X5 RETAIL GROUP

Annual Report

2015

X5 RETAIL GROUP

Annual Report 2015

ANNUAL REPORT 2015

X5

MEETING DEMAND. DAILY

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PART 1

Strategic report

FULL YEAR 2015

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OVERVIEW

MEETING DEMAND. DAILY

X5's ability to deliver **fast, sustainable growth** is made possible by our continued focus on, and successful implementation of, our strategy of building a multi-format food retail business that continuously adapts its value propositions in response to customers' changing needs.

By focusing on intelligent growth and excellence in execution, we have been able to expand faster than the Russian food retail market average, taking market share while building a path towards long-term and sustainable leadership among our peers.

Record revenue expansion **+27.6% year-on-year** (to a record **₽ 808.8 bn**) primarily driven by the following factors:

- **760.9 th. m² of new selling space,** up 29.6% year-on-year, including 668.4 th. m² of Pyaterochka stores — the largest expansion in a single food retail chain in Russia ever.

APPROXIMATELY 80% OF SELLING SPACE GROWTH WAS ORGANIC

- **Like-for-like sales up 13.7%** year-on-year, improving across all major formats.
- **Like-for-like traffic increased by 2.3%** year-on-year.

REVENUE GROWTH OF
₽ 174.9 billion
WAS THE HIGHEST IN X5'S HISTORY

OVERVIEW

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IN 2015 WE DELIVERED A RECORD YEAR IN TERMS OF GROWTH

Strategic highlights

Turnaround completed: All formats operating and growing as distinct value propositions and banners supported by the X5 corporate centre.

X5 grew faster than the food retail market average, and narrowed the gap to the No 1 spot in 2015.

Renewed value proposition adapted to Russian consumers' changing needs.

New store formats being deployed: 70% of Pyaterochka stores are now operating under a new concept; over 25% of Perekrestok stores are operating under a new brand.

New distribution centres opened in Moscow, Voronezh, Kaluga, Kazan, Chelyabinsk and the Leningrad region.

We significantly expanded our logistics operations: with the acquisition of 355 trucks, our fleet was expanded to 1,561 vehicles.

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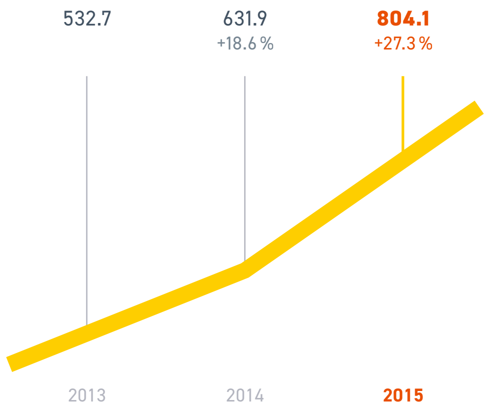
Operating highlights

