliance with Dutch Corporate Governance Code

X5 applies the relevant principles and best practices of the Code in the manner as described in this Corporate Governance Report. X5's 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 have been no substantial changes in the corporate governance structure of the Company. Committed to a corporate governance structure that best serves the interests of all stakeholders, X5 continues to seek ways to improve and enhance its corporate governance standards in line with international best practices. X5 generally adheres to the Code, but does not comply with the following recommendations:

II.2.4, II.2.5: Grant of options to members of the Management Board
Under the Company's Employee Stock Option Plan (the "ESOP") options were granted to employees in four tranches over a period of three years, starting 2007, with varying vesting periods. The vesting requirement of the program is the continued employment of participants. The final tranche of options under the ESOP vested on 19 May 2010. X5 acknowledges that in terms of vesting period the ESOP deviates from provision II.2.4 of the Code, stipulating that options should not be exercisable within three years following the date of grant. 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, 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.

A description of the Company's equity-based incentive schemes is included in the Remuneration Report on page 41.

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 or could damage X5's competitive position.

III.2.1: Independence of members of the Supervisory Board
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. Defforey, Mr. Tynkovan, Mr. DuCharme and Mr. 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' and accordingly 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. Gould and Mr. 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. Gould's and Mr. Ashurkov's financial expertise, and for reasons of continuity, X5 believes that it is in X5's best interest that Mr. Gould's and Mr. Ashurkov's membership of the Audit Committee be continued.

III.7.1: No grant of shares and options to members of the Supervisory Board
As determined by the General Meeting of Shareholders, Mr. Defforey, Mr. Tynkovan, Mr. DuCharme and Mr. Couvreux participate in the Company's stock option plan and/or restricted stock unit plan. X5 acknowledges that the award of options or shares to members of the Supervisory Board under these plans constitutes a deviation 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 equity-based incentive plans.

Risk Management & Internal Control

Overview

Risks are an inherent part of doing business. X5, as any other company, is constantly dealing with risks and opportunities that can either negatively or positively influence its business. In order to minimise the negative impact of risks and to capitalise on opportunities, X5 has introduced a risk management and internal control system geared to providing transparency in our operations while being mindful of our risk appetite.

The overall objective of this system is to obtain reasonable assurance that the Company's goals and objectives are achieved and that the resources used for this are effectively employed.

Our risk management system is designed both to encourage entrepreneurial spirit and provide sufficient assurance that risk is fully understood and managed through a systematic process of risk identification, assessment and control.

We do, however, understand that risk management and internal control gives a reasonable, but not an absolute guarantee that we will achieve our objectives, 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 control, thus cannot be fully mitigated;
- Some control procedures may be degraded by human errors, carelessness, and errors of judgment or misunderstanding.

Accountability

The Management Board, supported by the **Executive Board** has primary accountability for managing the risks associated with our activities, and for the establishment and adequate functioning of appropriate risk management and control systems.

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 with respect to the internal control and risk management system.

Approach

The risk management and internal control process at 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.

X5 maintains a Key Risk Register that covers the key risks faced by the Company, key risk owners and controls and procedures to be implemented for mitigating those risks. The content of the Register is determined through regular discussions with senior management and reviewed by the Executive Board and the Audit Committee.

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 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

Following the economic recovery at the end of 2010, the consumer environment softened in the second half of 2011, impacted by reduced consumer confidence and disposable incomes, and food and fuel price volatility. This affected X5's sales and like-for-like performance in 2011. However, the underlying industry fundamentals in Russia remain solid, with a growing modern retail penetration rate.

- X5's leadership in the Russian retail market depends largely on how well we define our strategy in the context of the macroeconomic and competitive industry environment, and how well we communicate and execute on the right strategic vision.

To ensure that the Company continues to pursue the right strategy, the Supervisory Board and its Strategy Committee, together with senior management, hold specific sessions on all key aspects of X5's business, to review internal and external issues that could influence our strategy.

Our strategic initiatives are described in detail in the "Letter from the Chief Executive Officer" section of this Annual Report.

We believe that by choosing and pursuing a proper and well-executed strategic vision we strengthen our leadership position in the Russian retail market, and achieve long-term profitable growth for the benefit of our stakeholders.

Human Resources
Our success in achieving the Company's strategic objectives relies heavily on the dedication of our employees and the effectiveness of our organisation. In order to be a desirable employer, we recruit, develop and reward employees by following leading HR practices. We constantly assess HR policies in order to effectively address the following risk factors:

- Our ability to recruit, train and retain the optimal number of staff at both managerial and operational levels;
- Our ability to create a balanced organisational structure that enables and motivates personnel to achieve key objectives;
- The success of our organisational transformation in fostering a new corporate culture, with strong internal communication and decision-making processes.

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

Due to X5's rapid growth we are continually hiring a significant number of new employees from the labour market and are constantly improving and developing new recruitment methods. We have a strong commitment to our employees' integration and education, with programmes in place to develop and promote talented employees through vertical and horizontal career-building opportunities. Corporate events and activities help us build a strong, motivated workforce eager to achieve X5's objectives.

Expansion
Our ongoing results and expansion plans for the future are significantly influenced by:

- Our ability to find and effectively manage retail locations and negotiate appropriate purchase and lease terms;
- Effective development and implementation of plans and procedures to support organic growth.

X5's management pays particular attention and allocates significant resources to optimising its organic expansion strategy and supporting processes. When identifying and leasing or purchasing suitable properties, our internal real estate professionals perform comprehensive feasibility studies to identify and reduce risks of not obtaining necessary approvals from various state and local authorities for construction work, and to secure X5's right to proceed with store openings and refurbishments. Our investment decisions are supported by a range of financial and non-financial indicators to ensure that we obtain attractive facilities at attractive prices.

In addition to organic growth, selective acquisitions of attractive retail chains are an important part of X5's expansion strategy. Success requires proper identification and valuation of appropriate acquisition targets by our experienced M&A team. Upon completion of M&A transactions, successful acquisitions depend to a great extent on:

- Our ability to effectively integrate the acquired business to realize the full economies of scale and synergy potential.

To ensure timely and effective integration, a special integration team with representatives from all major business functions is created. The team develops and delivers detailed integration plans, taking into account lessons learned from previous integration processes. Importantly, our integration team is monitored, assessed and held directly accountable for results.

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

- Our ability to define assortment that is in line with customer needs;
- Effective relationships with suppliers and producers of private label goods to support adequate availability of supply while meeting our quality standards;

- Our ability to establish strict food safety and quality control policies and procedures and ensure full adherence to these at all times;
- Our ability to maintain a competitive price position with our customers and remain socially responsible;
- Effective inventory management to ensure the continuous flow of a wide selection of goods to our customers, while minimising shrinkage and excessive stock;
- Transport and warehouse logistics infrastructure and management systems to ensure efficient distribution across the entire supply chain.

Our corporate responsibility commitments, including community activities, HR development and food product safety procedures are described in the "X5 and Society" section of this Annual Report.

Business Support
In order to support current growth plans and build a foundation for future development, X5 invests in required IT infrastructure and business support processes. The key risk factors associated with these are:

- Adequacy of IT facilities and systems for ensuring business continuity and supporting the growth of our business;
- Availability of internal electronic and physical document-flow systems.

During 2011, the implementation of SAP for HR and SAP for Retail reached its final stage, bringing tangible results to operational efficiency. Additionally, a new project for financial planning and budgeting was successfully launched and has already delivered early positive results. 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.

Financial and Management Reporting
Implementation of SAP for Finance during 2011 supports preparation of IFRS and Russian statutory accounts as well as automation of consolidated IFRS reporting. In addition, SAP for Finance reduces the risk of failure of proper recording and classification of accounting transactions and has improved our ability to make accurate and reliable business projections estimates. A crucial risk factor in this area is:

- Availability of effective and reliable management reporting systems that support analysis of business results and strengthen decision–making processes.

SAP for Finance will facilitate the improvement of internal controls over the financial reporting process and the availability of a wide range of management reports to support decision-making.

Fraud

- Effective resource management depends to a significant extent on our ability to prevent and detect corruption and fraud at all levels in the Company.

Whilst we continually strive to ensure adherence to X5's high integrity standards among our staff, the potential for fraud and other inappropriate activity exists at all levels of the business, from store level to senior management. X5 provides clear guidance on expected behaviour to its employees through the communication of the Company values and Guiding Principles of Business Conduct. The Company constantly emphasises its Corporate Code for Reporting of Alleged Irregularities ("Whistleblower Policy") and operates an ethics hotline. The Fraud Investigation Team of the Corporate Audit Department, and in some cases the Security Department, investigate allegations of fraud. The findings of such investigations are reported to the CEO, CFO, the Executive Board, the Management Board, and the Supervisory Board and its Audit Committee, as necessary.

Regulatory Environment
The procedures for obtaining and renewing licences and permits required by X5's operations and with respect to various quality, health and safety, packaging, labeling and distribution standards are subject to supervision and regulation by various government authorities and agencies. Russia is in a process of structural, economic and political transition, and the regulatory regimes applicable to X5's operations are still developing. Operating successfully in this regulatory environment thus depends on:

- Our ability to identify, quickly respond to and attempt to modify proposed unfavourable changes in applicable laws and regulations stemming from changes in political and economic conditions;
- Our ability to correctly interpret 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 organisations to ensure that the interests of our customers are represented. In addition, X5 is consulted on and invited to contribute to important government regulations concerning the retail industry.

Legal Risks
X5 is exposed to pervasive contractual and litigation risks due to the Company's operational scale, number of employees and scope of commercial activities including interactions with suppliers and vendors as well as real estate and M&A transactions.

Our legal team participates in every stage of important business activities and analyses contract terms to minimise risks. In addition, we protect ourselves 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, 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 X5's transactions and activities could be challenged by the relevant regional and federal tax authorities.

Management regularly reviews the Company's compliance with applicable tax legislation, regulations and decrees, including current interpretations published by governmental authorities. It also thoroughly reviews judicial precedents resulting from tax disputes involving other companies operating in Russia. The Company further protects itself against tax risks by establishing appropriate provisions in its IFRS consolidated financial statements.

Note 33, "Commitments and Contingencies" to the consolidated financial statements in this Annual Report contains a description of tax uncertainties and an estimate of the related liabilities.

Financial Risks
The main financial risks faced by 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 monetary assets, 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 speculative transactions are strictly prohibited.

Note 29 "Financial Risks Management" to the consolidated financial statements in this Annual Report contains a detailed description of financial risks faced by the Company and the instruments it employs to mitigate these risks.

Management Summary

The Management Board has reviewed and analysed the risks to which the Company is exposed, as well as the effectiveness of the Company's internal risk management and control systems over the course of 2011. The conclusions of this review have been shared with the Audit Committee and the Supervisory Board and discussed with X5's external auditors.

The Management Board believes that the risk management and control systems related to financial reporting risks have functioned properly during the year, and provide reasonable assurance that the Company's 2011 financial statements 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 provide an accurate 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 an accurate 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 the principal risks it faces.

The Management Board
12 April 2012

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.

Composition and Profile 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. In accordance with the retirement and reappointment schedule of the Supervisory Board, the terms of Mr. Ashurkov, Mr. Tynkovan and Mr. DuCharme will expire in 2012. All three board members are eligible for reappointment. An overview of the current composition of the Supervisory Board is presented in the Corporate Governance Report.

Composition of the Committees

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. An overview of the current composition of the committees is presented in the Corporate Governance Report. There were no changes in the composition of the committees in 2011 and until the date of publication of this report.

