X5 Retail Group N.V.

International Accounting Standard 34 Condensed Consolidated Interim Financial Statements and Review Report

31 March 2009

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DIRECTORS' RESPONSIBILITY STATEMENT

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

Management is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group at 31 March 2009, and the results of its operations, cash flows and changes in shareholders' equity for the three months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

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

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

Management is also responsible for:

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

The condensed consolidated interim financial statements for the three months period ended 31 March 2009 were approved on 27 May 2009 by:

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

PRICEWATERHOUSECOOPERS

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

Review report

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements for the 3-month period ended 31 March 2009, of X5 Retail Group N.V., Amsterdam, which comprises the condensed statement of financial position as at 31 March 2009, the condensed income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the selected explanatory notes for the 3-month period then ended. Management of the company is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 31 March 2009 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 28 May 2009
PricewaterhouseCoopers Accountants N.V.

P.C. Dams RA

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

	Note	31 March 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,665,753	3,097,540
Investment property		107,524	125,693
Goodwill	7	410,626	475,377
Intangible assets	6	436,482	499,188
Prepaid leases		77,319	80,677
Investment in associate		5,938	10,054
Other non-current assets		1,628	2,716
Deferred tax assets		121,643	96,185
		3,826,913	4,387,430
Current assets			
Inventories of goods for resale		419,280	482,158
Derivative financial assets		2,240	765
Loans originated		1,562	359
Current portion of non-current prepaid lease		9,408	10,154
Trade and other accounts receivable		157,768	188,986
Current income tax receivable		57,016	60,866
VAT and other taxes recoverable		209,489	253,264
Cash and cash equivalents		81,671	276,837
		938,434	1,273,389
Total assets		**4,765,347**	**5,660,819**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	9	93,712	93,712
Share premium		2,049,144	2,049,144
Cumulative translation reserve		(745,673)	(520,184)
Accumulated profit/(deficit)		(48,194)	33,941
Hedging reserve		(16,842)	(18,180)
Total equity		**1,332,147**	**1,638,433**
Non-current liabilities			
Long-term borrowings	8	1,423,188	1,480,968
Long-term finance lease payable		1,935	1,843
Deferred tax liabilities		194,221	232,224
Long-term deferred revenue		3,118	3,482
Share-based payments liability	12	28,774	30,665
		1,651,236	1,749,182
Current liabilities			
Trade accounts payable		857,333	1,174,144
Short-term borrowings	8	440,710	578,433
Share-based payments liability	12	7,064	7,256
Derivative financial liabilities	15	16,843	18,180
Short-term finance lease payables		1,603	2,197
Interest accrued		11,730	9,089
Short-term deferred revenue		3,123	4,872
Current income tax payable		17,585	21,095
Provisions and other liabilities		425,973	457,938
		1,781,964	2,273,204
Total liabilities		**3,433,200**	**4,022,386**
Total equity and liabilities		**4,765,347**	**5,660,819**

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Lev Khasis
Chief Executive Officer
27 May 2009

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Evgeny Kornilov
Chief Financial Officer
27 May 2009

	Note	Three months ended 31 March 2009	Three months ended 31 March 2008
Revenue		1,866,903	1,785,781
Cost of sales		(1,408,733)	(1,327,566)
Gross profit		**458,170**	**458,215**
Selling, general and administrative expenses		(365,975)	(358,662)
Lease/sublease and other income		24,740	19,436
Operating profit		**116,935**	**118,989**
Finance costs	11	(36,583)	(32,943)
Share of loss of associates		(2,753)	-
Finance income	11	1,300	1,168
Net foreign exchange result		(163,748)	42,517
(Loss)/Profit before tax		**(84,849)**	**129,731**
Income tax benefit/(expense)	13	2,714	(43,406)
(Loss)/Profit for the period		**(82,135)**	**86,325**
(Loss)/Profit for the period attributable to:			
Equity holders of the parent		(82,135)	86,325
Basic (losses)/earnings per share for (losses)/profit attributable to the equity holders of the parent (expressed in USD per share)		**(1.21)**	**1.51**
Diluted (losses)/earnings per share for (losses)/profit attributable to the equity holders of the parent (expressed in USD per share)		**(1.21)**	**1.50**

