

## X5 REPORTS 27.5% REVENUE GROWTH IN Q2 2017 EBITDA MARGIN IMPROVES BY 73 B.P. TO 8.7%

- ✓ Revenue growth accelerated from 26.5% in Q1 2017 year-on-year (y-o-y) to 27.5% in Q2 2017 year-on-year (y-o-y) on the back of solid like-for-like (LFL) sales and strong selling space expansion.
- ✓ Pyaterochka was the main driver of growth: net retail sales rose by 31.9% y-o-y.
- ✓ X5 added a total of 689 new stores in Q2 2017, delivering selling space growth of 270.6 th. sq. m.
- ✓ The gross margin improved by 12 b.p. y-o-y to 23.9% in Q2 2017 (margin had been lower in Q2 2016 due to tactical promotions carried out during the period).
- ✓ SG&A expenses (excl. D&A&I) as a percentage of revenue improved by 64 b.p. y-o-y to 15.9%, due to operational efficiency gains and as a result of operating leverage.
- ✓ EBITDA grew by 39.1% y-o-y and reached RUB 27,833 mln in Q2 2017. The EBITDA margin improved by 73 b.p. y-o-y in Q2 2017 to 8.7%.
- ✓ Despite continued strong top-line growth, the Company's net debt/EBITDA ratio remained at a comfortable level of 1.83x as of 30 June 2017, thanks to increased self-funding as a result of good returns and high-quality investments over the last three years.

**Amsterdam, 2 August 2017** - X5 Retail Group N.V. ("X5" or the "Company"), a leading Russian food retailer (LSE ticker: FIVE), today released its interim report for the three months (2Q) and six months (1H) ended 30 June 2017, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The interim report has been reviewed by the independent auditor and has not been audited.

X5's Chief Executive Officer Igor Shekhterman said:

*"I am very pleased with the results that we managed to achieve in the first half of 2017, with revenue growth of 27% and an EBITDA margin of 8.1%. In addition, I would highlight the excellent performance of X5's three major formats, which all showed positive LFL growth."*

*"We remain the fastest growing public retailer in Russia and are moving steadily towards achieving our long-term aim of having 15% of the food retail market in Russia by the end of 2020. At the same time, we are growing while continuing to implement a customer centric approach, as we carefully adapt our value proposition to meet consumer needs. For example, in April we launched a loyalty programme at Pyaterochka, which generated very positive feedback from our customers and we are already seeing the results of this programme."*

*"I would also point out that we are starting to benefit from our efforts to increase operational efficiency. Not only have they helped to enhance the customer experience overall, they have also translated into higher levels of profitability."*

*"Looking ahead, I am confident that we can continue to outpace the market in terms of our growth, as we maximise performance across all three of our core formats, thanks to our efficient, decentralised business model."*

## Profit and loss statement highlights <sup>(1)</sup>

| Russian Rouble (RUB), million (mln)   | Q2 2017        | Q2 2016        | change, y-o-y, % | H1 2017        | H1 2016        | change, y-o-y, % |
|---------------------------------------|----------------|----------------|------------------|----------------|----------------|------------------|
| <b>Revenue</b>                        | <b>320,801</b> | <b>251,633</b> | <b>27.5</b>      | <b>613,879</b> | <b>483,244</b> | <b>27.0</b>      |
| incl. net retail sales <sup>(2)</sup> | 318,867        | 249,722        | 27.7             | 610,351        | 480,323        | 27.1             |
| Pyaterochka                           | 249,905        | 189,437        | 31.9             | 472,847        | 360,806        | 31.1             |
| Perekrestok                           | 44,930         | 37,315         | 20.4             | 89,894         | 74,856         | 20.1             |
| Karusel                               | 21,575         | 20,124         | 7.2              | 42,630         | 39,141         | 8.9              |
| Express                               | 2,456          | 2,845          | (13.7)           | 4,979          | 5,519          | (9.8)            |
| <b>Gross profit</b>                   | <b>76,621</b>  | <b>59,807</b>  | <b>28.1</b>      | <b>147,233</b> | <b>115,998</b> | <b>26.9</b>      |
| Gross profit margin, %                | 23.9           | 23.8           | 12 b.p.          | 24.0           | 24.0           | (2) b.p.         |
| <b>EBITDA</b>                         | <b>27,833</b>  | <b>20,005</b>  | <b>39.1</b>      | <b>50,000</b>  | <b>36,498</b>  | <b>37.0</b>      |
| EBITDA margin, %                      | 8.7            | 8.0            | 73 b.p.          | 8.1            | 7.6            | 59 b.p.          |
| <b>Operating profit</b>               | <b>18,039</b>  | <b>14,458</b>  | <b>24.8</b>      | <b>32,498</b>  | <b>25,864</b>  | <b>25.6</b>      |
| Operating profit margin, %            | 5.6            | 5.7            | (12) b.p.        | 5.3            | 5.4            | (6) b.p.         |
| <b>Net profit</b>                     | <b>10,343</b>  | <b>7,950</b>   | <b>30.1</b>      | <b>18,698</b>  | <b>13,004</b>  | <b>43.8</b>      |
| Net profit margin, %                  | 3.2            | 3.2            | 6 b.p.           | 3.0            | 2.7            | 35 b.p.          |

(1) Please note that in this and other tables, and in the text of this press release, immaterial deviations in the calculation of % changes, subtotals and totals are due to rounding.

(2) Net retail sales represent revenue from operations of X5-managed stores net of VAT. This number differs from revenue, which also includes proceeds from wholesale operations, direct franchisees (royalty payments) and other revenue.

## Net retail sales

### Q2 & H1 2017 average ticket, number of customers, net retail sales growth by formats, % change y-o-y

|                        | Q2 2017        |                |                  | H1 2017        |                |                  |
|------------------------|----------------|----------------|------------------|----------------|----------------|------------------|
|                        | Average ticket | # of customers | Net retail sales | Average ticket | # of customers | Net retail sales |
| Pyaterochka            | 2.4            | 28.7           | 31.9             | 1.7            | 28.8           | 31.1             |
| Perekrestok            | 5.4            | 14.3           | 20.4             | 4.5            | 15.0           | 20.1             |
| Karusel                | 9.7            | (2.3)          | 7.2              | 7.1            | 1.6            | 8.9              |
| Express                | 0.1            | (14.0)         | (13.7)           | (1.3)          | (8.8)          | (9.8)            |
| <b>X5 Retail Group</b> | <b>2.1</b>     | <b>25.1</b>    | <b>27.7</b>      | <b>1.3</b>     | <b>25.4</b>    | <b>27.1</b>      |

Total net retail sales growth accelerated to 27.7% y-o-y, driven by:

- 6.6% increase in LFL sales; and
- 21.1% y-o-y increase in net retail sales from net new space, resulting from a 28.7% y-o-y rise in selling space.

Pyaterochka was the key driver for X5's Q2 growth: net retail sales increased by 31.9% y-o-y.

## Selling space by format, square meters (sq. m.)

|                        | As at 30-Jun-17  | As at 31-Dec-16  | change vs 31-Dec-16, % | As at 30-Jun-16  | change vs 30-Jun-16, % |
|------------------------|------------------|------------------|------------------------|------------------|------------------------|
| Pyaterochka            | 3,844,061        | 3,329,273        | 15.5                   | 2,825,106        | 36.1                   |
| Perekrestok            | 564,528          | 548,473          | 2.9                    | 501,538          | 12.6                   |
| Karusel                | 379,723          | 386,897          | (1.9)                  | 384,174          | (1.2)                  |
| Express                | 32,669           | 37,110           | (12.0)                 | 36,542           | (10.6)                 |
| <b>X5 Retail Group</b> | <b>4,820,980</b> | <b>4,301,752</b> | <b>12.1</b>            | <b>3,747,359</b> | <b>28.7</b>            |

## Q2 & H1 2017 LFL<sup>(3)</sup> store performance by format, % change y-o-y

In Q2 2017, LFL sales performance remained strong at 6.6% y-o-y.

|                        | Q2 2017    |            |            | H1 2017    |            |            |
|------------------------|------------|------------|------------|------------|------------|------------|
|                        | Sales      | Traffic    | Basket     | Sales      | Traffic    | Basket     |
| Pyaterochka            | 6.0        | 2.0        | 3.9        | 6.3        | 3.1        | 3.1        |
| Perekrestok            | 11.1       | 5.7        | 5.2        | 10.7       | 6.4        | 4.1        |
| Karusel                | 6.3        | (2.3)      | 8.8        | 7.8        | 1.6        | 6.2        |
| Express                | (11.4)     | (11.9)     | 0.5        | (10.5)     | (9.8)      | (0.8)      |
| <b>X5 Retail Group</b> | <b>6.6</b> | <b>2.0</b> | <b>4.5</b> | <b>6.9</b> | <b>3.2</b> | <b>3.6</b> |

For more details on net retail sales growth please refer to X5's [Q2 2017 Trading Update](#).

(3) LFL comparisons of retail sales between two periods are comparisons of retail sales in local currency (including VAT) generated by the relevant stores. The stores that are included in LFL comparisons are those that have operated for at least 12 full months. Their sales are included in the LFL calculation starting from the day of the store's opening. We include all stores that fit our LFL criteria in each reporting period.

## Gross profit margin

The gross margin improved by 12 b.p. y-o-y to 23.9% in Q2 2017 on the back of a low base effect from the same period last year.

