

X5 RETAIL GROUP INTERIM REPORT

Second Quarter and Half Year 2014

Amsterdam, 14 August 2014 - X5 Retail Group N.V., ("X5" or the "Company") a leading Russian food retailer (LSE ticker: "FIVE"), today released the Company's Interim Report for the Second Quarter and Half Year 2014 (the "Interim Report") prepared in accordance with International Financial Reporting Standards (IFRS) and the Dutch Financial Markets Supervision Act.

Income statement highlights,

| <i>Russian Rouble (RUB), million (mln)⁽¹⁾</i> | Q2 2014 | Q2 2013 | <i>change y-o-y</i> | H1 2014 | H1 2013 | <i>change y-o-y</i> |
|---|----------------|----------------|--------------------------------|----------------|----------------|--------------------------------|
| Revenue | 155,579 | 133,449 | 16.6% | 299,746 | 259,973 | 15.3% |
| incl. Net retail sales ⁽²⁾ | 155,109 | 133,076 | 16.6% | 299,007 | 259,373 | 15.3% |
| Pyaterochka | 107,202 | 87,459 | 22.6% | 203,377 | 169,162 | 20.2% |
| Perekrestok | 27,969 | 27,522 | 1.6% | 56,654 | 55,009 | 3.0% |
| Karusel | 16,999 | 15,823 | 7.4% | 33,482 | 30,981 | 8.1% |
| Express ⁽³⁾ | 2,605 | 1,978 | 31.7% | 4,826 | 3,685 | 31.0% |
| E5.RU | 335 | 295 | 13.7% | 669 | 537 | 24.7% |
| Gross profit | 38,110 | 31,573 | 20.7% | 72,756 | 62,475 | 16.5% |
| Gross profit margin, % | 24.5% | 23.7% | 84 bp | 24.3% | 24.0% | 24 bp |
| EBITDA | 11,398 | 9,209 | 23.8% | 21,194 | 17,854 | 18.7% |
| EBITDA margin, % | 7.3% | 6.9% | 43 bp | 7.1% | 6.9% | 20 bp |
| Operating profit | 7,290 | 5,798 | 25.7% | 13,197 | 11,080 | 19.1% |
| Operating profit margin, % | 4.7% | 4.3% | 27 bp | 4.4% | 4.3% | 14 bp |
| Net profit | 3,980 | 2,325 | 71.2% | 6,449 | 4,305 | 49.8% |
| Net profit margin, % | 2.6% | 1.7% | 82 bp | 2.2% | 1.7% | 50 bp |

Net retail sales

Net retail sales in the second quarter (Q2) and first half (H1) of 2014 increased by 16.6% and 15.3% year-on-year (y-o-y), respectively, due to an increase in the number of customers and average ticket.

| <i>Net retail sales dynamics, y-o-y change</i> | Q2 2014 | | | H1 2014 | | |
|---|---------------------------|---------------------------|-----------------------------|---------------------------|---------------------------|-----------------------------|
| | Average ticket | # of customers | Net retail sales | Average ticket | # of customers | Net retail sales |
| Pyaterochka | 10.7% | 10.7% | 22.6% | 8.9% | 10.4% | 20.2% |
| Perekrestok | 6.9% | (4.3%) | 1.6% | 4.1% | (0.7%) | 3.0% |
| Karusel | 5.8% | 1.5% | 7.4% | 5.5% | 2.8% | 8.1% |
| Express ⁽³⁾ | 8.9% | 20.5% | 31.7% | 5.9% | 22.8% | 31.0% |
| E5.RU | (6.0%) | 21.2% | 13.7% | (10.4%) | 38.2% | 24.7% |
| X5 Retail Group | 8.1% | 7.9% | 16.6% | 6.5% | 8.4% | 15.3% |

A primary driver for the increase in net retail sales was selling space expansion and the positive performance of maturing stores added over the past two years.

| <i>Selling space end-of-period, square meters</i> | As at 30-June-2014 | As at 30-June-2013 | <i>change y-o-y</i> |
|--|-------------------------------|-------------------------------|--------------------------------|
| Pyaterochka | 1,506,113 | 1,255,885 | 19.9% |
| Perekrestok | 396,393 | 391,983 | 1.1% |
| Karusel | 357,367 | 370,865 | (3.6%) |
| Express ⁽³⁾ | 36,107 | 29,292 | 23.3% |
| X5 Retail Group | 2,295,980 | 2,048,024 | 12.1% |

(1) Please note that in this and other tables and text of this Interim Report, immaterial deviations in the calculation of % changes, subtotals and totals are explained by rounding.

(2) Net of VAT and revenue from wholesale operations.

(3) Refers to Perekrestok Express and Kopeyka branded convenience stores, previously disclosed as convenience stores.

| LFL⁽¹⁾ results, growth, y-o-y | Q2 2014 | | | H1 2014 | | |
|---|----------------|----------------|---------------|----------------|----------------|---------------|
| | Sales | Traffic | Basket | Sales | Traffic | Basket |
| Pyaterochka | 11.1% | (0.6%) | 11.8% | 9.7% | (0.3%) | 10.0% |
| Perekrestok | 0.6% | (4.3%) | 5.2% | 0.5% | (2.5%) | 3.1% |
| Karusel | 5.0% | (0.3%) | 5.3% | 5.6% | 0.7% | 4.9% |
| Express | 3.1% | (4.1%) | 7.6% | 3.5% | (2.2%) | 5.8% |
| X5 Retail Group | 8.1% | (1.2%) | 9.5% | 7.2% | (0.6%) | 7.8% |

The Company's net retail sales were impacted by the following factors, which also impacted like-for-like sales in Q2 and H1 2014:

- Improvement in the average ticket and LFL basket due to changes in composition and increased volume, which were also supported by rising food inflation;
- Improved promotional and marketing campaigns at Pyaterochka;
- Assortment rotation and improvements, particularly in fresh categories, primarily at Pyaterochka and Karusel;
- Improvements in logistics' service levels and product availability on shelves, primarily at Pyaterochka;
- Abnormally cold weather in June 2014 resulting in lower traffic and higher ticket; and
- Calendarization of holidays: four-day long weekend in June 2014, compared to one holiday mid-week in June 2013, which positively impacted basket but had a negative effect on traffic.

Gross profit margin

The Company's gross profit margin in Q2 and H1 2014 amounted to 24.5% and 24.3%, respectively, an 84 basis point (bp) and 24 bp increase compared to Q2 and H1 2013, respectively. The increase in both periods was primarily due to the improvement in logistics expense and shrinkage while Q2 gross profit margin also benefited from improvements in commercial margin.