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Lev Khasis
Chief Executive Officer
27 May 2009

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Evgeny Kornilov
Chief Financial Officer
27 May 2009

	Three months ended 31 March 2009	Three months ended 31 March 2008
(Loss)/Profit for the period	**(82,135)**	**86,325**
Other comprehensive (loss)/income		
Exchange differences on translation from functional to presentation currency	(225,489)	144,861
Cash flow hedges	1,338	(5,115)
Other comprehensive (loss)/income for the period	**(224,151)**	**139,746**
Total comprehensive (loss)/income for the period	**(306,286)**	**226,071**
Total comprehensive (loss)/income for the period attributable to:		
Equity holders of the parent	(306,286)	226,071

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Lev Khasis
Chief Executive Officer
27 May 2009

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Evgeny Kornilov
Chief Financial Officer
27 May 2009

	Note	Three months ended 31 March 2009	Three months ended 31 March 2008
(Loss)/Profit before tax		**(84,849)**	**129,731**
Adjustments for:			
Depreciation and amortisation	6	45,743	41,990
(Gain)/Loss on disposal of property, plant and equipment		(377)	1,148
Finance costs, net	11	35,283	31,775
Impairment of trade and other accounts receivable	10	8,791	3,280
Share-based option (income)/expense	12	(2,083)	3,111
Amortisation of deferred expenses		2,270	1,160
Other non-cash items		1,387	-
Net foreign exchange loss/(gain)		163,748	(42,517)
Net cash from operating activities before changes in working capital		**169,913**	**169,678**
Increase in trade and other accounts receivable		(791)	(28,539)
(Increase)/Decrease in inventories		(2,804)	55,983
Decrease in trade accounts payable		(157,261)	(102,594)
Increase in other accounts payable and deferred revenue		34,119	14,702
Net cash generated from operations		**43,176**	**109,230**
Interest paid		(34,675)	(27,536)
Interest received		917	3,500
Income tax paid		(47,817)	(50,893)
Net cash flows (used in)/ from operating activities		**(38,399)**	**34,301**
Cash flows from investing activities:			
Purchase of property, plant and equipment	6	(37,178)	(142,110)
Proceeds from sale of property, plant and equipment		-	349
Non-current prepaid lease		(2,901)	(7,430)
Investments in subsidiaries		-	(453)
Purchase of intangible assets	6	(3,037)	(2,534)
Net cash used in investing activities		**(43,116)**	**(152,178)**
Cash flows from financing activities:			
Proceeds from short-term loans		127,916	108,822
Repayment of short-term loans		(211,335)	(29,975)
FX hedge		(1,509)	-
Principal payments on finance lease obligations		(384)	(644)
Net cash used in/generated from financing activities		**(85,312)**	**78,203**
Effect of exchange rate changes on cash and cash equivalents		(28,339)	6,609
Net decrease in cash and cash equivalents		**(195,166)**	**(33,065)**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		276,837	179,496
Net decrease in cash and cash equivalents		(195,166)	(33,065)
Cash and cash equivalents at the end of the period		**81,671**	**146,431**