## Selling, general and administrative (SG&A) expenses (excl. D&A&I)

| RUB mln  | Q2 2017         | Q2 2016         | change,<br>y-o-y, % | H1 2017          | H1 2016         | change,<br>y-o-y, % |
|--|-----------------|-----------------|---------------------|------------------|-----------------|---------------------|
| <b>Staff costs</b>   | <b>(23,483)</b> | <b>(18,169)</b> | <b>29.2</b>         | <b>(45,728)</b>  | <b>(36,314)</b> | <b>25.9</b>         |
| % of Revenue   | 7.3             | 7.2             | 10 b.p.             | 7.4              | 7.5             | (7) b.p.            |
| incl. LTI and share-based payments                                     | (1,332)         | (42)            | n/a                 | (1,869)          | (75)            | n/a                 |
| staff costs excl. LTI  | 6.9             | 7.2             | (30) b.p.           | 7.1              | 7.5             | (35) b.p.           |
| % of Revenue   |                 |                 |                     |                  |                 |                     |
| <b>Lease expenses</b>  | <b>(14,451)</b> | <b>(11,379)</b> | <b>27.0</b>         | <b>(28,008)</b>  | <b>(22,004)</b> | <b>27.3</b>         |
| % of Revenue   | 4.5             | 4.5             | (2) b.p.            | 4.6              | 4.6             | 1 b.p.              |
| <b>Utilities</b>   | <b>(5,189)</b>  | <b>(4,238)</b>  | <b>22.4</b>         | <b>(11,423)</b>  | <b>(9,222)</b>  | <b>23.9</b>         |
| % of Revenue   | 1.6             | 1.7             | (7) b.p.            | 1.9              | 1.9             | (5) b.p.            |
| <b>Other store costs</b>   | <b>(3,673)</b>  | <b>(3,581)</b>  | <b>2.6</b>          | <b>(7,035)</b>   | <b>(7,029)</b>  | <b>0.1</b>          |
| % of Revenue   | 1.1             | 1.4             | (28) b.p.           | 1.1              | 1.5             | (31) b.p.           |
| <b>Third party services</b>  | <b>(2,350)</b>  | <b>(1,806)</b>  | <b>30.1</b>         | <b>(4,311)</b>   | <b>(3,654)</b>  | <b>18.0</b>         |
| % of Revenue   | 0.7             | 0.7             | 1 b.p.              | 0.7              | 0.8             | (5) b.p.            |
| <b>Other expenses</b>  | <b>(1,744)</b>  | <b>(2,363)</b>  | <b>(26.2)</b>       | <b>(4,678)</b>   | <b>(4,622)</b>  | <b>1.2</b>          |
| % of Revenue   | 0.5             | 0.9             | (40) b.p.           | 0.8              | 1.0             | (19) b.p.           |
| <b>SG&amp;A (excl. D&amp;A&amp;I)</b>                                  | <b>(50,890)</b> | <b>(41,536)</b> | <b>22.5</b>         | <b>(101,183)</b> | <b>(82,845)</b> | <b>22.1</b>         |
| % of Revenue   | 15.9            | 16.5            | (64) b.p.           | 16.5             | 17.1            | (66) b.p.           |
| <b>SG&amp;A (excl. D&amp;A&amp;I and LTI and share-based payments)</b> | <b>(49,558)</b> | <b>(41,494)</b> | <b>19.4</b>         | <b>(99,314)</b>  | <b>(82,770)</b> | <b>20.0</b>         |
| % of Revenue   | 15.4            | 16.5            | (104) b.p.          | 16.2             | 17.1            | (95) b.p.           |

In Q2 2017, SG&A expenses excluding D&A&I as a percentage of revenue were down y-o-y by 64 b.p. to 15.9% (by 104 b.p. to 15.4% excluding the LTI and share-based payments), mainly due to improved staff costs (excluding LTI and share-based payments), utilities, other store costs and other expenses.

Staff costs (excluding LTI and share-based payments) as a percentage of revenue were reduced y-o-y by 30 b.p. in Q2 2017 to 6.9%, mainly due to the positive operating leverage effect.

LTI is a two-stage programme that will be in effect at the Company until 31 December 2019. Each stage of the programme includes a deferred component of conditional payouts, maintaining focus on long-term goals throughout the programme and also providing for an effective retention mechanism. The Company met the targets for the first stage of the LTI programme and its deferred component as of 31 December 2015 and as of 31 December 2016, respectively, and started to make an accrual for the second stage of the LTI programme in the financial statements for the year ended 31 December 2016.

As previously disclosed by the Company, it is management's assessment that the targets under the second stage of the programme are likely to be achieved in the near term. Moreover, based on the Company's performance in the first half of 2017 the probability of achieving the targets set for the deferred component of the second stage have increased, therefore starting from Q2 2017 the Company began to accrue expenses for the deferred component of the second stage of the programme. All the described changes will not lead to an increase of total available fund for all payouts under the LTI programme.

Lease expenses as a percentage of revenue in Q2 2017 slightly decreased y-o-y by 2 b.p. to 4.5%. The effect from the growing share of leased space (70% as of 30 June 2017, compared to 65% as of 30 June 2016) was offset by improved rental terms from property owners.

Utilities costs as a percentage of revenue declined y-o-y by 7 b.p. to 1.6% in Q2 2017 due to the continued effect from installation of energy-efficient equipment in stores and distribution centres and the positive effect from abnormally low temperatures in the reporting period, which led to lower electricity consumption.

Other store costs decreased by 28 b.p. as a percentage of revenue in Q2 2017 compared to Q2 2016, driven by a reduction in security costs and lower maintenance and repair expenses.

In Q2 2017, third-party services expenses as a percentage of revenue changed immaterially compared to Q2 2016.

In Q2 2017, other expenses as a percentage of revenue decreased by 40 b.p. y-o-y, primarily due to higher income from sale of recyclable materials and release of provisions.

In H1 2017, SG&A expenses as a percentage of revenue decreased y-o-y by 66 b.p. to 16.5% due to the impact of operational efficiency projects and operating leverage.

### Lease/sublease and other income

As a percentage of revenue, the Company's income from lease, sublease and other operations changed immaterially in Q2 2017 compared to Q2 2016.

### EBITDA and EBITDA margin

| RUB mln                                | Q2 2017         | Q2 2016         | change,<br>y-o-y, % | H1 2017          | H1 2016         | change,<br>y-o-y, % |
|--|-----------------|-----------------|---------------------|------------------|-----------------|---------------------|
| <b>Gross profit</b>                    | <b>76,621</b>   | <b>59,807</b>   | <b>28.1</b>         | <b>147,233</b>   | <b>115,998</b>  | <b>26.9</b>         |
| <i>Gross profit margin, %</i>          | 23.9            | 23.8            | 12 b.p.             | 24.0             | 24.0            | (2) b.p.            |
| <b>SG&amp;A (excl. D&amp;A&amp;I)</b>  | <b>(50,890)</b> | <b>(41,536)</b> | <b>22.5</b>         | <b>(101,183)</b> | <b>(82,845)</b> | <b>22.1</b>         |
| <i>% of Revenue</i>                    | 15.9            | 16.5            | (64) b.p.           | 16.5             | 17.1            | (66) b.p.           |
| <b>Lease/sublease and other income</b> | <b>2,102</b>    | <b>1,735</b>    | <b>21.2</b>         | <b>3,950</b>     | <b>3,346</b>    | <b>18.1</b>         |
| <i>% of Revenue</i>                    | 0.7             | 0.7             | (3) b.p.            | 0.6              | 0.7             | (5) b.p.            |
| <b>EBITDA</b>                          | <b>27,833</b>   | <b>20,005</b>   | <b>39.1</b>         | <b>50,000</b>    | <b>36,498</b>   | <b>37.0</b>         |
| <i>EBITDA margin, %</i>                | 8.7             | 8.0             | 73 b.p.             | 8.1              | 7.6             | 59 b.p.             |

As a result of the factors discussed above, EBITDA in Q2 2017 grew by 39.1% and totalled RUB 27,833 mln, or 8.7% of revenue, compared to RUB 20,005 mln, or 8.0% of revenue in Q2 2016.

In H1 2017, EBITDA increased by 37.0% and amounted to RUB 50,000 mln, or 8.1% of revenue, compared to RUB 36,498 mln, or 7.6% of revenue, in the corresponding period of 2016.

### Segment reporting

| RUB mln                 | H1 2017 | H1 2016 | change,<br>y-o-y, % |
|-------------------------|---------|---------|---------------------|
| <b>Pyaterochka</b>      |         |         |                     |
| Revenue                 | 474,103 | 362,054 | 30.9                |
| EBITDA                  | 43,080  | 29,926  | 44.0                |
| <i>EBITDA margin, %</i> | 9.1     | 8.3     | 82 b.p.             |
| <b>Perekrestok</b>      |         |         |                     |
| Revenue                 | 90,534  | 75,518  | 19.9                |
| EBITDA                  | 6,353   | 5,453   | 16.5                |
| <i>EBITDA margin, %</i> | 7.0     | 7.2     | (20) b.p.           |
| <b>Karusel</b>          |         |         |                     |
| Revenue                 | 43,225  | 39,495  | 9.4                 |
| EBITDA                  | 2,517   | 2,110   | 19.3                |
| <i>EBITDA margin, %</i> | 5.8     | 5.3     | 48 b.p.             |
| <b>Other segments</b>   |         |         |                     |
| Revenue                 | 6,017   | 6,177   | (2.6)               |
| EBITDA                  | 128     | 335     | (61.8)              |
| <i>EBITDA margin, %</i> | 2.1     | 5.4     | (330) b.p.          |
| <b>Corporate</b>        |         |         |                     |
| EBITDA                  | (2,078) | (1,326) | 56.7                |

In H1 2017, Pyaterochka's EBITDA margin increased y-o-y by 82 b.p. to 9.1%, driven by the solid performance of mature stores operating under the new concept.