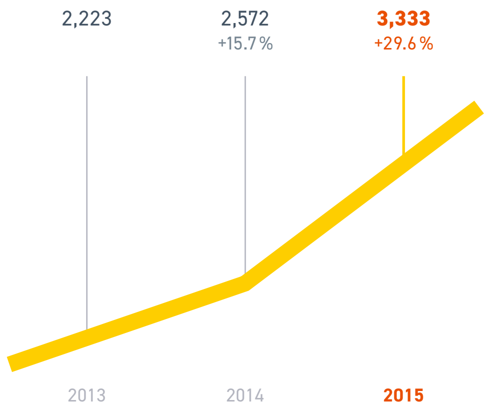
+27.3 %

Net retail sales / bn ₽
CAGR 22.9 %



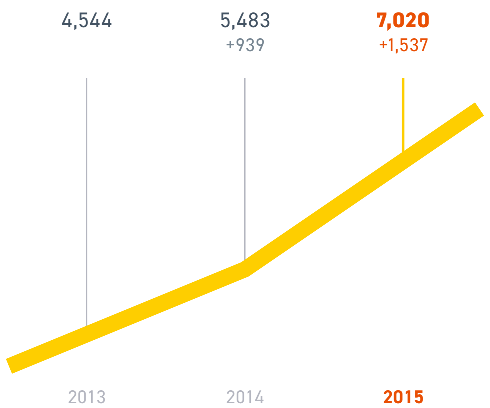
+29.6 %

Selling space / th. m²
CAGR 22.5 %



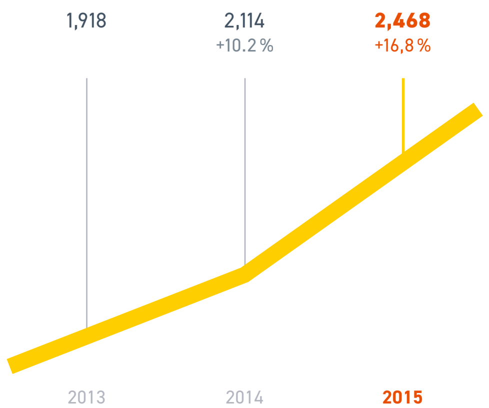
+1,537

Number of stores



+16.8 %

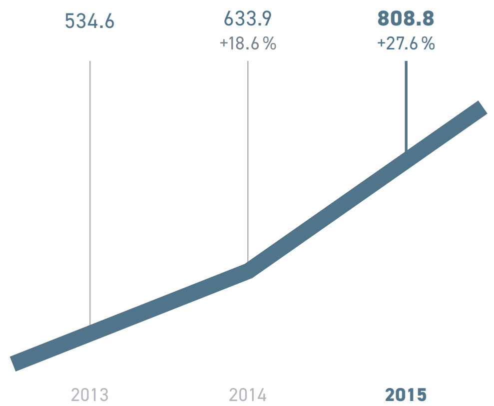
Customer visits / mln
CAGR 13.5 %



Financial highlights

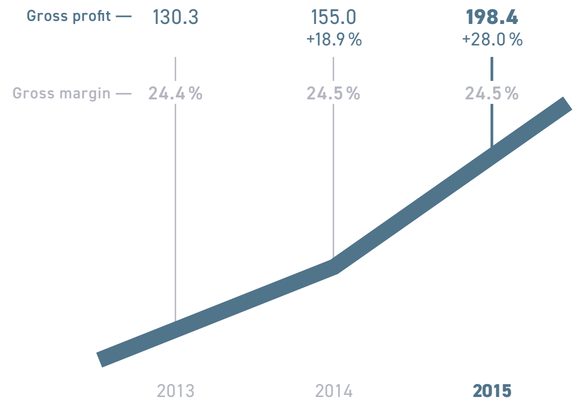
+27.6 %

Revenue / bn ₽
CAGR 23.0 %



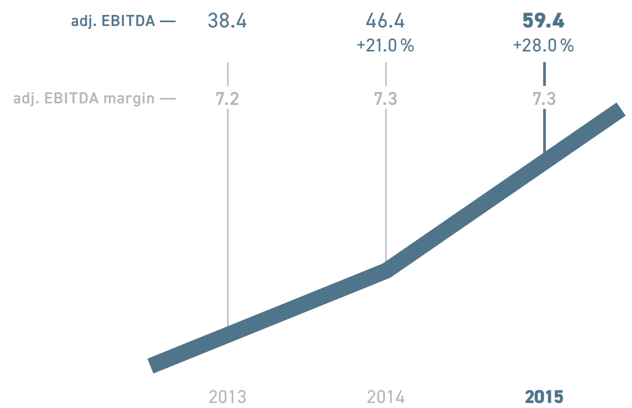
+28.0 %

Gross profit / bn ₽
Gross margin / %



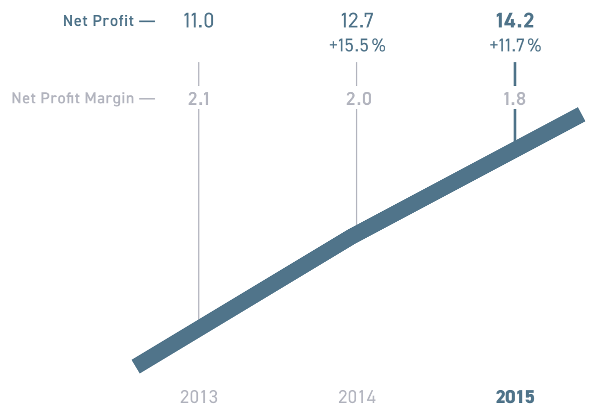
+28.0 %

adj. EBITDA / bn ₽
adj. EBITDA margin / %



+11.7 %

Net Profit / bn ₽
Net Profit Margin / %



OVERVIEW

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CHAIRMAN STATEMENT

X5 aims to create value for all of its stakeholders: customers and residents of the communities where we operate, our employees in Russia, business partners, as well as shareholders from around the world. We take our obligations seriously, and we are pleased to have delivered very strong results in 2015.

Dear stakeholders,

As I move to the position of Chairman of the Supervisory Board from my previous role as CEO of X5 Retail Group, I am handing over the reins to a business that has undergone a significant transformation, and that became the fastest-growing publicly traded food retail company in Russia in Q4 2015. X5 achieved record growth last year, while also maintaining its profitability margins and closing the gap to the No 1 spot in Russia's food retail market at an even faster pace than the Supervisory Board and management originally hoped for.

This is no small feat given the challenging operating environment, but the X5 management team and retail formats have continued to deliver on the strategic targets set out by the Board of Directors, delivering value for our stakeholders.

Stephan DuCharme

/ CHAIRMAN OF THE SUPERVISORY BOARD

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The right strategic course

Looking back at the key targets that were set for the X5 team in 2015, I am very happy to say that the Company has over-delivered on every one of them.

We reached a major milestone in 2015 with the completion of X5's transformation, as evidenced by our multiformat operating model performance across various metrics. The three key formats—Pyaterochka, Perekrestok and Karusel—accelerated their growth rates, fine-tuning their value propositions to meet the needs of their target customers.

Selling space grew by 29.6% year-on-year in 2015. While this is an impressive rate of growth, it only tells part of the story. X5 added 760.9 th. sq. m. of new selling space during the reporting period, about 80% of which was organic. By sheer volume, this is a major accomplishment, and the 668.4 th. sq. m. that Pyaterochka alone added during the year represents the largest ever single-year expansion by any chain in the history of the Russian retail market.

The current market environment poses a challenge to businesses serving domestic consumers, but as we demonstrated in 2015, we have the ability to adapt and grow even in difficult conditions. One of the core focuses for each of X5's retail formats is to continuously adapt their value propositions to meet changing customer needs, including the generation of value for customers in the current economic environment. This has enabled X5 to grow and take advantage of Russia's ongoing shift towards modern retail, which represents massive potential for market leaders over the coming years.

Setting a sustainable course

The Board of Directors has provided strategic guidance to X5 Retail Group management through a period that saw the Company transform itself from growing slower than the market in 2012 and 2013, to expanding significantly faster than either the food retail market as a whole or the top-10.

This has been achieved with the help of a strategy that aims to put X5 Retail Group on a sustainable path to long-term market leadership based on the following key elements:

- A multi-format operating model that combines scale with flexibility
- Continuous adaptation of value propositions that allow us to satisfy key shopping missions in food retail
- Intelligent growth, with a disciplined focus on organic growth, in-house construction and selective, tactical acquisitions
- Continued focus on excellence in operational execution end-to-end
- Strong leadership team with substantial Russian and international experience

The Board set ambitious growth targets for management while, at the same time, maintaining profitability levels. And management delivered on both last year.

Strong top-line performance in 2015 was achieved without any compromise on our adjusted operating margins, which even saw a slight increase from 2014.

Corporate responsibility

At X5, we take corporate citizenship seriously and recognize that, in order for the Company to continue to grow and develop, the communities in which we operate must do so as well. Being a good employer, working hand-in-hand with suppliers and delivering quality products to our customers is part of our sustainable, long-term, winning proposition. The Company also implements a number of projects designed to help people in need, including the new Basket of Kindness programme, which is the first food bank of its kind in Russia.

In the area of corporate conduct, the Supervisory Board also aims to ensure that X5 acts as a responsible partner with key stakeholders like employees and customers. In 2015, a new code of corporate conduct and ethics was introduced across our businesses, and every employee must acknowledge their understanding of this code. We ensure that the Company implements robust policies in key areas like workplace health and safety, as well as product quality and safety. The Supervisory Board also monitors the work of customer feedback and whistle blower hotlines, which process and investigate complaints in a timely and appropriate manner.

For shareholders, we aim to uphold high levels of transparency and disclosure, including as part of our rapid business expansion: despite a focus on organic growth, X5 also engages in tactical M&A, and the Company discloses the details of any such material transactions to the market, in line with best practice.

Governance and the Board

X5 maintains a solid governance framework, and our Board has a strong independent composition with relevant retail, finance and strategy expertise. This diversity provides management with valuable counsel and support as they translate our strategic objectives into X5's operations.

I was pleased to take over as Chairman at the end of last year, after playing a more direct and hands-on role in leading X5's turnaround as CEO. As Chairman, I will be able to focus more on providing strategic guidance and to setting the direction for our future growth, value creation and continued customer orientation. This is where I believe I can add the most value going forward. I was particularly grateful to note the very high level of support for this move from the Extraordinary General Meeting of Shareholders that voted to approve my appointment. I believe this is a strong endorsement of the success we have achieved in recent years, and of the importance of continuing on our current strategic course.

Outlook

I remain optimistic about the long-term outlook for the Russian retail market, as there is significant room for modern retail to grow as it replaces traditional trade formats. We have set X5 on track to be one of the consolidators of this transition, meaning the Company and its shareholders stand to benefit significantly from the change.

At the same time, we must continue to deliver on our ambitious targets in a market where consumers are actively searching for promotions, trading down within categories and formats, decreasing consumption and are more conscious about where to find the best value. In this environment, operational excellence, efficiency and swift adjustments to value propositions are critical to continued expansion with stable margins.