Lev Khasis
Chief Executive Officer
27 May 2009

Evgeny Kornilov
Chief Financial Officer
27 May 2009

		Attributable to the shareholders of the Company								
	Note	**Number of shares**	**Share capital**	**Share premium**	**Hedging reserve**	**Cumulative translation reserve**	**Accumulated profit / (deficit)**	**Total shareholders' equity**	**Minority interest**	**Total**
Balance as at 1 January 2008		**53,177,760**	**70,883**	**2,896,355**	**-**	**294,169**	**(17,960)**	**3,243,447**	**220**	**3,243,667**
Other comprehensive income for the period		-	-	-	(5,115)	144,861	-	139,746	-	139,746
Profit for the period		-	-	-	-	-	86,325	86,325	-	86,325
Total comprehensive income for the period		**-**	**-**	**-**	**(5,115)**	**144,861**	**86,325**	**226,071**	**-**	**226,071**
Balance as at 31 March 2008		**53,177,760**	**70,883**	**2,896,355**	**(5,115)**	**439,030**	**68,365**	**3,469,518**	**220**	**3,469,738**
Other comprehensive loss for the period		-	-	-	(13,065)	(959,214)		(972,279)	-	(972,279)
Loss for the period		**-**	**-**	**-**	-	-	(2,224,612)	(2,224,612)	**-**	(2,224,612)
Total comprehensive loss for the period		**-**	**-**	**-**	**(13,065)**	**(959,214)**	**(2,224,612)**	**(3,196,891)**		**(3,196,891)**
Transfer of Goodwill impairment to Share premium	9	-	-	(2,190,188)	-	-	2,190,188	-	-	-
Issue of shares	9	12,026,675	18,979	980,475	-	-	-	999,454	-	999,454
Sale of treasury shares	9	949,778	1,268	142,949	-	-	-	144,217	-	144,217
Acquisition of Formata		1,746,505	2,714	228,523	-	-	-	231,237	-	231,237
Acquisition of treasury shares		(86,771)	(132)	(8,970)	-	-	-	(9,102)	-	(9,102)
Acquisition of Minority interest in Chelyabinsk		-	-	-	-	-	-	-	(220)	(220)
Balance as at 31 December 2008		**67,813,947**	**93,712**	**2,049,144**	**(18,180)**	**(520,184)**	**33,941**	**1,638,433**	**-**	**1,638,433**
Other comprehensive loss for the period		-	-	-	1,338	(225,489)	-	(224,151)	-	(224,151)
Loss for the period		-	-	-	-	-	(82,135)	(82,135)	**-**	(82,135)
Total comprehensive loss for the period		**-**	**-**	**-**	**1,338**	**(225,489)**	**(82,135)**	**(306,286)**	**-**	**(306,286)**
Balance as at 31 March 2009		**67,813,947**	**93,712**	**2,049,144**	**(16,842)**	**(745,673)**	**(48,194)**	**1,332,147**	**-**	**1,332,147**

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Lev Khasis
Chief Executive Officer
27 May 2009

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Evgeny Kornilov
Chief Financial Officer
27 May 2009

1 PRINCIPLE ACTIVITIES AND THE GROUP STRUCTURE

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

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

The main activity of the Group is the development and operation of grocery retail stores. As at 31 March 2009 the Group operated a retail chain of 1,144 soft-discount, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel" in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg and Kiev, Ukraine (31 December 2008: 1,101 soft-discount, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel"). The Group multiformat store network comprises 886 soft discount stores under "Pyaterochka" brand, 209 supermarkets under "Perekrestok" brand and 49 hypermarkets under "Karusel" brand (31 December 2008: 848 soft discount stores under "Pyaterochka" brand, 207 supermarkets under "Perekrestok" brand and 46 hypermarkets under "Karusel" and "Perekrestok" brands).

In addition as at 31 March 2009, the Group's franchisees operated 586 stores (31 December 2008: 607 stores) across Russia.

The Group is a member of the Alfa Group Consortium. As of 31 March 2009 the Company's immediate principal shareholders were Luckyworth Limited and Cesaro Holdings Limited owning 25.54% and 21.62% of total issued shares, respectively. As of 31 March 2009 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share, except for 1,746,505 shares issued within the Karusel acquisition (Note 9), which have not been listed on LSE. As of 31 March 2009 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTF"), a company registered at Suite 2, 4 Irish Place, Gibraltar, owning directly 0.7% of total issued shares. CTF is under the common control of Mr Fridman, Mr Khan and Mr Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or owns 50% or more in CTF.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These condensed consolidated interim financial statements for the three months ended 31 March 2009 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2008 which have been prepared in accordance with IFRS as adopted by the European Union.

The accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2008, except for the standards and interpretations which became effective for the Group from 1 January 2009 (Note 3).

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

2.2 Foreign currency translation and transactions

(a) Functional and presentation currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currency translation and transactions (continued)

(a) Functional and presentation currency (continued)

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

(b) Transactions and balances

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

At 31 March 2009, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUR 34.0134 (31 December 2008: USD 1 = RUR 29.3804). Average rate for the three months ended 31 March 2009 was USD 1 = RUR 33.9308 (three months 2008: USD 1 = RUR 24.2601).