Induction

Induction and permanent education are key elements of good governance. New members of the Board follow an induction program covering the strategic, financial, legal and reporting affairs of the Company and meetings with senior executives. On an ongoing basis, members of the Supervisory Board visit operating companies and other parts of the business including stores and warehouses, 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 met five times during 2011. Each meeting of the Supervisory Board was preceded by meetings of the Audit Committee, the Nomination and Remuneration Committee, the Strategy Committee and, when necessary, the Related Party Committee. The meeting in July was preceded by a one-day meeting fully dedicated to the Company's strategy. 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. In 2011 the Supervisory Board held one private session 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 2010 Annual Report and financial statements were recommended for adoption by the Annual General Meeting of Shareholders. In April 2011 the Supervisory Board conducted a self-assessment and appraised its functioning, profile, competence and composition, as well as its relationship with the Management Board. Members of the Supervisory Board were particularly asked to assess the progress made with respect to the recommendations following the Board's assessment in the preceding year, and reflect on certain specific areas of Supervisory Board activity in 2010 and early 2011. This evaluation was conducted on the basis of a questionnaire distributed in advance and interviews with the Chairman of the Nomination and Remuneration Committee. 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.

During 2011 the Supervisory Board reviewed various matters related to the Company's activities, operational results, strategies and management, but devoted considerable time on the following topics in particular:

- Management transition pursuant to the nomination of Mr. Gusev and Mr. Balfe as, respectively, new CEO and CFO at the beginning of the year;
- The medium-term strategy for the Company;

- The Company's organization structure;
- The accelerated integration of "Kopeyka";
- The federal law on retail trade in Russia which came into force in 2010, and its impact on the retail industry and X5 in particular.

Other topics included:

- The financial reporting process and in particular the approval of the 2010 Annual Report and review of the 2011 half-yearly and quarterly financial statements and management accounts;
- The reports by the internal and the external auditor;
- The regular assessment of the members of the Management Board and the Executive Board, including talent management and succession planning;
- The appointment and remuneration of senior managers of the Company;
- The Remuneration Policy for members of the Management Board and Executive Board, in particular the variable remuneration components;
- A detailed performance and strategy review of the various business divisions of the Company;
- The financing and investment strategy;
- Development and expansion plan as part of the annual strategic planning cycle;
- The progress of post-merger integration efforts and synergy effects throughout the various operational and staff divisions of the Company;
- Investor Relations strategy;
- Management Information strategy;
- Updates on IT systems, with a specific focus on the implementation of SAP;
- Risk Management;
- The review and approval of the annual budget.

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 2011 the Audit Committee consisted of Mr. Gould (Chairman), Mr. Defforey and Mr. Ashurkov. In 2011 the Audit Committee held five meetings in person. Additional meetings were held by conference call when necessary, for instance to review the publication of the quarterly reports. As a rule, 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. The Audit Committee met once with the auditors without the presence of management.

Throughout 2011 discussions regularly focused on internal and external control procedures, risk management, the Company's financing structure, financial reporting and tax. Internal audit reports were provided during all Audit Committee meetings. In 2011 the Audit Committee specifically focused on the challenges for the Company pursuant to the implementation of the new law on retail trade in Russia in the latter half of 2010 and the impact on the operations and financial reporting of the Company throughout 2011, as well as on the aged inventory and loss reduction plan, management reporting and review of completed investments.

The Audit Committee further discussed topics including:

- The 2010 Annual Report and financial statements;
- The external auditors' report with respect to accounting and audit issues in respect of their audit of the 2010 consolidated financial statements;
- Quarterly interim reports;
- Audit fees, appointment and independence of the external auditor;
- Working capital management;
- Compliance with bank financial covenants;
- Investor relations: strategy and staffing;
- Integrity and compliance;
- Review and approval of the CAD's internal audit plan and budget for 2012;
- Financial reporting calendar and the black-out trading calendar for the year 2012.

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 through the work of the CAD, the external auditor and directly with management. 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.

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 2011 the Nomination and Remuneration Committee consisted of Mr. DuCharme (Chairman), Mr. Defforey, Mr. Ashurkov and Mr. Tynkovan. The Nomination and Remuneration Committee held five meetings in 2011. Other members of the Supervisory Board and senior management where invited when necessary or appropriate. Following Mr. Khasis' resignation as CEO of the Company in March 2011, the Nomination and Remuneration Committee proposed the appointment of Mr. Gusev as his successor. The Committee also proposed the re-appointment of Mr. Lhoëst as Company Secretary for another four year term. During the year, in a joint effort with the Strategy Committee, the Nomination and Remuneration Committee constantly evaluated leadership and human resources needs in relation to the Company's strategic and growth objectives. The Nomination and Remuneration Committee reflected further on the balance between short- and long-term compensation, and appropriate target setting for variable remuneration of members of the Management and Executive Board.

The Nomination and Remuneration Committee further reviewed and prepared the following items for recommendation or report to the full Supervisory Board, as part of its ongoing responsibilities:

- Regular assessment of the members of the Management Board and the Executive Board;
- Variable remuneration and the short and long term incentives of the Management Board and the Executive Board;
- Appointment of senior managers based on selection criteria prepared in advance, as well as their remuneration in accordance with the Company's Remuneration Policy;
- Remuneration Policy for members of the Management Board and the Executive Board, including a scenario analysis of variable remuneration components as part of the annual salary review;
- The composition, profile and competence of the Supervisory Board and the functioning of its committees, based on a self-assessment prepared by the Nomination and Remuneration Committee.

The Remuneration Report on page 41 provides further details on the remuneration for the Management Board and the Supervisory Board, and includes the current Remuneration Policy for the Management Board and the Executive Board, as well as the outlook for 2012 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 2011 the Related Party Committee consisted of Mr. Tynkovan (Chairman) and Mr. DuCharme. The Related Party Committee held two meetings in 2011, including one meeting held by teleconference. 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 2011, 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:

- Insurance contracts with 'AlfaStrahovanie';
- 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'.

Strategy Committee

The role of the Strategy Committee is described in its charter which is available on the Company's website. On 31 December 2011 the Strategy Committee consisted of Mr. Couvreux (Chairman), Mr. Defforey, Mr. Ashurkov and Mr. Tynkovan. The responsibilities of the Strategy Committee include the review of the general strategy of the Company including but not limited to the following main areas: overall growth and development strategy, financing strategy, budget and key-performance indicators, mergers and acquisitions.

The Strategy Committee held six meetings in 2011 including its annual full day conference in July. All meetings were attended by the Chairman of the Audit Committee and the CEO; other senior managers where invited when necessary or appropriate. As part of its overall strategy review of the Company's commercial and staff divisions, the Strategy Committee addressed a variety

of topics including the Company's strategy by format, organization structure, purchasing, logistics and IT strategy. Jointly with the Audit Committee, the Strategy Committee focused on the challenges for the Company pursuant to the implementation of the new law on retail trade in Russia in the latter half of 2010. The annual strategy conference in July was dedicated to the Company's overall medium term strategy, defining the parameters for the Company's multi-year business plan approved in fall. Furthermore, the Strategy Committee discussed the Company's budget for 2012, as well as the 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 2011 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 113.

The Supervisory Board recommends that the Annual General Meeting of Shareholders adopts the 2011 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 and of the Supervisory Board from liability for the exercise of their duties in 2011. The appropriation of results approved by the Supervisory Board can be found on page 112.

The Supervisory Board wishes to thank the Management Board, as well as all employees, for their dedication and hard work for X5 in 2011.

The Supervisory Board
12 April 2012

Remuneration Report

This report has been prepared by the Supervisory Board of X5 Retail Group N.V. in accordance with the Dutch Corporate Governance Code. It contains the remuneration policy of the Management Board of the Company as well as the remuneration specifics of both the Management Board and the Supervisory Board for the financial year 2011. This report also addresses the way in which the remuneration policy will be pursued for the financial year 2012 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. DuCharme (Chairman), Mr. Defforey, Mr. Ashurkov and Mr. Tynkovan.

Remuneration Policy

X5's remuneration policy and the individual employment contracts of the members of the Management Board are determined by the Supervisory Board within the framework of the remuneration policy, as adopted by the General Meeting of Shareholders in 2007, and subsequently amended (most recently in 2011), if and when required pursuant to ongoing developments and insights gained in this area, and in accordance with the Dutch Corporate Governance Code.

The objective of the remuneration policy is twofold:

a. to create a remuneration structure that will allow the Company to attract, reward and retain qualified executives who will lead the Company in achieving its strategic objectives and
b. 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 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, 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 group applied to base salaries benchmarking is currently composed of major Russian companies operating in different sectors of the economy, and equivalent in terms of size of business, complexity of operations, growth dynamics and corporate governance.

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 April 1.

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 the 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, each indicator having equal weight. 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
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 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.

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 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 performance targets have been met. The actual number of RSUs subsequently awarded will depend on the level of achievement of the performance targets and will be either 0%, 50% or 100% of the

(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".

number of conditional RSUs granted, in addition to the RSUs granted subject to the employment condition only.

The performance criteria 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. 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.

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

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, 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 2011

Management Board Remuneration
As described in the Corporate Governance Report on page 24, the composition of the Management Board changed substantially in 2011. Mr. Balfe was appointed as CFO by the General Meeting of Shareholders on 22 February 2011. On 10 March 2011 Mr. Khasis left his position as CEO of the Company. His successor, Mr. Gusev, was appointed by the Annual General Meeting of Shareholders on 20 June 2011. Also in 2011, Mr. Lhoëst was re-appointed as Company Secretary for another four year term.

The base salaries were determined in line with compensation levels in peer group companies, based on the salary benchmarking survey conducted annually. As per the salary review date 1 April 2011 the annual base salaries for the members of the Management Board were determined as follows (in USD):

	Position	Base Salary
Andrei Gusev	Chief Executive Officer	1,361,126
Kieran Balfe	Chief Financial Officer	638,232
Frank Lhoëst	Company Secretary	382,590

For all three members of the Management Board the cash incentive level for the reporting year is based on partial (50%) achievement of the quantitative corporate performance indicators and full (100%) achievement of the personal performance targets. An additional 25% of base salary is awarded to the CEO and CFO for extraordinary performance during a year of transition.

For the year ended 31 December 2011 the Management Board was entitled to a total short-term compensation of USD 3,837,509 (2010: USD 3,402,025).

Compensation overview members of the Management Board for the financial year 2011 (in USD):

	Position	Base Salary 2011*	Cash Bonus 2011**	Share-Based Renumeration***
Andrei Gusev	Chief Executive Officer	1,020,846	1,090,194	757,597
Kieran Balfe	Chief Financial Officer	638,233	582,555	250,091
Frank Lhoëst	Company Secretary	356,504	149,249	137,280

* Base salaries calculated pro rata as per 1 April 2011, if applicable.
** Bonus for the performance of the year reported and paid in cash in 2012.
*** The share-based remuneration relates to the stock option plan and the restricted stock unit plan. Costs relate to the expenses recognised in the income statement for the period; reference is made to notes 39 and 42 to the consolidated financial statements.

Mr. Khasis resigned as per 10 March 2011 while, for management transition purposes, his contract was not terminated until 1 June 2011. Mr. Khasis' compensation for the financial year 2011 can be specified as follows (in USD):

	Position	Base Salary 2011*	Severance Payment	Share-Based Renumeration**
Lev Khasis	Chief Executive Officer	1,213,719	2,862,536	(17,997,945)

* Pro rata for the period 1 January until 1 June 2011.
** The share-based remuneration relates to the stock option plan and the restricted stock unit plan. Costs relate to the expenses recognised in the income statement for the period; reference is made to notes 39 and 42 to the consolidated financial statements.

