

**X5 REPORTS 25.9% REVENUE GROWTH IN Q2 2016  
EBITDA MARGIN IMPROVES BY 75 B.P. TO 8%**

- ✓ Revenue growth remained strong: revenue increased by 25.9% 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 30.6% y-o-y.
- ✓ X5 added a total of 539 new stores in Q2 2016 vs. 332 new stores during the same period last year, delivering selling space growth of 233.2 th. sq. m.
- ✓ The gross margin decreased by 28 b.p. y-o-y to 23.8% in Q2 2016 on the back of ongoing improvements to the value proposition, including targeted re-investment of operating efficiencies into lower prices to support consumers in the current environment.
- ✓ SG&A expenses (excl. D&A&I) as a percentage of revenue improved by 110 b.p. y-o-y to 16.5%, due to the positive impact of ongoing projects to improve operational efficiency and as a result of operating leverage.
- ✓ EBITDA grew by 39.0% y-o-y and reached RUB 20,005 mln in Q2 2016. The EBITDA margin improved by 75 b.p. y-o-y in Q2 2016 to 8.0%, the strongest since Q4 2012.
- ✓ The Company's net debt/EBITDA ratio decreased to 2.34x as of 30 June 2016, from 2.45x as of 31 December 2015.

**Amsterdam, 17 August 2016** - X5 Retail Group N.V. ("X5" or the "Company"), a leading Russian food retailer (LSE ticker: FIVE), today released its interim report for the Half Year 2016, 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:

*"X5 has now maintained its position as Russia's fastest-growing public retailer by revenue for three quarters in a row. We are especially pleased to have delivered strong revenue growth, LFL performance and margin expansion despite continued challenges in the market environment.*

*"Moreover, we have achieved these market-leading growths while remaining focused on efficiency and operational excellence. We have a number of projects underway that will help improve in-store excellence, and are already seeing some benefits in our margins whilst also being able to make targeted price investments to support our consumer base when needed. Our Geographic Information System, that we have rolled out to make choosing new store locations significantly more efficient, is a great example of a project that is helping us to grow revenue efficiently and profitably.*

*"Looking ahead, we believe that X5 Retail Group remains well positioned to continue on its trajectory of high-quality growth, deliver on our business plan and strategic targets and generate further increases in shareholder value."*

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

Russian Rouble (RUB), million (mln)	Q2 2016	Q2 2015	change, y-o-y, %	H1 2016	H1 2015	change, y-o-y, %
<b>Revenue</b>	<b>251,633</b>	<b>199,883</b>	<b>25.9</b>	<b>483,244</b>	<b>382,608</b>	<b>26.3</b>
incl. net retail sales <sup>(2)</sup>	249,722	198,623	25.7	480,323	380,676	26.2
Pyaterochka	189,437	145,050	30.6	360,806	274,629	31.4
Perekrestok	37,315	31,296	19.2	74,856	63,046	18.7
Karusel	20,124	19,420	3.6	39,141	37,317	4.9
Express	2,845	2,857	(0.4)	5,519	5,684	(2.9)
<b>Gross profit</b>	<b>59,807</b>	<b>48,075</b>	<b>24.4</b>	<b>115,998</b>	<b>92,971</b>	<b>24.8</b>
Gross profit margin, %	23.8	24.1	(28) b.p.	24.0	24.3	(30) b.p.
<b>EBITDA</b>	<b>20,005</b>	<b>14,389</b>	<b>39.0</b>	<b>36,498</b>	<b>27,517</b>	<b>32.6</b>
EBITDA margin, %	8.0	7.2	75 b.p.	7.6	7.2	36 b.p.
<b>Operating profit</b>	<b>14,458</b>	<b>9,923</b>	<b>45.7</b>	<b>25,864</b>	<b>18,991</b>	<b>36.2</b>
Operating profit margin, %	5.7	5.0	78 b.p.	5.4	5.0	39 b.p.
<b>Net profit</b>	<b>7,950</b>	<b>3,832</b>	<b>107.5</b>	<b>13,004</b>	<b>7,942</b>	<b>63.7</b>
Net profit margin, %	3.2	1.9	124 b.p.	2.7	2.1	62 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 2016 average ticket, customer visits, basket by format, % change y-o-y

	Q2 2016			H1 2016		
	Average ticket	# of customers	Net retail sales	Average ticket	# of customers	Net retail sales
Pyaterochka	2.0	28.2	30.6	3.3	27.4	31.4
Perekrestok	2.5	15.6	19.2	2.9	15.1	18.7
Karusel	(1.5)	5.0	3.6	0.9	3.8	4.9
Express	(3.6)	2.5	(0.4)	(1.8)	(1.9)	(2.9)
<b>X5 Retail Group</b>	<b>0.6</b>	<b>24.9</b>	<b>25.7</b>	<b>1.8</b>	<b>24.0</b>	<b>26.2</b>

Total net retail sales growth was a solid 25.7% y-o-y, driven by:

- 6.3% increase in LFL sales; and
- 19.4% y-o-y increase from net new space, resulting from a 31.8% y-o-y rise in selling space.

Pyaterochka continued to benefit from a value proposition that is one of the best adapted to Russian consumers' needs and from its strong store-opening programme, making it the key driver for X5's Q2 2016 growth: net retail sales rose by 30.6% y-o-y.

Perekrestok's net retail sales growth accelerated to 19.2% y-o-y in Q2 2016 from 18.2% y-o-y in Q1 2016.

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

	As at 30-Jun-16	As at 31-Dec-15	change vs 31-Dec-15, %	As at 30-Jun-15	change vs 30-Jun-15, %
Pyaterochka	2,825,106	2,422,626	16.6	2,002,200	41.1
Perekrestok	501,538	484,008	3.6	444,814	12.8
Karusel	384,174	390,133	(1.5)	361,197	6.4
Express	36,542	36,407	0.4	35,453	3.1
<b>X5 Retail Group</b>	<b>3,747,359</b>	<b>3,333,174</b>	<b>12.4</b>	<b>2,843,663</b>	<b>31.8</b>

## Q2 & H1 2016 LFL<sup>(3)</sup> store performance by format, % change y-o-y

In Q2 2016, LFL sales performance remained strong despite slowing food-price inflation and weak consumer spending during Q2 2016.

Solid LFL traffic growth of 3.0% y-o-y was driven by the strong performance of Pyaterochka and traffic improvement at Perekrestok, which delivered positive LFL traffic for the second quarter in a row.