X5 has an excellent management team in place, led by Igor Shekhterman, who took over the reins as CEO at the end of last year. Igor is the ideal candidate to lead the management team in building Russia's best modern retail business across all of our formats. I remain committed to guiding X5 to help it deliver on its current strategy as Chairman of the Supervisory Board, and all of us are committed to helping X5 deliver on the very ambitious target of doubling the size of the business over the next three years.

The Board and I believe that X5 is on the right track to create value for its customers as it expands and adapts, which will translate into value for shareholders as we lead Russia's structural shift towards modern food retail.

Thank you for your continued support of our Company.

Stephan DuCharme
Chairman of the Supervisory Board

OVERVIEW

OUR BRANDS

Number of stores
90
+8 y-o-y

Selling space
390 th. m²
+32 th. m² y-o-y

Number of stores
478
+75 y-o-y

Selling space
484 th. m²
+68 th. m² y-o-y

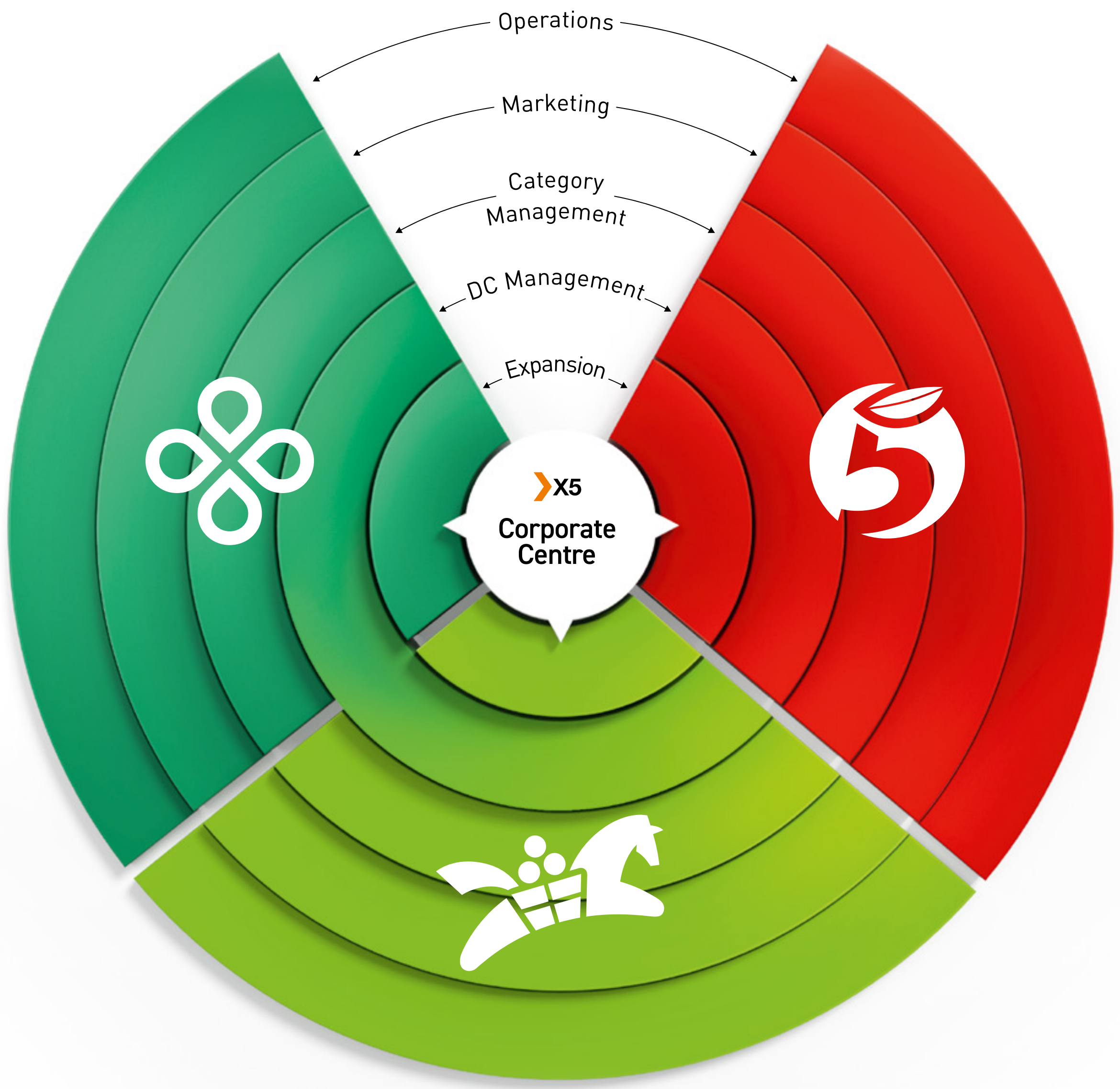
Number of stores
6,265
+1,476 y-o-y

Selling space
2,423 th. m²
+668 th. m² y-o-y

OVERVIEW

OUR BUSINESS MODEL

Our multi-format organisational structure, reinforced by central support teams and strong strategic leadership, provides us with a unique opportunity to leverage our distinct value propositions to capture greater wallet share by providing the best customer experience in the dynamic Russian food retail market.



Core brands

Pyaterochka, a chain of conveniently located proximity stores, is one of Russia's leading retail brands. Pyaterochka stores are focused on simple, easy and economical shopping. The brand offers quality fresh products and a non-food assortment supported by attractive promotional events and customer communication.

Perekrestok is the leading national supermarket chain in Russia and one of the country's leading retail brands. Perekrestok strives to be the customer's first choice for fresh products supported by the right assortment and price strategy.

Karusel is one of the largest hypermarket chains currently operating in the Russian market. It offers customers convenient one-stop shopping at fair prices in city locations with a wide range of quality food and non-food products, efficient service at cash registers, engaging weekly catalogues and a loyalty programme.

Net retail sales

Pyaterochka	Perekrestok	Karusel
+34.3% y-o-y	+12.5% y-o-y	+11.6% y-o-y
585.4 ₽ bn	130.1 ₽ bn	77.4 ₽ bn