Perekrestok's EBITDA margin decreased by 20 b.p. in in H1 2017 to 7.0% mainly due to quarterly LTI expenses accrual starting from Q4 2016.

In H1 2017, Karusel's EBITDA margin improved y-o-y by 48 b.p. to 5.8% on the back of further optimisation of the store portfolio, improved in-store efficiencies and stores opened in Q4 2015 having reached maturity.

Other segments include Perekrestok Express, where the EBITDA margin decreased y-o-y to 2.1% in H1 2017, mainly due to negative operating leverage effect.

Corporate expenses increased by 56.7% y-o-y in H1 2017 due to the transition to quarterly LTI expenses accrual starting from Q4 2016.

### D&A&I

Depreciation, amortisation and impairment costs in Q2 2017 totalled RUB 9,794 mln (RUB 17,502 mln for H1 2017), increasing y-o-y as a percentage of revenue by 85 b.p. to 3.1% (for H1 2017: up by 65 b.p. to 2.9%). This was due to significant changes in composition of buildings, with a growing share of fixtures and fittings versus foundation and frame.

## Non-operating gains and losses

| RUB mln                  | Q2 2017       | Q2 2016       | change,<br>y-o-y, % | H1 2017       | H1 2016       | change,<br>y-o-y, % |
|--------------------------|---------------|---------------|---------------------|---------------|---------------|---------------------|
| <b>Operating profit</b>  | <b>18,039</b> | <b>14,458</b> | <b>24.8</b>         | <b>32,498</b> | <b>25,864</b> | <b>25.6</b>         |
| Net finance costs        | (4,107)       | (4,433)       | (7.4)               | (7,931)       | (8,915)       | (11.0)              |
| Net FX result            | (178)         | 81            | n/a                 | (20)          | 142           | n/a                 |
| <b>Profit before tax</b> | <b>13,754</b> | <b>10,106</b> | <b>36.1</b>         | <b>24,547</b> | <b>17,091</b> | <b>43.6</b>         |
| Income tax expense       | (3,411)       | (2,156)       | 58.2                | (5,849)       | (4,087)       | 43.1                |
| <b>Net profit</b>        | <b>10,343</b> | <b>7,950</b>  | <b>30.1</b>         | <b>18,698</b> | <b>13,004</b> | <b>43.8</b>         |
| Net margin, %            | 3.2           | 3.2           | 6 b.p.              | 3.0           | 2.7           | 35 b.p.             |

Net finance costs in Q2 2017 declined y-o-y by 7.4% to RUB 4,107 mln due to the decreased weighted average effective interest rate on X5's total debt from 11.67% for H1 2016 to 9.85% for H1 2017 as a result of declining interest rates in Russian capital markets and actions undertaken by X5 to minimise interest expenses.

In April 2017, X5 issued its debut RUB 20 bln Eurobond due April 2020 with a coupon rate of 9.25% p.a. In May 2017, X5 issued 001P-02 series exchange-listed corporate bonds in the total amount of RUB 10 bln with a coupon rate 8.45% and a 3.5-year put option.

In Q2 2017, income tax expense increased by 58.2% vs Q2 2016 and reached RUB 3,411 mln mainly due to business growth and release of tax provision in Q2 2016.

## Consolidated cash flow statement highlights

| RUB mln  | Q2 2017    | Q2 2016    | change<br>y-o-y, % | H1 2017         | H1 2016        | change<br>y-o-y, % |
|--|------------|------------|--------------------|-----------------|----------------|--------------------|
| Net cash from operating activities before changes in working capital | 27,994     | 20,122     | 39.1               | 50,281          | 36,810         | 36.6               |
| Change in working capital  | (11,873)   | (2,914)    | 307.4              | (25,787)        | (9,221)        | 179.7              |
| Net interest and income tax paid                                     | (4,798)    | (4,653)    | 3.1                | (13,589)        | (9,308)        | 46.0               |
| Net cash flows generated from operating activities                   | 11,323     | 12,555     | (9.8)              | 10,905          | 18,281         | (40.3)             |
| Net cash used in investing activities                                | (19,138)   | (18,596)   | 2.9                | (36,775)        | (33,531)       | 9.7                |
| Net cash generated from financing activities                         | 8,372      | 6,979      | 20.0               | 14,455          | 11,728         | 23.3               |
| Effect of exchange rate changes on cash & cash equivalents           | (10)       | (6)        | 66.7               | 4               | (5)            | n/a                |
| <b>Net increase/(decrease) in cash &amp; cash equivalents</b>        | <b>547</b> | <b>932</b> | <b>(41.3)</b>      | <b>(11,411)</b> | <b>(3,527)</b> | <b>223.5</b>       |

In Q2 2017, the Company's net cash from operating activities before changes in working capital increased by RUB 7,872 mln, or 39.1%, and totalled RUB 27,994 mln. The change in working capital increased to RUB 11,873 mln in Q2 2017 from RUB 2,914 mln in Q2 2016 primarily due to changes in accounts payable and accounts receivable as a result of the expansion of direct import operations, the effect from an increasing speed of invoicing due to further integration of electronic document interchange (EDI) and as a result of amendments to the Trade Law.

Net interest and income tax paid in Q2 2017 increased by RUB 145 mln, or 3.1%, and totalled RUB 4,798 mln. Interest paid decreased due to the lower weighted average effective interest rate on X5's debt for Q2 2017. Income tax paid increased due to business growth and the effect from tax offset in Q2 2016 following tax overpayment in 2015.

As a result, in Q2 2017, net cash flows generated from operating activities totalled RUB 11,323 mln, compared to a RUB 12,555 mln for the same period of 2016.

In H1 2017, net cash flows generated from operating activities totalled RUB 10,905 mln, compared to a RUB 18,281 mln for the same period of 2016 mainly due to the changes in working capital.

Net cash used in investing activities, which generally consists of payments for property, plant and equipment, totalled RUB 19,138 mln in Q2 2017, compared to RUB 18,596 mln for the same period last year. The higher expenditures on store expansion was offset by lower investments in the refurbishment programme for Pyaterochka stores, which is almost completed. X5 added 270.6 th. sq. m. of selling space in Q2 2017, a 16.1% y-o-y increase. For H1 2017, net cash used in investing activities increased to RUB 36,775 mln from RUB 33,531 mln in H1 2016. X5 added 519.2 th. sq. m. of selling space in H1 2017, which is a 25.4% increase y-o-y.

Net cash generated from financing activities increased to RUB 8,372 mln in Q2 2017 from RUB 6,979 mln for Q2 2016. In H1 2017, net cash generated from financing activities increased to RUB 14,455 mln from RUB 11,728 mln for H1 2016. The increase was related to the drawdown of available credit lines and bonds issued to finance the Company's investment programme.

### Liquidity update

| RUB mln                 | 30-Jun-17      | % in total | 31-Dec-16      | % in total | 30-Jun-16      | % in total |
|-------------------------|----------------|------------|----------------|------------|----------------|------------|
| <b>Total debt</b>       | <b>170,635</b> |            | <b>156,033</b> |            | <b>156,000</b> |            |
| Short-term debt         | 46,389         | 27.2       | 45,168         | 28.9       | 43,063         | 27.6       |
| Long-term debt          | 124,246        | 72.8       | 110,865        | 71.1       | 112,937        | 72.4       |
| <b>Net debt</b>         | <b>163,856</b> |            | <b>137,843</b> |            | <b>150,569</b> |            |
| <b>Net debt/ EBITDA</b> | <b>1.83</b>    |            | <b>1.81</b>    |            | <b>2.34</b>    |            |

As of 30 June 2017, the Company's total debt amounted to RUB 170,635 mln and comprised 27.2% short-term debt and 72.8% long-term debt. The Company's debt is 100% denominated in Russian Roubles.

As of 30 June 2017, the Company had access to RUB 298,696 mln of available credit limits from major Russian and international banks.

### Related Party Transactions

For a description of the related party transactions entered into by the Company we refer to note 7 of the consolidated condensed interim financial statements.

### Risks and Uncertainties

X5's risk management programme provides executive management with a periodic and in-depth understanding of X5's key business risks and the risk management and internal controls in place to mitigate these risks. For a detailed description of all risks we refer to the Annual Report 2016. It should be noted that there are additional risks that management believe are immaterial or otherwise common to most companies, or that we are currently unaware of. The Company has assessed the risks for the second half of 2017 and believes that the risks identified are in line with those presented in the Annual Report 2016. For a description of the financial risks faced by the Company we refer to note 20 of the consolidated condensed interim financial statements and the Company's Annual Report 2016.

**Interim report**

The Interim Report, including the full set of reviewed IFRS condensed consolidated interim financial statements and notes thereto, is available on X5's corporate website at:

<https://www.x5.ru/en/Pages/Investors/ResultsCenter.aspx>

**Information on Alternative Performance Measures**

For more information on Alternative Performance Measures which provide readers with a more detailed and accurate understanding of the Company's financial and operating performance please refer to pages 138-141 of the Annual Report 2016.



**Note to Editors:**

X5 Retail Group N.V. (LSE: FIVE, Fitch – ‘BB’, Moody's – ‘Ba2’, S&P – ‘BB’) is a leading Russian food retailer. The Company operates several retail formats: the chain of proximity stores under the Pyaterochka brand, the supermarket chain under the Perekrestok brand, the hypermarket chain under the Karusel brand and Express convenience stores under various brands.