Selling, general and administrative (SG&A) expenses

| RUB mln | Q2 2014 | Q2 2013 | change y-o-y | H1 2014 | H1 2013 | change y-o-y |
|-----------------------------|-----------------|-----------------|-------------------------|-----------------|-----------------|-------------------------|
| Staff costs | (12,001) | (10,754) | 11.6% | (24,105) | (21,535) | 11.9% |
| % of revenue | 7.7% | 8.1% | (34) bp | 8.0% | 8.3% | (24) bp |
| Lease expenses | (6,719) | (5,555) | 20.9% | (13,316) | (10,878) | 22.4% |
| % of revenue | 4.3% | 4.2% | 16 bp | 4.4% | 4.2% | 26 bp |
| D&A | (4,108) | (3,412) | 20.4% | (7,997) | (6,774) | 18.1% |
| % of revenue | 2.6% | 2.6% | 8 bp | 2.6% | 2.6% | 6 bp |
| Utilities | (3,069) | (2,654) | 15.6% | (6,568) | (5,726) | 14.7% |
| % of revenue | 2.0% | 2.0% | (2) bp | 2.2% | 2.2% | 0 bp |
| Other store costs | (2,335) | (2,262) | 3.2% | (4,680) | (4,407) | 6.2% |
| % of revenue | 1.5% | 1.7% | (19) bp | 1.6% | 1.7% | (13) bp |
| Third party services | (1,493) | (1,032) | 44.7% | (2,585) | (1,862) | 38.8% |
| % of revenue | 1.0% | 0.8% | 19 bp | 0.9% | 0.7% | 15 bp |
| Other expenses | (2,591) | (1,509) | 71.7% | (3,855) | (3,039) | 26.8% |
| % of revenue | 1.7% | 1.1% | 53 bp | 1.3% | 1.2% | 12 bp |
| Total SG&A | (32,316) | (27,178) | 18.9% | (63,107) | (54,221) | 16.3% |
| % of revenue | 20.8% | 20.4% | 41 bp | 21.1% | 20.9% | 20 bp |

(1) 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 LFL calculation starting from the day of the store's opening. We include all stores that fit our LFL criteria in each reporting period.

In Q2 2014, SG&A expenses, as a percentage of revenue, increased y-o-y by 41 bp to 20.8%.

Staff costs, as a percentage of revenue, decreased y-o-y by 34 bp in Q2 2014 to 7.7% primarily due to a decrease in outstaffing expense (24 bp) and lower expenses for administrative personnel (29 bp) that were partially offset by an increase in wages and benefits of retail employees (19 bp).

Lease expenses in Q2 2014, as a percentage of revenue, increased y-o-y by 16 bp to 4.3% primarily due to new store openings, and the subsequent increase in the proportion of leased space as a percentage of our total real estate portfolio, as well as an increase in our average lease rates. As a percentage of X5's total real estate portfolio, leased space accounted for 57.3% at 30 June 2014 compared to 54.8% at 30 June 2013.

Depreciation, amortization and utilities costs changed immaterially as a percentage of revenue in Q2 2014 compared to Q2 2013.

Other store costs decreased, as a percentage of revenue in Q2 2014, by 19 bp y-o-y to 1.5% mainly due to lower own and third party security expenses at our stores.

Third party services expenses in Q2 2014 increased, as a percentage of revenue, by 19 bp y-o-y primarily due to an increase in advertising and marketing activities.

In Q2 2014, other expenses, as a percentage of revenue, increased by 53 bp y-o-y primarily due to a provision for taxes other than income taxes, which accounted for 45 bp of the increase.

As a result of the factors discussed above, EBITDA in Q2 2014 totaled RUB 11,398 mln, or 7.3% of revenue compared to RUB 9,209 mln, or 6.9% of revenue in Q2 2013.

In H1 2014, SG&A expenses as a percentage of revenue increased by 20 bp to 21.1%.

Staff costs and other store costs as a percentage of revenue in H1 2014 were lower by 24 and 13 bp y-o-y, respectively, while lease expenses, third party expense, other expenses increased y-o-y by 26 bp, 15 bp and 12 bp, respectively, for the same reasons mentioned above.

Depreciation, amortization and utilities costs changed immaterially as a percentage of revenue in H1 2014 compared to H1 2013.

As a result of the factors discussed above, EBITDA in H1 2014 totaled RUB 21,194 mln, or 7.1% of revenue compared to RUB 17,854 mln, or 6.9% of revenue, in the corresponding period of 2013.

Non-operating gains and losses

| RUB mln | Q2 2014 | Q2 2013 | change y-o-y | H1 2014 | H1 2013 | change y-o-y |
|-----------------------------|--------------|--------------|-----------------|---------------|---------------|-----------------|
| Operating profit | 7,290 | 5,798 | 25.7% | 13,197 | 11,080 | 19.1% |
| Net finance costs | (2,976) | (2,757) | 7.9% | (5,650) | (5,453) | 3.6% |
| Net FX result | 42 | 29 | 45.1% | 17 | 78 | (78.2%) |
| Share of loss of associates | - | (12) | n/a | - | (12) | n/a |
| Profit before tax | 4,356 | 3,057 | 42.5% | 7,564 | 5,693 | 32.9% |
| Income tax expense | (376) | (732) | (48.6%) | (1,115) | (1,388) | (19.7%) |
| Net profit | 3,980 | 2,325 | 71.2% | 6,449 | 4,305 | 49.8% |
| Net profit margin, % | 2.6% | 1.7% | - | 2.2% | 1.7% | - |

Net finance costs in Q2 2014 increased y-o-y by 7.9%. The weighted average effective interest rate on X5's total debt for H1 2014 increased to 9.3% from 8.8% for H1 2013.

In H1 2014, X5's effective tax rate was 14.7% compared to 24.4% in the corresponding period of 2013. The Russian statutory income tax rate for both periods was 20.0%. The lower effective tax rate in H1 2014 is due to the one-off elimination of a RUB 749 million tax provision.