	Q2 2016			H1 2016		
	Sales	Traffic	Basket	Sales	Traffic	Basket
Pyaterochka	8.1	3.6	4.3	9.1	3.3	5.7
Perekrestok	4.8	2.0	2.7	4.6	1.3	3.3
Karusel	(3.1)	(0.0)	(3.1)	(2.3)	(1.7)	(0.6)
Express	(7.8)	(7.6)	(0.2)	(7.7)	(9.1)	1.5
<b>X5 Retail Group</b>	<b>6.3</b>	<b>3.0</b>	<b>3.1</b>	<b>7.0</b>	<b>2.5</b>	<b>4.4</b>

For more details on net retail sales growth please refer to X5's [Q2 2016 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 decreased by 28 b.p. y-o-y to 23.8% in Q2 2016 on the back of ongoing adaptation to the format value propositions, including targeted re-investment of new operating efficiencies into lower prices to support consumers in the current environment. The changing makeup of each format's contribution to revenue also affected the gross margin, as Pyaterochka's share continued to increase.

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

RUB mln	Q2 2016	Q2 2015	change, y-o-y, %	H1 2016	H1 2015	change, y-o-y, %
<b>Staff costs</b>	<b>(18,169)</b>	<b>(15,083)</b>	<b>20.5</b>	<b>(36,314)</b>	<b>(29,675)</b>	<b>22.4</b>
% of Revenue	7.2	7.5	(33) b.p.	7.5	7.8	(24) b.p.
<b>Lease expenses</b>	<b>(11,379)</b>	<b>(8,675)</b>	<b>31.2</b>	<b>(22,004)</b>	<b>(17,042)</b>	<b>29.1</b>
% of Revenue	4.5	4.3	18 b.p.	4.6	4.5	10 b.p.
<b>Utilities</b>	<b>(4,238)</b>	<b>(3,567)</b>	<b>18.8</b>	<b>(9,222)</b>	<b>(7,620)</b>	<b>21.0</b>
% of Revenue	1.7	1.8	(10) b.p.	1.9	2.0	(8) b.p.
<b>Other store costs</b>	<b>(3,581)</b>	<b>(3,078)</b>	<b>16.3</b>	<b>(7,029)</b>	<b>(5,807)</b>	<b>21.0</b>
% of Revenue	1.4	1.5	(12) b.p.	1.5	1.5	(6) b.p.
<b>Third party services</b>	<b>(1,806)</b>	<b>(2,072)</b>	<b>(12.8)</b>	<b>(3,654)</b>	<b>(3,351)</b>	<b>9.0</b>
% of Revenue	0.7	1.0	(32) b.p.	0.8	0.9	(12) b.p.
<b>Other expenses</b>	<b>(2,363)</b>	<b>(2,726)</b>	<b>(13.3)</b>	<b>(4,622)</b>	<b>(5,062)</b>	<b>(8.7)</b>
% of Revenue	0.9	1.4	(42) b.p.	1.0	1.3	(37) b.p.
<b>SG&amp;A (excl. D&amp;A&amp;I)</b>	<b>(41,536)</b>	<b>(35,201)</b>	<b>18.0</b>	<b>(82,845)</b>	<b>(68,557)</b>	<b>20.8</b>
% of Revenue	16.5	17.6	(110) b.p.	17.1	17.9	(77) b.p.

In Q2 2016, SG&A expenses excluding D&A&I as a percentage of revenue were down y-o-y by 110 b.p. to 16.5%, mainly due to improved staff costs, utilities, third party services and other expenses.

Staff costs as a percentage of revenue were reduced y-o-y by 33 b.p. in Q2 2016 to 7.2%, mainly due to the positive operating leverage effect.

Lease expenses as a percentage of revenue in Q2 2016 increased y-o-y by 18 b.p. to 4.5% due to accelerated new store openings. The majority of new openings were leased, which caused an increase in the leased space share of the total real estate portfolio. As a percentage of X5's total real estate portfolio, leased space accounted for 65% as of 30 June 2016, compared to 60% as of 30 June 2015.

Utilities costs as a percentage of revenue declined y-o-y by 10 b.p. to 1.7% in Q2 2016 due to the continued effect from installation of energy-efficient LED lighting in stores and distribution centres, and efficiencies achieved in heat supply.

Other store costs decreased by 12 b.p. as a percentage of revenue in Q2 2016 compared to Q2 2015, driven by projects to optimise in-store processes.

Third-party services expenses as a percentage of revenue declined y-o-y by 32 b.p. in Q2 2016 to 0.7% due to lower expenses for marketing and consultant services.

In Q2 2016, other expenses as a percentage of revenue decreased by 42 b.p. y-o-y, primarily due to higher provisions accrued in Q2 2015.

In H1 2016, SG&A expenses as a percentage of revenue decreased y-o-y by 77 b.p. to 17.1% 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 2016 compared to Q2 2015.

### EBITDA and EBITDA margin

RUB mln	Q2 2016	Q2 2015	change, y-o-y, %	H1 2016	H1 2015	change, y-o-y, %
<b>Gross profit</b>	<b>59,807</b>	<b>48,075</b>	<b>24.4</b>	<b>115,998</b>	<b>92,971</b>	<b>24.8</b>
<i>Gross profit margin, %</i>	23.8	24.1	(28) b.p.	24.0	24.3	(30) b.p.
<b>SG&amp;A (excl. D&amp;A&amp;I)</b>	<b>(41,536)</b>	<b>(35,201)</b>	<b>18.0</b>	<b>(82,845)</b>	<b>(68,557)</b>	<b>20.8</b>
<i>% of Revenue</i>	16.5	17.6	(110) b.p.	17.1	17.9	(77) b.p.
<b>Lease/sublease and other income</b>	<b>1,735</b>	<b>1,515</b>	<b>14.6</b>	<b>3,346</b>	<b>3,103</b>	<b>7.8</b>
<i>% of Revenue</i>	0.7	0.8	(7) b.p.	0.7	0.8	(12) b.p.
<b>EBITDA</b>	<b>20,005</b>	<b>14,389</b>	<b>39.0</b>	<b>36,498</b>	<b>27,517</b>	<b>32.6</b>
<i>EBITDA margin, %</i>	8.0	7.2	75 b.p.	7.6	7.2	36 b.p.

As a result of the factors discussed above, EBITDA in Q2 2016 grew by 39% and totalled RUB 20,005 mln, or 8.0% of revenue, compared to RUB 14,389 mln, or 7.2% of revenue in Q2 2015.

In H1 2016, EBITDA increased by 32.6% and amounted to RUB 36,498 mln, or 7.6% of revenue, compared to RUB 27,517 mln, or 7.2% of revenue, in the corresponding period of 2015.