Cash remuneration amounts were paid in either Russian Roubles or Euro and converted to USD for reporting purposes, using the average USD rate for 2011 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 Roubles or Euro and converted to USD for reporting purposes, using the closing USD rate for 2011 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 cash remuneration of the Supervisory Board amounts to EUR 1,170,000 or USD 1,627,746 (2010: USD 1,552,514).

Compensation overview members of the Supervisory Board for the financial year 2011 (in USD):

	Cash Remuneration 2011	Share-Based Remuneration*
Hervé Defforey (Chairman)	347,809	(1,987,469)
Mikhail Fridman	139,124	-
Vladimir Ashurkov	139,124	-
David Gould	278,247	-
Alexander Tynkovan	166,948	86,561
Stephan DuCharme	278,247	(159,567)
Christian Couvreux	278,247	144,281

* The share-based remuneration relates to the stock option plan and the restricted stock unit plan. Costs relate to the expenses recognised in the income statement for the period; reference is made to notes 39 and 42 to the consolidated financial statements.

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

In December 2011 the term of options granted under tranche 2 of the Employee Stock Option Plan elapsed. Details of options exercised in 2011 and options held as per 31 December 2011 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*	Exercised in 2011	Position 31 Dec. 2011	Exercise Price**	GDR Price on Exercise Date***	Expiration Date****
Management Board											
Lev Khasis	810,000			2	18/05/2008	$8,237,700	810,000		$28.58	$40.82	01/09/2011
		860,625		3	19/05/2009	nil	860,625		$33.43	$40.82	01/09/2011
			860,625	4	19/05/2010	$16,515,394	860,625		$13.91	$40.82	01/09/2011
Andrei Gusev	200,000			2	18/05/2008	$2,034,000			$28.58		16/12/2011
		212,500		3	19/05/2009	nil		212,500	$33.43		20/11/2012
Supervisory Board											
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
Stephan DuCharme			32,500	4	19/05/2010	$623,675	32,500		$13.91	$36.16	20/11/2013

* Intrinsic value (GDR closing price per 19 May 2008: USD 38.75; 19 May 2009: USD 15.18; 19 May 2010: USD 33.10).
** 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'.
*** Calculated on average if options are exercised on consecutive dates.
**** (1) Mr. Khasis' employment contract terminated effective 1 June 2011. As allowed under the ESOP Rules, he exercised his options within three months after the employment termination date; (2) options granted under tranche 2 to Mr. Gusev elapsed on 16 December 2011.

Restricted Stock Units

In 2011 the first tranche of RSUs was awarded based on the level of achievement of the performance targets as defined under the plan. This resulted in a 50% award of the performance related conditionally granted RSUs, in addition to a 100% award of the RSUs granted subject to the employment condition only. Details of RSUs conditionally granted and awarded to members of the Management Board and Supervisory Board are set forth below:

	Tranche	Conditional Grant 2010	Conditional Grant 2011	Tranche	RSU Value on Grant Date*	Award Date	RSUs Awarded**	RSU Value on Award Date*	Vesting Date	End of Lock-Up Period
Management Board										
Andrei Gusev	1	39,147		1	$1,389,719	19/05/2011	24,467	880,812	19/05/2013	19/05/2015
	2		79,365	2		19/05/2012			19/05/2014	19/05/2016
Kieran Balfe	2		37,214	2		19/05/2012			19/05/2014	19/05/2016
Frank Lhoëst	1	14,438		1	$512,549	19/05/2011	9,024	324,864	19/05/2013	19/05/2015
	2		21,832	2		19/05/2012			19/05/2014	19/05/2016
Lev Khasis***	1	128,817		1	$4,573,004	19/05/2011	28,626	1,030,536	19/05/2013	19/05/2015
Supervisory Board										
Hervé Defforey	1	9,024		1	$320,352	19/05/2011	9,024	324,864	19/05/2013	19/05/2015
	2		9,923	2		19/05/2012			19/05/2014	19/05/2016
Stephan DuCharme	1	7,219		1	$256,275	19/05/2011	7,219	259,884	19/05/2013	19/05/2015
	2		7,939	2		19/05/2012			19/05/2014	19/05/2016
Alexander Tynkovan	1	4,331		1	$153,751	19/05/2011	4,331	155,916	19/05/2013	19/05/2015
	2		4,763	2		19/05/2012			19/05/2014	19/05/2016
Christian Couvreux	1	7,219		1	$256,275	19/05/2011	7,219	259,884	19/05/2013	19/05/2015
	2		7,939	2		19/05/2012			19/05/2014	19/05/2016

* RSU value on 25 June 2010: USD 35.50; RSU value on 19 May 2011: USD 36.00.
** 50% award of RSUs subject to performance test as per 19 May 2011, based on level of achievement of Plan KPIs.
*** Lev Khasis' employment contract terminated effective 1 June 2011. In accordance with the rules of the restricted stock unit plan, two thirds of the number of RSUs awarded were forfeited.

Remuneration Policy in 2012 and beyond

The Nomination and Remuneration Committee is constantly monitoring current trends in design and structure of incentive plans, and will reflect on ways to further improve the balance between short- and long-term compensation, the alignment of performance, reward and talent management, as well as the alignment between management and shareholders.

The Supervisory Board
12 April 2012

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X5 Retail Group

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Dutch GAAP Company's Financial Statements and

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X5 Retail Group
Consolidated Statement of Financial Position at 31 December 2011

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

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	10	3,824,893	3,591,025
Investment property	11	141,034	145,643
Goodwill	12	1,957,876	2,025,196
Intangible assets	13	601,026	718,854
Prepaid leases	10	71,017	86,419
Investment in associates	8	1,331	-
Available-for-sale investments	15	6,535	-
Other non-current assets	16	18,530	7,457
Deferred tax assets	28	136,801	131,191
		6,759,043	6,705,785
Current assets			
Inventories of goods for resale	14	895,007	1,014,302
Indemnification asset	7	52,149	51,573
Loans originated	15	19,811	1,314
Current portion of non-current prepaid lease	10	10,051	13,443
Trade and other accounts receivable	16	361,783	368,862
Current income tax receivable		31,438	76,149
VAT and other taxes recoverable	17	295,913	261,828
Cash and cash equivalents	9	385,001	270,762
		2,051,153	2,058,233
Total assets		**8,810,196**	**8,764,018**

X5 Retail Group Consolidated Statement of Financial Position at 31 December 2011
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2011	31 December 2010
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	20	93,717	93,712
Share premium		2,049,592	2,049,144
Cumulative translation reserve		(709,693)	(574,268)
Retained earnings		754,580	470,980
Share-based payment reserve	27	7,776	5,965
		2,195,972	**2,045,533**
Non-controlling interest	7	**-**	**1,658**
Total equity		**2,195,972**	**2,047,191**
Non-current liabilities			
Long-term borrowings	19	2,696,877	3,176,792
Long-term finance lease payable		1,347	2,737
Deferred tax liabilities	28	207,356	257,977
Long-term deferred revenue		1,261	135
Share-based payments liability	27	-	13,157
Other non-current liabilities		3,175	1,339
		2,910,016	3,452,137
Current liabilities			
Trade accounts payable		1,906,365	1,851,062
Short-term borrowings	19	913,160	508,004
Share-based payments liability	27	2,396	76,141
Short-term finance lease payables		2,218	1,680
Interest accrued		12,422	16,678
Short-term deferred revenue		13,734	13,165
Current income tax payable		52,187	47,249
Provisions and other liabilities	18	801,726	750,711
		3,704,208	**3,264,690**
Total liabilities		**6,614,224**	**6,716,827**
Total equity and liabilities		**8,810,196**	**8,764,018**

X5 Retail Group
Consolidated Income Statement
for the year ended 31 December 2011

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

	Note	31 December 2011	31 December 2010
Revenue	22	15,455,088	11,280,492
Cost of sales	23	(11,776,132)	(8,651,734)
Gross profit		**3,678,956**	**2,628,758**
Selling, general and administrative expenses	23	(3,171,204)	(2,224,355)
Lease/sublease and other income	24	194,232	140,666
Operating profit		**701,984**	**545,069**
Finance costs	25	(301,937)	(147,903)
Finance income	25	4,244	1,690
Share of profit of associates		-	438
Net foreign exchange gain/(loss)		812	(12,982)
Profit before tax		**405,103**	**386,312**
Income tax expense	28	(102,912)	(115,066)
Profit for the year		**302,191**	**271,246**
Profit for the year attributable to:			
Equity holders of the parent		301,430	271,688
Non-controlling interest		761	(442)
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	21	4.44	4.01
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	21	4.44	3.99

X5 Retail Group
Consolidated Statement of Comprehensive income for the year ended 31 December 2011

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

	31 December 2011	31 December 2010
Profit for the year	**302,191**	**271,246**
Other comprehensive income/(loss)		
Exchange differences on translation from functional to presentation currency	(135,425)	(14,692)
Changes in fair value of financial instruments	-	10,108
Change in fair value of available-for-sale investments	(249)	-
Other comprehensive loss	**(135,674)**	**(4,584)**
Total comprehensive income for the year	**166,517**	**266,662**
Total comprehensive income/(loss) for the year attributable to:		
Equity holders of the parent	165,756	267,104
Non-controlling interest	761	(442)

X5 Retail Group
Consolidated Statement of Cash Flows
for the year ended 31 December 2011

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

	Note	31 December 2011	31 December 2010
Profit before tax		**405,103**	**386,312**
Adjustments for:			
Depreciation, amortisation and impairment	23	428,258	298,523
Loss on disposal of property, plant and equipment		20,908	16,180
Finance costs, net	25	297,693	146,213
Impairment of trade and other accounts receivable	23	59,335	11,447
Share-based options (income)/expense	27	(40,372)	63,166
Amortisation of deferred expenses		15,247	14,652
Net foreign exchange (gain)/loss		(812)	12,982
Income from associate		-	(438)
Other non-cash items	33,10	4,065	(48,846)
Net cash from operating activities before changes in working capital		**1,189,425**	**900,191**
Increase in trade and other accounts receivable		(141,650)	(167,413)
Decrease/(Increase) in inventories of goods for resale		75,899	(277,351)
Increase in trade payable		161,696	177,695
Increase in other accounts payable		78,167	16,133
Net cash generated from operations		**1,363,537**	**649,255**
Interest paid		(299,156)	(132,110)
Interest received		1,560	2,028
Income tax paid		(139,811)	(141,094)
Net cash from operating activities		**926,130**	**378,079**

X5 Retail Group Consolidated Statement of Cash Flows for the year ended 31 December 2011
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2011	31 December 2010
Cash flows from investing activities			
Purchase of property, plant and equipment		(791,946)	(366,160)
Non-current prepaid lease		(8,309)	(17,324)
Acquisition of subsidiaries	7	(57,060)	(1,140,629)
Loans issued		(39,800)	-
Repayment of loans issued		15,653	-
Proceeds from sale of property, plant and equipment		9,833	5,319
Purchase of intangible assets		(22,317)	(29,387)
Net cash used in investing activities		**(893,946)**	**(1,548,181)**
Cash flows from financing activities			
Proceeds from loans		1,549,138	1,995,646
Repayment of loans		(1,436,151)	(925,893)
Proceeds from sale of treasury shares		369	-
Principal payments on finance lease obligations		(2,269)	(3,717)
Net cash generated from financing activities		**111,087**	**1,066,036**
Effect of exchange rate changes on cash and cash equivalents		(29,032)	(36,853)
Net increase/(decrease) in cash and cash equivalents		**114,239**	**(140,919)**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		270,762	411,681
Net increase/(decrease) in cash and cash equivalents		114,239	(140,919)
Cash and cash equivalents at the end of the year		**385,001**	**270,762**