Consolidated cash flow

| RUB mln | Q2 2014 | Q2 2013 | change y-o-y | H1 2014 | H1 2013 | change y-o-y |
|---|--------------|--------------|-----------------|----------------|----------------|-----------------|
| Net cash generated from operating activities | 12,776 | 1,548 | 725.4% | 8,144 | 2,413 | 237.6% |
| <i>Net cash from operating activities before changes in working capital</i> | 12,201 | 9,383 | 30.0% | 21,397 | 18,190 | 17.6% |
| <i>Change in working capital</i> | 3,056 | (4,114) | n/a | (7,064) | (8,196) | (13.8%) |
| <i>Net interest and income tax paid</i> | (2,481) | (3,721) | (33.3%) | (6,189) | (7,581) | (18.4%) |
| Net cash used in investing activities | (4,911) | (4,787) | 2.6% | (9,200) | (7,991) | 15.1% |
| Net cash (used in)/generated from financing activities | (6,556) | 2,910 | n/a | (421) | 427 | n/a |
| Effect of exchange rate changes on cash & cash equivalents | (13) | (11) | 21.8% | (13) | (10) | 30.0% |
| Net increase/(decrease) in cash & cash equivalents | 1,296 | (339) | n/a | (1,490) | (5,162) | (71.1%) |

In Q2 2014, net cash flows generated from operating activities totaled RUB 12,776 mln compared to net cash flows generated from operating activities of RUB 1,548 mln in the corresponding period of 2013. The increase was primarily due to changes in working capital and lower income taxes paid.

In Q2 2014, inventories increased by RUB 407 mln, which was related to the buildup of inventories to support higher sales in 2014 compared to 2013 and also resulted in an increase of trade and other accounts payable of RUB 3,905 mln in Q2 2014.

Trade and other accounts receivable increased by RUB 1,342 mln in Q2 2014 due to an increase in purchasing activities and the accrual of supplier related bonuses.

Other accounts payable increased by RUB 900 mln in Q2 2014 mainly due to an increase in VAT payable.

In 2014, X5 created a consolidated group of taxpayers (CGT) comprised of certain Russian subsidiaries of the Company, which allows X5 to offset the taxable profits against the current tax losses of CGT entities. In Q2 2014, the Company also received a refund related to the overpayment of taxes in prior periods. The lower taxes paid due to the CGT structure as well as the tax refund were the main drivers for the 33.3% decrease in net interest and income tax paid in Q2 2014.

Net cash flows generated from operating activities in H1 2014 amounted to RUB 8,144 mln compared to RUB 2,413 mln in H1 2013. The increase was primarily due to better operating cash flows before working capital and improved y-o-y working capital dynamics.

The change in working capital in H1 2014 was primarily driven by a decrease in trade accounts payable and inventories due to lower purchases related to the normalization of demand in the beginning of the year from the high season of Q4 2013. Changes in accounts receivable and other accounts payable were due to the same reasons mentioned above.

The decrease in net interest and income tax paid in H1 2014 was due to the creation of the CGT as well as the tax refund in Q2 2014 mentioned above.

Net cash used in investing activities, which generally consisted of payments for property, plant and equipment totaled RUB 4,911 mln and RUB 9,200 mln in Q2 and H1 2014, respectively, compared to RUB 4,787 mln and RUB 7,991 mln for the corresponding periods in 2013, and reflects higher expenditures for store expansion and refurbishment.

Net cash used in financing activities totaled RUB 6,556 mln and RUB 421 mln in Q2 2014 and H1 2014, respectively, compared to net cash generated in financing activities of RUB 2,910 mln and RUB 427 in Q2 2013 and H1 2013, respectively. The differences were primarily related to the use of cash to reduce outstanding debt in Q2 2014.

Liquidity update

| RUB mln | 30-Jun-14 | % in total | 31-Mar-14 | % in total | 31-Dec-13 | % in total |
|--------------------------------|----------------------------|------------|----------------------------|------------|----------------------------|------------|
| Total debt | 110,361 | | 116,735 | | 110,523 | |
| Short-term debt | 20,729 | 18.8% | 32,169 | 27.6% | 30,680 | 27.8% |
| Long-term debt | 89,632 | 81.2% | 84,566 | 72.4% | 79,843 | 72.2% |
| Net debt | 104,240 | | 111,910 | | 102,912 | |
| Net debt/EBITDA | 2.50x⁽¹⁾ | | 2.83x⁽²⁾ | | 2.68x⁽³⁾ | |
| EBITDA/interest expense | 3.69x⁽¹⁾ | | 3.60x⁽²⁾ | | 3.48x⁽³⁾ | |

At 30 June 2014, the Company's total debt amounted to RUB 110,361 mln, of which 18.8% was short-term debt and 81.2% long-term debt. The Company's debt is 100% denominated in Russian Roubles.

At 30 June 2014, the Company had access to RUB 102,100 mln in undrawn credit lines with 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 condensed consolidated 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. The Company has assessed the risks for the second half of 2014 and believes that the risks identified are in line with those presented in the Annual Report 2013. For a detailed description of all risk factors, we refer to the Annual Report 2013. For a description of the financial risks faced by the Company we refer to note 19 of the condensed consolidated interim financial statements and the Company's Annual Report 2013.

⁽¹⁾ Based on consolidated EBITDA of RUB 41,690 mln. and interest expense of RUB 11,306 mln.

⁽²⁾ Based on consolidated EBITDA of RUB 39,501 mln. and interest expense of RUB 10,961 mln.

⁽³⁾ Based on consolidated EBITDA of RUB 38,350 mln. and interest expense of RUB 11,015 mln.

X5 Retail Group N.V.

**Condensed Consolidated Interim
Financial Statements and
Review Report**

Six months ended 30 June 2014

Provided under IAS 34 as adopted by the EU

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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 2014 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 2014, 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 as adopted by the European Union and IFRS as issued by the International Accounting Standards Board have been followed, subject to any material departures disclosed and explained in the condensed consolidated interim financial statements; and

Preparing the condensed consolidated interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

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*).

Stephan DuCharme
Chief Executive Officer
12 August 2014

Sergey Piven
Chief Financial Officer
12 August 2014



Review report

To the management board of X5 Retail Group N.V.:

Introduction

We have reviewed the accompanying condensed consolidated interim financial information for the six-month period ended 30 June 2014 of X5 Retail Group N.V., Amsterdam, which comprises the condensed consolidated interim statement of financial position as at 30 June 2014, the condensed consolidated interim statement of profit or loss, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim statement of cash flows and the selected explanatory notes for the six-month period then ended. The management board is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information 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 company. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2014 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 12 August 2014
PricewaterhouseCoopers Accountants N.V.