As of 30 June 2017, X5 had 10,506 Company-operated stores. It has the leading market position in both Moscow and St. Petersburg and a significant presence in the European part of Russia. Its store base includes 9,688 Pyaterochka proximity stores, 557 Perekrestok supermarkets, 90 Karusel hypermarkets and 171 convenience stores. The Company operates 36 DCs and 2,425 Company-owned trucks across the Russian Federation.

For the full year 2016, revenue totalled RUB 1,033,667 mln (USD 15,420 mln), Adjusted EBITDA reached RUB 79,519 mln (USD 1,186 mln), and net profit for the period amounted to RUB 22,291 mln (USD 333 mln). In H1 2017, revenue totalled RUB 613,879 mln (USD 10,587 mln), EBITDA reached RUB 50,000 mln (USD 862 mln), and net profit amounted to RUB 18,698 mln (USD 322 mln).

X5's Shareholder structure is as follows: Alfa Group – 47.86%, Intertrust Trustees Ltd (Axon Trust) – 11.43%, X5 Directors – 0.06%, treasury shares – 0.01%, Shareholders with less than 3% – 40.63%.

**Forward looking statements:**

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

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

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

*Elements of this press release contain or may contain inside information about X5 Retail Group N.V. within the meaning of Article 7(1) of the Market Abuse Regulation (596/2014/EU).*

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**X5 Retail Group N.V.**

**Condensed Consolidated Interim  
Financial Statements**

**Six months ended 30 June 2017**

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**X5 Retail Group N.V.**  
**Directors' Responsibility Statement**

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This report contains the half-yearly condensed consolidated financial statements of X5 Retail Group N.V. ("the Company") for the six months ended 30 June 2017 and the responsibility statement by the Company's Management Board (the "Management Board"), which have been reviewed by the independent auditor and are not audited.

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

The Management Board is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group at 30 June 2017, and the results of its operations, cash flows and changes in shareholders' equity for the six months then ended, in compliance with International Accounting Standard 34 *Interim Financial Reporting*.

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

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

The Management Board is also responsible for:

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

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

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Igor Shekhterman  
Chief Executive Officer  
1 August 2017

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Svetlana Demyashkevich  
Chief Financial Officer  
1 August 2017

## Review report

To: the supervisory board and shareholders of X5 Retail Group N.V.

### Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of X5 Retail Group N.V., Amsterdam, which comprise the condensed consolidated interim statement of financial position as at 30 June 2017, the condensed consolidated interim statements of profit or loss, comprehensive income, cash flows and changes in equity for the six-month period then ended, and the notes, comprising a summary of the significant accounting policies and other explanatory information.

Management 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 Independent 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 Dutch Standards on Auditing 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 for the six-month period ended 30 June 2017 are not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting", as adopted by the European Union.

Amsterdam, 1 August 2017

Ernst & Young Accountants LLP

signed by G.A. Arnold

**X5 Retail Group N.V.**  
**Condensed Consolidated Interim Statement of Financial Position**  
**at 30 June 2017**

(expressed in millions of Russian Roubles, unless otherwise stated)

|  | Note | 30 June<br>2017 | 31 December<br>2016 |
|--|------|-----------------|---------------------|
| <b>Assets</b>  |      |                 |                     |
| <b>Non-current assets</b>                                  |      |                 |                     |
| Property, plant and equipment                              | 8    | 246,994         | 232,316             |
| Investment property  |      | 5,262           | 4,590               |
| Goodwill   | 9    | 81,207          | 80,369              |
| Other intangible assets                                    | 8    | 16,742          | 16,380              |
| Other non-current assets                                   |      | 4,892           | 4,448               |
| Deferred tax assets  |      | 5,040           | 5,306               |
|  |      | <b>360,137</b>  | <b>343,409</b>      |
| <b>Current assets</b>                                      |      |                 |                     |
| Inventories  |      | 82,767          | 73,801              |
| Indemnification asset                                      |      | 175             | 182                 |
| Trade, other accounts receivable and prepayments           | 10   | 14,889          | 28,027              |
| Current income tax receivable                              |      | 1,058           | 954                 |
| VAT and other taxes receivable                             |      | 8,485           | 8,922               |
| Cash and cash equivalents                                  |      | 6,779           | 18,190              |
|  |      | <b>114,153</b>  | <b>130,076</b>      |
| <b>Total assets</b>  |      | <b>474,290</b>  | <b>473,485</b>      |
| <b>Equity and liabilities</b>                              |      |                 |                     |
| <b>Equity attributable to equity holders of the parent</b> |      |                 |                     |
| Share capital  | 13   | 2,458           | 2,458               |
| Share premium  |      | 46,212          | 46,251              |
| Retained earnings  |      | 96,959          | 78,261              |
| Share-based payment reserve                                | 17   | 75              | 70                  |
|  |      | <b>145,704</b>  | <b>127,040</b>      |
| <b>Total equity</b>  |      | <b>145,704</b>  | <b>127,040</b>      |
| <b>Non-current liabilities</b>                             |      |                 |                     |
| Long-term borrowings                                       | 12   | 124,246         | 110,865             |
| Deferred tax liabilities                                   |      | 5,707           | 6,505               |
| Long-term deferred revenue                                 |      | 7               | 8                   |
| Other non-current liabilities                              |      | 516             | 1,697               |
|  |      | <b>130,476</b>  | <b>119,075</b>      |
| <b>Current liabilities</b>                                 |      |                 |                     |
| Trade accounts payable                                     |      | 99,257          | 131,180             |
| Short-term borrowings                                      | 12   | 46,389          | 45,168              |
| Interest accrued   |      | 1,546           | 1,177               |
| Short-term deferred revenue                                |      | 717             | 282                 |
| Current income tax payable                                 |      | 942             | 821                 |
| Provisions and other liabilities                           | 11   | 49,259          | 48,742              |
|  |      | <b>198,110</b>  | <b>227,370</b>      |
| <b>Total liabilities</b>                                   |      | <b>328,586</b>  | <b>346,445</b>      |
| <b>Total equity and liabilities</b>                        |      | <b>474,290</b>  | <b>473,485</b>      |

Igor Shekhterman  
Chief Executive Officer  
1 August 2017

Svetlana Demyashkevich  
Chief Financial Officer  
1 August 2017

The accompanying Notes on pages 6 to 19 are an integral part of these condensed consolidated interim financial statements.

**X5 Retail Group N.V.**  
**Condensed Consolidated Interim Statement of Profit or Loss**  
**for the six months ended 30 June 2017**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

|   | Note | Six months ended 30 June |                |
|---|------|--------------------------|----------------|
|   |      | 2017                     | 2016           |
| Revenue   | 5    | 613,879                  | 483,244        |
| Cost of sales   |      | (466,646)                | (367,246)      |
| <b>Gross profit</b>   |      | <b>147,233</b>           | <b>115,998</b> |
| Selling, general and administrative expenses  | 15   | (118,685)                | (93,480)       |
| Lease/sublease and other income   |      | 3,950                    | 3,346          |
| <b>Operating profit</b>   |      | <b>32,498</b>            | <b>25,864</b>  |
| Finance costs   | 16   | (7,969)                  | (8,943)        |
| Finance income  | 16   | 38                       | 28             |
| Net foreign exchange (loss)/gain  |      | (20)                     | 142            |
| <b>Profit before tax</b>  |      | <b>24,547</b>            | <b>17,091</b>  |
| Income tax expense  | 18   | (5,849)                  | (4,087)        |
| <b>Profit for the period</b>  |      | <b>18,698</b>            | <b>13,004</b>  |
| <b>Profit for the period attributable to:</b>   |      |                          |                |
| Equity holders of the parent  |      | 18,698                   | 13,004         |
| Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)   | 14   | 275.44                   | 191.56         |
| Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share) | 14   | 275.39                   | 191.55         |

\_\_\_\_\_  
Igor Shekhterman  
Chief Executive Officer  
1 August 2017

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Svetlana Demyashkevich  
Chief Financial Officer  
1 August 2017

The accompanying Notes on pages 6 to 19 are an integral part of these condensed consolidated interim financial statements.

**X5 Retail Group N.V.**  
**Condensed Consolidated Interim Statement of Comprehensive Income**  
**for the six months ended 30 June 2017**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

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|   | <b>Six months ended 30 June</b> |               |
|---|---------------------------------|---------------|
|   | <b>2017</b>                     | <b>2016</b>   |
| <b>Profit for the period</b>                                      | <b>18,698</b>                   | <b>13,004</b> |
| <b>Total comprehensive income for the period, net of tax</b>      | <b>18,698</b>                   | <b>13,004</b> |
| <b>Total comprehensive income for the period attributable to:</b> |                                 |               |
| Equity holders of the parent                                      | 18,698                          | 13,004        |

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Igor Shekhterman  
Chief Executive Officer  
1 August 2017

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Svetlana Demyashkevich  
Chief Financial Officer  
1 August 2017

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The accompanying Notes on pages 6 to 19 are an integral part of these condensed consolidated interim financial statements.