X5 Retail Group
Consolidated Statement of Changes In Equity
for the year ended 31 December 2011

(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 2010	**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/(loss) 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)	-	-	-	-	-	-	-	-	2,100	2,100
Share-based compensation (Note 27)	-	-	-	-	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**	**1,658**	**2,047,191**
Other comprehensive loss for the year	-	-	-	-	-	(135,425)	-	(135,425)	-	(135,425)
Profit for the year	-	-	-	-	-	-	301,430	301,430	761	302,191
Change in fair value of available-for-sale investments	-	-	-	-	-	-	(249)	(249)	-	(249)
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**-**	**-**	**(135,425)**	**301,181**	**165,756**	**761**	**166,517**
Share-based compensation (Note 27)	-	-	-	-	1,811	-	-	1,811	-	1,811
Sale of treasury shares (Note 20)	5,086	5	448	-	-	-	-	453	-	453
Acquisition of non-controlling interest (Note 7)	-	-	-	-	-	-	(17,581)	(17,581)	(2,419)	(20,000)
Balance as at 31 December 2011	**67,819,033**	**93,717**	**2,049,592**	**-**	**7,776**	**(709,693)**	**754,580**	**2,195,972**	**-**	**2,195,972**

X5 Retail Group Notes to Consolidated Financial Statements for the year ended 31 December 2011

(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 2011 the Group operated a retail chain of 3,002 soft-discount, supermarket, hypermarket and convenience stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Pyaterochka-Maxi" and "Perekrestok-Express" in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg and Kiev, Ukraine (31 December 2010: 2,469 soft-discount, supermarket, hypermarket and convenience stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Pyaterochka-Maxi" and "Kopeyka"), with the following number of stores:

	31 December 2011	31 December 2010
Supermarket		
Central	192	172
North-West	34	33
Sredne-Volzhsky	26	26
Privolzhsky	16	15
South	15	14
Volgo-Vyatsky	21	19
Central-Chernozem	9	9
Ukraine	10	6
Ural	7	7
	330	**301**
Soft Discounter		
Central	1,159	567
North-West	438	358
Ural	224	181
Volgo-Vyatsky	185	64
South	124	67
Sredne-Volzhsky	126	58
Privolzhsky	117	55
Central-Chernozem	152	42
	2,525	**1,392**
Hypermarket		
North-West	17	17
Central	17	14
Privolzhsky	9	7
Volgo-Vyatsky	9	9
Sredne-Volzhsky	8	7
South	5	6
Central-Chernozem	6	6
Ural	6	5
	77	**71**
Convenience stores	70	45
Kopeyka	-	660
Total stores	**3,002**	**2,469**

In 2011 the Group converted 616 Kopeyka stores with remaining 44 stores closed, 607 stores were rebranded as soft discounters and 9 as supermarkets. In addition as at 31 December 2011, the Group's franchisees operated 658 stores (31 December 2010: 665 stores) across Russia.

As at 31 December 2011 the Company's principal shareholder is the Alfa Group Consortium, through its holding company CTF Holdings Limited ("CTF"), owning 47.86% of total issued shares in the Company, both directly (0.7%) and indirectly through Luckyworth Limited (25.54%) and Cesaro Holdings Limited (21.62%). CTF, registered in Gibraltar, 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. As at 31 December 2011 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 20).

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 2011 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 2.28).

2.2. 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.

2.3. 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.

2.4. 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 2011, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 32.1961 (31 December 2010:

USD 1 = RR 30.4769). The average rate for year ended 31 December 2011 was USD 1 = RR 29.3874 (12 months 2010: USD 1 = RR 30.3692).

2.5. 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.

2.6. 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.

2.7. 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 represent 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 and, 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.

2.8. 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. Goodwill is not deductible for tax purposes.

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.

2.9. 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 except preopening rentals capitalized as a part of retail store construction costs.

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 33).

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.

2.10. 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.

2.11. 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.

2.12. 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 weighted average 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.

2.13. 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. When derivative financial instruments are quoted on active markets 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 effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income.

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 investments
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 such increase can objectively relate 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.

2.14. 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.

2.15. 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.

2.16. 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.

2.17. 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 their employees. These contributions are accrued when incurred. The Group's commitment ends with the payment of these contributions.

2.18. 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 under the employee stock plan are accounted for as equity-settled transactions.

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.

2.19. 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.

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

2.20. 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. Trade payables are recognised initially at fair value.

2.21. 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.

2.22. 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.

2.23. Treasury shares
Where any Group company purchases the Company's equity share capital, the paid consideration, 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 received consideration, 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.

2.24. 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.

2.25. 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 28 and 33).

2.26. 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 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.

2.27. 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. Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.28. Fair value of assets and liabilities at the acquisition date
In April 2010 the Group acquired an additional 20% of the voting shares of Retail Express Limited, the purchase brought the Group's total ownership interest to 60% of Retail Express Ltd. In September 2010 the Group acquired 100% of the voting shares of ZAO "Ostrov Invest". In December 2010 the Group acquired 100% of the business and assets of Kopeyka, a Russian retail chain.

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

During the reporting period provisional values of Kopeyka, Retail Express and Ostrov 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 2010 was changed to reflect the updated provisional values from the date of acquisition (Note 7).

2.29. 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.

2.30. Change in accounting policies
In 2011 the Group changed the method of inventory cost accounting from first-in, first-out (FIFO) to weighted average after implementation of SAP R3 platform, the effect on the inventory cost is not significant. Preopening rentals and other directly attributable operating expenses incurred by the Group before store opening

are capitalized as a part of retail store construction costs. These costs relate to construction of the non-current assets rather than operating activity of the store, the amount of capitalized operating expenses is not significant.

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 2011.

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 33).

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 (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 27.

4. Adoption of New and Revised Standards and Interpretations and New Accounting Pronouncement

Certain new standards and interpretations became effective for the Group from 1 January 2011:

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 the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; 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 above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The amendment did not have any material effect on these 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 amendment did not have any material effect on these financial statements.

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 amendment did not have any material effect on these 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 applies 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 amendment did not have any material effect on these financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment did not have any material effect on these 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 (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. 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.

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

IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 11, Joint arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures.

The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 12, Disclosure of interest in other entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in Group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the new standard on its financial statements.

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, consolidated financial statements. The Group is currently assessing the impact of the new standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the new standard 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 Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

Amendments to IAS 1, Presentation of financial statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU), changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013; not yet adopted by the EU), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply IAS 19 and may

significantly change performance indicators and the volume of disclosures. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014; not yet adopted by the EU). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these 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, supporting 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.

The segment information for the year ended 31 December 2011 is as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Retail sales	15,431,772	11,263,827
Other revenue	23,316	16,665
Revenue	**15,455,088**	**11,280,492**
EBITDA	**1,130,242**	**843,592**
Capital expenditure	850,099	405,599
Total assets	**8,810,196**	**8,764,018**
Total liabilities	**6,614,224**	**6,716,827**

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 2011	Year ended 31 December 2010
EBITDA	1,130,242	843,592
Depreciation and amortization	(428,258)	(298,523)
Operating profit	**701,984**	**545,069**
Finance cost, net	(297,693)	(146,213)
Net foreign exchange result	812	(12,982)
Share of profit of associates	-	438
Profit before income tax	**405,103**	**386,312**
Income tax expense	(102,912)	(115,066)
Profit for the year	**302,191**	**271,246**

6. Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2011 and 31 December 2010 are as follows:

			Ownership (%)	
Company	**Country**	**Nature of operations**	**31 December 2011**	**31 December 2010**
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
Key Retail Technologies Ltd.	Gibraltar	Holding company	100	100
Perekrestok Holdings Ltd.	Gibraltar	Holding company	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
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	100
Kopeyka-Moscow OOO	Russia	Retailing	100	100
TF Samara-Product OOO	Russia	Retailing	100	100
Kopeyka-Voronezh OOO	Russia	Retailing	100	100
Kopeyka-Privolzhye OOO	Russia	Retailing	100	100

7. Acquisition of Subsidiaries

Narodny retail chain

In June 2011 the Group acquired 100% of the voting shares of OOO Pik, which operated stores in Kazan and Naberezhnie Chelny under the Narodny brand.

If the acquisition of Narodny had occurred on 1 January 2011, the Group's revenue for the year ended 31 December 2011 would have been USD 15,499,655 and the Group's profit for the year ended 31 December 2011 would have been USD 302,317. In the year ended 31 December 2011 the acquired business of Narodny contributed revenue of USD 5,695 and a net loss of USD 4,218 from the date of acquisition.

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

	Provisional values at the acquisition date
Cash and cash equivalents	384
Inventories of goods for resale	3,074
Trade and other accounts receivable	5,056
Intangible assets (Note 13)	8,322
Property, plant and equipment (Note 10)	5,821
Short-term borrowings	(6,515)
Trade and other accounts payable	(7,554)
Provisions and liabilities for tax uncertainties (Note 18)	(854)
Deferred tax liability	(2,058)
Net assets acquired	5,676
Goodwill (Note 12)	6,913
Total acquisition cost	**12,589**
Net cash outflow arising from the acquisition	**7,060**

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 months from the acquisition date.

The purchase consideration comprises deferred consideration of USD 13,514 compensated by indemnification asset deducted from consideration transferred for the business combination, part of which in the amount of USD 7,444 was paid during the year ended 31 December 2011.

An indemnification asset of USD 925, equivalent to the fair value of the indemnified liability, has been recognised by the Group. The selling shareholders of Narodny have contractually agreed to indemnify potential tax and other contingencies that may become payable in respect of the Narodny, indemnification arrangement is capped to USD 18,165.

Acquisition-related costs recognized as other expense in the consolidated statement of comprehensive income were immaterial.

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

Other acquisitions

In 2011 the Group acquired several businesses 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 2011 as though the acquisition date had been the beginning of that period.

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

	Provisional values at the acquisition date
Cash and cash equivalents	299
Inventories of goods for resale	2,419
Trade and other accounts receivable	549
Intangible assets (Note 13)	6,234
Property, plant and equipment (Note10)	12,272
Short-term borrowings	(4,752)
Trade and other accounts payable	(4,115)
Provisions and liabilities for tax uncertainties (Note 18)	(369)
Deferred tax liability	(2,608)
Net assets acquired	9,929
Goodwill (Note 12)	40,371
Total acquisition cost	**50,300**
Net cash outflow arising from the acquisition	**42,737**

The Group assigned provisional values to net assets acquired, in estimating provisional values of intangible assets and property, plant and equipment direct references to observable prices in an active market and estimates of the independent appraisal are used (market approach). The Group will finalise the purchase price allocation within 12 months from the acquisition date.

The purchase consideration comprises cash and cash equivalents of USD 43,036, deferred consideration of USD 7,633 compensated by indemnification asset deducted from consideration transferred for the business combination.

An indemnification asset of USD 369, equivalent to the fair value of the indemnified liability, has been recognised by the Group.

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

Kopeyka

In December 2010 the Group acquired 100% of the business and assets of Kopeyka.