A.G.J. Gerritsen RA

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X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Financial Position at 30 June 2014
(expressed in millions of Russian Roubles, unless otherwise stated)

| | Note | 30 June 2014 | Restated 31 December 2013 |
|--|------|----------------|------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 136,654 | 134,998 |
| Investment property | | 3,622 | 3,468 |
| Goodwill | 9 | 64,624 | 64,503 |
| Intangible assets | 8 | 13,313 | 13,979 |
| Prepaid leases | 8 | 1,416 | 1,526 |
| Investment in associates | | 68 | 68 |
| Available-for-sale investments | | 210 | 210 |
| Other non-current assets | | 1,747 | 1,717 |
| Deferred tax assets | | 4,138 | 4,946 |
| | | 225,792 | 225,415 |
| Current assets | | | |
| Inventories | | 37,009 | 37,465 |
| Loans originated | | 7 | 7 |
| Trade and other accounts receivable | | 16,263 | 15,343 |
| Current income tax receivable | | 2,668 | 2,165 |
| VAT and other taxes recoverable | | 13,673 | 13,897 |
| Cash and cash equivalents | | 6,121 | 7,611 |
| | | 75,741 | 76,488 |
| TOTAL ASSETS | | 301,533 | 301,903 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 12 | 2,457 | 2,456 |
| Share premium | | 46,228 | 46,126 |
| Cumulative translation reserve | | - | (44) |
| Retained earnings | | 35,547 | 29,098 |
| Share-based payment reserve | 16 | 71 | 170 |
| | | 84,303 | 77,806 |
| Total equity | | 84,303 | 77,806 |
| Non-current liabilities | | | |
| Long-term borrowings | 11 | 89,632 | 79,843 |
| Deferred tax liabilities | | 4,471 | 5,339 |
| Long-term deferred revenue | | 17 | 21 |
| | | 94,120 | 85,203 |
| Current liabilities | | | |
| Trade accounts payable | | 73,432 | 81,050 |
| Short-term borrowings | 11 | 20,729 | 30,680 |
| Short-term finance lease payables | | - | 4 |
| Interest accrued | | 1,051 | 814 |
| Short-term deferred revenue | | 381 | 159 |
| Current income tax payable | | 995 | 238 |
| Provisions and other liabilities | 10 | 26,522 | 25,949 |
| | | 123,110 | 138,894 |
| Total liabilities | | 217,230 | 224,097 |
| TOTAL EQUITY AND LIABILITIES | | 301,533 | 301,903 |

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 2014
(expressed in millions of Russian Roubles, unless otherwise stated)

| | Note | Six months ended 30 June 2014 | Restated Six months ended 30 June 2013 |
|--|------|----------------------------------|--|
| Revenue | 5 | 299,746 | 259,973 |
| Cost of sales | | (226,990) | (197,498) |
| Gross profit | | 72,756 | 62,475 |
| Selling, general and administrative expenses | 14 | (63,107) | (54,221) |
| Lease/sublease and other income | | 3,548 | 2,826 |
| Operating profit | | 13,197 | 11,080 |
| Finance costs | 15 | (5,669) | (5,489) |
| Finance income | 15 | 19 | 36 |
| Share of loss of associates | | - | (12) |
| Net foreign exchange gain | | 17 | 78 |
| Profit before tax | | 7,564 | 5,693 |
| Income tax expense | 17 | (1,115) | (1,388) |
| Profit for the period | | 6,449 | 4,305 |
| Profit for the period attributable to: | | | |
| Equity holders of the parent | | 6,449 | 4,305 |
| Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share) | | | |
| | 13 | 95.05 | 63.47 |
| Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share) | | | |
| | 13 | 95.05 | 63.47 |

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 2014
(expressed in millions of Russian Roubles, unless otherwise stated)

| | Six months ended 30 June 2014 | Restated Six months ended 30 June 2013 |
|--|-------------------------------------|---|
| Profit for the period | 6,449 | 4,305 |
| Other comprehensive income/(loss) | | |
| <i>Item that may be reclassified subsequently to profit and loss</i> | | |
| Exchange differences on translation from functional to presentation currency | (23) | (9) |
| Reclassification of cumulative translation reserve attributable to disposed subsidiaries | 67 | - |
| Total items that may be reclassified subsequently to profit and loss, net of tax | 44 | (9) |
| Other comprehensive income/(loss), net of tax | 44 | (9) |
| Total comprehensive income for the period, net of tax | 6,493 | 4,296 |
| Total comprehensive income for the period attributable to: | | |
| Equity holders of the parent | 6,493 | 4,296 |

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 2014
(expressed in millions of Russian Roubles, unless otherwise stated)

| | | Six months ended | Restated Six months ended |
|---|------|------------------|------------------------------|
| | Note | 30 June 2014 | 30 June 2013 |
| Profit before tax | | 7,564 | 5,693 |
| Adjustments for: | | | |
| Depreciation, amortization and impairment of property, plant and equipment, investment property and intangible assets | 8 | 7,879 | 6,684 |
| Gain on disposal of property, plant and equipment, investment property and intangible assets | | (440) | (10) |
| Finance costs, net | 15 | 5,650 | 5,453 |
| Impairment of trade and other accounts receivable | | 114 | 105 |
| Share-based options expense/(income) | 16 | 9 | (40) |
| Amortization and impairment of prepaid lease | | 118 | 90 |
| Net foreign exchange gain | | (17) | (78) |
| Loss from associate | | - | 12 |
| Other non-cash items | | 520 | 280 |
| Net cash from operating activities before changes in working capital | | 21,397 | 18,189 |
| (Increase)/decrease in trade and other accounts receivable | | (952) | 1,922 |
| Decrease in inventories | | 404 | 3,355 |
| Decrease in trade payable | | (7,351) | (12,728) |
| Increase/(decrease) in other accounts payable | | 835 | (744) |
| Net cash generated from operations | | 14,333 | 9,994 |
| Interest paid | | (5,094) | (5,159) |
| Interest received | | 19 | 12 |
| Income tax paid | | (1,114) | (2,434) |
| Net cash generated from operating activities | | 8,144 | 2,413 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (9,547) | (7,798) |
| Prepaid lease | | (59) | (110) |
| Acquisition of subsidiaries | 6 | (522) | (300) |
| Compensation from prepaid lease disposal | | 25 | 93 |
| Proceeds from disposal of property, plant and equipment, investment property and intangible assets | | 1,228 | 501 |
| Purchase of intangible assets | | (325) | (377) |
| Net cash used in investing activities | | (9,200) | (7,991) |
| Cash flows from financing activities | | | |
| Proceeds from loans | | 27,596 | 20,750 |
| Repayment of loans | | (28,013) | (20,300) |
| Principal payments on finance lease obligations | | (4) | (23) |
| Net cash (used in)/generated from financing activities | | (421) | 427 |
| Effect of exchange rate changes on cash and cash equivalents | | (13) | (10) |
| Net decrease in cash and cash equivalents | | (1,490) | (5,161) |
| Movements in cash and cash equivalents | | | |
| Cash and cash equivalents at the beginning of the period | | 7,611 | 12,388 |
| Net decrease in cash and cash equivalents | | (1,490) | (5,161) |
| Cash and cash equivalents at the end of the period | | 6,121 | 7,227 |