% of X5 net retail sales

Pyaterochka	Perekrestok	Karusel
72.8 %	16.2 %	9.6 %

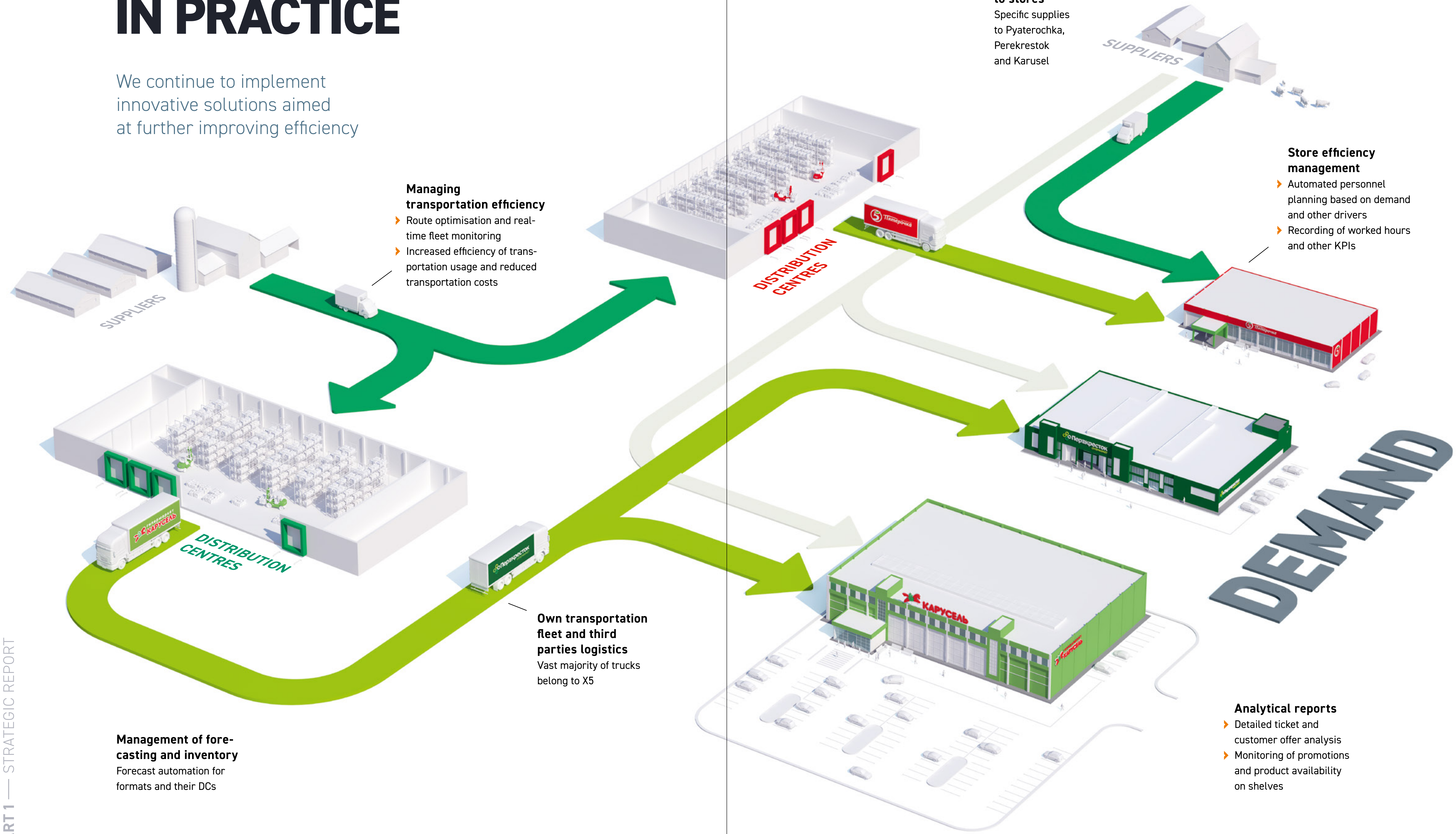
X5

THE CORPORATE CENTRE

X5 Retail Group acts as the corporate centre, providing overall strategic leadership and support for each of its retail formats. This includes areas like strategy, strategic marketing, M&A / partnerships, legal, IT, talent management, finance, government relations and corporate communications.

HOW IT WORKS IN PRACTICE

We continue to implement innovative solutions aimed at further improving efficiency



Managing transportation efficiency
- Route optimisation and real-time fleet monitoring
- Increased efficiency of transportation usage and reduced transportation costs

Direct deliveries to stores
Specific supplies to Pyaterochka, Perekrestok and Karusel

Store efficiency management
- Automated personnel planning based on demand and other drivers
- Recording of worked hours and other KPIs

Own transportation fleet and third parties logistics
Vast majority of trucks belong to X5

Management of forecasting and inventory
Forecast automation for formats and their DCs

Analytical reports
- Detailed ticket and customer offer analysis
- Monitoring of promotions and product availability on shelves

OVERVIEW

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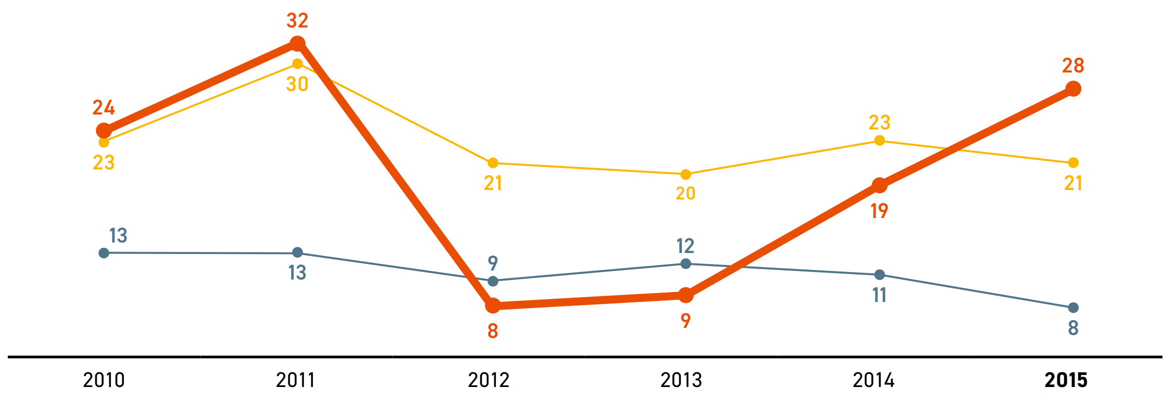
RUSSIA'S FOOD RETAIL MARKET

The Russian domestic market holds huge potential for growth of the modern retail formats that X5's brands offer. Even in a challenging year like 2015, we achieved a record-setting pace of expansion thanks to our ability to quickly adjust the value propositions of our retail chains to changing consumer demands.

Our market position

X5 is the second-largest food retailer in Russia, and we improved our position in 2015, closing the gap to the top spot: we significantly outgrew the food retail market during 2015, and outpaced the top-10 players by a comfortable margin as well:

X5 vs. Russian food Retail in Top-line Growth 2010–2015, %



SOURCE: INFOLINE, X5 ANALYSIS

IN 2015, X5 TOP-LINE GROWTH EXCEEDED THE MARKET AS WELL AS TOP-10 FOOD RETAILERS GROWTH

Top-10 Russian Food Retailers

#	COMPANY NAME	% IN TOTAL MARKET 2014	% IN TOTAL MARKET 2015
1	Magnit [1]	6.2	6.9
2	X5	5.2	6.2
3	Auchan	2.5	2.5
4	Dixy	1.9	2.1
5	Lenta	1.5	1.8
6	Metro	1.6	1.5
7	O'Key	1.2	1.2
8	SPS Holding	0.4	0.7
9	Globus	0.4	0.5
10	Monetka	0.5	0.5
	Total	**21.5**	**24.0**

[1] MAGNIT RETAIL SALES EXCLUDE MAGNIT COSMETIC STORE SALES

SOURCE: INFOLINE

A challenging market environment today and in the near term

We believe we have a grounded and realistic view of Russia's economic outlook, and we have to take the necessary steps to respond in a way that will enable X5 to thrive through these challenging years.