**X5 Retail Group N.V.**  
**Condensed Consolidated Interim Statement of Cash Flows**  
**for the six months ended 30 June 2017**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

|   | Note | Six months ended 30 June |                 |
|---|------|--------------------------|-----------------|
|   |      | 2017                     | 2016            |
| <b>Profit before tax</b>  |      | <b>24,547</b>            | <b>17,091</b>   |
| <i>Adjustments for:</i>   |      |                          |                 |
| Depreciation, amortisation and impairment of property, plant and equipment, investment property and intangible assets |      | 17,502                   | 10,634          |
| Gain on disposal of property, plant and equipment, investment property and intangible assets                          |      | (13)                     | (33)            |
| Finance costs, net  | 16   | 7,931                    | 8,915           |
| Impairment of trade, other accounts receivable and prepayments  |      | 191                      | 91              |
| Share-based compensation expense  | 17   | 29                       | 14              |
| Net foreign exchange loss/(gain)  |      | 20                       | (142)           |
| Other non-cash items  |      | 74                       | 240             |
| <b>Net cash from operating activities before changes in working capital</b>   |      | <b>50,281</b>            | <b>36,810</b>   |
| Decrease in trade, other accounts receivable and prepayments  |      | 13,224                   | 6,499           |
| Increase in inventories   |      | (8,966)                  | (5,083)         |
| Decrease in trade payable   |      | (31,884)                 | (4,559)         |
| Increase/(decrease) in other accounts payable   |      | 1,839                    | (6,078)         |
| <b>Net cash flows generated from operations</b>   |      | <b>24,494</b>            | <b>27,589</b>   |
| Interest paid   |      | (7,363)                  | (8,629)         |
| Interest received   |      | 30                       | 19              |
| Income tax paid   |      | (6,256)                  | (698)           |
| <b>Net cash flows from operating activities</b>   |      | <b>10,905</b>            | <b>18,281</b>   |
| <b>Cash flows from investing activities</b>   |      |                          |                 |
| Purchase of property, plant and equipment   |      | (34,545)                 | (29,710)        |
| Acquisition of businesses, net of cash acquired   | 6    | (1,122)                  | (3,154)         |
| Proceeds from disposal of property, plant and equipment, investment property and intangible assets                    |      | 241                      | 448             |
| Purchase of other intangible assets   |      | (1,349)                  | (1,115)         |
| <b>Net cash flows used in investing activities</b>  |      | <b>(36,775)</b>          | <b>(33,531)</b> |
| <b>Cash flows from financing activities</b>   |      |                          |                 |
| Proceeds from borrowings  |      | 56,718                   | 46,565          |
| Repayment of borrowings   |      | (42,200)                 | (34,837)        |
| Purchase of treasury shares   |      | (63)                     | -               |
| <b>Net cash flows generated from financing activities</b>   |      | <b>14,455</b>            | <b>11,728</b>   |
| Effect of exchange rate changes on cash and cash equivalents  |      | 4                        | (5)             |
| <b>Net decrease in cash and cash equivalents</b>  |      | <b>(11,411)</b>          | <b>(3,527)</b>  |
| <b>Movements in cash and cash equivalents</b>   |      |                          |                 |
| Cash and cash equivalents at the beginning of the period  |      | 18,190                   | 8,958           |
| Net decrease in cash and cash equivalents   |      | (11,411)                 | (3,527)         |
| <b>Cash and cash equivalents at the end of the period</b>   |      | <b>6,779</b>             | <b>5,431</b>    |

Igor Shekhterman  
Chief Executive Officer  
1 August 2017

Svetlana Demyashkevich  
Chief Financial Officer  
1 August 2017

The accompanying Notes on pages 6 to 19 are an integral part of these condensed consolidated interim financial statements.

**X5 Retail Group N.V.**  
**Condensed Consolidated Interim Statement of Changes in Equity**  
**for the six months ended 30 June 2017**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

|  | Attributable to equity holders of the parent |               |               |                             |                   |                            | Total          |
|--|--|---------------|---------------|-----------------------------|-------------------|----------------------------|----------------|
|  | Number of shares                             | Share capital | Share premium | Share-based payment reserve | Retained earnings | Total shareholders' equity |                |
| <b>Balance as at 1 January 2016</b>                    | <b>67,882,421</b>                            | <b>2,458</b>  | <b>46,253</b> | <b>37</b>                   | <b>55,970</b>     | <b>104,718</b>             | <b>104,718</b> |
| Profit for the period                                  | -  | -             | -             | -                           | 13,004            | 13,004                     | 13,004         |
| <b>Total comprehensive income for the period</b>       | <b>-</b>                                     | <b>-</b>      | <b>-</b>      | <b>-</b>                    | <b>13,004</b>     | <b>13,004</b>              | <b>13,004</b>  |
| Share-based payment compensation (Note 17)             | -  | -             | -             | 13                          | -                 | 13                         | 13             |
| Transfer and waiving of vested equity rights (Note 17) | 1,919  | -             | (2)           | 2                           | -                 | -                          | -              |
| <b>Balance as at 30 June 2016</b>                      | <b>67,884,340</b>                            | <b>2,458</b>  | <b>46,251</b> | <b>52</b>                   | <b>68,974</b>     | <b>117,735</b>             | <b>117,735</b> |
| <b>Balance as at 1 January 2017</b>                    | <b>67,884,340</b>                            | <b>2,458</b>  | <b>46,251</b> | <b>70</b>                   | <b>78,261</b>     | <b>127,040</b>             | <b>127,040</b> |
| Profit for the period                                  | -  | -             | -             | -                           | 18,698            | 18,698                     | 18,698         |
| <b>Total comprehensive income for the period</b>       | <b>-</b>                                     | <b>-</b>      | <b>-</b>      | <b>-</b>                    | <b>18,698</b>     | <b>18,698</b>              | <b>18,698</b>  |
| Share-based payment compensation (Note 17)             | -  | -             | -             | 29                          | -                 | 29                         | 29             |
| Transfer and waiving of vested equity rights (Note 17) | 2,408  | -             | (39)          | (24)                        | -                 | (63)                       | (63)           |
| <b>Balance as at 30 June 2017</b>                      | <b>67,886,748</b>                            | <b>2,458</b>  | <b>46,212</b> | <b>75</b>                   | <b>96,959</b>     | <b>145,704</b>             | <b>145,704</b> |

Igor Shekhterman  
Chief Executive Officer  
1 August 2017

Svetlana Demyashkevich  
Chief Financial Officer  
1 August 2017

The accompanying Notes on pages 6 to 19 are an integral part of these condensed consolidated interim financial statements.

**X5 Retail Group N.V.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Six months ended 30 June 2017**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

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## **1 PRINCIPAL 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 Parkstraat 20, 2514 JK The Hague, the Netherlands.

The main activity of the Group is the development and operation of grocery retail stores. As at 30 June 2017 the Group operated a retail chain of 10,506 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express" (each representing separate format) 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 (31 December 2016: 9,187 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express"). The Group's multiformat store network comprises 9,688 proximity stores under "Pyaterochka" brand, 557 supermarkets under "Perekrestok" brand, 90 hypermarkets under "Karusel" brand, 171 express stores (31 December 2016: 8,363 proximity stores under "Pyaterochka" brand, 539 supermarkets under "Perekrestok" brand, 91 hypermarkets under "Karusel" brand, 194 express stores).

As at 30 June 2017 the principal shareholder exerting significant influence over the Company is CTF Holdings Limited ("CTF"). CTF owns 47.86% of total issued shares in the Company, indirectly through Luxaro Retail Holding S.a.r.l. CTF is 100% ultimately beneficially owned by three individuals: Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or ultimately beneficially owns 50% or more in CTF. As at 30 June 2017 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 13).

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Basis of preparation**

These condensed consolidated interim financial statements for the six months ended 30 June 2017 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 2016 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 2016.

Management prepared these condensed consolidated interim financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations and access to financial resources (Note 20).

On 1 August 2017, the Management Board authorised the condensed consolidated interim financial statements for issue. Publication is on 2 August 2017. The condensed consolidated interim financial statements have been reviewed, not audited.

### **2.2 Foreign currency translation and transactions**

#### **(a) Functional and presentation currency**

The functional currency of the Group's entities is the national currency of the Russian Federation, the Russian Rouble ("RUB"). The presentation currency of the Group is the Russian Rouble ("RUB"), which management believes is the most useful currency to adopt for users of these condensed consolidated financial statements.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.2 Foreign currency translation and transactions (continued)**

#### **(b) Transactions and balances**

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

### **2.3 Taxes**

Taxes on income in the interim periods are accrued using the tax rate that is expected to be applicable to total annual profit or loss.

## **3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016. Judgements that have the most significant effect on the amounts recognised in the condensed consolidated interim financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include:

#### **Tax legislation**

Russian tax, currency and customs legislation is subject to varying interpretations (Note 22).

#### **Property, plant and equipment, Investment property, Lease rights and Goodwill**

The Group performs the impairment test for assets where there is any indicator of impairment. The Group estimates the recoverable amount of the asset or cash generating unit and groups of cash-generating units (for the purposes of impairment testing of goodwill) and if it is less than the carrying amount of an asset or cash generating unit and group of cash-generating units an impairment loss is recognised in the consolidated statement of profit or loss. For the six months ended 30 June 2017 the Group recognised an impairment loss in the amount of RUB 1,535 (six months ended 30 June 2016: RUB 512) and reversed the impairment loss previously recognised in the amount of RUB 886 (six months ended 30 June 2016: RUB 97) based on the actual results.

## **4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS**

In the preparation of the interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the complete consolidated financial statements for year ended 31 December 2016. In the six-month-period ended 30 June 2017 no new standards, interpretations or amendments were adopted by the Group.