3 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Certain new interpretations became effective for the Group from 1 January 2009:

IAS 23, Borrowing Costs (revised). The main change to IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The effect on financial statements as at 31 March 2009 was not material.

IAS 1, Presentation of Financial Statements (revised). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The entity chose to present two statements: a separate income statement and a statement of comprehensive income.

IFRS 8, Operating Segments. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. 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.

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

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

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 31 December 2008);
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities.

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

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2009 and have not been early adopted:

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

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

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

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

entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its financial statements.

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

- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009; not yet adopted by the EU);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 30 March 2009);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008; not yet adopted by the EU);
- Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, not yet adopted by the EU).

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

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

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

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

4 SEGMENT REPORTING

X5 Retail Group N.V. identifies retailing operations as a single reportable segment.

The Company is engaged in management of retail stores located in Russia and Ukraine. The Company 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 Company.

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

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

4 SEGMENT REPORTING (continued)

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

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

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

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

The segment information for the period ended 31 March 2009 is as follows:

	Three months ended 31 March 2009	**Three months ended 31 March 2008**
Retail sales	1,861,346	1,778,590
Other revenue	5,557	7,191
Revenue	**1,866,903**	**1,785,781**
EBITDA	**162,678**	**160,979**
Total assets	**4,765,347**	**5,660,819**

Assets are presented in a manner consistent with that in the financial statements.

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

	Three months ended 31 March 2009	**Three months ended 31 March 2008**
EBITDA	162,678	160,979
Depreciation and amortization	(45,743)	(41,990)
Operating profit	**116,935**	**118,989**
Finance cost	(35,283)	(31,775)
Net foreign exchange	(163,748)	42,517
Share of profit of associates	(2,753)	-
(Loss)/Profit before income tax	**(84,849)**	**129,731**

5 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 March 2009 are provided below. The ultimate controlling party is disclosed in Note 1.

5 RELATED PARTY TRANSACTIONS (continued)

Alfa Group

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

	Relationship	Three months ended 31 March 2009	Three months ended 31 March 2008
CTF Holdings Ltd.	Ultimate parent company		
Management services received		371	375
OAO "Alfa-Bank"	Under common control		
Interest expense on loan received		7,626	2,174
Interest income		251	128
Bank Charges		1,751	552
Rent revenue		66	43
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services received		740	677
Commission for mobile phone payments processing rendered by the Group to VimpelCom		156	154

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

	Relationship	31 March 2009	31 December 2008
OAO "Alfa-Bank"	Under common control		
Cash and cash equivalents		6,926	17,261
Receivable from related party		100	118
Short-term loans payable		205,684	168,480
Other accounts payable		864	570
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Receivable from related party		726	945
Other accounts payable		875	439

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of USD 267,542 (31 December 2008: USD 309,730). At 31 March 2009 the Group's liability under this credit line amounted to USD 205,684 with interest rates 14.96%- 20.65% p.a. (31 December 2008: USD 168,480) and available credit line of USD 61,858 (31 December 2008: USD 141,250).

Other related parties

The following transactions were carried out with other related parties:

	Relationship	Three months ended 31 March 2009	Three months ended 31 March 2008
OOO "Makromir"	Under common control		
Construction services provided to the Group		701	219
Other operating income		3	-
Other operating expenses		21	-

5 RELATED PARTY TRANSACTIONS (continued)

The consolidated financial statements include the followings balances with other related parties:

	Relationship	31 March 2009	31 December 2008
OOO "Makromir"	Under common control		
Loans and receivables		7,720	8,629
Accounts payable		8,954	10,181
Retail Express Ltd.			
Loans and receivables		27	27
Investment in associate		5,938	10,054

Retail Express Ltd. (associate of the Group)

At 31 March 2009 summarised financial information of Retail Express Limited, including total assets, liabilities, revenues and profit or loss, were as follows:

	31 March 2009
Assets	33,774
Liabilities	20,051
Revenue for the period	11,763
Loss for the period	(6,811)

As at 31 March 2009 the Group considers that the fair value of the investment approximates its carrying amount.