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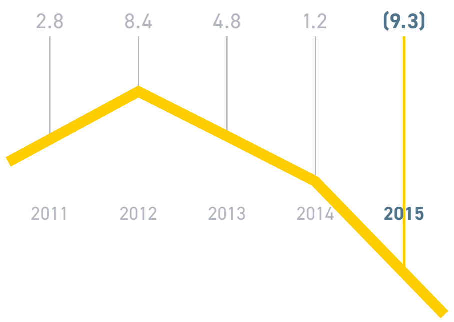
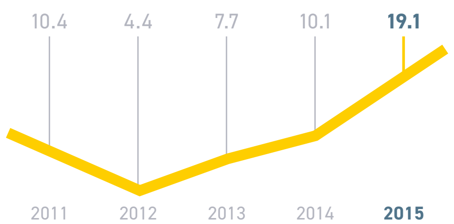
Real Wage Growth / %



Food CPI / %



Russia's economic situation in 2015 affected our customers' buying habits

Economic developments in 2015

- The price of oil decreased by 35 % in 2015 vs. 2014
- GDP decreased by 3.7 % in 2015 vs. 2014
- The average USD / RUB exchange rate increased by 59 % in 2015 vs. 2014
- USD 57 billion of net capital outflow in the private sector in 2015
- Increase in prices for locally produced products
- Declining / negative real wage growth
- Decrease in food expenditures as a percentage of customer budgets

Consumer trends

- eight out of ten customers believe that Russia is in a new economic crisis
- 67 % are not sure about their employment prospects
- 52 % have a negative view of their well-being
- 60 % are not willing to purchase new goods
- Active search for attractive promotions
- Trading down within categories and formats
- Decreasing consumption / basket volume
- Splitting purchases between different formats and stores
- Increase in price hunting
- Decrease in large purchases

We expect the situation to remain challenging in the near term

Tomorrow will be no better than today

- Forecasts of further stabilisation of low oil prices, FX rate growth and steadily high inflation
- Current sanctions are expected to remain in place
- Structural economic reform is unlikely; moreover, the state will expand its intervention in the economy

What does this mean for the industry?

- Customers will remain thrifty
- Opportunities to raise capital will remain limited
- The state might continue to increase its influence on the retail market

X5 has successfully adapted to this changing, and challenging, operating environment thanks to its sustainable and resilient business model. We are responding by updating our value proposition to meet consumers' needs across all formats, taking advantage of the opportunity to consolidate the food retail market around large, modern-format players, as well as aiming to capitalise on additional opportunities thanks to the solid expertise and knowledge base at our corporate centre.

X5 is adapting

Assortment

- Ensure adequate representation/share of value products in assortments
- Expand local assortment and further increase import substitution

Price strategy

- Monitoring the competition's prices and our formats' price perception to maintain market position
- Further increase import substitution with goods less affected by FX fluctuations
- Selectively control the amount of shelf inflation for certain categories to maintain price perception
- Selectively invest in the customer to support traffic and price perception

Supplier relations / cooperation

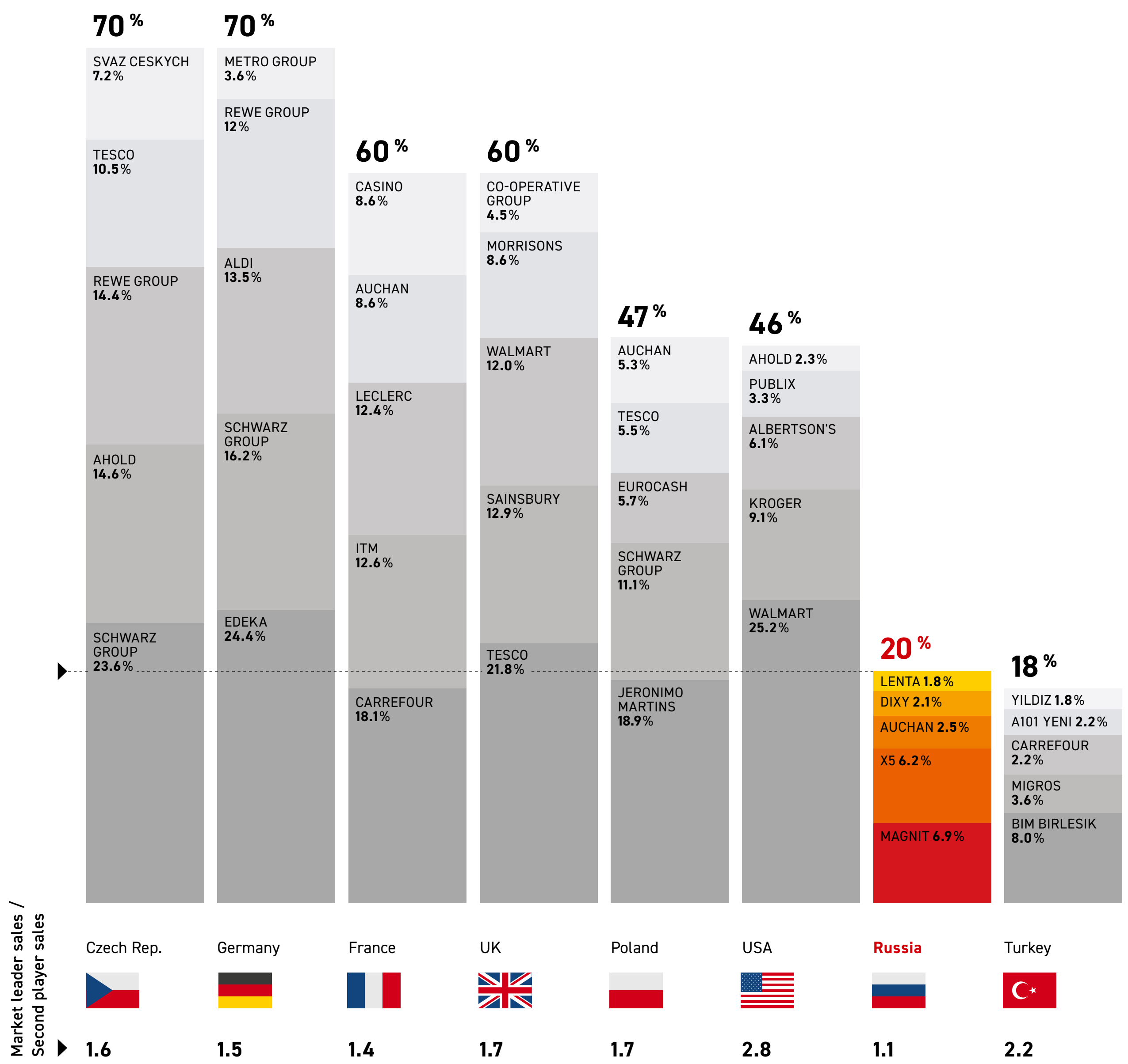
- Active promotions supported by suppliers
- Maximising import substitution and local production, particularly in the entry price category
- Exchange improved payment terms for lower prices

Long-term outlook remains positive

Looking beyond current challenges, the fundamental growth opportunity for leading modern food retailers in Russia remains intact as Russia transitions from traditional food retail formats to modern formats like the ones X5 offers.