## Segment reporting

RUB mln	H1 2016	H1 2015	change, y-o-y, %
<b>Pyaterochka</b>			
Revenue	362,054	275,514	31.4
EBITDA	29,926	21,900	36.6
EBITDA margin, %	8.3	7.9	32 b.p.
<b>Perekrestok</b>			
Revenue	75,518	63,477	19.0
EBITDA	5,453	4,955	10.1
EBITDA margin, %	7.2	7.8	(59) b.p.
<b>Karusel</b>			
Revenue	39,495	37,344	5.8
EBITDA	2,110	1,817	16.1
EBITDA margin, %	5.3	4.9	48 b.p.
<b>Other segments</b>			
Revenue	6,177	6,273	(1.5)
EBITDA	335	179	87.2
EBITDA margin, %	5.4	2.9	257 b.p.
<b>Corporate</b>			
EBITDA	(1,326)	(1,333)	(0.5)

In H1 2016, Pyaterochka's EBITDA margin increased y-o-y by 32 b.p. to 8.3%, driven by a value proposition that is one of the best adapted to Russian consumers' needs and solid performance of mature stores operating under the new concept.

Perekrestok's EBITDA margin declined y-o-y by 59 b.p. to 7.2% due to targeted price investments to maintain loyalty of the format's core audience.

In H1 2016, Karusel's EBITDA margin improved y-o-y by 48 b.p. to 5.3% on the back of optimisation of the store portfolio and improved in-store efficiencies.

Other segments include Perekrestok Express, where the EBITDA margin improved y-o-y by 257 b.p. to 5.4% in H1 2016, mainly due to the optimisation of the store portfolio, better terms from suppliers and improved in-store efficiencies.

Corporate expenses slightly decreased, by 0.5% y-o-y, due to continued elimination of duplicated functions.

## D&A&I

Depreciation, amortisation and impairment costs in Q2 2016 totalled RUB 5,547 mln (RUB 10,634 mln for H1 2016), declining y-o-y as a percentage of revenue by 3 b.p. to 2.2% (for H1 2016: down by 3 b.p. to 2.2%). This was driven by the operating leverage effect and a decreasing share of owned stores in X5's total real estate portfolio.

## Non-operating gains and losses

RUB mln	Q2 2016	Q2 2015	change, y-o-y, %	H1 2016	H1 2015	change, y-o-y, %
<b>Operating profit</b>	<b>14,458</b>	<b>9,923</b>	<b>45.7</b>	<b>25,864</b>	<b>18,991</b>	<b>36.2</b>
Net finance costs	(4,433)	(4,240)	4.6	(8,915)	(8,185)	8.9
Net FX result	81	30	170.0	142	144	(1.4)
Share of loss of associates	-	-	-	-	-	-
<b>Profit before tax</b>	<b>10,106</b>	<b>5,713</b>	<b>76.9</b>	<b>17,091</b>	<b>10,950</b>	<b>56.1</b>
Income tax expense	(2,156)	(1,881)	14.6	(4,087)	(3,008)	35.9
<b>Net profit</b>	<b>7,950</b>	<b>3,832</b>	<b>107.5</b>	<b>13,004</b>	<b>7,942</b>	<b>63.7</b>
Net margin, %	3.2	1.9	124 b.p.	2.7	2.1	62 b.p.



Net finance costs in Q2 2016 increased y-o-y by 4.6% to RUB 4,433 mln due to the higher level of weighted average gross debt. The weighted average effective interest rate on X5's total debt decreased from 13.3% for H1 2015 to 11.67% for H1 2016 due to declining interest rates in Russian capital markets and actions undertaken by X5 to minimise interest expenses. In May 2016, X5 issued BO-06 series exchange-listed corporate bonds in the total amount of RUB 5 bln with a 10.5% coupon rate and a 1.5-year put option. In June 2016, X5 made several drawdowns from a long-term credit line from Alfa Bank in the total amount of RUB 14.7 bln.

### Consolidated cash flow statement highlights

RUB mln	Q2 2016	Q2 2015	change, y-o-y, %	H1 2016	H1 2015	change, y-o-y, %
Net cash from operating activities before changes in working capital	20,122	15,384	30.8	36,810	28,957	27.1
Change in working capital	(2,914)	(2,919)	(0.2)	(9,221)	(14,058)	(34.4)
Net interest and income tax paid	(4,653)	(5,622)	(17.2)	(9,308)	(10,307)	(9.7)
Net cash flows generated from operating activities	12,555	6,843	83.5	18,281	4,592	298.1
Net cash used in investing activities	(18,596)	(13,520)	37.5	(33,531)	(21,340)	57.1
Net cash generated from financing activities	6,979	6,100	14.4	11,728	(4,340)	n/a
Effect of exchange rate changes on cash & cash equivalents	(6)	6	n/a	(5)	(3)	66.7
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>	<b>932</b>	<b>(571)</b>	<b>n/a</b>	<b>(3,527)</b>	<b>(21,091)</b>	<b>(83.3)</b>

In Q2 2016, the Company's net cash from operating activities before changes in working capital increased by RUB 4,738 mln, or 30.8%, and totalled RUB 20,122 mln in Q2 2016. Changes in working capital remained stable, and totalled RUB 2,914 mln.

Net interest and income tax paid in Q2 2016 decreased by RUB 969 mln, or 17.2%, and totalled RUB 4,653 mln. The effect from the increased level of gross debt as of 30 June 2016 compared to 30 June 2015 was offset by the lower weighted average effective interest rate on X5's debt for Q2 2016. Income tax paid decreased due to overpaid amounts as of 31 December 2015 and the refund of excess taxes paid in previous periods.

As a result, in Q2 2016, net cash flows generated from operating activities totalled RUB 12,555 mln, compared to a RUB 6,843 mln for the same period of 2015.

In H1 2016, net cash flows generated from operating activities increased to RUB 18,281 mln, compared to a RUB 4,592 mln for the same period of 2015 due to the reasons mentioned above and the working capital effect.

Net cash used in investing activities, which generally consists of payments for property, plant and equipment, totalled RUB 18,596 mln in Q2 2016, compared to RUB 13,520 mln for the same period last year, and reflects higher expenditures on store expansion. X5 added 233.2 th. sq. m. of selling space in Q2 2016, a 44.0% increase compared to the same period last year. For H1 2016, net cash used in investing activities increased to RUB 33,531 mln from RUB 21,340 mln in H1 2015. X5 added 414.2 th. sq. m. of selling space in H1 2016, which is a 52.6% increase y-o-y.