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 2014
(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 | Cumulative translation reserve | Retained earnings | Total shareholders' equity | |
| Balance as at 1 January 2013 (restated) | 67,819,033 | 2,455 | 46,015 | 339 | (48) | 18,114 | 66,875 | 66,875 |
| Other comprehensive loss for the period (restated) | - | - | - | - | (9) | - | (9) | (9) |
| Profit for the period (restated) | - | - | - | - | - | 4,305 | 4,305 | 4,305 |
| Total comprehensive (loss)/income for the period (restated) | - | - | - | - | (9) | 4,305 | 4,296 | 4,296 |
| Share-based payment compensation (restated) (Note 16) | - | - | - | (50) | - | - | (50) | (50) |
| Transfer of vested equity rights (restated) (Note 16) | 13,539 | - | 59 | (59) | - | - | - | - |
| Balance as at 30 June 2013 (restated) | 67,832,572 | 2,455 | 46,074 | 230 | (57) | 22,419 | 71,121 | 71,121 |
| Balance as at 1 January 2014 (restated) | 67,844,665 | 2,456 | 46,126 | 170 | (44) | 29,098 | 77,806 | 77,806 |
| Other comprehensive income for the period | - | - | - | - | 44 | - | 44 | 44 |
| Profit for the period | - | - | - | - | - | 6,449 | 6,449 | 6,449 |
| Total comprehensive income for the period | - | - | - | - | 44 | 6,449 | 6,493 | 6,493 |
| Share-based payment compensation (Note 16) | - | - | - | 4 | - | - | 4 | 4 |
| Transfer of vested equity rights (Note 16) | 25,659 | 1 | 102 | (103) | - | - | - | - |
| Balance as at 30 June 2014 | 67,870,324 | 2,457 | 46,228 | 71 | - | 35,547 | 84,303 | 84,303 |

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 2014***(expressed in millions of Russian Roubles, unless otherwise stated)***1 PRINCIPLE ACTIVITIES AND 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 2014 the Group operated a retail chain of 4,779 economy class, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express" in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg (31 December 2013: 4,544 economy class, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express"). The Group's multiformat store network comprises 4,128 economy class stores under "Pyaterochka" brand, 387 supermarkets under "Perekrestok" brand, 81 hypermarkets under "Karusel" brand, 183 express stores (31 December 2013: 3,882 economy class stores under "Pyaterochka" brand, 390 supermarkets under "Perekrestok" brand, 83 hypermarkets under "Karusel" brand, 189 express stores).

As at 30 June 2014 the Company's principal shareholder is the Alfa Group Consortium, through its holding company 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 under the common control of Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or owns 50% or more in CTF. As at 30 June 2014 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 12).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1 Basis of preparation**

These condensed consolidated interim financial statements for the six months ended 30 June 2014 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 2013 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 2013, except for the change in presentation currency (see 2.2).

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 19).

2.2 Foreign currency translation and transactions

The functional currencies of the Group's entities are the national currency of the Russian Federation, Russian Rouble ("RUB") and the national currency of Ukraine, Ukrainian Hryvnia ("UAH"). Currently the Group's Ukraine business unit's contribution to the financial results of the Group is immaterial and the Ukrainian business units were disposed of with effect from March 2014. Since 1 January 2014 the presentation currency of the Group was changed from the US Dollar to 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 Change in accounting policy

The comparative information has been restated for the effect of adoption of the new accounting policy in the following way: the Statement of Financial Position items except for equity items were translated at the official exchange rate of the Central Bank of the Russian Federation as at the statement date, equity items were translated at the official exchange rate of the Central Bank of the Russian Federation as at the dates of historical transactions, the Statement of Profit or Loss and Statement of Cash Flows items were translated at the average official exchange rate of the Central Bank of the Russian Federation for the period of the statements. The cumulative translation reserve was

X5 Retail Group N.V.
Notes to Condensed Consolidated Interim Financial Statements
Six months ended 30 June 2014
(expressed in millions of Russian Roubles, unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reduced to the amount attributable to the Ukrainian entities. The balance of the translation reserve in the comparative period, that does not apply to the Ukrainian entities has been ascribed to the relevant items in the Statement of Financial Position and Retained earnings.

2.4 Taxes

Russian tax legislation permits to calculate income taxes on a consolidated basis for certain categories of tax payers. Therefore starting from 1 January 2014 39 Russian subsidiaries of the Group were combined into the consolidated group of taxpayers (Note 17). For subsidiaries which are not included to the consolidated group of taxpayers (CGT) income taxes were calculated on an individual subsidiary basis.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected 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 2013. Judgements that have the most significant effect on the amounts recognized 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 a 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 are used (market approach). Estimates of other assets and liabilities are consistent with the Group policies with regard to other subsidiaries.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 20).

Property, plant and equipment, Investment property, Lease rights and Prepaid leases. 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 recognized in the consolidated statement of profit or loss. For the six months ended 30 June 2014 the Group recognized an impairment loss in the amount of RUB 777 and reversed the impairment loss previously recognized in the amount of RUB 101 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 2014 are not expected to have a material impact on the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the first half of 2014 and have not been early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015, with earlier application permitted; not yet adopted by the EU). Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

X5 Retail Group N.V.**Notes to Condensed Consolidated Interim Financial Statements****Six months ended 30 June 2014***(expressed in millions of Russian Roubles, unless otherwise stated)***4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)**

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRIC 21 – Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2015). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 (issued in November 2013 and effective for annual periods beginning 1 July 2014; not yet adopted by the EU). The amendment allows entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below; not yet adopted by the EU). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a "vesting condition" and to define separately "performance condition" and "service condition". The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each

X5 Retail Group N.V.**Notes to Condensed Consolidated Interim Financial Statements****Six months ended 30 June 2014***(expressed in millions of Russian Roubles, unless otherwise stated)***4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)**

reporting date, with changes in fair value recognized in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ("the management entity"), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014; not yet adopted by the EU) The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016; not yet adopted by the EU). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017; not yet adopted by the EU). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

X5 Retail Group N.V.
Notes to Condensed Consolidated Interim Financial Statements
Six months ended 30 June 2014
(expressed in millions of Russian Roubles, unless otherwise stated)

5 SEGMENT REPORTING

The Group identifies retailing operations as a single operating segment.

During the six months ended 30 June 2014 the Group was engaged in management of retail stores located in Russia and Ukraine. In March 2014 the Group has disposed of its Ukraine business unit, whose contribution to the financial results of the Group was immaterial. The Group identified the segment in accordance with the criteria set forth in IFRS 8 and based on the way the operations of the Company are regularly reviewed by the chief operating decision maker to analyze performance and allocate resources among business units of the Group.