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**4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)**

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective:

| <b>Standards issued but not yet effective in the European Union</b>  | <b>Effective for annual periods beginning on or after</b>      |
|--|--|
| IFRS 9 <i>Financial Instruments</i>  | 1 January 2018   |
| IFRS 15 <i>Revenue from Contracts with Customers</i>   | 1 January 2018   |
| IFRS 16 <i>Leases</i> *  | Not yet adopted by the EU                                      |
| Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (issued on 11 September 2014)* | Postponed  |
| IAS 7 <i>Disclosure Initiative – Amendments to IAS 7</i> (issued on 29 January 2016)*  | Not yet adopted by the EU                                      |
| IAS 12 <i>Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12</i> (issued on 19 January 2016)*                                   | Not yet adopted by the EU                                      |
| IFRS 2 <i>Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2</i> (issued on 20 June 2016)*                            | Not yet adopted by the EU                                      |
| IFRS 14 <i>Regulatory Deferral Accounts</i> (issued on 30 January 2014)  | Not to be endorsed by the EU till the final standard is issued |
| Clarifications to IFRS 15 <i>Revenue from Contracts with Customers</i> (issued on 12 April 2016)*  | Not yet adopted by the EU                                      |
| Amendments to IFRS 4 <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> (issued on 12 September 2016)*                             | Not yet adopted by the EU                                      |
| Annual improvements to IFRS standards 2014-2016 cycle (issued on 8 December 2016)*   | Not yet adopted by the EU                                      |
| IFRIC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i> (issued on 8 December 2016)*  | Not yet adopted by the EU                                      |
| Amendments to IAS 40 <i>Transfers of Investment Property</i> (issued on 8 December 2016)*  | Not yet adopted by the EU                                      |
| IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> (issued on 7 June 2017)   | Not yet adopted by the EU                                      |

\* Subject to EU endorsement.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial positions in the period of initial application except for IFRS 16 *Leases* described below:

IFRS 16 *Leases* (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group is currently assessing the potential effect of IFRS 16 on its consolidated financial statements.

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**5 SEGMENT REPORTING**

The Group identifies retail chains of each format (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8.

The following significant operating functions are decentralised by formats:

- Category management, including purchasing, pricing, assortment management, promotion management;
- Distribution centres logistics;
- Development function.

The formats' general managers are determined as segment managers in accordance with IFRS 8. The chief operating decision-maker has been determined as the Management Board. The Management Board reviews each format's internal reporting in order to assess performance and allocate resources.

The Management Board assesses the performance of the operating segments based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment (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 condensed consolidated interim financial statements.

The segment information for the period ended 30 June 2017, comparative figures for earlier periods and reconciliation of EBITDA to profit for the period is provided as follows:

| <b>Six months ended<br/>30 June 2017</b>     | <b>Pyaterochka</b> | <b>Perekrestok</b> | <b>Karusel</b> | <b>Other<br/>segments</b> | <b>Corporate<br/>centre</b> | <b>Total</b>   |
|--|--------------------|--------------------|----------------|---------------------------|-----------------------------|----------------|
| <b>Revenue</b>                               | <b>474,103</b>     | <b>90,534</b>      | <b>43,225</b>  | <b>6,017</b>              | <b>-</b>                    | <b>613,879</b> |
| <b>EBITDA</b>                                | <b>43,080</b>      | <b>6,353</b>       | <b>2,517</b>   | <b>128</b>                | <b>(2,078)</b>              | <b>50,000</b>  |
| Depreciation, amortisation<br>and impairment |                    |                    |                |                           |                             | (17,502)       |
| <b>Operating profit</b>                      |                    |                    |                |                           |                             | <b>32,498</b>  |
| Finance cost, net                            |                    |                    |                |                           |                             | (7,931)        |
| Net foreign exchange result                  |                    |                    |                |                           |                             | (20)           |
| <b>Profit before income tax</b>              |                    |                    |                |                           |                             | <b>24,547</b>  |
| Income tax expense                           |                    |                    |                |                           |                             | (5,849)        |
| <b>Profit for the period</b>                 |                    |                    |                |                           |                             | <b>18,698</b>  |
| Capital expenditure                          | 27,360             | 5,492              | 1,275          | 56                        | 104                         | 34,287         |
| <b>30 June 2017</b>                          |                    |                    |                |                           |                             |                |
| Inventories                                  | 63,012             | 11,206             | 7,680          | 869                       | -                           | 82,767         |

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**5 SEGMENT REPORTING (continued)**

| Six months ended<br>30 June 2016             | Pyaterochka    | Perekrestok   | Karusel       | Other<br>segments | Corporate<br>centre | Total          |
|--|----------------|---------------|---------------|-------------------|---------------------|----------------|
| <b>Revenue</b>                               | <b>362,054</b> | <b>75,518</b> | <b>39,495</b> | <b>6,177</b>      | <b>-</b>            | <b>483,244</b> |
| <b>EBITDA</b>                                | <b>29,926</b>  | <b>5,453</b>  | <b>2,110</b>  | <b>335</b>        | <b>(1,326)</b>      | <b>36,498</b>  |
| Depreciation, amortisation<br>and impairment |                |               |               |                   |                     | (10,634)       |
| <b>Operating profit</b>                      |                |               |               |                   |                     | <b>25,864</b>  |
| Finance cost, net                            |                |               |               |                   |                     | (8,915)        |
| Net foreign exchange result                  |                |               |               |                   |                     | 142            |
| <b>Profit before income tax</b>              |                |               |               |                   |                     | <b>17,091</b>  |
| Income tax expense                           |                |               |               |                   |                     | (4,087)        |
| <b>Profit for the period</b>                 |                |               |               |                   |                     | <b>13,004</b>  |
| Capital expenditure                          | 25,518         | 5,036         | 1,961         | 245               | 157                 | 32,917         |
| <b>31 December 2016</b>                      |                |               |               |                   |                     |                |
| Inventories                                  | 52,022         | 12,050        | 8,951         | 778               | -                   | 73,801         |

**6 ACQUISITION OF BUSINESSES**

**Acquisitions in 2017**

For the six months ended 30 June 2017 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

For the six months ended 30 June 2017 the acquired businesses contributed revenue of RUB 1,504 from the date of acquisition. These businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the six months ended 30 June 2017 as though the acquisition date had been the beginning of that period.

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

|  | <b>Provisional fair<br/>values at the<br/>acquisition date</b> |
|--|--|
| Property, plant and equipment (Note 8)               | 270  |
| Other intangible assets (Note 8)                     | 66   |
| Deferred tax assets                                  | 108  |
| <b>Net assets acquired</b>                           | <b>444</b>   |
| Goodwill (Note 9)                                    | 838  |
| <b>Purchase consideration</b>                        | <b>1,282</b>   |
| <b>Net cash outflow arising from the acquisition</b> | <b>1,122</b>   |

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

The purchase consideration for the reporting period comprises the transfer of cash and cash equivalents of RUB 1,122 and RUB 160 as contingent consideration.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The Group has not yet completed allocation of goodwill to segments.

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**6 ACQUISITION OF BUSINESSES (continued)**

**Acquisitions in 2016**

For the six months ended 30 June 2016 the Group acquired 100% of several businesses of other retail chains in Russia. The acquisitions were individually immaterial.

For the six months ended 30 June 2016 the acquired businesses contributed revenue of RUB 2,025 from the date of acquisition. These businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the six months ended 30 June 2016 as though the acquisition date had been the beginning of that period.

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

|  | <b>Finalised fair values at the acquisition date</b> |
|--|--|
| Property, plant and equipment (Note 8)               | 457  |
| Other intangible assets (Note 8)                     | 275  |
| Deferred tax assets                                  | 171  |
| <b>Net assets acquired</b>                           | <b>903</b>   |
| Goodwill (Note 9)                                    | 2,292  |
| <b>Purchase consideration</b>                        | <b>3,195</b>   |
| <b>Net cash outflow arising from the acquisition</b> | <b>3,151</b>   |

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. During the six months ended 30 June 2017 the Group has finalised fair value assessment of business combinations occurred during six months ended 30 June 2016 resulting in no change in the amount of goodwill initially recognised at provisional values.

The purchase consideration comprised cash and cash equivalents of RUB 3,151 and accounts receivable with fair value of RUB 44. During six months ended 30 June 2016 the Group transferred RUB 3 as deferred payments for the prior periods acquisitions.

**7 RELATED PARTY TRANSACTIONS**

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. There were no material changes in the volume of transactions and outstanding balances between the Group and related parties compared to the Group's consolidated financial statements as at 31 December 2016.

At 30 June 2017 trade accounts payable to other related parties amounted to RUB 238 (31 December 2016: RUB 278), trade accounts receivable amounted to RUB 1 (31 December 2016: RUB 29). For the six months ended 30 June 2017 purchases from other related parties net of bonuses amounted to RUB 830 (six months ended 30 June 2016: RUB 600).

**Key management personnel**

The Group key management personnel consists of members of the Management Board and Supervisory Board, and other key management personnel, having authority and responsibility for planning, directing and controlling the activities of the Group as a whole. The total direct compensation for members of the Management Board and other key management personnel consists of a base salary, a performance related short-term incentive and a performance related long-term incentive. Members of the Supervisory Board receive an annual base compensation in cash and share-based payments.



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**7 RELATED PARTY TRANSACTIONS (continued)**

**Key management personnel (continued)**

For the six months ended 30 June 2017 members of the Management Board and Supervisory Board, and other key management personnel, were entitled to a total short-term and long-term compensation of RUB 681 (six months ended 30 June 2016: RUB 335), including accrued short-term incentive rewards of RUB 81 (six months ended 30 June 2016: RUB 80) payable on an annual basis subject to meeting annual performance targets, accrued rewards under the long-term incentive plan of RUB 346 (six months ended 30 June 2016: RUB 28), social security costs of RUB 69 (six months ended 30 June 2016: RUB 64), share-based compensation of RUB 29 (six months ended 30 June 2016: expense of RUB 14). As at 30 June 2017 the total number of restricted stock units awarded to members of the Supervisory Board under the Restricted Stock Unit Plan was 152,097 (31 December 2016: 155,464).