Net cash generated from financing activities increased to RUB 6,979 mln in Q2 2016 from RUB 6,100 mln for Q2 2015. In H1 2016, net cash generated from financing activities totalled RUB 11,728 mln compared to net cash used in financing activities of RUB 4,340 mln for H1 2015. 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-16	% in total	31-Dec-15	% in total	30-Jun-15	% in total
<b>Total debt</b>	<b>156,000</b>		<b>144,215</b>		<b>129,029</b>	
Short-term debt	43,063	27.6	42,670	29.6	30,779	23.9
Long-term debt	112,937	72.4	101,545	70.4	98,250	76.1
<b>Net debt</b>	<b>150,569</b>		<b>135,257</b>		<b>124,497</b>	
<b>Net debt/ EBITDA</b>	<b>2.34</b>		<b>2.45</b>		<b>2.39</b>	

As of 30 June 2016, the Company's total debt amounted to RUB 156,000 mln, of which 27.6% was short-term debt and 72.4% long-term debt. The Company's debt is 100% denominated in Russian Roubles.

As of 30 June 2016, the Company had access to RUB 156,475 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 program 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 2015. 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 2016 and believes that the risks identified are in line with those presented in the Annual Report 2015. 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 2015.

**Note to Editors:**

X5 Retail Group N.V. (LSE: FIVE, Fitch – ‘BB’, Moody's – ‘Ba3’, 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 2016, X5 had 7,936 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 7,164 Pyaterochka proximity stores, 493 Perekrestok supermarkets, 89 Karusel hypermarkets and 190 convenience stores. The Company operates 35 DCs and 1,469 Company-owned trucks across the Russian Federation.

For the full year 2015, revenue totalled RUB 808,818 mln (USD 13,268 mln), Adjusted EBITDA reached RUB 59,413 mln (USD 975 mln), and net profit for the period amounted to RUB 14,174 mln (USD 233 mln). In H1 2016, revenue totalled RUB 483,244 mln (USD 6,878 mln), EBITDA reached RUB 36,498 mln (USD 519 mln), and net profit amounted to RUB 13,004 mln (USD 185 mln).

X5's Shareholder structure is as follows: Alfa Group – 47.86%, founders of Pyaterochka – 14.43%, X5 Directors – 0.06%, treasury shares – 0.01%, free float – 37.64%.

**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.*

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**For further details please contact:****Maxim Novikov**

Head of Investor Relations

Tel.: +7 (495) 502-9783

e-mail: [Maxim.Novikov@x5.ru](mailto:Maxim.Novikov@x5.ru)**Andrey Vasin**

Investor Relations Officer

Tel.: +7 (495) 662-88-88 ext. 21-456

e-mail: [Andrey.Vasin@x5.ru](mailto:Andrey.Vasin@x5.ru)



**X5 Retail Group N.V.**

**Condensed Consolidated Interim  
Financial Statements**

**Six months ended 30 June 2016**

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## DIRECTORS' RESPONSIBILITY STATEMENT

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 2016 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 2016, 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  
16 August 2016

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Elena Milinova  
Chief Financial Officer  
16 August 2016

## Independent auditor's 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, that comprise the condensed consolidated interim statement of financial position as at 30 June 2016, 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 2016 are not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting", as adopted by the European Union.

Amsterdam, 16 August 2016

Ernst & Young Accountants LLP

signed by G.A. Arnold

**X5 Retail Group N.V.**  
**Condensed Consolidated Interim Statement of Financial Position at 30 June 2016**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

	Note	30 June 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	208,199	189,000
Investment property		4,589	4,828
Goodwill	9	77,800	75,313
Other intangible assets	8	15,491	15,101
Other non-current assets		4,296	3,751
Deferred tax assets		4,723	5,417
		<b>315,098</b>	<b>293,410</b>
<b>Current assets</b>			
Inventories		62,970	57,887
Indemnification asset		1,106	1,261
Trade, other accounts receivable and prepayments	10	20,427	25,008
Current income tax receivable		1,299	1,729
VAT and other taxes receivable		10,753	13,862
Cash and cash equivalents		5,431	8,958
		<b>101,986</b>	<b>108,705</b>
<b>TOTAL ASSETS</b>		<b>417,084</b>	<b>402,115</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		46,251	46,253
Retained earnings		68,974	55,970
Share-based payment reserve	17	52	37
		<b>117,735</b>	<b>104,718</b>
<b>Total equity</b>		<b>117,735</b>	<b>104,718</b>
<b>Non-current liabilities</b>			
Long-term borrowings	12	112,937	101,545
Deferred tax liabilities		6,361	4,961
Long-term deferred revenue		7	11
		<b>119,305</b>	<b>106,517</b>
<b>Current liabilities</b>			
Trade accounts payable		99,185	103,773
Short-term borrowings	12	43,063	42,670
Interest accrued		1,498	1,390
Short-term deferred revenue		134	243
Current income tax payable		2,401	1,684
Provisions and other liabilities	11	33,763	41,120
		<b>180,044</b>	<b>190,880</b>
<b>Total liabilities</b>		<b>299,349</b>	<b>297,397</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>417,084</b>	<b>402,115</b>

\_\_\_\_\_  
Igor Shekhterman  
Chief Executive Officer  
16 August 2016

\_\_\_\_\_  
Elena Milinova  
Chief Financial Officer  
16 August 2016

The accompanying Notes on pages 6 to 18 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 2016**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

	Note	Six months ended 30 June 2016	Six months ended 30 June 2015
Revenue	5	483,244	382,608
Cost of sales		(367,246)	(289,637)
<b>Gross profit</b>		<b>115,998</b>	<b>92,971</b>
Selling, general and administrative expenses	15	(93,480)	(77,083)
Lease/sublease and other income		3,346	3,103
<b>Operating profit</b>		<b>25,864</b>	<b>18,991</b>
Finance costs	16	(8,943)	(8,557)
Finance income	16	28	372
Net foreign exchange gain		142	144
<b>Profit before tax</b>		<b>17,091</b>	<b>10,950</b>
Income tax expense	18	(4,087)	(3,008)
<b>Profit for the period</b>		<b>13,004</b>	<b>7,942</b>
<b>Profit for the period attributable to:</b>			
Equity holders of the parent		13,004	7,942
<b>Basic earnings per share for profit attributable to the equity holders of the parent</b> (expressed in RUB per share)			
	<b>14</b>	<b>191.56</b>	<b>117.02</b>
<b>Diluted earnings per share for profit attributable to the equity holders of the parent</b> (expressed in RUB per share)			
	<b>14</b>	<b>191.55</b>	<b>117.02</b>