Key executive management personnel

The Group's key management personnel consists of Management and Supervisory Board members, having authority and responsibility for planning, directing and controlling the activities of the Group as a whole. Members of the Management Board and Supervisory Board of the Group receive compensation in the form of a short-term compensation in cash (including, for Management Board members, an annual cash bonus and share-based payments (Note 12). For the three months ended 31 March 2009 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 1,772 (three months ended 31 March 2008: USD 1,755), including accrued annual target bonuses of USD 766 (three months ended 31 March 2008: USD 720) payable on an annual basis subject to meeting annual performance targets. As at 31 March 2009 the total number of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 2,814,375 (31 December 2008: 2,814,375 GDRs). The total intrinsic value of vested share options amounted to zero as at 31 March 2009 (31 December 2008: zero).

6 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2009		2008	
	Property, plant and equipment	**Intangible assets**	**Property, plant and equipment**	**Intangible assets**
Cost				
Balance as at 1 January	3,437,619	598,247	2,238,638	581,674
Additions	25,956	14,365	144,313	2,700
Assets from acquisitions	-	-	10,669	7,446
Disposals	(926)	-	(1,570)	(915)
Translation movement	(467,425)	(81,520)	100,127	25,549
Balance as at 31 March	**2,995,224**	**531,092**	**2,492,177**	**616,454**
Accumulated Depreciation				
Balance as at 1 January	(340,079)	(99,059)	(248,080)	(57,429)
Depreciation charge	(35,780)	(8,820)	(28,514)	(11,955)
Disposals	169	-	271	717
Translation movement	46,219	13,269	(11,655)	(2,871)
Balance as at 31 March	**(329,471)**	**(94,610)**	**(287,978)**	**(71,538)**
Net Book Value				
Balance as at 1 January	**3,097,540**	**499,188**	**1,990,558**	**524,246**
Balance as at 31 March	**2,665,753**	**436,482**	**2,204,199**	**544,916**

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 17). Certain land leases are prepaid for the 49 year term. Such prepayments are presented as prepaid leases in the balance sheet and amount to USD 86,727 (31 December 2008: USD 90,831).

7 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

	2009	**2008**
Cost:		
Gross book value at 1 January	2,732,397	2,955,625
Acquisition of subsidiaries	-	6,470
Translation to presentation currency	(371,801)	129,534
Gross book value at 31 March	2,360,596	3,091,629
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(2,257,020)	-
Translation to presentation currency	307,050	-
Accumulated impairment losses at 31 March	(1,949,970)	-
Carrying amount at 31 March	**410,626**	**3,091,629**
Carrying amount at 1 January	**475,377**	**2,955,625**

Goodwill Impairment Test

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

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

There was no additional impairment of goodwill from 31 December 2008. No events indicating triggers of goodwill impairment occurred in the three months ended 31 March 2009.

8 BORROWINGS

		31 March 2009			**31 December 2008**		
	Interest rate, % p.a.	**Current During 1 year**	**Non-current In 1 to 3 years**	**Total**	**Current During 1 year**	**Non-current In 1 to 3 years**	**Total**
USD Syndicated loan	Libor+1,5%	-	1,089,193	1,089,193	-	1,087,617	1,087,617
USD Bilateral Loans		-	-	-	200,000	-	200,000
RUR Bonds	7,6% - 11,45%	784	263,814	264,598	5,919	304,986	310,905
RUR Bilateral Loans	Mosprime + 3,1%-6%	61,116	28,356	89,472	9,494	35,201	44,695
RUR Bilateral Loans	4% - 20,65%	378,810	41,825	420,635	363,020	53,164	416,184
Total borrowings		**440,710**	**1,423,188**	**1,863,898**	**578,433**	**1,480,968**	**2,059,401**

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

During forth quarter of 2008 the Group has repaid part of the secured Karusel loans and the remaining part of those loans is collaterized by 100% shares OOO “Stalebeton”, OOO “Ukatan”, OOO “Krasnoborskoe”, OOO “Emitel”, OOO “Matrix”, OOO “Kollontai”, OOO “Dal’nevostochny”, OOO ”Kaizer-Ural” land and buildings with a net book value of USD 255,393.

8 BORROWINGS (continued)

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

All borrowings at 31 March 2009 are shown net of related transaction costs of USD 11,989 which are amortized over the term of loans using the effective interest method (31 December 2008: USD 13,726).