**8 PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS**

|  | 2017                          |                         | 2016                          |                         |
|--|-------------------------------|-------------------------|-------------------------------|-------------------------|
|  | Property, plant and equipment | Other intangible assets | Property, plant and equipment | Other intangible assets |
| <b>Cost</b>  |                               |                         |                               |                         |
| <b>At 1 January</b>  | <b>326,314</b>                | <b>40,676</b>           | <b>266,382</b>                | <b>36,634</b>           |
| Additions  | 31,443                        | 1,670                   | 28,465                        | 1,233                   |
| Assets from acquisitions (Note 6)                            | 270                           | 66                      | 457                           | 275                     |
| Disposals  | (4,059)                       | (53)                    | (4,769)                       | (13)                    |
| <b>At 30 June</b>  | <b>353,968</b>                | <b>42,359</b>           | <b>290,535</b>                | <b>38,129</b>           |
| <b>Accumulated depreciation, amortisation and impairment</b> |                               |                         |                               |                         |
| <b>At 1 January</b>  | <b>(93,998)</b>               | <b>(24,296)</b>         | <b>(77,382)</b>               | <b>(21,533)</b>         |
| Depreciation and amortisation charge                         | (15,424)                      | (1,380)                 | (8,999)                       | (1,098)                 |
| Impairment charge  | (1,449)                       | (86)                    | (482)                         | (30)                    |
| Reversal of impairment                                       | 77                            | 96                      | 61                            | 10                      |
| Disposals  | 3,820                         | 49                      | 4,466                         | 13                      |
| <b>At 30 June</b>  | <b>(106,974)</b>              | <b>(25,617)</b>         | <b>(82,336)</b>               | <b>(22,638)</b>         |
| <b>Net book value at 1 January</b>                           | <b>232,316</b>                | <b>16,380</b>           | <b>189,000</b>                | <b>15,101</b>           |
| <b>Net book value at 30 June</b>                             | <b>246,994</b>                | <b>16,742</b>           | <b>208,199</b>                | <b>15,491</b>           |

Depreciation and amortisation charge, impairment charge, reversal of impairment were included in selling, general and administrative expenses in the condensed consolidated interim financial statement of profit or loss for the six months ended 30 June 2017 and 30 June 2016.

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 22).

For the six months ended 30 June 2017 the additions of other intangible assets were attributable to additions of software in the amount of RUB 1,498 and lease rights in the amount of RUB 172.

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**9 GOODWILL**

Movements in goodwill arising on the acquisition of businesses at 30 June 2017 and 30 June 2016 are:

|   | 2017            | 2016            |
|---|-----------------|-----------------|
| <b>Cost</b>                                       |                 |                 |
| <b>Gross book value at 1 January</b>              | 146,681         | 141,625         |
| Acquisition of businesses (Note 6)                | 838             | 2,292           |
| Effect of change in purchase price allocation     | -               | 195             |
| <b>Gross book value at 30 June</b>                | <b>147,519</b>  | <b>144,112</b>  |
| <b>Accumulated impairment losses</b>              |                 |                 |
| <b>Accumulated impairment losses at 1 January</b> | (66,312)        | (66,312)        |
| <b>Accumulated impairment losses at 30 June</b>   | <b>(66,312)</b> | <b>(66,312)</b> |
| <b>Carrying amount at 1 January</b>               | <b>80,369</b>   | <b>75,313</b>   |
| <b>Carrying amount at 30 June</b>                 | <b>81,207</b>   | <b>77,800</b>   |

**Goodwill impairment test**

For the purposes of impairment testing, goodwill is allocated to groups of cash-generating units (groups of CGUs) being store chains of each format. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The group of CGUs to which goodwill has been allocated is tested for impairment annually or more frequently if there are indications that the particular group of CGUs might be impaired. Goodwill is tested for impairment at the group of CGUs level by comparing carrying values of particular group of CGU assets including allocated goodwill to their value in use.

No events indicating triggers of goodwill impairment occurred in the six months ended 30 June 2017. The Group will perform an annual impairment test of goodwill at 31 December 2017.

**10 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS**

|   | 30 June<br>2017 | 31 December<br>2016 |
|---|-----------------|---------------------|
| Trade accounts receivable                               | 8,763           | 24,606              |
| Other receivables                                       | 1,839           | 2,206               |
| Accounts receivable for franchise services              | 12              | 15                  |
| Provision for impairment of trade and other receivables | (1,659)         | (1,806)             |
| <b>Total trade and other accounts receivable</b>        | <b>8,955</b>    | <b>25,021</b>       |
| Prepayments   | 6,207           | 2,956               |
| Advances made to trade suppliers                        | 448             | 733                 |
| Provision for impairment of prepayments and advances    | (721)           | (683)               |
| <b>Total prepayments</b>                                | <b>5,934</b>    | <b>3,006</b>        |
| <b>Total</b>  | <b>14,889</b>   | <b>28,027</b>       |

**11 PROVISIONS AND OTHER LIABILITIES**

|  | 30 June<br>2017 | 31 December<br>2016 |
|--|-----------------|---------------------|
| Other accounts payable and accruals                | 13,191          | 14,232              |
| Accrued salaries and bonuses                       | 12,801          | 12,412              |
| Taxes other than income tax                        | 10,832          | 7,037               |
| Accounts payable for property, plant and equipment | 9,019           | 11,890              |
| Advances received                                  | 1,726           | 1,462               |
| Payables to landlords                              | 1,086           | 1,210               |
| Provisions and liabilities for tax uncertainties   | 604             | 499                 |
| <b>Total</b>                                       | <b>49,259</b>   | <b>48,742</b>       |

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## 12 BORROWINGS

The Group had the following borrowings at 30 June 2017 and 31 December 2016:

| Current                             | Final maturity year | Fair value     |                | Carrying value |                |
|-------------------------------------|---------------------|----------------|----------------|----------------|----------------|
|                                     |                     | 2017           | 2016           | 2017           | 2016           |
| RUB Bonds X5 Finance series BO-06   | 2017                | 5,037          | 5,045          | 4,997          | 4,993          |
| RUB Bilateral Loans                 | 2018                | 41,392         | 40,175         | 41,392         | 40,175         |
| <b>Total current borrowings</b>     |                     | <b>46,429</b>  | <b>45,220</b>  | <b>46,389</b>  | <b>45,168</b>  |
| <b>Non-current</b>                  |                     |                |                |                |                |
| RUB Bonds X5 Finance series BO-04   | 2019                | 5,178          | 5,219          | 4,995          | 4,993          |
| RUB Bonds X5 Finance series BO-05   | 2018                | 5,150          | 5,089          | 4,996          | 4,995          |
| RUB Bonds X5 Finance series BO-07   | 2019                | 5,033          | 5,008          | 4,993          | 4,991          |
| RUB Bonds X5 Finance series 001P-01 | 2019                | 15,255         | 14,970         | 14,983         | 14,997         |
| RUB Bonds X5 Finance series 001P-02 | 2020                | 10,010         | -              | 9,998          | -              |
| RUB Eurobond X5 Finance B.V.        | 2020                | 20,078         | -              | 19,844         | -              |
| RUB Bilateral Loans                 | 2019                | 65,438         | 81,919         | 64,437         | 80,889         |
| <b>Total non-current borrowings</b> |                     | <b>126,142</b> | <b>112,205</b> | <b>124,246</b> | <b>110,865</b> |
| <b>Total borrowings</b>             |                     | <b>172,571</b> | <b>157,425</b> | <b>170,635</b> | <b>156,033</b> |

In April 2017 the Group issued debut RUB 20,000 Eurobond with a 9.25% coupon rate per annum and 3-years maturity. Bonds are traded on the Irish Stock Exchange.

In May 2017 the Group issued exchange corporate bonds series 001P-02 with 8.45% coupon rate and 3.5-years oferta (put-option).

The weighted average effective interest rate on X5's total borrowings for the six months ended 30 June 2017 comprised 9.85% per annum (six months ended 30 June 2016: 11.67%).

All borrowings at 30 June 2017 are shown net of related transaction costs of RUB 363 which are amortised over the term of the loans using the effective interest method (31 December 2016: RUB 267). Borrowing costs capitalised for the six months ended 30 June 2017 amounted to RUB 129 (six months ended 30 June 2016: RUB 78). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 9.69% (six months ended 30 June 2016: 11.57%).

In accordance with loan agreements the Group maintains an optimal capital structure by tracking certain covenants, such as the maximum level of Net Debt/EBITDA (4.00/4.25 during 2 quarters after acquisition). The Group's Eurobond documentation implies 3.75 leverage ratio threshold but with additional permitted indebtedness baskets and exclusions. At 30 June 2017 the Group complied with this covenant and Net Debt/EBITDA was equal to 1.83 (31 December 2016: 1.81).

## 13 SHARE CAPITAL

As at 30 June 2017 the Group had 190,000,000 authorised ordinary shares of which 67,886,748 (31 December 2016: 67,884,340) ordinary shares were outstanding and 6,470 ordinary shares (31 December 2016: 8,878) held as treasury stock. The nominal par value of each ordinary share is EUR 1.

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**14 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 period, excluding treasury shares.