\_\_\_\_\_  
Igor Shekhterman  
Chief Executive Officer  
16 August 2016

\_\_\_\_\_  
Elena Milinova  
Chief Financial Officer  
16 August 2016

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**X5 Retail Group N.V.**  
**Condensed Consolidated Interim Statement of Comprehensive Income**  
**for the six months ended 30 June 2016**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

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	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>Profit for the period</b>	<b>13,004</b>	<b>7,942</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>13,004</b>	<b>7,942</b>
<b>Total comprehensive income for the period attributable to:</b>		
Equity holders of the parent	13,004	7,942

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Igor Shekhterman  
Chief Executive Officer  
16 August 2016

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Elena Milinova  
Chief Financial Officer  
16 August 2016

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The accompanying Notes on pages 6 to 18 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 2016**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

	Note	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>Profit before tax</b>		<b>17,091</b>	<b>10,950</b>
Adjustments for:			
Depreciation, amortisation and impairment of property, plant and equipment, investment property and intangible assets	8	10,634	8,527
(Gain)/loss on disposal of property, plant and equipment, investment property and intangible assets		(33)	29
Finance costs, net	16	8,915	8,185
Impairment of trade and other accounts receivable		91	326
Share-based compensation expense/(income)	17	14	(12)
Net foreign exchange gain		(142)	(144)
Other non-cash items		240	1,096
<b>Net cash flows from operating activities before changes in working capital</b>		<b>36,810</b>	<b>28,957</b>
Decrease/(increase) in trade, other accounts receivable and prepayments		6,499	(1,642)
Increase in inventories		(5,083)	(3,185)
Decrease in trade payable		(4,559)	(10,924)
(Decrease)/increase in other accounts payable		(6,078)	1,693
<b>Net cash flows generated from operations</b>		<b>27,589</b>	<b>14,899</b>
Interest paid		(8,629)	(8,284)
Interest received		19	366
Income tax paid		(698)	(2,389)
<b>Net cash flows from operating activities</b>		<b>18,281</b>	<b>4,592</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(29,710)	(19,362)
Acquisition of subsidiaries	6	(3,154)	(1,426)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		448	76
Purchase of other intangible assets		(1,115)	(628)
<b>Net cash flows used in investing activities</b>		<b>(33,531)</b>	<b>(21,340)</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans		46,565	9,800
Repayment of loans		(34,837)	(14,140)
<b>Net cash flows generated from/(used in) financing activities</b>		<b>11,728</b>	<b>(4,340)</b>
Effect of exchange rate changes on cash and cash equivalents		(5)	(3)
<b>Net decrease in cash and cash equivalents</b>		<b>(3,527)</b>	<b>(21,091)</b>
<b>Movements in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the period		8,958	25,623
Net decrease in cash and cash equivalents		(3,527)	(21,091)
<b>Cash and cash equivalents at the end of the period</b>		<b>5,431</b>	<b>4,532</b>

Igor Shekhterman  
Chief Executive Officer  
16 August 2016

Elena Milinova  
Chief Financial Officer  
16 August 2016

The accompanying Notes on pages 6 to 18 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 2016**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

	Attributable to equity holders of the parent						
	Number of shares	Share capital	Share premium	Share-based payment reserve	Retained earnings	Total shareholders' equity	Total
<b>Balance as at 1 January 2015</b>	<b>67,867,743</b>	<b>2,457</b>	<b>46,218</b>	<b>94</b>	<b>41,789</b>	<b>90,558</b>	<b>90,558</b>
Profit for the period	-	-	-	-	7,942	7,942	7,942
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>7,942</b>	<b>7,942</b>	<b>7,942</b>
Share-based payment compensation (Note 17)	-	-	-	(34)	-	(34)	(34)
Transfer of vested equity rights (Note 17)	15,504	1	39	(40)	-	-	-
<b>Balance as at 30 June 2015</b>	<b>67,883,247</b>	<b>2,458</b>	<b>46,257</b>	<b>20</b>	<b>49,731</b>	<b>98,466</b>	<b>98,466</b>
<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>13,004</b>	<b>13,004</b>	<b>13,004</b>
Share-based payment compensation (Note 17)	-	-	-	13	-	13	13
Transfer 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>

Igor Shekhterman  
Chief Executive Officer  
16 August 2016

Elena Milinova  
Chief Financial Officer  
16 August 2016

The accompanying Notes on pages 6 to 18 are an integral part of these condensed consolidated interim financial statements.

## **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 Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands.

The main activity of the Group is the development and operation of grocery retail stores. As at 30 June 2016 the Group operated a retail chain of 7,936 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 2015: 7,020 proximity stores, supermarket, hypermarket and express stores under the brand names “Pyaterochka”, “Perekrestok”, “Karusel” and “Perekrestok Express”). The Group’s multiformat store network comprises 7,164 proximity stores under “Pyaterochka” brand, 493 supermarkets under “Perekrestok” brand, 89 hypermarkets under “Karusel” brand, 190 express stores (31 December 2015: 6,265 proximity stores under “Pyaterochka” brand, 478 supermarkets under “Perekrestok” brand, 90 hypermarkets under “Karusel” brand, 187 express stores).

As at 30 June 2016 principal shareholder controlling 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, registered in Gibraltar, which is 100% owned by three individuals: Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the “Shareholders”). None of the Shareholders individually controls and/or owns 50% or more in CTF. As at 30 June 2016 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 2016 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 2015 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 2015.

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 16 August 2016, the Management Board authorised the condensed consolidated interim financial statements for issue. Publication is on 17 August 2016. The condensed consolidated interim financial statements have been reviewed, not audited.

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

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 interim financial statements.

### **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 2015. 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:

**Provisional fair values of net assets of acquired businesses.** During the reporting period the Group made several acquisitions (Note 6) and applied a number of estimates to define the provisional fair value of acquired businesses' net assets. In estimating the provisional values of property and lease rights, direct references to observable prices in an active market were used (market approach). Estimates of other assets and liabilities are consistent with the Group policies with regard to other subsidiaries.

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

**Property, plant and equipment, Investment property, Lease rights, Prepaid leases 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 if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the six months ended 30 June 2016 the Group recognised an impairment loss in the amount of RUB 512 (six months ended 30 June 2015: RUB 506) and reversed the impairment loss previously recognised in the amount of RUB 97 (six months ended 30 June 2015: RUB 6) based on the actual results.

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

Amendments to IFRSs effective for the financial year beginning 1 January 2016 are not expected to have a material impact on the Group.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations by the European Union effective as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### **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.