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

	Effect of change in purchase price allocation on the Consolidated Statement of Financial Position as at 31 December 2010
Inventories of goods for resale	(1,440)
Trade and other accounts receivable	(13,571)
Property, plant and equipment	(9,521)
Trade and other accounts payable	(10,460)
Deferred tax liability	3,174
Net liabilities acquired	(31,818)
Goodwill (Note 12)	31,818

Retail Express

In April 2010 the Group acquired an additional 20% of the voting shares of Retail Express Ltd., the purchase brought the Group's total ownership interest to 60% of Retail Express Ltd.

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

	Effect of change in purchase price allocation on the Consolidated Statement of Financial Position as at 31 December 2010
Trade and other accounts receivable	149
Deferred tax assets	(121)
Trade and other accounts payable	392
Deferred tax liability	(35)
Net assets acquired	385
Non-controlling interest	(157)
Goodwill (Note 12)	(228)

In September 2011 the Group acquired an additional 40% of the voting shares of Retail Express Ltd., the purchase brought the Group's total ownership interest to 100% of Retail Express Ltd.

The purchase consideration comprises cash and cash equivalents of USD 20,000. Difference between the fair value of consideration transferred and the carrying value of non-controlling interest is recognized in consolidated statement of changes in equity.

Ostrov

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

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

	Effect of change in purchase price allocation on the Consolidated Statement of Financial Position as at 31 December 2010
Trade and other accounts receivable	(565)
Property, plant and equipment	(1,866)
Deferred tax liability	258
Net liabilities acquired	(2,173)
Indemnification asset	7,836
Goodwill (Note 12)	(5,663)

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 2011 are provided below. The ultimate controlling party is disclosed in Note 1.

Alfa Group Consortium

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

	Relationship	2011	2010
CTF Holdings Ltd.	Ultimate parent company		
Management services received		1,417	1,302
Recharged expenses		112	347
Alfa-Bank	Under common control		
Interest expense on loan received		18,706	9,353
Commission income		1,023	-
Interest income		205	769
Bank charges		1,013	1,677
Rent revenue		348	866
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services received		6,255	3,371
Commission for mobile phone payments processing rendered by the Group to VimpelCom		650	801
Rent revenue		219	195
AlfaInsurance	Under common control		
Insurance expenses		3,088	157
Megafon	Under significant influence of CTF Holdings Ltd.		
Commission for mobile phone payments processing rendered by the Group to Megafon		547	570
Rent revenue		363	223

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

	Relationship	31 December 2011	31 December 2010
CTF Holdings Ltd.	Ultimate parent company		
Other accounts payable		23	7
Alfa-Bank	Under common control		
Cash and cash equivalents		74,018	43,274
Receivable from related party		506	306
Short-term loans payable		347,868	127,966
Other accounts payable		264	307
Long-term loans payable		93,179	98,435
AlfaInsurance	Under common control		
Receivable from related party		7	69
Other accounts payable		526	-
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Receivable from related party		288	346
Other accounts payable		1,292	743
Megafon	Under significant influence of CTF Holdings Ltd.		
Receivable from related party		392	189
Other accounts payable		73	95

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of RUR 15,100 mln or USD 469,001 (31 December 2010: RUR 15,100 mln or USD 495,457). At 31 December 2011 the Group's liability under this credit line amounted to USD 441,047 with interest rates of 7.17–7.90% p.a. (31 December 2010: USD 226,401) and available credit line of USD 27,954 (31 December 2010: USD 269,056). 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.

Magazin Buduschego

In 2011 the Group together with Rosnano and Citronix established Magazin Budushego to develop RFID technology for retail, the Group share in associate is 33.33%. At 31 December 2011 and for the year then ended total assets, liabilities, revenue and loss of associate are not significant. The Group did not have significant balances and transactions with associate.

Key management personnel compensation

Key management personnel compensation is disclosed in Note 26.

9. Cash and Cash Equivalents

	31 December 2011	31 December 2010
Cash in hand – Roubles	39,827	35,610
Cash in hand – Ukrainian Hryvnia	240	208
Bank current account – Roubles	139,053	107,626
Bank current account – Ukrainian Hryvnia	3	637
Bank current accounts and deposits – US Dollars	9,463	8,467
Cash in transit – Roubles	189,376	93,956
Cash in transit – Ukrainian Hryvnia	1,037	647
Short-term deposits – Roubles	5,983	18,636
Other cash equivalents	19	4,975
	385,001	**270,762**

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.

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

Bank	Moody's	Fitch	S&P	31 December 2011	31 December 2010
Alfa-Bank	Ba1	BB+	BB	74,018	43,274
Sberbank	Baa1	BBB	-	49,694	30,905
Raiffeisenbank	Baa3	BBB+	BBB	9,557	10,823
HSBC	Aa2	AA	A+	8,524	1,217
MCB	B1/NP	B+	B+	5,337	5,479
Gazprombank	Baa3	-	BB+	2,080	7,577
VTB	Baa1	BBB	BBB	1,364	1,954
Uralsib	Ba3/D	BB-	BB-	341	14,557
Credit Europe	Ba3	BB-	-	-	16,408
Other banks				3,587	3,172
Cash in transit and in hand				230,480	130,421
Other monetary assets				19	4,975
Total				**385,001**	**270,762**

10. Property, Plant and Equipment

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress	Total
Cost:							
At 1 January 2010	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	43,583	27,516	26,729	8,382	14,473	469,238
Disposals	(19,777)	(11,853)	(5,891)	(971)	(6,988)	(10,285)	(55,765)
Translation movement	(11,122)	(1,756)	(980)	374	(952)	(1,400)	(15,836)
At 31 December 2010	3,124,553	418,298	261,852	83,252	208,602	254,260	4,350,817
Additions	1,106	777	675	121	171	792,201	795,051
Transfers (Note 11)	250,647	72,404	81,333	25,502	74,795	(517,306)	(12,625)
Assets from acquisitions (Note 7)	13,250	1,620	2,816	19	361	27	18,093
Disposals	(24,485)	(15,722)	(12,656)	243	(4,846)	(16,146)	(73,612)
Translation movement	(187,281)	(28,054)	(20,480)	(6,704)	(17,832)	(35,935)	(296,286)
At 31 December 2011	3,177,790	449,323	313,540	102,433	261,251	477,101	4,781,438
Accumulated depreciation:							
At 1 January 2010	(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)
Charge for the year	(126,963)	(66,922)	(37,348)	(15,491)	(49,452)	(981)	(297,157)
Disposals	17,329	8,312	7,784	24	3,104	-	36,553
Translation movement	29,449	18,190	7,288	2,310	5,404	1,210	63,851
At 31 December 2011	(456,935)	(195,153)	(114,620)	(31,675)	(137,374)	(20,788)	(956,545)
Net book value at 31 December 2011	**2,720,855**	**254,170**	**198,920**	**70,758**	**123,877**	**456,313**	**3,824,893**
Net book value at 31 December 2010	**2,747,803**	**263,565**	**169,508**	**64,734**	**112,172**	**233,243**	**3,591,025**
Net book value at 1 January 2010	**2,347,280**	**231,194**	**120,888**	**22,805**	**53,673**	**214,246**	**2,990,086**

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 33). 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 81,068 (31 December 2010: USD 99,862). Loans from acquisition (Note 19) were collaterized by land and buildings including investment property with a net book value of USD 8,458.

Impairment Test

At the end of 2011 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 2012. 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%). Inflation rates are in line 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.

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 2011 and 31 December 2010:

Cost:	2011	2010
Cost at 1 January	162,119	144,136
Assets from acquisitions (Note 7)	-	16,227
Transfer from property, plant and equipment (Note 10)	12,625	2,437
Disposals	(961)	(14)
Translation movement	(10,014)	(667)
Cost at 31 December	163,769	162,119
Accumulated depreciation:		
Accumulated depreciation at 1 January	(16,476)	(10,711)
Charge for the year	(7,881)	(5,871)
Disposals	111	4
Translation movement	1,511	102
Accumulated depreciation at 31 December	(22,735)	(16,476)
Net book value at 31 December	**141,034**	**145,643**
Net book value at 1 January	**145,643**	**133,425**

Rental income from investment property amounted to USD 32,390 (2010: USD 25,628). Direct operating expenses incurred by the Group in relation to investment property amounted to USD 10,277 (2010: USD 9,882). There were not significant direct operating expenses incurred by the Group in relation to investment property that did not generate rental income.

Management estimates that the fair value of investment property at 31 December 2011 amounted to USD 363,158 (31 December 2010: USD 198,826).

12. Goodwill

Movements in goodwill arising on the acquisition of subsidiaries at 31 December 2011 and 31 December 2010 are:

Cost:	2011	2010
Gross book value at 1 January	4,201,013	2,970,518
Acquisition of subsidiaries (Note 7)	47,284	1,219,151
Translation to presentation currency	(230,789)	11,344
Gross book value at 31 December	4,017,508	4,201,013
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(2,175,817)	(2,192,557)
Translation to presentation currency	116,185	16,740
Accumulated impairment losses at 31 December	(2,059,632)	(2,175,817)
Carrying amount at 31 December	**1,957,876**	**2,025,196**
Carrying amount at 1 January	**2,025,196**	**777,961**

Goodwill Impairment Test

Goodwill is monitored for internal management purposes at the operating 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 GDR price falls below the level of USD 8.09 per GDR. The market capitalization of the Group at 31 December 2011 amounted to USD 6,195,776 significantly exceeded the carrying amount of the CGU.

Value in use

Discounted free cash flow approach is utilized. For the 10 year period from 2012 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%). Inflation rates are in line 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.

13. Intangible Assets

Intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Lease rights	Total
Cost:					
At 1 January 2010	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
Additions	-	-	22,296	103	22,399
Acquisition of subsidiaries (Note 7)	4,076	-	-	10,480	14,556
Disposals	-	(13,506)	(428)	(1,459)	(15,393)
Translation movement	(30,372)	(3,493)	(6,792)	(9,883)	(50,540)
At 31 December 2011	532,120	70,491	105,905	165,704	874,220
Accumulated amortisation:					
At 1 January 2010	(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)
Charge for the year	(63,240)	(16,520)	(25,825)	(17,635)	(123,220)
Disposals	-	13,506	417	1,180	15,103
Translation movement	10,182	2,495	2,841	3,749	19,267
At 31 December 2011	(140,429)	(42,329)	(32,310)	(58,126)	(273,194)
Net book value at 31 December 2011	**391,691**	**28,162**	**73,595**	**107,578**	**601,026**
Net book value at 31 December 2010	**471,045**	**45,680**	**81,086**	**121,043**	**718,854**
Net book value at 1 January 2010	**324,071**	**25,767**	**36,636**	**109,637**	**496,111**

14. Inventories of Goods for Resale

Inventories of goods for resale as of 31 December 2011 and 31 December 2010 comprise the following:

	31 December 2011	31 December 2010
Inventories of goods for resale	968,636	1,083,718
Less: provision for shrinkage and slow moving stock	(73,629)	(69,416)
	895,007	**1,014,302**

Inventory shrinkage and slow moving stock recognised as cost of sales in the consolidated income statement amounted to USD 345,619 (2010: USD 222,556).