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

During the six months ended 30 June 2014 the segment represented the Group's retail business in Russia and Ukraine.

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

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

The Management Board assesses the performance of the operating segment based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortization 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 2014 is as follows:

| | Six months ended 30 June 2014 | Six months ended 30 June 2013 |
|---------------------|----------------------------------|----------------------------------|
| Retail sales | 299,596 | 259,683 |
| Other revenue | 150 | 290 |
| Revenue | 299,746 | 259,973 |
| EBITDA | 21,194 | 17,854 |
| Capital expenditure | 9,903 | 7,110 |

| | 30 June 2014 | 31 December 2013 |
|--------------------------|----------------|------------------|
| Total assets | 301,533 | 301,903 |
| Total liabilities | 217,230 | 224,097 |

Assets and liabilities are presented in a manner consistent with that in the condensed consolidated interim financial statements.

X5 Retail Group N.V.
Notes to Condensed Consolidated Interim Financial Statements
Six months ended 30 June 2014
(expressed in millions of Russian Roubles, unless otherwise stated)

5 SEGMENT REPORTING (CONTINUED)

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

| | Six months ended 30 June 2014 | Six months ended 30 June 2013 |
|---|----------------------------------|----------------------------------|
| EBITDA | 21,194 | 17,854 |
| Depreciation, amortization and impairment | (7,997) | (6,774) |
| Operating profit | 13,197 | 11,080 |
| Finance cost, net | (5,650) | (5,453) |
| Net foreign exchange result | 17 | 78 |
| Share of loss of associates | - | (12) |
| Profit before income tax | 7,564 | 5,693 |
| Income tax expense | (1,115) | (1,388) |
| Profit for the period | 6,449 | 4,305 |

There are no differences from the last annual consolidated financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

6 ACQUISITION OF SUBSIDIARIES

In 2014 the Group acquired several businesses by purchasing retail stores and lease agreements of other retail chains in Russian regions.

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 2014 as though the acquisition date had been the beginning of that period.

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

| | Provisional values at the acquisition date |
|--|---|
| Property, plant and equipment (Note 8) | 81 |
| Intangible assets (Note 8) | 138 |
| Deferred tax asset | 13 |
| Net assets acquired | 232 |
| Goodwill (Note 9) | 244 |
| Total acquisition cost | 476 |
| Net cash outflow arising from the acquisition | 476 |

The Group assigned provisional values to net assets acquired. In estimating provisional 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 476.

The goodwill recognized is not tax deductible for tax purposes and attributable to: i) the business concentration in the 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.

X5 Retail Group N.V.
Notes to Condensed Consolidated Interim Financial Statements
Six months ended 30 June 2014
(expressed in millions of Russian Roubles, unless otherwise stated)

7 RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. 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 2013.

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 2014 are provided below. The ownership structure is disclosed in Note 1.

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of RUB 30,000 (31 December 2013: RUB 24,000). At 30 June 2014 the Group's liability under this credit line amounted to RUB 2,900 (31 December 2013: zero), available credit line was RUB 27,100 (31 December 2013: RUB 24,000). At 30 June 2014 the Group's liability under the bond issues amounted to RUB 5,428 (31 December 2013: RUB 3,148). The Group has certain purchase agreements under which the Group settles its liabilities to Alfa-Bank in accordance with factoring arrangements concluded between vendors of goods and Alfa-Bank.

Magazin Budushego

In 2011 the Group together with Rosnano and Sitronix established Magazin Budushego to develop RFID technology for retail, the Group's share in this associate is 33.34%. As at 30 June 2014 the investment in associate amounts to

RUB 68 (31 December 2013: RUB 68), for the six months then ended total assets, liabilities, revenue and loss of associate are not significant. The Group did not have significant balances and transactions with this associate.

Other

At 30 June 2014 trade accounts payable to other related parties amounted to RUB 225 (31 December 2013: RUB 184), trade accounts receivable amounted to RUB 27 (31 December 2013: RUB 20). For the six months ended 30 June 2014 purchases from other related parties amounted to RUB 507 (six months ended 30 June 2013: RUB 138).

Key management personnel

The Group key management personnel consists of Management Board and Supervisory Board members and Chief Financial Officer (CFO), having authority and responsibility for planning, directing and controlling the activities of the Group as a whole. Members of the Management Board and Supervisory Board and CFO of the Group receive compensation in the form of short-term compensation in cash (including, for Management Board members, an annual cash bonus and share-based payments (Note 16)). For the six months ended 30 June 2014 members of the Management Board and Supervisory Board and CFO of the Group were entitled to total short-term compensation of RUB 127 (six months ended 30 June 2013: RUB 94), including accrued annual target bonuses of RUB 66 (six months ended 30 June 2013: RUB 29) payable on an annual basis subject to meeting annual performance targets and termination payment of zero (six months ended 30 June 2013: RUB 10). As at 30 June 2014 the total number of conditional rights granted or awarded to members of the Management Board and Supervisory Board and CFO under LTI plan was 162,285 (31 December 2013: 133,398). During the period ended 30 June 2014 the Group recognized an expense from share-based compensation to members of Management Board and Supervisory Board and CFO in the amount of RUB 19 (six months ended 30 June 2013: income RUB 7).

X5 Retail Group N.V.
Notes to Condensed Consolidated Interim Financial Statements
Six months ended 30 June 2014
(expressed in millions of Russian Roubles, unless otherwise stated)

8 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND PREPAID LEASE

| | 2014 | | | 2013 | | |
|----------------------------------|-------------------------------------|----------------------|-------------------|-------------------------------------|----------------------|-------------------|
| | Property, plant and equipment | Intangible assets | Prepaid leases | Property, plant and equipment | Intangible assets | Prepaid leases |
| Cost | | | | | | |
| Balance as at 1 January | 192,295 | 30,531 | 3,880 | 177,095 | 29,660 | 3,938 |
| Additions | 9,249 | 163 | 28 | 6,282 | 378 | 171 |
| Transfers | (1,900) | - | - | - | - | - |
| Assets from acquisition (Note 6) | 81 | 138 | - | 176 | 9 | - |
| Disposals | (2,787) | (185) | (368) | (1,491) | (105) | (182) |
| Translation movement | (52) | - | - | 28 | - | - |
| Balance as at 30 June | 196,886 | 30,647 | 3,540 | 182,090 | 29,942 | 3,927 |
| Accumulated Depreciation | | | | | | |
| Balance as at 1 January | (57,297) | (16,552) | (2,354) | (51,131) | (14,368) | (2,317) |
| Depreciation charge | (6,054) | (941) | (118) | (5,453) | (1,091) | (149) |
| Impairment charge | (770) | (7) | - | (114) | - | - |
| Impairment reversal | 29 | 57 | - | 58 | - | 58 |
| Transfers | 1,503 | - | - | - | - | - |
| Disposals | 2,301 | 109 | 348 | 1,122 | 97 | 108 |
| Translation movement | 56 | - | - | (13) | - | - |
| Balance as at 30 June | (60,232) | (17,334) | (2,124) | (55,531) | (15,362) | (2,300) |
| Net Book Value | | | | | | |
| Balance as at 1 January | 134,998 | 13,979 | 1,526 | 125,964 | 15,292 | 1,622 |
| Balance as at 30 June | 136,654 | 13,313 | 1,416 | 126,559 | 14,580 | 1,627 |

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 21).