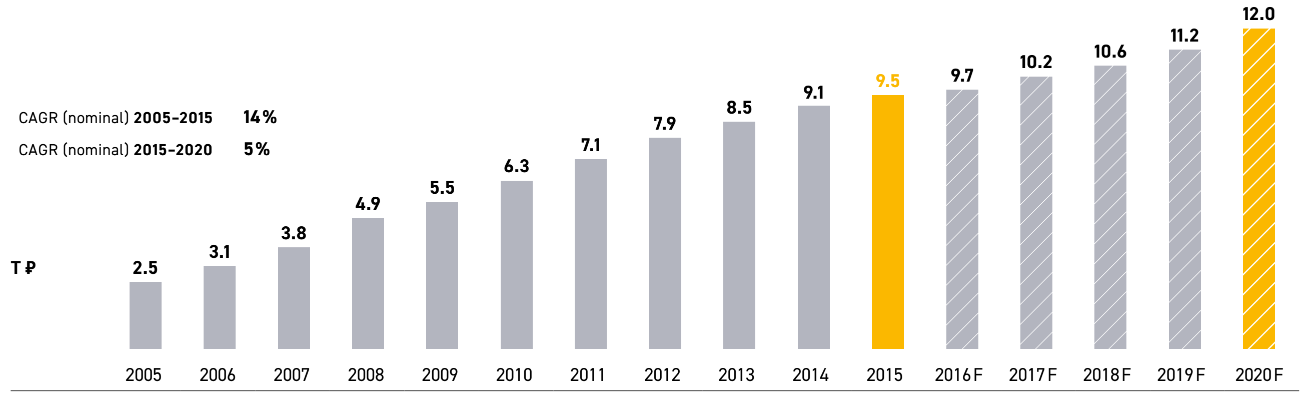
Top five share of grocery retail globally in 2015

The key source of growth for the top players in Russia will be consolidation: their market share is forecast to expand due to a shift from traditional to modern retail formats.



NOTE: ALL NUMBER ARE EXCLUDING VAT/SALES TAX. BASE YEAR IS 2005.
SOURCE: EUROMONITOR, INFOLINE (FOR RUSSIAN MARET ONLY), COMPANY REPORTS, X5 ANALYSIS

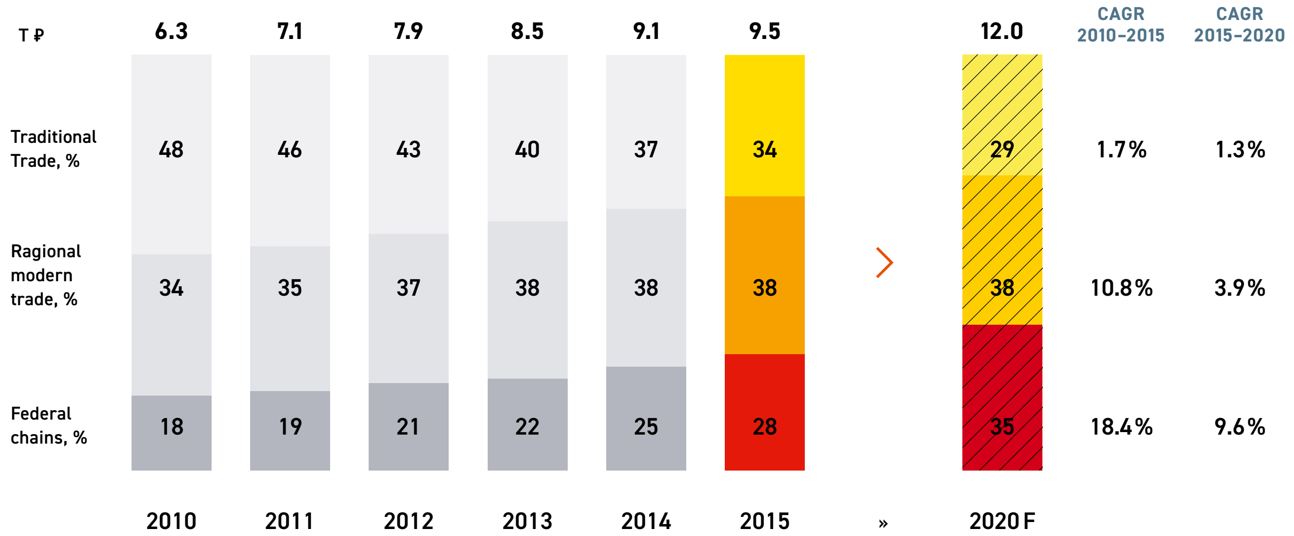
Grocery retail market development in Russia



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 F	2017 F	2018 F	2019 F	2020 F
NOMINAL Y-O-Y, %		24	22	28	13	13	14	11	8	7	4	3	5	5	6	6
REAL Y-O-Y, %		13	12	12	1	6	5	5	1	0	−11	−5	−1	−1	1	1

NOTE: ALL NUMBER ARE EXCLUDING VAT/SALES TAX. BASE YEAR IS 2005.
SOURCE: EUROMONITOR, X5 ANALYSIS

Russian grocery retail market dynamics



NOTE: FEDERAL PLAYERS ARE MAGNIT, X5, AUCHAN, METRO, LENTA, O'KEY, DIXY, 7 CONTINENT. ALL VALUES AND GROWTH RATES ARE NOMINAL. ALL NUMBER ARE EXCLUDING VAT/SALES TAX. BASE YEAR IS 2005.
SOURCE: EUROMONITOR, X5 ANALYSIS

STRATEGIC REVIEW

Over the past few years, we have been focused on a large-scale reorganisation of our operations aimed at providing more autonomy to the brands and reinforcing our multi-format strategy.

+1,537

Net added stores

in 2015

Our strategy allows each of X5's retail formats to respond to the needs of its customers, adjusting and improving value propositions on a continuous basis. This combination of focus and speed is underpinned by a constant drive to achieve greater efficiency and sustainable growth in our operations. Successful execution of these strategic priorities has delivered value for all of our stakeholders and further secured X5's position among Russia's largest and fastest-growing food retailers.

Our strategy focuses on five key areas

1. **A multi-format operating model** that combines scale with flexibility
2. **Renewal of value propositions** that allow us to satisfy key shopping missions in food retail
3. **Intelligent growth,** with a disciplined focus on organic growth and in-house acquisition/construction
4. Continued focus on excellence in **operational execution** end to end
5. **Strong leadership team** with substantial Russian and international retail-sector experience

OVERVIEW

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CEO STATEMENT

Dear Stakeholders,

I am very pleased to present to you my first strategic review as the CEO of X5 Retail Group. I take over a company that has gone through important transformations, delivering significant, sustainable growth along the way.