15. Financial Instruments by Category

	Loans and receivables	Available-for-sale investments	Total
31 December 2011			
Assets as per consolidated statement of financial position			
Available-for-sale investments	-	6,535	6,535
Trade and other receivables excluding prepayments	300,191	-	300,191
Loans originated	19,811	-	19,811
Cash and cash equivalents	385,001	-	385,001
Total	**705,003**	**6,535**	**711,538**

	Financial liabilities at amortised cost
31 December 2011	
Liabilities as per consolidated statement of financial position	
Borrowings (excluding finance lease liabilities)	3,610,037
Interest accrued	12,422
Finance lease liabilities	3,565
Trade and other payables excluding statutory liabilities and advances	2,312,234
Total	**5,938,258**

	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
Trade and other payables excluding statutory liabilities and advances	2,289,620
Total	**5,995,511**

In 2011 the Group provided a secured by shares loan in the amount of RUR 1 bln to A5 Pharmacy Retail Limited, part of the loan was repaid in 2011. Loan fair value and collateral fair value approximate loan carrying value.

In May 2011 the Group acquired 8.45% stake in A5 Pharmacy Retail Limited, pharmacy chain. The Group calculated fair value of the investment based on estimates of the independent appraisal which were determined by using valuation techniques. These valuation techniques were the use of observable market data where it is available and other techniques, such as discounted cash flow analysis. Change of the fair value of the investment during the reporting period was recognized in the statement of comprehensive income.

16. Trade and Other Accounts Receivable

	31 December 2011	31 December 2010
Trade accounts receivable	311,238	242,957
Advances made to trade suppliers	7,573	18,732
Other receivables	70,083	52,548
Prepayments	68,699	90,926
Accounts receivable for franchise services	1,416	105
Receivables from related parties (Note 8)	1,193	910
Provision for impairment of trade and other receivables	(98,419)	(37,316)
	361,783	**368,862**

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. Other non-current assets are mainly represented by long-term prepayments for rent.

Trade receivables
There are balances of USD 65,198 that in accordance with accounting policies are past due but not impaired as at 31 December 2011 (31 December 2010: USD 42,737).

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

	31 December 2011	31 December 2010
2–6 months	55,216	28,730
Over 6 months	9,982	14,007
	65,198	**42,737**

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

	2011	2010
At 1 January	(24,461)	(13,119)
Addition of provision for receivables impairment	(33,336)	(16,707)
Release of provision for receivables impairment	14,214	5,224
Translation movement	2,553	141
At 31 December	**(41,030)**	**(24,461)**

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.

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

	31 December 2011	31 December 2010
3–6 months	2,610	1,838
Over 6 months	38,420	22,623
	41,030	**24,461**

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, advances made to trade suppliers, prepayments and receivables for franchise services

There are balances of USD 17,052 that in accordance with accounting policies are past due but not impaired as at 31 December 2011 (31 December 2010: USD 10,168).

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

	31 December 2011	31 December 2010
2–6 months	7,424	5,153
Over 6 months	9,628	5,015
	17,052	**10,168**

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

	2011	2010
At 1 January	(12,855)	(12,995)
Addition of provision for receivables impairment	(57,900)	(7,641)
Release of provision for receivables impairment	7,236	7,677
Translation movement	6,130	104
At 31 December	**(57,389)**	**(12,855)**

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

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

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

	31 December 2011	31 December 2010
3-6 months	2,475	433
Over 6 months	54,914	12,422
	57,389	**12,855**

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 2011	31 December 2010
VAT recoverable	274,636	239,602
Other taxes recoverable	21,277	22,226
	295,913	**261,828**

VAT recoverable related to property, plant and equipment of USD 17,552 (31 December 2010: USD 27,564) 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 depend 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. Provisions and Other Liabilities

	31 December 2011	31 December 2010
Taxes other than income tax	232,688	85,542
Provisions and liabilities for tax uncertainties (Note 33)	119,382	165,896
Accrued salaries and bonuses	131,479	119,743
Payables to landlords	19,121	7,779
Other accounts payable and accruals	242,971	271,434
Accounts payable for property, plant and equipment	12,298	49,670
Advances received	43,787	50,647
	801,726	**750,711**

There are no significant amounts of payables to foreign counterparties as at 31 December 2011 and 31 December 2010.

19. Borrowings

		31 December 2011		
	Interest rate, % p.a.	Current During 1 year	Non-current In 1 to 3 years	Total
RUR Club loan	MosPrime 1M +2.5%	-	380,343	380,343
RUR Bonds	7.75% – 16.5%	211,935	488,180	700,115
RUR Bilateral Loans	MosPrime 1–3M +2.7%–3.1%	7,193	498,023	505,216
RUR Bilateral Loans	6.9%–9.8%	689,368	1,330,331	2,019,699
RUR Loans from acquisition	0%–13%	4,664	-	4,664
Total borrowings		**913,160**	**2,696,877**	**3,610,037**

		31 December 2010		
	Interest rate, % p.a.	Current During 1 year	Non-current In 1 to 3 years	Total
USD Club loan	USD Libor 3M +2.5%	-	388,595	388,595
RUR Club loan	MosPrime 6M +2.5%	-	405,292	405,292
RUR Bonds	7.95% – 18.46%	253,589	227,700	481,289
RUR Bilateral Loans	MosPrime 1–3M +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**

In June 2011 the Group fulfilled its obligations in respect of RUR 8 bln corporate bonds placed in 2009 with a maturity of 7 years and a put option in 2 years. As a result of put option realization bonds with notional amount of RUR 1.9 bln remained at the Group account. The new annual rate for the next 6 semi-annual coupons is 7.75%.

In May and June 2011 the Group signed additional agreements for improvement of terms under Kopeyka credit agreements with Sberbank including but not limited to removal of collateral initially provided for these facilities by Kopeyka companies.

In October 2011 the Group opened new RUR 7 bln credit line with Gazprombank.

In November 2011 the Group signed new credit line agreement with Credit Bank of Moscow in the total limit of RUR 3 bln.

In November 2011 the Group fully repaid USD 400,000 tranche under club loan before its maturity date and effected partial refinancing of this tranche in December out of new 3-years loan from Sberbank in the amount of RUR 9.15 bln.

All borrowings at 31 December 2011 are shown net of related transaction costs of USD 19,097 which are amortised over the term of loans using the effective interest method (31 December 2010: USD 30,219). Borrowing costs capitalized for the year ended 31 December 2011 amounted to USD 5,546 (2010: USD 7,320) Capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 5.34% (2010: 5.58%).

In accordance with loan 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).

20. Share Capital

In 2011 the Group transferred 20,344 GDRs in order to fulfil its obligation under Employee Stock Option Program.

As at 31 December 2011 the Group had 190,000,000 authorized ordinary shares of which 67,819,033 ordinary shares are outstanding and 74,185 ordinary shares held as treasury stock. The nominal par value of each ordinary share is EUR 1.

No dividends were paid or declared during the year ended 31 December 2011 and the year ended 31 December 2010.

21. 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:

	2011	2010
Profit attributable to equity holders of the parent	301,430	271,688
Weighted average number of ordinary shares in issue	67,816,117	67,813,947
Effect of share options granted to employees, number of shares	33,531	295,912
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,849,648	68,109,859
Basic earnings per share for profit from continuing operations (expressed in USD per share)	**4.44**	**4.01**
Diluted earnings per share for profit from continuing operations (expressed in USD per share)	**4.44**	**3.99**

22. Revenue

	2011	2010
Revenue from sale of goods	15,431,772	11,263,827
Revenue from franchise services	6,073	7,150
Revenue from other services	17,243	9,515
	15,455,088	**11,280,492**

23. Expenses by Nature

	2011	2010
Cost of goods sold	11,245,485	8,331,891
Staff costs (Note 26)	1,519,601	1,131,564
Operating lease expenses	614,220	404,807
Depreciation, amortisation and impairment	428,258	298,523
Other store costs	291,755	180,612
Utilities	342,218	221,251
Other	505,799	307,441
	14,947,336	**10,876,089**

Operating lease expenses include USD 595,014 (2010: USD 388,956) of minimum lease payments and contingent rents of USD 19,206 (2010: USD 15,851). In 2011 loss from sale of OOO IT Business amounted to USD 3,751.

Provision for impairment of trade and other receivables and non-income taxes recoverable amounted to USD 59,335 for the year ended 31 December 2011 (2010: USD 11,447).

24. Operating Lease/Sublease 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 2011	31 December 2010
Not later than 1 year	62,764	46,151
Later than 1 year and no later than 5 years	19,738	23,653
Later than 5 years	4,346	4,019
	86,848	**73,823**

The future minimum lease payments receivable under non-cancellable operating subleases are as follows:

	31 December 2011	31 December 2010
Not later than 1 year	19,519	14,585
Later than 1 year and no later than 5 years	316	1,126
Later than 5 years	2	66
	19,837	**15,777**

The rental income from operating leases recognised in the consolidated income statement amounted to USD 177,409 (2010: USD 112,122). There were no contingent rents recognised in the consolidated income statement in the year ended 31 December 2011 (2010: nil).

25. Finance Income and Costs

	2011	2010
Interest expense	290,099	133,197
Interest income	(4,244)	(1,690)
Other finance costs, net	11,838	14,706
	297,693	**146,213**

Other finance costs include transaction costs of USD 12,907 written-off to the consolidated income statement (2010: USD 12,268) (Note 19).

26. Staff Costs

	2011	2010
Wages and salaries	1,209,392	881,872
Social security costs	350,581	186,526
Share-based payments (income)/expense	(40,372)	63,166
	1,519,601	**1,131,564**

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, an annual cash bonus and share-based payments (Note 27)). For the year ended 31 December 2011 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 9,542 (2010: USD 4,954), including accrued annual target bonuses of USD 1,822 (2010: USD 159) payable on an annual basis subject to meeting annual performance targets and termination payment of USD 2,863 (2010: zero). As at 31 December 2011 the total amount of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 325,000 (31 December 2010: 2,676,250 GDRs) and conditional rights under LTI plan was 258,885 (31 December 2010: 178,268). During the year ended 31 December 2011 the Group recognized income from share-based compensation to Management Board and Supervisory Board members in amount of USD 18,769 (2010: expenses of USD 30,680). The total intrinsic value of vested share options amounted to USD 625 as at 31 December 2011 (31 December 2010: USD 57,038).

27. Share-Based Payments

Employee stock option program

In 2007 the Group introduced an employee stock option program (ESOP) for its key executives and employees. Each option that may be granted under the ESOP carries the right to one GDR. The program ran in four tranches granted over the period to 19 May 2009. The vesting requirement of the program is the continued employment of participants. The first and second tranches expired as at 31 December 2011. Participants of the ESOP can exercise their share options granted under third and fourth tranches until 20 November 2012 and 20 November 2013 respectively, at any time except black-out periods defined by Group's Code of Conduct of Insider Dealing, exercise prices of the third and fourth tranches are USD 33.43 and USD 13.91 respectively.

In total, during the year ended 31 December 2011 the Group recognized an income related to the ESOP in the amount of USD 41,480 (expenses recognized during the year ended 31 December 2010: USD 52,975). At 31 December 2011 the share-based payments liability amounted to USD 2,396 (31 December 2010: USD 89,298). The equity component was effectively zero at 31 December 2011 (31 December 2010: zero). The total intrinsic value of vested share options amounted to USD 1,629 as at 31 December 2011 (31 December 2010: USD 83,162).