**X5 Retail Group N.V.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Six months ended 30 June 2016**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

**5 SEGMENT REPORTING (continued)**

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 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 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 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. In 2016 a new methodology of overhead expenses allocation was used for more accurate measurements of segments' performance. The comparative figures for earlier periods have been adjusted in order to provide meaningful comparative information.

The segment information for the period ended 30 June 2016, comparative figures for earlier periods and reconciliation of EBITDA to profit for the period is provided as follows:

<b>Six months ended 30 June 2016</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other segments</b>	<b>Corporate</b>	<b>Total</b>
<b>Revenue</b>	362,054	75,518	39,495	6,177		<b>483,244</b>
<b>EBITDA</b>	29,926	5,453	2,110	335	(1,326)	<b>36,498</b>
Depreciation, amortisation 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>30 June 2016</b>						
Inventories	45,559	9,170	7,500	741	-	62,970

<b>Six months ended 30 June 2015</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other segments</b>	<b>Corporate</b>	<b>Total</b>
<b>Revenue</b>	275,514	63,477	37,344	6,273		<b>382,608</b>
<b>EBITDA</b>	21,900	4,955	1,817	179	(1,333)	<b>27,518</b>
Depreciation, amortisation and impairment						(8,527)
<b>Operating profit</b>						<b>18,991</b>
Finance cost, net						(8,185)
Net foreign exchange result						144
<b>Profit before income tax</b>						<b>10,950</b>
Income tax expense						(3,008)
<b>Profit for the period</b>						<b>7,942</b>
Capital expenditure	16,884	6,001	1,709	163	11	24,768
<b>31 December 2015</b>						
Inventories	42,069	8,443	6,641	734	-	57,887

## 6 ACQUISITION OF SUBSIDIARIES

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.

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 are as follows:

	<b>Provisional fair values at the acquisition date</b>
Property, plant and equipment (Note 8)	457
Intangible assets (Note 8)	275
Deferred tax asset	171
Net assets acquired	903
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 Group assigned provisional fair values to net assets acquired. In estimating provisional fair values of property, plant, equipment and intangible assets direct references to observable prices in an active market are used (market approach). The Group will finalise the purchase price allocation within 12 months from the acquisition date.

The purchase consideration comprises cash and cash equivalents of 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.

The goodwill recognised is not tax deductible for tax purposes and attributable to: i) the business concentration in certain Russian regions and ii) expected cost synergies from the business combination.

The Group proceeded with rebranding and full integration of acquired retail chains into the Group's operational structure immediately after acquisition, therefore post acquisition separate financial information for these businesses is not relevant.

### **SPAR Retail AO**

In April 2015 the Group acquired 100% of the business of SPAR Retail AO, a Russian retail chain which operated supermarket stores in Moscow and the Vladimir region.

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

	<b>Effect of change in purchase price allocation on the condensed consolidated interim statement of financial position as at 30 June 2016</b>
Deferred tax liabilities	(76)
Provisions and other liabilities	(50)
Inventories	(42)
Trade, other accounts receivable and prepayments	(27)
Net assets acquired	(195)
Goodwill (Note 9)	195

## 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 2015.

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 30 June 2016 are provided below. The ownership structure is disclosed in Note 1.

At 30 June 2016 trade accounts payable to other related parties amounted to RUB 258 (31 December 2015: RUB 236), trade accounts receivable amounted to RUB 20 (31 December 2015: RUB 38). For the six months ended 30 June 2016 purchases from other related parties amounted to RUB 600 (six months ended 30 June 2015: RUB 425).

### **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. Members of the Management Board and other key management personnel receive a base salary and participate in a short-term incentive and a long-term incentive plans; independent members of the Supervisory Board receive an annual base compensation in cash and share-based payments under RSU plan (Note 17), besides certain members are eligible to additional remuneration for participation in strategic projects.

For the six months ended 30 June 2016 members of the Management Board and Supervisory Board, and other key management personnel of the Group were entitled to total short-term and long-term compensation of RUB 335 (six months ended 30 June 2015: RUB 292 ), including accrued annual target bonuses of RUB 80 (six months ended 30 June 2015: RUB 78) payable on an annual basis subject to meeting annual performance targets, accrued rewards under long-term incentive plans of RUB 28 (six months ended 30 June 2015: RUB 39) and social security costs of RUB 64 (six months ended 30 June 2015: RUB 42). As at 30 June 2016 the total number of conditional rights granted or awarded to members of the Management Board and Supervisory Board, and other key management personnel under RSU plan was 155,464 (31 December 2015: 112,764). During the period ended 30 June 2016 the Group recognised an expense from share-based compensation to members of the Management Board and Supervisory Board, and other key management personnel in the amount of RUB 14 (six months ended 30 June 2015: expense of RUB 19).

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

	2016		2015	
	Property, plant and equipment	Other intangible assets	Property, plant and equipment	Other intangible assets
<b>Cost</b>				
Balance as at 1 January	266,382	36,634	216,109	34,984
Additions	28,465	1,233	19,325	385
Assets from acquisition (Note 6)	457	275	2,112	286
Disposals	(4,769)	(13)	(2,166)	(42)
<b>Balance as at 30 June</b>	<b>290,535</b>	<b>38,129</b>	<b>235,380</b>	<b>35,613</b>
<b>Accumulated depreciation, amortisation and impairment</b>				
Balance as at 1 January	(77,382)	(21,533)	(65,781)	(20,366)
Depreciation and amortisation charge	(8,999)	(1,098)	(6,938)	(988)
Impairment charge	(482)	(30)	(335)	(171)
Impairment reversal	61	10	-	4
Disposals	4,466	13	2,060	41
<b>Balance as at 30 June</b>	<b>(82,336)</b>	<b>(22,638)</b>	<b>(70,994)</b>	<b>(21,480)</b>
<b>Net book value</b>				
<b>Balance as at 1 January</b>	<b>189,000</b>	<b>15,101</b>	<b>150,328</b>	<b>14,618</b>
<b>Balance as at 30 June</b>	<b>208,199</b>	<b>15,491</b>	<b>164,386</b>	<b>14,133</b>

## 8 PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS (continued)

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 2016 and 30 June 2015.

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 month ended 30 June 2016 the additions of other intangible assets were attributable to additions of software in the amount of RUB 709 and prepaid leases in the amount of RUB 336.