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

9 SHARE CAPITAL

As at 1 January 2008 the Group had 942,278 ordinary shares held as treasury stock.

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

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

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

Period	**July 2008**	**September 2008**	**October - November 2008**
Number of GDRs purchased	267,482	49,600	30,000
Average market price	29.35	20.66	7.56

During 2008 30,000 options were exercised. As at 31 December 2008 the Group had 79,271 ordinary shares held as treasury stock. There were no changes in treasury stock in the three months ended 31 March 2009.

As at 31 March 2009 the Group had 190,000,000 authorized ordinary shares of which 67,813,947 ordinary shares are outstanding.

10 EXPENSES

Among other expenses charged for the three months ended 31 March 2009 are the following:

- Operating lease expenses, which include USD 54,761 of minimum lease payments (three months ended 31 March 2008: USD 53,257) and contingent rents of USD 4,138 (three months ended 31 March 2008: USD 5,582).
- Provision for impairment of trade and other receivables amounted to USD 8,791 during the three months ended 31 March 2009 (three months ended 31 March 2008: USD 1,403).

11 FINANCE INCOME AND COSTS

	Three months ended 31 March 2009	Three months ended 31 March 2008
Interest expense	34,957	31,293
Interest income	(833)	(1,168)
Other finance costs, net	1,159	1,650
	35,283	**31,775**

12 SHARE-BASED PAYMENTS

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

The first and second tranches were approved for granting at 15 June 2007. The first tranche vested immediately and covered the period of service of option holders from 1 January 2007 to 15 June 2007. The second tranche vested on 18 May 2008. The initial exercise prices of the first and second tranches were USD 18.00 and USD 30.62 per GDR accordingly. As a result of new shares issue in May 2008 the share price dilution could affect expected market value of the GDRs granted under ESOP. To mitigate the effect the Group decided to adjust the exercise price of the options granted under the first and second tranches to USD 15.96 for the first tranche and USD 28.58 for the second tranche and increase the total number of GDRs under the ESOP to 11,261,264 GDRs. In May 2008 the third tranche was granted at the exercise price of USD 33.43. The third tranche vested on 19 May 2009. Participants of the ESOP can exercise their share options granted under first, second and third tranches any time over the period from vesting till 19 November 2010, 16 December 2011 and 20 November 2012 respectively. However, management has considered that the participants will not exercise their options within the next 12 months.

In total, during the three months ended 31 March 2009 the Group recognized income related to the ESOP in the amount of USD 2,083 (expenses during three months ended 31 March 2008: USD 3,111). At 31 March 2009 the share-based payments liability amounted to USD 35,838 (31 December 2008: USD 37,921). The equity component was effectively zero at 31 March 2009 (31 December 2008: zero).

Details of the share options outstanding during the three months ended 31 March 2009 are as follows:

	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the period	5,704,825	28.9
Cancelled during the period	(2,000)	33.4
Outstanding at the end of the period	**5,702,825**	**28.9**
Exercisable at 31 March 2009	2,786,000	24.2

The total intrinsic value of vested share options amounted to zero as at 31 March 2009 (31 December 2008: zero).

The fair value of services received in return for the share options granted to employees is measured by reference to the fair value of the share options granted which is determined at each reporting date. The estimate of the fair value of the services received is measured based on the Black-Scholes model. Expected volatility is determined by calculating the historical volatility of the Group's share price over the period since May 2006. Management assumes that holders will exercise the options on the expiry date of the options due to behavioral considerations. Other key inputs to the calculation of ESOP liability at 31 March 2009 were as follows:

Expected GDR price	16.57
Expected volatility	78%
Risk-free interest rate	5%
Dividend yield	0%

13 INCOME TAX

	Three months ended 31 March 2009	Three months ended 31 March 2008
Current income tax charge	(42,726)	(49,843)
Deferred income tax benefit	45,440	6,437
Income tax benefit/(expense)	**2,714**	**(43,406)**

14 SEASONALITY

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

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

15 FINANCIAL RISKS MANAGEMENT

Currency risk

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

The Group has substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk (Note 8). In March 2009 as a part of FX risk mitigation policy the Group started using USD/RUB call spreads with leading banking institutions to hedge its short-term cash flows exposed to foreign currency risk. The effect on financial statements at 31 March 2009 was immaterial.