Details of the share options outstanding are as follows:

	2011		2010	
	Number of share options	Weighted average exercise price, USD	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the period	4,056,550	25.7	7,586,950	24.4
Exercised during the period	(3,006,850)	24.9	(3,489,150)	22.7
Forfeited during the period	(396,000)	28.8	(41,250)	24.0
Outstanding at the end of the period	**653,700**	**28.0**	**4,056,550**	**25.7**
Exercisable at 31 December 2011	653,700	28.0	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 were as follows:

	31 December 2011	31 December 2010
GDR price	22.84	44.39
Expected volatility	52%	55%
Risk-free interest rate	3%	2%
Dividend yield	0%	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 2011 the Group recognized expenses related to the RSU plan in the amount of USD 1,108 (during the year ended 31 December 2010: USD 10,191). At 31 December 2011 the equity component was USD 7,776 (31 December 2010: 5,965) and liability component was USD 1,161 (31 December 2010: 4,226). 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 are as follows:

	2011		2010	
	Number of conditional rights	Weighted average fair value, USD	Number of conditional rights	Weighted average fair value, USD
Outstanding at the beginning of the period	832,702	35.50	-	-
Granted during the period	568,609	36.00	832,702	35.50
Forfeited during the period	(561,228)	35.50	-	-
Outstanding at the end of the period	**840,083**	**35.84**	**832,702**	**35.50**

28. Income Tax

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax charge	163,594	104,336
Deferred income tax (benefit)/ charge	(60,682)	10,730
Income tax charge for the year	**102,912**	**115,066**

The theoretical and effective tax rates are reconciled as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Profit before taxation	**405,103**	**386,312**
Theoretical tax at the effective statutory rates *	81,032	77,265
Tax effect of items which are not deductible or assessable for taxation purposes:		
Share-based payments (income)/ expense	(5,387)	8,654
Effect of income taxable at rates different from standard statutory rates	(15,680)	(5,690)
Effect of different tax regime in parent company	-	330
Recognition of deferred tax asset on prior losses for which no deferred tax asset was previously recognised	-	(1,691)
Expenses on inventory shrinkage and surpluses	49,908	34,115
Other non-deductible expenses and non-taxable income	(6,961)	2,083
Income tax charge for the year	**102,912**	**115,066**

* 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%.

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 2011:

	31 December 2010	Credited to profit and loss	Deferred tax on business combinations (Note 7)	Recognised in equity for translation differences	31 December 2011
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carry forward	44,861	26,769	-	(4,731)	66,899
Property, plant and equipment	39,303	(15,153)	-	(2,752)	21,398
Intangible assets	654	(643)	-	21	32
Inventories of goods for resale	40,115	(1,888)	-	(1,978)	36,249
Accounts receivable	24,128	5,384	7	(1,757)	27,762
Accounts payable	79,325	27,547	-	(6,639)	100,233
Other	21,517	(11,956)	185	161	9,907
Gross deferred tax asset	**249,903**	**30,060**	**192**	**(17,675)**	**262,480**
Less offsetting with deferred tax liabilities	(118,712)	(13,928)	(192)	7,153	(125,679)
Recognised deferred tax asset	**131,191**	**16,132**	**-**	**(10,522)**	**136,801**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(176,699)	(15,659)	(1,762)	10,898	(183,222)
Intangible assets	(141,337)	19,181	(2,911)	6,201	(118,866)
Inventories of goods for resale	(6,798)	7,050	-	(252)	-
Accounts receivable	(41,601)	21,217	-	370	(20,014)
Accounts payable	-	(2,103)	-	182	(1,921)
Other	(10,254)	936	(185)	491	(9,012)
Gross deferred tax liability	**(376,689)**	**30,622**	**(4,858)**	**17,890**	**(333,035)**
Less offsetting with deferred tax assets	118,712	13,928	192	(7,153)	125,679
Recognised deferred tax liability	**(257,977)**	**44,550**	**(4,666)**	**10,737**	**(207,356)**

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)	(54)	(331)	39,303
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	3,841	(147)	24,128
Accounts payable	70,583	8,917	408	(583)	79,325
Other	10,624	4,720	5,751	422	21,517
Gross deferred tax asset	**224,901**	**12,180**	**14,193**	**(1,371)**	**249,903**
Less offsetting with deferred tax liabilities	(78,542)	(40,736)	(264)	830	(118,712)
Recognised deferred tax asset	**146,359**	**(28,556)**	**13,929**	**(541)**	**131,191**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(157,415)	(1,053)	(18,961)	730	(176,699)
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)	1,729	262	(41,601)
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)**	**(67,848)**	**596**	**(376,689)**
Less offsetting with deferred tax assets	78,542	40,736	264	(830)	118,712
Recognised deferred tax liability	**(207,985)**	**17,826**	**(67,584)**	**(234)**	**(257,977)**

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 848,798 (2010: USD 580,597) 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 35,726 (31 December 2010: USD 25,785), the current portion of the deferred tax asset amounted to USD 118,894 (31 December 2010: USD 126,161).

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 66,899 recognised at 31 December 2011 for the carryforward of unused tax losses (31 December 2010: USD 44,861). Unused tax losses are available for carry forward for a period not less than seven years depending on the tax residence of every certain company of the Group.

29. 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 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 fully reduced its foreign currency exposure arising in case of US Dollar borrowings through refinancing of the club loan (Note 19). 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 2011, 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 1,007 lower/higher (31 December 2010: USD 17,038 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. Interest rate risk (MosPrime rate risk) arising from floating rate borrowings is managed through the balanced credit portfolio, using different types of financing instruments on the basis of fixed and floating rates.

If MosPrime had been 200 basis points lower/higher in 2011 with all other variables held constant, post-tax profit for the year would have been USD 21,968 (2010: USD 4,577) 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.

The Group finances its operations by a combination of cash flows from operating activities and, long and short-term debt. 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 available 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 2011

	During 1 year	In 1 to 3 years
Borrowings	1,183,138	3,069,639
Trade payables	1,906,365	-
Gross finance lease liabilities	2,218	1,347
Other finance liabilities	405,870	-
	3,497,591	**3,070,986**

Year ended 31 December 2010

	During 1 year	In 1 to 3 years
Borrowings	782,376	3,554,263
Trade payables	1,851,062	-
Gross finance lease liabilities	1,680	2,737
Other finance liabilities	448,625	-
	3,083,743	**3,557,000**

At 31 December 2011 the Group has net current liabilities of USD 1,653,055 (31 December 2010: USD 1,206,457) including short-term borrowings of USD 913,160 (31 December 2010: USD 508,004).

At 31 December 2011 the Group had available bank credit lines of USD 1,648,026 (31 December 2010: USD 1,129,063).

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.

30. Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. 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.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

31. 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 loan 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). These ratios are included as covenants into loan agreements (Note 19). The Group is in compliance with externally imposed capital requirements.

32. 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 bonds traded on the MICEX is determined based on active market quotations and amounted to USD 698,816 at 31 December 2011 (31 December

2010: USD 828,478). The carrying value of these bonds amounted to USD 700,115 at 31 December 2011 (31 December 2010: 810,358) (Note 19). The fair value of long-term borrowings amounted to USD 2,212,813 at 31 December 2011 (31 December 2010: USD 2,620,023). The fair value of short-term borrowings was not materially different from their carrying amounts.

33. Commitments and Contingencies

Commitments under operating leases

At 31 December 2011, the Group operated 2,043 stores through rented premises (31 December 2010: 1,612). 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 2011 (present value)	31 December 2010 (present value)	31 December 2011 (nominal value)	31 December 2010 (nominal value)
During 1 year	330,495	309,303	349,763	331,691
In 2 to 5 years	726,821	646,304	997,665	947,133
Thereafter	331,160	264,161	883,325	825,790
	1,388,476	**1,219,768**	**2,230,753**	**2,104,614**

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%).

Capital expenditure commitments

At 31 December 2011 the Group contracted for capital expenditure of USD 65,309 (net of VAT) (2010: USD 83,425).

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.

Current 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.

Amended transfer pricing rules will take effect from 1 January 2012. These rules are expected to result in stricter tax control over prices between related parties. The application of the new rules may have a material adverse impact on the Group.

Deductibility of interest payable under intra-group financing arrangements is subject to various limitations under the Russian tax legislation which, in combination with applicable tax treaties may be interpreted in various ways. The impact of such interpretation may be significant to the financial condition and operations of the Group and depends on the development of case-specific administrative and court practice on the matter.

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.

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 2011 the Group released provision of USD 42,094 including non-income tax of USD 17,237 and income tax of USD 27,613 compensated by USD 2,756 indemnified by previous shareholders of acquired companies.

At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 119,382 at 31 December 2011 (31 December 2010: USD 165,896) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2010	**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**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	1,223
Release of provision	(42,094)
Translation movement	(5,643)
Balance at 31 December 2011	**119,382**

X5 Retail Group
Company`s Balance Sheet at 31 December 2011

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

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Financial assets	35	2,408,937	2,601,699
		2,408,937	2,601,699
Current assets			
Financial assets	35	113,370	84,491
Amounts due from subsidiaries		76,000	263,840
Accounts receivable		-	124
Cash		1,159	1,773
		190,529	350,228
Total assets		**2,599,466**	**2,951,927**
EQUITY AND LIABILITIES			
Paid up and called up share capital	36	87,778	89,850
Share premium account		2,049,592	2,049,144
Share-based payments	39	7,776	5,965
Other reserves		459,089	203,154
Profit of the year		301,430	271,688
Currency translation reserve		(709,693)	(574,268)
Total equity		**2,195,972**	**2,045,533**
Non-current liabilities			
Bank loans	37	380,344	793,887
Share-based payment liability	39	-	13,157
		380,344	807,044
Current liabilities			
Amounts due to subsidiaries		9,174	8,897
Accrued expenses and other liabilities	38	10,333	12,434
Share-based payment liability	39	2,396	76,141
Corporate income tax	41	1,247	1,878
		23,150	99,350
Total equity and liabilities		**2,599,466**	**2,951,927**

X5 Retail Group Company`s Income Statement for the year ended 31 December 2011

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

	Notes	31 December 2011	31 December 2010
Other income/(expenses) after tax	40	30,063	(497)
Result on participating interest after tax	35	271,367	271,743
Profit after taxation		**301,430**	**271,246**

X5 Retail Group
Notes to Company`s Financial Statements for the year ended 31 December 2011

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

34. 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 for a retail chain.

Basis of presentation

The Company financial statements 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 Company's 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 the consolidated financial statements of the Group for the year ending 31 December 2011 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 Group. As the Group mainly exploits Russian grocery stores in four formats (soft-discount, supermarket, hypermarket and convenience stores), the functional currency of the Group is the Russian Rouble as this is the currency of its primarily business environment and reflects the economic reality. Reference is made to section 2.4 (a) of the notes to the consolidated financial statements for the accounting policy in regard of the translation from functional currency to presentation currency.

Change in accounting principles

In 2011 the Company changed the accounting principles in the Company's Financial Statements for the valuation of participations in Group companies following developments in the Dutch Accounting Standards and to align the entity's accounting policies with best practices in the Netherlands. The valuation method for participations in Group companies has been changed from historical cost to net asset value, reference is made to the policy below. The 2010 financial information in these Company's Financial Statements has been adjusted for comparative purposes to reflect this change in accounting principle. The impact on the result for the year and the equity is as follows:

The equity per 1 January 2011 of USD 2,045 mln is USD 146 mln lower compared to the equity under the old policy as the net asset value of the subsidiaries per that date was lower than the cost price. The result for the year ended 31 December 2010 under the new policies is USD 272 mln higher compared to the result under the old policies as the result of the subsidiaries is now included in the Company's accounts whereas before only dividends received from subsidiaries were included in the result for the Company's accounts and no dividends were received in 2010. The individual components of equity have been reclassified within equity to reflect the consequences of the change in the accounting policy on these components.

Financial assets and liabilities

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.

Investments in Group companies

Investments in Group companies are entities (including intermediate subsidiaries and special purpose entities) over which the Company has control, i.e. the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Group companies are recognised from the date on which control is transferred to the Company or its intermediate holding entities. They are derecognised from the date that control ceases.