9 GOODWILL

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

| | 2014 | 2013 |
|--|----------------|----------------|
| Cost: | | |
| Gross book value at 1 January | 130,815 | 130,528 |
| Acquisition of subsidiaries (Note 6) | 244 | 95 |
| Disposal | (123) | - |
| Gross book value at 30 June | 130,936 | 130,623 |
| Accumulated impairment losses: | | |
| Accumulated impairment losses at 1 January | (66,312) | (66,312) |
| Accumulated impairment losses at 30 June | (66,312) | (66,312) |
| Carrying amount at 1 January | 64,503 | 64,216 |
| Carrying amount at 30 June | 64,624 | 64,311 |

Goodwill Impairment Test

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

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

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During six months ended 30 June 2014 goodwill attributable to Ukrainian subsidiary was disposed. No other events indicating triggers of goodwill impairment occurred in the six months ended 30 June 2014. The Group will perform an annual impairment test of goodwill at 31 December 2014.

10 PROVISIONS AND OTHER LIABILITIES

| | 30 June 2014 | 31 December 2013 |
|--|---------------|------------------|
| Taxes other than income tax | 6,252 | 5,381 |
| Provision and liabilities for tax uncertainties | 1,849 | 1,096 |
| Accrued salaries and bonuses | 5,900 | 6,546 |
| Payables to landlords | 807 | 702 |
| Other accounts payable and accruals | 7,093 | 7,050 |
| Accounts payable for property, plant and equipment | 3,437 | 3,832 |
| Advances received | 1,184 | 1,342 |
| | 26,522 | 25,949 |

11 BORROWINGS

The Group had the following borrowings at 30 June 2014 and 31 December 2013:

Current

| | Interest rate, % p.a. | | Final maturity year | Fair value | | Carrying value | |
|---------------------------------|-----------------------|------------|---------------------|---------------|---------------|----------------|---------------|
| | 30.06.2014 | 31.12.2013 | | 30.06.2014 | 31.12.2013 | 30.06.2014 | 31.12.2013 |
| RUB Bonds X5 Finance series 01 | - | 7.95% | 2014 | - | 6,930 | - | 6,954 |
| RUB Bonds X5 Finance series 04 | - | 7.75% | 2014 (put option) | - | 5,756 | - | 5,766 |
| RUB Bilateral Loans | 7,85%-9,0% | 6,94%-9,0% | 2015 | 20,729 | 17,960 | 20,729 | 17,960 |
| Total current borrowings | | | | 20,729 | 30,646 | 20,729 | 30,680 |

Non-current

| | Interest rate, % p.a. | | Final maturity year | Fair value | | Carrying value | |
|-------------------------------------|-----------------------|----------------------|---------------------|----------------|----------------|----------------|----------------|
| | 30.06.2014 | 31.12.2013 | | 30.06.2014 | 31.12.2013 | 30.06.2014 | 31.12.2013 |
| RUB Club loan | MosPrime +2.5%/2.75% | MosPrime +2.5%/2.75% | 2018 | 14,836 | 14,801 | 14,836 | 14,801 |
| RUB Bonds X5 Finance series 04 | 10.5% | - | 2016 | 8,174 | - | 8,000 | - |
| RUB Bonds X5 Finance series BO-01 | 9.5% | 9.5% | 2015 | 5,031 | 5,055 | 5,000 | 5,000 |
| RUB Bonds X5 Finance series BO-02 | 9.1% | 9.1% | 2016 | 4,891 | 4,993 | 4,992 | 4,990 |
| RUB Bonds X5 Finance series BO-03 | 8.85% | 8.85% | 2016 | 4,939 | 4,970 | 4,996 | 4,995 |
| RUB Bilateral Loans | 3m+1,85%-2,6% | 3m+1,85%-2,6% | 2016 | 21,415 | 13,895 | 21,415 | 13,895 |
| RUB Bilateral Loans | 7.85%-9.0% | 6,94%-9,0% | 2017 | 30,376 | 36,145 | 30,393 | 36,162 |
| Total non-current borrowings | | | | 89,662 | 79,859 | 89,632 | 79,843 |
| Total borrowings | | | | 110,391 | 110,505 | 110,361 | 110,523 |

In February 2014 the Group made a RUB 7.5 billion drawdown from the 3-year long-term facility with VTB Capital with the total facility amount of RUB 12.5 billion (RUB 5 billion was drawdown in December 2013). In March 2014 the Group signed a new committed credit line with Sberbank in the total limit of RUB 15 billion for 3 years. The line

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11 BORROWINGS (CONTINUED)

was fully drawdown by the Group in April 2014. Both the VTB Capital and Sberbank loans are included in the "RUB Bilateral Loans" in the table above.

In June 2014 as the result of X5 Finance corporate bonds series 04 oferta (put-option) the Group sold 2,233,503 treasury bonds (that were previously held by intragroup companies) to external investors. The new annual rate for the next 4 semi-annual coupons was fixed at 10.5%.

All borrowings at 30 June 2014 are shown net of related transaction costs of RUB 484 which are amortized over the term of loans using the effective interest method (31 December 2013: RUB 701). Borrowing costs capitalized for the six months ended 30 June 2014 amounted to RUB 113 (30 June 2013: RUB 19). Capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 8.51% (2013: 7.89%).

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain requirements: the maximum level of Net Debt/EBITDA (4.00/4.25 after acquisition), minimum level of EBITDA/Net Interest expense (2.75). At 30 June 2014 the Group complied with requirements under loan facilities.

12 SHARE CAPITAL

As at 30 June 2014 the Group had 190,000,000 authorized ordinary shares of which 67,870,324 (31 December 2013: 67,844,665) ordinary shares are outstanding and 22,894 ordinary shares (31 December 2013: 48,553) held as treasury stock. The nominal par value of each ordinary share is EUR 1.