## 9 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries, impairment and disposal are:

	2016	2015
<b>Cost:</b>		
Gross book value at 1 January	141,625	131,996
Acquisition of subsidiaries (Note 6)	2,487	2,660
<b>Gross book value at 30 June</b>	<b>144,112</b>	<b>134,656</b>
<b>Accumulated impairment losses:</b>		
Accumulated impairment losses at 1 January	(66,312)	(66,312)
Accumulated impairment losses at 30 June	(66,312)	(66,312)
<b>Carrying amount at 1 January</b>	<b>75,313</b>	<b>65,684</b>
<b>Carrying amount at 30 June</b>	<b>77,800</b>	<b>68,344</b>

### **Goodwill Impairment Test**

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

No events indicating triggers of goodwill impairment occurred in the six months ended 30 June 2016. The Group will perform an annual impairment test of goodwill at 31 December 2016.

## 10 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2016	31 December 2015
Trade accounts receivable	17,889	22,316
Other receivables	2,372	2,209
Accounts receivable for franchise services	19	23
Provision for impairment of trade and other receivables	(2,214)	(2,137)
<b>Total trade and other accounts receivable</b>	<b>18,066</b>	<b>22,411</b>
Prepayments	2,458	2,490
Advances made to trade suppliers	591	975
Provision for impairment of prepayments and advances	(688)	(868)
<b>Total prepayments</b>	<b>2,361</b>	<b>2,597</b>
<b>Total</b>	<b>20,427</b>	<b>25,008</b>



**X5 Retail Group N.V.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
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**11 PROVISIONS AND OTHER LIABILITIES**

	<b>30 June 2016</b>	<b>31 December 2015</b>
Other accounts payable and accruals	10,009	9,861
Accounts payable for property, plant and equipment	7,567	8,441
Accrued salaries and bonuses	7,212	10,238
Taxes other than income tax	4,376	7,806
Provisions and liabilities for tax uncertainties	2,031	2,392
Advances received	1,485	1,471
Payables to landlords	1,083	911
	<b>33,763</b>	<b>41,120</b>

**12 BORROWINGS**

The Group had the following borrowings at 30 June 2016 and 31 December 2015

**Current**

	<b>Interest rate, % p.a.</b>		<b>Final maturity year</b>	<b>Fair value</b>		<b>Carrying value</b>	
	<b>2016</b>	<b>2015</b>		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
RUB Bonds X5 Finance series 04	-	10.50%	-	-	7,992	-	8,000
RUB Bonds X5 Finance series BO-02	9.10%	9.10%	2016	4,984	4,950	4,999	4,997
RUB Bonds X5 Finance series BO-03	8.85%	8.85%	2016	4,975	4,914	4,999	4,999
RUB Bilateral Loans	10.22%- 11.75%	10.72%- 12.10%	2017	33,065	24,674	33,065	24,674
<b>Total current borrowings</b>				<b>43,024</b>	<b>42,530</b>	<b>43,063</b>	<b>42,670</b>

**Non-current**

	<b>Interest rate, % p.a.</b>		<b>Final maturity year</b>	<b>Fair value</b>		<b>Carrying value</b>	
	<b>2016</b>	<b>2015</b>		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
RUB Bonds X5 Finance series BO-04	11.90%	11.90%	2019	5,000	5,000	4,992	4,991
RUB Bonds X5 Finance series BO-05	10.90%	-	2018	5,080	-	4,999	-
RUB Bonds X5 Finance series BO-06	10.50%	-	2017	5,021	-	4,999	-
RUB Bilateral Loans	10.55%- 12.15%	11.50%- 12.65%	2018	100,585	98,018	97,947	96,554
<b>Total non-current borrowings</b>				<b>115,686</b>	<b>103,018</b>	<b>112,937</b>	<b>101,545</b>
<b>Total borrowings</b>				<b>158,710</b>	<b>145,548</b>	<b>156,000</b>	<b>144,215</b>

In February 2016 the Group made several drawdowns out of Sberbank long-term credit line in the total amount of RUB 8.9 billion with fixed interest rate.

In March 2016 the Group issued exchange corporate bonds series BO-05 with 10.90% coupon rate and 2.5-year oferta (put-option).

In May 2016 the Group issued exchange corporate bonds series BO-06 with 10.50% coupon rate and 1.5-year oferta (put-option).

In June 2016 the Group made several drawdowns out of Alfa-Bank long-term credit line in the total amount of RUB 14.7 billion with fixed interest rate.

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**12 BORROWINGS (continued)**

All borrowings at 30 June 2016 are shown net of related transaction costs of RUB 185 which are amortised over the term of the loans using the effective interest method (31 December 2015: RUB 207). Borrowing costs capitalised for the six month ended 30 June 2016 amounted to RUB 78 (2015: RUB 57). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 11.57% (2015: 12.41%).

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). At 30 June 2016 the Group complied with this covenant and Net Debt/EBITDA was equal to 2.34 (31 December 2015: 2.45).

**13 SHARE CAPITAL**

As at 30 June 2016 the Group had 190,000,000 authorised ordinary shares of which 67,884,340 (31 December 2015: 67,882,421) ordinary shares are outstanding and 8,878 ordinary shares (31 December 2015: 10,797) held as treasury stock. The nominal par value of each ordinary share is EUR 1.

**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 are calculated as follows:

	<b>Six months ended 30 June 2016</b>	<b>Six months ended 30 June 2015</b>
Profit attributable to equity holders of the Parent	13,004	7,942
Weighted average number of ordinary shares in issue	67,885,800	67,871,341
Effect of share options granted to employees	734	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,886,534	67,871,341
<b>Basic earnings per share for profit from continuing operations (expressed in RUB per share)</b>	<b>191.56</b>	<b>117.02</b>
<b>Diluted earnings per share for profit from continuing operations (expressed in RUB per share)</b>	<b>191.55</b>	<b>117.02</b>

**15 EXPENSES**

Among cost of sales and selling, general and administrative expenses charged for the six months ended 30 June 2016 are operating lease expenses of RUB 24,025 (six months ended 30 June 2015: RUB 18,714).