Our strong revenue performance in 2015 was driven by a 29.6% year-on-year increase in selling space: the Company added 760.9 th. sq. m., 80% of which was attributable to organic growth. This is impressive not only in terms of year-on-year expansion, but also when measured by the absolute volume of space added. Like-for-like sales also made a strong contribution, up 13.7% year-on-year. I am also happy to report that all of our formats performed well. Pyaterochka remains the top contributor to our results, accounting for 72.8% of net retail sales in 2015.

We delivered solid financial results in 2015 as well, maintaining margins as we focused on intelligent growth and efficiency: revenue increased 27.6% year-on-year to ₽ 808.8 billion, while our gross profit and adjusted EBITDA margins for the year were 24.5% and 7.3%, respectively."

Igor Shekhterman

/ CHIEF EXECUTIVE OFFICER

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Continuity in strategy and execution

I was appointed to the post of CEO in November 2015, replacing Stephan DuCharme after he had spent three years on the job. During that time, the Board of Directors, of which I was a member, had supported management in executing a significant repositioning of X5 and our formats. The strategy called for building a flexible multi-format business model capable of growing quickly and meeting the needs of a variety of target consumer groups in Russia, while maintaining a razor-sharp focus on efficiency and sustainability.

I am happy to say that X5 achieved these objectives during those three years, despite our industry spending the last 18 months facing serious macroeconomic headwinds. While many aspects of X5's performance in 2015 were record-setting for the Company, it is helpful to look at what the Company achieved over the last few years in the context of the strategic transformation:

- Revenue 2012–2015: up 64.7% to RUB 808.8 billion
- Customer visits 2012–2015: up 37.6% to 2.5 billion
- Selling space 2012–2015: up 69.2% to 3,333 th. sq. m.
- Number of stores 2012–2015: up 84.6% to 7,020
- X5 now operates in nine of Russia's federal districts, which account for 88% of Russia's population.

This is a truly impressive result, and as we discuss throughout this report, X5 is now growing faster than both its peers among the top-10 food retailers in Russia and the market as a whole.

Delivering on strategic priorities

X5 delivered tangible results across all five of our key strategic priority areas in 2015:

Multi-format operating model: We were successful in setting all three of our key formats on a path for self-sustained growth. Pyaterochka, with a value proposition that is particularly relevant in the current economic environment, delivered 34.3% year-on-year growth in net retail sales; Perekrestok grew 12.5% year-on-year, while Karusel's net retail sales for 2015 were up 11.6% year-on-year. This rate of growth significantly outpaced the market as a whole in a year when food retail turnover in Russia grew by only 8.3%.

In terms of net selling space growth, Pyaterochka increased by 668.4 th. sq. m. in 2015, with 1,476 new stores. This represents a record volume not only for X5, but for any Russian retail chain ever. Perekrestok and Karusel also continued their expansion, with 75 and 8 new stores, respectively, delivering 68.2 th. sq. m. and 31.5 th. sq. m. of net new selling space, respectively.

Renewal of value propositions: Each of X5's major formats targets different segments of the Russian population, and each has worked hard to adapt its value proposition to a changing and challenging operating environment. We have also worked to enable our stores to capture maximum share of wallet and market share by adapting to the current state of the market and customer demands.

Our ability to understand consumers' needs and adapt quickly to emerging trends has been helped significantly by the implementation of enterprise-wide IT systems that enable us to analyse and gain deeper insight into purchasing trends in order to better understand the shopping mission of our customers.

Intelligent growth: With relatively low penetration of modern retail formats, we must be successful at delivering on organic growth in order to achieve the goals. To this end, the development teams within all formats have gained considerable expertise and are now among the best in the sector when it comes to finding optimum locations, opening stores quickly and carrying out refurbishment while keeping store closures to a minimum.

We use advanced analytics to select new store locations, and X5 has built strong in-house capabilities for land acquisition and construction. This helps us to make quick decisions, control costs and open new stores on time. While our focus is on organic growth, X5 also possesses strong internal capabilities in M&A, helping kick-start our entry into new regions or shoring up a format's market position in an existing location.

Excellence in operational execution: We have managed to grow our business in a sustainable way thanks to a focus on operational excellence and efficiency. For example, we are one of the world's largest SAP users in the retail industry, leveraging our innovative IT platform to analyse datasets covering billions of purchases in real time. Our central finance team plays an important role in tracking and benchmarking relevant key performance indicators across our banners and against external competitors, while also improving forecasting.

We have also significantly enhanced our own logistics and transport operations, with a focus on distribution centre efficiency and a significant increase in the fleet of trucks that we own and operate ourselves.

Strong leadership team: One of the keys to our success is building and maintaining the right team of professionals to lead each of the retail formats, and to operate the X5 corporate centre. As I take over as CEO, I am confident that X5 will continue racing forward thanks to the top-quality people running this business with me. I spent several months working closely with Stephan as he transitioned to his new role as Chairman of the Supervisory Board, and have been truly impressed by the calibre of the people in this organisation.

Operating environment

We have delivered strong growth despite a significant downturn in most key economic indicators for Russia. This challenging operating environment will persist throughout 2016 and into 2017.

Prices for locally produced products will continue to increase, while real wage growth continues to slow or even decline. This is leading to a reduction in food expenditure as a percentage of customers' budgets, and it is affecting behaviour in various ways: customers are spending less per visit, hunting for the best prices, trading down and delaying major purchases.

This presents a challenge not only for X5, but the retail industry as a whole; however, it is one for which we are prepared. Our multi-format operating model allows us to reach a wider group of Russian consumers, while our focus on providing the optimal value proposition has enabled us to continue to meet customers' changing needs within each segment.

We are committed to providing our customers with a reliable supply of high-quality products at appropriate prices, and this has become increasingly critical to our success, especially for the more affected segments of the population. To this end, we are creating value for the customer by increasing our promotional offers and developing wider ranges of first price products. To help those affected most, we have initiated special offers on socially important products for senior citizens in addition to the regular discounts that they already enjoy.

Longer-term, we remain confident about the Russian market's potential for growth, as the top players take market share from traditional trade formats and consolidate smaller regional players.

Outlook

Despite a challenging environment, we outperformed the market with our results in 2015, growing faster than the retail market average and the top-10 average while maintaining profitability margins at target levels. In fact, in the fourth quarter of the year we were the No 1 company among publicly traded retailers in Russia in terms of net retail sales growth. And looking ahead, we are in an excellent position to continue this performance throughout 2016.

We view the current market conditions as a time of opportunity, and going forward we aim to take advantage of these opportunities to enhance our strategic growth. We have reached key milestones in the business transformation, but we have no intent to rest on our laurels or settle for the current pace of growth. Our strategic focus areas include refining our operating model, efficiency measures and value propositions, while continuing to lead the Russian retail market's transition to modern retail.

One of my key strategic priorities going forward is to enhance the X5 corporate centre — not only to improve its efficiency in managing our banner brands, but by increasing its capacity and competencies to take advantage of opportunities that will arise in the current environment.