Earnings per share were calculated as follows:

|  | <b>Six months<br/>ended<br/>30 June 2017</b> | <b>Six months<br/>ended<br/>30 June 2016</b> |
|--|--|--|
| Profit attributable to equity holders of the parent  | 18,698                                       | 13,004                                       |
| Weighted average number of ordinary shares in issue  | 67,884,899                                   | 67,885,800                                   |
| Effect of share options granted to employees, number of shares   | 11,398                                       | 734  |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share                | 67,896,297                                   | 67,886,534                                   |
| <b>Basic earnings per share for profit from continuing operations<br/>(expressed in RUB per share)</b>   | <b>275.44</b>                                | <b>191.56</b>                                |
| <b>Diluted earnings per share for profit from continuing operations<br/>(expressed in RUB per share)</b> | <b>275.39</b>                                | <b>191.55</b>                                |

**15 EXPENSES**

Among cost of sales and selling, general and administrative expenses charged for the six months ended 30 June 2017 were operating lease expenses of RUB 30,086 (six months ended 30 June 2016: RUB 24,025).

**16 FINANCE INCOME AND COSTS**

|                          | <b>Six months<br/>ended<br/>30 June 2017</b> | <b>Six months<br/>ended<br/>30 June 2016</b> |
|--------------------------|--|--|
| Interest expense         | 7,744  | 8,738  |
| Interest income          | (32)   | (26)   |
| Other finance costs, net | 219  | 203  |
| <b>Total</b>             | <b>7,931</b>                                 | <b>8,915</b>                                 |

**17 SHARE-BASED PAYMENTS**

**Employee stock plan**

Members of the Supervisory Board are entitled to annual awards of restricted stock units (RSUs) under the Company's Restricted Stock Unit Plan (RSU Plan) approved at the AGM in 2010. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders.

During the six months ended 30 June 2017, a total number of 36,116 RSUs were awarded under tranche 8, and 39,483 RSUs vested under tranche 5 of the RSU Plan. Upon vesting the RSUs were converted into GDRs registered in the participant's name, to be kept in custody during a two-year lock-in period during which the GDRs cannot be traded. Tranches 6, 7 and 8 will vest on 19 May 2018, 19 May 2019 and 19 May 2020 respectively.

In total, during the six months ended 30 June 2017 the Group recognised a loss related to the RSU plan in the amount of RUB 29 (expense during six months ended 30 June 2016: RUB 14). At 30 June 2017 the equity component was RUB 75 (31 December 2016: RUB 70). 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.

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**17 SHARE-BASED PAYMENTS (continued)**

**Employee stock plan (continued)**

Details of the conditional rights outstanding during the six months ended 30 June 2017 and 30 June 2016 were as follows:

|   | 30 June 2017                 |                                  | 30 June 2016                 |                                  |
|---|------------------------------|----------------------------------|------------------------------|----------------------------------|
|   | Number of conditional rights | Weighted average fair value, RUB | Number of conditional rights | Weighted average fair value, RUB |
| <b>Outstanding at the beginning of the period</b> | <b>155,464</b>               | <b>1,030.77</b>                  | <b>123,123</b>               | <b>765.23</b>                    |
| Granted during the period                         | 36,116                       | 2,114.26                         | 68,543                       | 1,294.78                         |
| Vested during the period                          | (39,483)                     | 608.64                           | (25,843)                     | 577.63                           |
| Waived of previously vested                       | 29,851                       | 673.04                           | 18,168                       | 890.28                           |
| Forfeited during the period                       | (29,851)                     | 673.04                           | (28,527)                     | 785.33                           |
| <b>Outstanding at the end of the period</b>       | <b>152,097</b>               | <b>1,397.63</b>                  | <b>155,464</b>               | <b>1,041.81</b>                  |

**18 INCOME TAX**

|   | Six months ended<br>30 June 2017 | Six months ended<br>30 June 2016 |
|---|----------------------------------|----------------------------------|
| Current income tax charge               | 6,273                            | 1,898                            |
| Deferred income tax (benefit)/charge    | (424)                            | 2,189                            |
| <b>Income tax charge for the period</b> | <b>5,849</b>                     | <b>4,087</b>                     |

The annual effective tax rate is estimated by the Group to be at the level of 22-24%. The actual effective tax rate for the six months ended 30 June 2017 approximates the estimated value.

**19 SEASONALITY**

The Group experiences seasonal effects on its business – increased customer activity in December results in an increase in sales made by the Group (approximately 25-40% higher than annual monthly average). The majority of expenses have the same trend as sales with the following exceptions: utility expenses are normally higher during winter period due to increased electricity and heating service consumption.

**20 FINANCIAL RISKS MANAGEMENT**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; they should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2016. There have been no changes in the risk management department since year end or in any risk management policies.

**Market risk – Interest rates risk**

As at 30 June 2017 the Group had no significant floating interest-bearing assets and liabilities, the Group's income, expenses and operating cash inflows and outflows are substantially independent of changes in market interest rates.

**Liquidity risk**

Compared to 31 December 2016, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

At 30 June 2017 the Group had net current liabilities of RUB 83,957 (31 December 2016: RUB 97,294) including short-term borrowings of RUB 46,389 (31 December 2016: RUB 45,168).

## **20 FINANCIAL RISKS MANAGEMENT (continued)**

### **Liquidity risk (continued)**

At 30 June 2017 the Group had available bank credit lines of RUB 298,696 (31 December 2016: RUB 280,808).

At 30 June 2017 the Group had RUB bonds available for issue on MICEX of RUB 25,000 (31 December 2016: RUB 35,000).

## **21 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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.

### **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.

The carrying amount of cash and cash equivalents and trade and other financial receivables approximates their fair value.

### **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.

The fair value of bonds traded on the MICEX and the ISE is determined based on active market quotations and amounted to RUB 65,741 at 30 June 2017 (31 December 2016: RUB 35,331). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 64,806 at 30 June 2017 (31 December 2016: RUB 34,969) (Note 12). The fair value of long-term borrowings amounted to RUB 65,438 at 30 June 2017 (31 December 2016: RUB 81,919). The measurement is classified in level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using interest rate of similar instruments available on the market. The sensitivity analysis shows that the increase/decrease of the market interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 818 at 30 June 2017. The fair value of short-term borrowings was not materially different from their carrying amounts.

## **22 COMMITMENTS AND CONTINGENCIES**

### **Commitments under operating leases**

At 30 June 2017, the Group operated 8,693 stores through rented premises (31 December 2016: 7,380 stores). There are two types of fees in respect of operating leases payable by the Group: fixed and variable (contingent rent). For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in RUB 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.

The Group entered into a number of short-term and long-term lease agreements which are cancellable by voluntary agreement of the parties or by payment of termination compensation. The expected annual lease payments under these agreements amount to RUB 30,215 (net of VAT) (31 December 2016: RUB 28,904).

### **Capital expenditure commitments**

At 30 June 2017 the Group contracted for capital expenditure of RUB 9,798 (net of VAT) (31 December 2016: RUB 10,987).

## **22 COMMITMENTS AND CONTINGENCIES (continued)**

### **Legal contingencies**

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued at 30 June 2017.

### **Taxation environment**

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of these legislative areas as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the Russian authorities decide to issue a claim and prove successful in court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of the Russian Federation rate for each day of delay for late payment of such amount. 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.

Russia has transfer pricing rules generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Given that the concept of the Russian transfer pricing rules is rather new and the practice is not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group. The level of impact is not expected to be significant since the prices of transactions between related parties which are the members of CGT (consolidated group of taxpayers) are not subject to transfer pricing control. Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the transfer pricing legislation.

Starting 2015 the "de-offshorisation law" came into force introducing the following rules and concepts which may have an impact on the Group's operations:

#### **The concept of beneficial ownership**

The possibility to apply the reduced tax rates to the income paid to foreign companies of the Group allowed under double tax treaties (DTTs) will depend on whether the company receiving such income is its beneficial owner. When determining the beneficial owner status of a foreign company the functions it performs and the risks it undertakes should be tested. It will be also considered whether such income was transferred (fully or in part) to another company. Given that the concept of beneficial ownership is rather new and the practice is not yet developed, the impact of any challenge of application of the reduced tax rates to the income paid to foreign Group companies cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Group.

Management believes that the Group's foreign companies receiving income from Russia are beneficial owners of that income and the reduced tax rates are correctly applied in accordance with the relevant DTTs.

#### **Broader rules for determining the tax residency of legal entities**

Starting 2015, more specific and detailed rules were put in place establishing when foreign entities can be viewed as managed from Russia and consequently can be deemed Russian tax residents. Russian tax residency means that such legal entities' worldwide income will be taxed in Russia. The Group comprises companies incorporated outside of Russia. The tax liabilities of the Group were determined on the assumption that these companies were not subject to Russian profits tax, because they did not have a permanent establishment in Russia and were not Russian tax residents by way of application of the new tax residency rules. This interpretation of relevant legislation in regard to the Group companies incorporated outside of Russia may be challenged. Given that the concept of the Russian broader rules for determining the tax residency of legal entities is rather new and the practice is not yet developed, the impact of any such challenge cannot be precisely estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

## **22 COMMITMENTS AND CONTINGENCIES (continued)**

### **Tax contingencies, commitments and risks**

Russian tax legislation does not provide definitive guidance in many areas. 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 past may be challenged as not having been in compliance with Russian tax laws applicable at the relevant time. In particular, the Supreme 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.

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. 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.

## **23 SUBSEQUENT EVENTS**

There were no significant events after the reporting date.