**16 FINANCE INCOME AND COSTS**

	<b>Six months ended 30 June 2016</b>	<b>Six months ended 30 June 2015</b>
Interest expense	8,738	8,191
Interest income	(26)	(370)
Other finance costs, net	203	364
	<b>8,915</b>	<b>8,185</b>

## 17 SHARE-BASED PAYMENTS

### *Employee stock plan*

In 2010 the Group introduced its next generation long term incentive plan in the form of a Restricted Stock Unit Plan (RSU Plan) for its key executives and employees. Each Restricted Stock Unit (RSU) that may be granted under the RSU Plan carries the right to one GDR. The programme runs in several tranches granted over the period starting May 2010. Starting from 2013 only members of the Supervisory Board are granted conditional RSUs, which are not subject to performance criteria. The General Meeting of Shareholders determines the number of conditional RSUs granted to members of the Supervisory Board. The RSU Plan, as well as the first tranche of conditional RSUs in favour of members of the Supervisory Board, was approved by Annual General Meeting of Shareholders on 25 June 2010. During the six months ended 30 June 2016 13,147 GDRs out of 91,888 vested under the second tranche in 2014 were waived in exchange for cash compensation. In May 2016 the Group vested 25,843 GDRs under the fourth tranche of long term incentive plan out of treasury stock, 5,021 of them were waived and the remaining 20,822 GDRs were locked-in for 2 years in accordance with RSU plan rules. The fifth, sixth and seventh tranches will vest on 19 May 2017, 19 May 2018 and 19 May 2019 respectively. Upon vesting the RSUs are converted into GDRs registered in the participant's name. Subsequently, GDRs are subject to a two-year lock-in period during which period the GDRs cannot be traded.

In total, during the six months ended 30 June 2016 the Group recognised loss related to the RSU plan in the amount of RUB 14 (gain during six months ended 30 June 2015: RUB 12). At 30 June 2016 the equity component was RUB 52 (31 December 2015: RUB 37). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding during the six months ended 30 June 2016 and 30 June 2015 were as follows:

	30 June 2016		30 June 2015	
	Number of conditional rights	Weighted average fair value, RUB	Number of conditional rights	Weighted average fair value, RUB
Outstanding at the beginning of the period	123,123	765.23	235,425	659.61
Granted during the period	68,543	1,294.78	47,438	1,033.57
Transferred under vesting	(25,843)	577.63	(87,947)	707.90
Waived of previously vested	18,168	890.28	25,931	889.66
Forfeited during the period	(28,527)	785.33	(97,724)	725.65
<b>Outstanding at the end of the period</b>	<b>155,464</b>	<b>1,041.81</b>	<b>123,123</b>	<b>765.23</b>

## 18 INCOME TAX

	Six months ended 30 June 2016	Six months ended 30 June 2015
Current income tax charge	1,898	3,745
Deferred income tax charge/(benefit)	2,189	(737)
<b>Income tax charge for the period</b>	<b>4,087</b>	<b>3,008</b>

The annual effective tax rate is estimated by the Group to be at the level of 21-23%. The actual effective tax rate for the six months ended 30 June 2016 approximates the estimated value.

As at 30 June 2016 37 Russian subsidiaries of the Group are the members of the CGT (consolidated group of taxpayers) with ZAO "Torgovy Dom "PEREKRESTOK" acting as the responsible CGT member.

Unused tax losses are available for carry forward for a period not less than six years depending on the tax residence of each company of the Group.

## 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 2015. 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 2016 the Group has 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 2015, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

At 30 June 2016 the Group had net current liabilities of RUB 78,058 (31 December 2015: RUB 82,175) including short-term borrowings of RUB 43,063 (31 December 2015: RUB 42,670).

At 30 June 2016 the Group had available bank credit lines of RUB 156,475 (31 December 2015: RUB 140,176).

At 30 June 2016 the Group had RUB bonds available for issue on MICEX of RUB 5,000 (31 December 2015: RUB 15,000).

## 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 and trade and other financial receivables and 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 is determined based on active market quotations and amounted to RUB 25,060 at 30 June 2016 (31 December 2015: RUB 22,856). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 24,988 at 30 June 2016 (31 December 2015: RUB 22,987) (Note 11). The fair value of long-term borrowings amounted to RUB 100,585 at 30 June 2016 (31 December 2015: RUB 98,018). 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 effective interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 1,541 at 30 June 2016. 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 2016, the Group operated 6,173 stores through rented premises (31 December 2015: 5,270 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 amounts to RUB 26,507 (net of VAT) (2015: RUB 26,211).

### **Capital expenditure commitments**

At 30 June 2016 the Group contracted for capital expenditure of RUB 12,351 (net of VAT) (31 December 2015: RUB 7,271).

### **Long-term incentive programme**

The long-term incentive programme (LTI) is a programme in several stages which runs until 31 December 2019. LTI targets have been structured to align the long-term interests of shareholders and management. The targets represent the Group's long-term ambitions, with a specific focus on net revenue and market share relative to the competition, without sacrificing EBITDA margin. The size of each individual cash award is based on pre-determined score reflecting the participant's role and function within the Group and his or her contribution to meeting the LTI targets, both at individual and team level. The total long-term incentive opportunity may be adjusted either upwards or downwards, based on performance against non-financial individual targets determined at the discretion of the Supervisory Board.

The total available fund for all payouts and all stages under the LTI programme is capped at 12% of EBITDA in the year that the main performance target is achieved.

As per 31 December 2015 the targets set for the first stage of the LTI were achieved, as specific comparative performance indicators were met, and EBITDA also exceeded the target threshold, and expenses of RUB 3.2 billion related to the LTI were recognised in 2015.

For the year ended 31 December 2016 the Group currently assesses the possible expenses attributable to the program, that are more than remote, but for which no liability is required to be recognised under IFRS, as RUB 1.5 billion.

### **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.



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

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 reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

Controlled foreign company rules (“CFC rules”)

The CFC rules require Russian tax residents (individuals and companies) to disclose their foreign participations and to pay tax on profits generated by controlled foreign companies. According to the CFC rules the tax base of Russian entities would be determined on the basis of the overall financial results of the activities of a Russian entity and foreign companies controlled by that entity. Effectively, tax would be levied on income of foreign companies that are directly or indirectly controlled by Russian legal entities (or physical persons) if those foreign companies do not distribute profit to a Russian shareholder, conduct passive operations and are not subject to taxes. The Group has only one CFC, which activity does not generate material profit. So there are no significant consequences of CFC rules for the Group.

### **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.

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

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**

On 4 July 2016, the President signed amendments to Federal Law No. 381-FZ *On the Fundamentals of State Regulation of Trade in the Russian Federation* dated 28 December 2009 (the "Law on Trade"). The key innovations of the amendments concerning relations between the retail chains and the food product suppliers are the following:

- The maximum allowable purchase volume reward (bonus), which also incorporates fees for product promotion services, logistics services, preparation, processing and packaging of products and the like, has been decreased to 5%;
- Product promotion services have been re-defined to include: product advertising, product display, consumer demand study, preparation of reports with information on such products and other activities;
- The maximum time for buyers to pay for products has been cut.

The Group is currently assessing the impact of the amendments on its business.

On 9 August 2016 the Group issued RUB 5 billion exchange corporate bonds series BO-07 with 9.75% coupon rate and 2.5-year oferta (put-option).