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

Interest rates risk

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

The syndicated loan for USD 1,100,000 was hedged against interest rate risk in February 2008 (Note 8). The Group regarded the interest rate swap initiated in February 2008 as a hedging instrument and applied hedge accounting. The fair value of the interest rate swap of USD 16,843 was recorded through equity.

Liquidity risk

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

Management monitors monthly rolling forecasts of the group's cash flows. The Group manages liquidity requirements by the use of both short- and long-term projections and by maintaining the availability of funding from available limits of committed credit facilities. In order to mitigate liquidity risk, the Group Treasury controls available limits and manages opening of new limits with financial institutions to maintain a comfortable reserve for the Group.

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:

31 March 2009

	During 1 year	**In 1 to 3 years**
Borrowings	535,716	1,461,848
Trade payables	857,333	
Gross finance lease liabilities	1,603	1,935
Derivative financial liabilities	16,843	
Other finance liabilities	242,705	
	1,654,200	**1,463,783**

15 FINANCIAL RISKS MANAGEMENT (continued)

31 December 2008

	During 1 year	**In 1 to 3 years**
Borrowings	593,485	1,643,696
Trade payables	1,174,144	-
Gross finance lease liabilities	2,197	1,843
Derivative financial liabilities	18,180	-
Other finance liabilities	258,769	-
	2,046,775	**1,645,539**

At 31 March 2009 the Group has negative working capital of USD 843,530 (31 December 2008: USD 999,815) including short-term borrowings of USD 440,710 (31 December 2008: USD 578,433).

At 31 March 2009 the Group had available bank credit lines of USD 297,122 (31 December 2008: USD 367,383).

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.

In February 2009 VTB Group has increased its credit lines to the X5 Retail Group N.V. from RUR 7,000 million to RUR 9,000 million, with the additional RUR 2,000 million from the bank's subsidiary VTB North-West.

During the 1st quarter of 2009 the Group has fully repaid its short-term USD borrowings for the amount of USD 200 million and as of 31 March 2009 has no short term obligations in foreign currency.

The Group is carefully monitoring its liquidity profile by maximizing the drawdown periods within revolving credit facilities as well as extending existing credit facilities or obtaining new credit lines.

The Group manages liquidity requirements by the use of both short-term and long-term projections and maintaining the availability of funding. Based on the review of the current liquidity position of the Group management considers that the available credit lines and expected cash flows are more than sufficient to finance the Group's current operations.

16 OPERATING ENVIRONMENT OF THE GROUP

The ongoing global liquidity crisis which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

The volume of wholesale financing has significantly reduced since August 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

17 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 March 2009, the Group operated 613 stores through rented premises (31 December 2008: 589 stores). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in RUR and normally calculated as a percentage of turnovers. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable fees. Substantially all of the lease agreements have an option that enables the Group to cancel them with the mutual agreement concord of the parties involved.

The future minimum lease payments under non-cancellable operating leases of property are as follows (net of VAT):

	31 March 2009	31 December 2008
During 1 year	138,083	144,380
In 2 to 5 years	350,611	368,568
Thereafter	315,153	310,358
	803,847	**823,306**

Capital expenditure commitments

At 31 March 2009 the Group contracted for capital expenditure of USD 142,639 (net of VAT) (31 December 2008: USD 173,343).

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 proceeding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced on 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

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

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

17 COMMITMENTS AND CONTINGENCIES (continued)

Taxation environment (continued)

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist. Management estimates that possible exposure in relation to profit tax and other non-profit tax risks such as inter-company transactions, VAT and employee related taxes, that are more than remote, but for which no liability is required to be recognized under IFRS, could be several times the additional accrued liabilities and provisions reflected on the balance sheet at that date (and potentially in excess of the Group's profit before tax for the period). This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability. At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 95,644 at 31 March 2009 (31 December 2008: USD 110,619) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2008	**76,708**
Increases due to acquisitions during the year recorded as part of the purchase price allocation	57,694
Translation movement	(23,783)
Balance at 31 December 2008	**110,619**
Translation movement	(14,975)
Balance at 31 March 2009	**95,644**