The Company applies the acquisition method to account for acquiring Group companies, consistent with the approach identified in the consolidated financial statements. Investments in Group companies are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the consolidated financial statements. When an acquisition of an investment in a Group company is achieved in stages, any previously held equity interest is remeasured to fair value on the date of acquisition. The remeasurement against the book value is accounted for in the income statement.

When the Company ceases to have control over a Group company, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the income statement. When parts of investments in Group companies are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognised in equity.

When the Company's share of losses in an investment in a Group company equals or exceeds its interest in the investment, (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment), the Company does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case the Company will recognise a provision.

Amounts due from Group companies

Amounts due from Group companies are stated initially at fair value and subsequently at amortised cost. Amortised cost is determined using the effective interest rate.

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 sheet date in accordance with section 373 sub 5 of book 2 of the Dutch Civil Code. The difference is settled in the other reserves.

X5 Retail Group Notes to Company's Financial Statements for the year ended 31 December 2011 (expressed in thousands of US Dollars, unless otherwise stated)

35. Financial Assets

	31 December 2011	31 December 2010
a. Movements in the interests in Group companies have been as follows:		
Opening balance	1,871,681	1,275,600
Acquisitions/capital contribution	28,086	506,020
Divestment of Group companies	-	(180 295)
Profit from Group companies for the year	271,367	271,743
Foreign exchange differences/other movements	(67,057)	(1,387)
Closing balance	**2,104,077**	**1,871,681**

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 companies have been as follows:		
Opening balance	814,509	1,539,219
Settlement/Repayment	(381,887)	(1,045,213)
Additions	14,453	313,569
Other movements/foreign exchange differences	(28,845)	6,934
Closing balance	**418,230**	**814,509**
Non current financial assets	2,408,937	2,601,699
Current financial assets	113,370	84,491
Total Financial assets	**2,522,307**	**2,686,190**

Loans provided to following Group companies:	Currency	Date of maturity
GSWL Finance Ltd.	RUR	December 2014
Perekrestok Holdings Ltd.	RUR	December 2012
Perekrestok Holdings Ltd.	USD	December 2014

In the loans receivable there are amounts to Grasswell Ltd. and Perekrestok Holdings Ltd. denominated in RUR, the total amount of the loans is RUR 13,465,395. Furthermore an amount of RUR 3,650,056 is classified as short term. The loans have not been secured and attract up to Mosprime1m+4.5% 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.

36. Shareholders' Equity

	Share capital	Share premium	Other reserves	Profit/(Loss)	Share-based payment (equity)	Currency translation adjustment	Total
Balance as at 1 January 2010	97,400	1,936,452	111,480	92,757	-	(35,394)	**2,202,695**
Change in accounting policy	-	112,692	(18,741)	-	-	(524,182)	**(430,231)**
Balance after change in accounting policy as at 1 January 2010	**97,400**	**2,049,144**	**92,739**	**92,757**	**-**	**(559,576)**	**1,772,464**
Hedging instruments	-	-	10,108	-	-	-	**10,108**
Share-based compensation (Note 27)	-	-	-	-	5,965	-	**5,965**
Transfer	-	-	92,757	(92,757)	-	-	**-**
Currency translation	(7,550)	-	7,550	-	-	(14,692)	**(14,692)**
Result for the period	-	-	-	271,688	-	-	**271,688**
Balance as at 1 January 2011	89,850	2,049,144	203,154	271,688	5,965	(574,268)	**2,045,533**
Sales of treasury shares	5	448	-	-	-	-	**453**
Share-based compensation (Note 27)	-	-	-	-	1,811	-	**1,811**
Transfer	-	-	271,688	(271,688)	-	-	**-**
Currency translation	(2,077)	-	2,077	-	-	(135,425)	**(135,425)**
Change in fair value of available-for-sale investments	-	-	(249)	-	-	-	**(249)**
Acquisition of non-controlling interest (note 7)	-	-	(17,581)	-	-	-	**(17,581)**
Result for the period	-	-	-	301,430	-	-	**301,430**
Balance as at 31 December 2011	**87,778**	**2,049,592**	**459,089**	**301,430**	**7,776**	**(709,693)**	**2,195,972**

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

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 2011, the issued and paid-up share capital amounts to EUR 67,819,033 and consists of 67,819,033 shares of EUR 1 each (2010: 67,893,218). This has been recalculated into USD with an exchange rate of 1 EUR = 1.2943 USD (2010: 1 EUR = 1.3234 USD) in the Company's financial statements.

37. Bank Loans

Movement in the bank loans have been as follows:

	31 December 2011	31 December 2010
Opening balance	793,887	1,093,135
Repaid (Syndicate loan)	-	(1,100,000)
(Repaid) Received (Club loan)	(400,000)	798,166
Transaction costs capitalized (Club loan)	35	(12,500)
Amortization of transaction costs capitalized (Club loan)	8,240	1,223
Release of prepaid commission (Syndicate loan)	-	6,936
Currency rate exchange differences	(21,818)	6,927
Closing balance	**380,344**	**793,887**

In November 2011 the Group fully repaid USD 400,000 tranche under club loan before its maturity date and effected partial refinancing of this tranche in December out of new 3-years loan from Sberbank in the amount of RUR 9.15 bln (Note 19).

38. Current Liabilities

The current liabilities contain accrued expenses and non-income tax payable.

39. Share-Based Payment Liability

Share-based payments

The Company operates both cash and equity settled share-based compensation plans in the form of Employee stock option plans and employee stock plans.

Employee stock option plan

The Company accounts for a receivable insofar the options granted to employees of the Group are recharged to its subsidiaries, in case there is no recharge the fair value of the options are treated as an investment in the subsidiary. 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 27).

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. 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.

The plan includes a funding arrangement with the subsidiaries which is recorded as an expense in the subsidiary and as an income in the accounts of the Company for the amount of the funding that has been transferred in the financial year.

Employee stock option program

	2011	2010
Share-based payments liability as at 31 December	(2,396)	(89,298)
Profit & loss expense	2,168	2,269

Employee stock plan

	2011	2010
Equity share-based payment reserve as at 31 December	(7,776)	(5,965)
Profit & loss (income)/expense	(19,186)	696

40. Other Income and Expenses After Tax

	31 December 2011	31 December 2010
Interest income from subsidiaries	56,345	52,990
Other income	802	801
Interest expenses	(39,073)	(34,857)
General and administrative expenses	(14,119)	(12,614)
Result of financial instruments	-	10,186
Share-based payment income/ (expense)	17,018	(2,965)
Currency exchange rate differences	8,544	(1,616)
Loss from sale of subsidiaries	-	(10,723)
Income tax charge (Note 41)	546	(1,699)
	30,063	**(497)**

In accordance with the Dutch legislation article 2:382a the total audit fees related to the accounting organisation PricewaterhouseCoopers Accountants N.V. amounted to USD 162 (2010: USD 166).

41. Income Tax Expense and Deferred Tax Assets

	31 December 2011	31 December 2010
Operating profit/(loss)	30,609	(497)
Current income tax	546	468
Deferred income tax expense	-	(2,167)
Effective tax rate	(2%)	(342%)
Applicable tax rate	25.0%	25.5%

The effective tax rate differs from the applicable tax rate due to non taxable income and expenses that are disallowed for income tax purposes, mainly in relation to share-based compensation and intercompany financing resulting in a fiscal loss for the year. The fiscal loss will be offset against historical fiscal profits.

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.

42. Directors

The Company has a Management Board and a Supervisory Board. The total remuneration of all board members is disclosed as set out below. Further reference is made to the Remuneration report on page 41 and Notes 26 and 27 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.

The Supervisory Board members received a remuneration of:

	Base salary 2011	Share-based expenses/ (income) 2011
Hervé Defforey	348	(1,987)
Mikhail Fridman	139	-
David Gould	278	-
Vladimir Ashurkov	139	-
Alexander Tynkovan	167	87
Stephan DuCharme	278	(160)
Christian Couvreux	278	144
	1,627	**(1,916)**

The share-based compensation includes the employee stock option plan and Restricted Stock Unit Plan and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

Number of employee stock options granted to Supervisory Board members:

	No. of options granted in 2011	No. of options granted prior 2011	No. of options exercised in 2011	Cancellation	No. of options outstanding as at 31 December 2011
Hervé Defforey	-	112,500	-	-	112,500
Stephan DuCharme	-	32,500	32,500	-	-
	-	**145,000**	**32,500**	**-**	**112,500**

Number of Restricted Stock Units granted to Supervisory Board members:

	Max. conditional RSU's granted	Min. conditional RSU's granted
Hervé Defforey	18,947	18,947
Stephan DuCharme	15,158	15,158
Alexander Tynkovan	9,094	9,094
Christian Couvreux	15,158	15,158
	58,357	**58,357**

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 program 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 2011	Bonus 2011	Share-based expenses/ (income) 2011	Other 2011	
Andrei Gusev	1,021	1,090	758	-	Appointed 20 June 2011
Kieran Balfe	638	583	250	-	Appointed 22 February 2011
Lev Khasis	1,214	-	(17,998)	2,863	Resigned per 1 June 2011
Frank Lhoëst	357	149	137	-	
	3,230	**1,822**	**(16,853)**	**2,863**	

The share-based compensation includes the employee stock option plan and Restricted Stock Unit Plan and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

Number of employee stock options granted to Management Board members:

	No. of options granted in 2011	Number of options granted prior 2011	No. of options exercised in 2011	No. of options outstanding as at 31 December 2011	
Andrei Gusev	-	212,500	-	212,500	
Lev Khasis	-	2,531,250	2,531,250	-	Resigned per 1 June 2011
	-	**2,743,750**	**2,531,250**	**212,500**	

Number of Restricted Stock Units issued to Management Board members:

	Max. conditional RSU's granted	Min. conditional RSU's granted	
Andrei Gusev	103,832	50,657	
Kieran Balfe	37,214	-	
Lev Khasis	28,626	28,626	Resigned per 1 June 2011
Frank Lhoëst	30,856	9,024	
	200,528	**88,307**	

43. 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.

44. 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 2011	31 December 2010
Irrevocable offer to holders of X5 Finance bonds	395,421	481,277
Guarantee for Agrotorg	969,801	1,018,650
Guarantee for TH Perekrestok	475,315	463,697
Guarantee for Agroaspekt	284,196	-
Guarantee for Kaiser	12,587	-

45. 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 42.

Loans to Group companies

For loans issued to and interest income from Group companies refer to Note 35.

46. Subsequent Events

In 2012 the Group entered into agreements to acquire several businesses of small retail chains in Privolgskiy region in total amount of USD 34,537.

Amsterdam, 12 April 2012

Management Board

Andrei Gusev
Kieran Balfe
Frank Lhoëst

Supervisory Board

Hervé Defforey
Mikhail Fridman
David Gould
Vladimir Ashurkov
Alexander Tynkovan
Stephan DuCharme
Christian Couvreux

Other Information

Auditor's report

Auditor's report is included on the page 113.

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	2011
Profit for the year transferred to other reserves	301,430

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

For subsequent events refer to Note 46.

Independent Auditor's Report

pwc

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

Report on the financial statements
We have audited the accompanying financial statements 2011 of X5 Retail Group N.V., Amsterdam as set out on pages 49 to 111. 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 2011, 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 2011, 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 2011, 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 2011, 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, 12 April 2012
PricewaterhouseCoopers Accountants N.V.
P.C. Dams RA

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