13 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

Earnings per share are calculated as follows:

| | Six months ended 30 June 2014 | Six months ended 30 June 2013 |
|--|----------------------------------|----------------------------------|
| Profit attributable to equity holders of the Parent | 6,449 | 4,305 |
| Weighted average number of ordinary shares in issue | 67,850,619 | 67,822,134 |
| Effect of share options granted to employees | - | 1,197 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 67,850,619 | 67,823,331 |
| Basic earnings per share for profit from continuing operations (expressed in RUB per share) | 95.05 | 63.47 |
| Diluted earnings per share for profit from continuing operations (expressed in RUB per share) | 95.05 | 63.47 |

14 EXPENSES

Among other expenses charged for the six months ended 30 June 2014 are operating lease expenses of RUB 14,466 (six months ended 30 June 2013: RUB 11,809).

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15 FINANCE INCOME AND COSTS

| | Six months ended 30 June 2014 | Six months ended 30 June 2013 |
|--------------------------|----------------------------------|----------------------------------|
| Interest expense | 5,331 | 5,313 |
| Interest income | (19) | (45) |
| Other finance costs, net | 338 | 185 |
| | 5,650 | 5,453 |

16 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 program runs in several tranches granted over the period starting May 2010. The RSU Plan provides for the annual grant of conditional rights to RSUs, subject to i) the achievement of specific performance criteria of the Group (KPIs) and ii) continuous employment with the Group until the completion of the vesting period. The KPIs mainly relate to (i) the performance of the Group compared to the performance of a selected group of comparable competitors in achieving sustained growth and an increasing presence in its markets of operation and (ii) maintain agreed profitability ratio of the Group at a pre-defined level.

Members of the Supervisory Board may be granted conditional RSUs not subject to performance criteria. The General Meeting of Shareholders determines the number of conditional RSUs granted to members of the Supervisory Board. The RSU Plan, as well as the first tranche of conditional RSUs in favour of members of the Supervisory Board, was approved by Annual General Meeting of Shareholders on 25 June 2010. During 6 months ended 30 June 2014 11,650 GDRs out of 102,528 vested under the first tranche in 2013 were waived and paid in cash. In May 2014 the Group vested 114,285 GDRs under the second tranche of long term incentive plan out of treasury stock, 8,660 of them were transferred directly to participants and the remaining 105,625 GDRs were locked-in for 2 years in accordance with RSU plan rules. The third, fourth and fifth tranches will vest on 19 May 2015, 19 May 2016 and 19 May 2017 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 2014 the Group recognized expense related to the RSU plan in the amount of RUB 9 (income during six months ended 30 June 2013: RUB 44). At 30 June 2014 the equity component was RUB 71 (31 December 2013: RUB 170). 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 2014 and 30 June 2013 were as follows:

| | 30 June 2014 | | 30 June 2013 | |
|---|---------------------------------|--|---------------------------------|--|
| | 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 | 318,531 | 830.48 | 1,053,053 | 851.03 |
| Granted during the period | 63,173 | 608.64 | - | - |
| Transferred under vesting | (102,635) | 1,001.40 | (54,155) | 1,082.59 |
| Forfeited during the period | (43,644) | 1,029.14 | (635,864) | 795.09 |
| Outstanding at the end of the period | 235,425 | 659.61 | 363,034 | 914.47 |

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| | Six months ended 30 June 2014 | Six months ended 30 June 2013 |
|-----------------------------|--|--|
| Current income tax charge | (1,267) | (2,177) |
| Deferred income tax benefit | 152 | 789 |
| Income tax expense | (1,115) | (1,388) |

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 2014 was 14% due to the one-off impact of the reversal of tax provision in amount of RUB 749.

Effective 1 January 2014, 39 Russian subsidiaries of the Group formed a consolidated group of taxpayers (CGT) 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 seven years depending on the tax residence of each company of the Group.

18 SEASONALITY

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

19 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 2013. There have been no changes in the risk management department since year end or in any risk management policies.

Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

At 30 June 2014 the Group had net current liabilities of RUB 47,369 (31 December 2013: RUB 62,406) including short-term borrowings of RUB 20,729 (31 December 2013: RUB 30,680).

At 30 June 2014 the Group had available bank credit lines of RUB 102,100 (31 December 2013: RUB 100,810).

At 30 June 2014 the Group had RUB bonds available for issue on MICEX of RUB 28,000.

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments.

Financial assets carried at amortized 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

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to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Carrying amounts of trade and other financial receivables and payables approximate fair values. The measurement is classified in level 3 of the fair value hierarchy.

Carrying amounts of available-for-sale investments approximate fair values. The measurement is classified in level 3 of the fair value hierarchy.

Liabilities carried at amortized 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 23,035 at 30 June 2014 (31 December 2013: RUB 27,704). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 22,988 at 30 June 2014 (31 December 2013: RUB 27,705) (Note 11). The fair value of long-term borrowings amounted to RUB 66,627 at 30 June 2014 (31 December 2013: RUB 64,841). The measurement is classified in level 2 of the fair value hierarchy. 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 491 at 30 June 2014. The fair value of short-term borrowings was not materially different from their carrying amounts.

21 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 30 June 2014, the Group operated 3,356 stores through rented premises (31 December 2013: 3,159 stores). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in 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 16,385 (net of VAT) (2013: RUB 15,650).

Capital expenditure commitments

At 30 June 2014 the Group contracted for capital expenditure of RUB 6,578 (net of VAT) (31 December 2013: RUB 4,373).

Taxation environment

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged as not having been in compliance with Russian tax laws applicable at the relevant time. In particular, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systematic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation initially introduced on 1 January 1999 and further amended from 1 January 2012 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions if the transaction prices deviate from the arm's length level:

- Transfer pricing rules effective until 31 December 2011. According to the Russian transfer pricing rules effective during the period up to 31 December 2011, controllable transactions include transactions with

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interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

Inter-company transactions undertaken by the companies of the Group for the period up to 31 December 2011 are potentially subject to transfer pricing controls established by Article 40 of the Russian Tax Code. Tax liabilities arising from inter-company transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

- Amended transfer pricing rules effective from 1 January 2012. Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new 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.

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has 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 for 2014 is expected to be less than for preceding years 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.

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

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

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

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist.

Management estimates that possible exposure in relation to the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), that are more than remote, but for which no liability is required to be recognized 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.

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22 SUBSEQUENT EVENTS

In July 2014 the Group made several drawdowns with total amount of RUR 15 billion from the executed long-term credit agreements with Alfa bank with maturity up to 3 years.