We have made key upgrades to our IT infrastructure and continue to implement modern IT solutions across our whole retail infrastructure. This gives us significant efficiency gains as well as insights into consumer behaviour. We will continue to build out our logistics and transportation operations, where we also see significant potential for further savings and efficiency gains.

As we grow and adapt for our customers, we aim to build value for all our stakeholders — providing consumers with the best value proposition, suppliers with the opportunity to sell through our large and growing chains and shareholders with the opportunity to participate in the sustainable growth of X5's business.

I would once again like to thank our customers, who are central to our success, as well as our suppliers, shareholders and the Supervisory Board for the support we received during the year.

I also want to thank the excellent management team, and all of the employees of the X5 Retail Group, for their hard work and dedication. Our people are the present and the future of X5, and I look forward to working with them as the CEO as we continue to build this Company into Russia's No 1 food retailer.

Igor Shekhterman
Chief Executive Officer

STRATEGIC REVIEW

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PROGRESS AGAINST OUR STRATEGY

X5 Retail Group delivered on all of its strategic priorities in 2015, setting each of the formats on a path to accelerate growth. We adapted quickly to the new economic conditions, and have met changing customer demand by fine-tuning our value propositions while adopting innovative solutions that enable us to continuously find ways to be more efficient and agile.

Anton Mironenkov
/ Director of Strategy

"Our objective is to maximise our share of the Russian food retail market. We aim to leverage our scale and multi-format value proposition to capture greater wallet share by providing the best customer experiences in the dynamic Russian food retail market."

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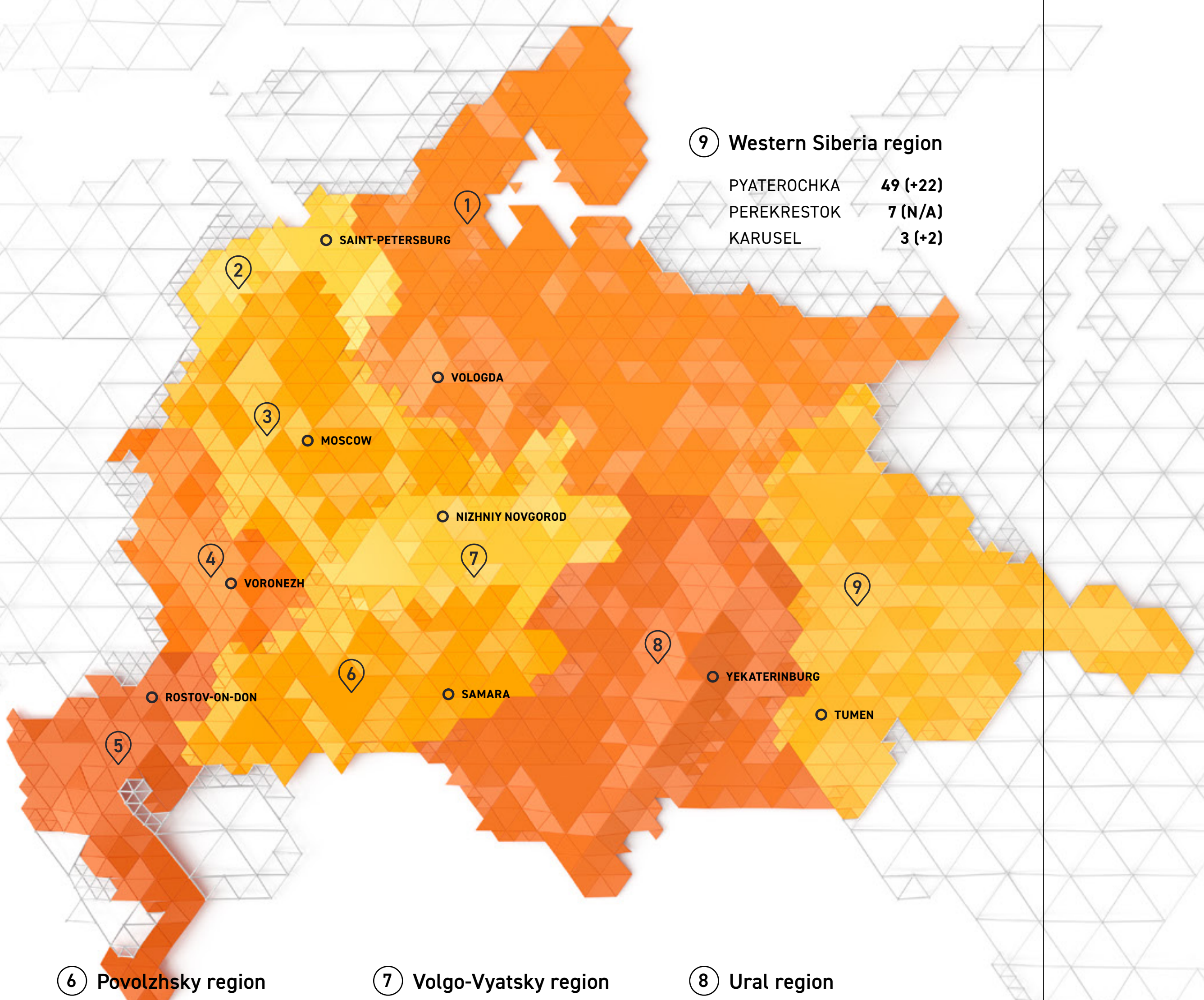
	STRATEGIC GOALS	WHAT WE DID IN 2015	OUR GOALS FOR THE NEXT 3–4 YEARS
MULTI-FORMAT OPERATING MODEL	• Act as a hub of customer value propositions / retail chains • Build a platform that enables management of a portfolio of retail chains • Target the largest and most profitable segments of the Russian grocery retail market • Retail chains can compete with each other if they serve different shopping missions and meet different customer tastes	• Continued separation of functions between the corporate centre and trading formats • Elimination of duplicating functions • Adapting value proposition to meet the current market environment and customer needs	› Doubling business in 3–4 years › Delivering strong top-line growth while maintaining profitability › Focusing on organic expansion of selling space on the back of current market opportunity › Developing a sustainable path increasing margins › Improving relationships with suppliers › Supporting a self-regulation strategy for Russian retail › Cutting losses
CONSTANT ADAPTATION OF VALUE PROPOSITIONS	• Distinct value propositions for each format • Capture maximum market share • Adapt to the current state of the market and customer demands, which will continue to evolve • Executed holistically from comprehensive category reviews of assortments to store refurbishment	• Further improvements on assortments, promos and pricing • Differentiation through promos and loyalty programmes • New communication concept 'Pyaterochka is helping out' to reinforce value propositions • Implementation of new private label strategy across all formats. Split of private labels across formats • Implementation of innovative IT solutions to launch personalised promos	
INTELLIGENT GROWTH	• Focus on organic growth • Tactical regional M&A as a way of quickly reaching critical mass • Improved efficiency of refurbishments and new store openings • Partnerships	• Addition of 760.9 th. sq. m. during 2015, 80% of which was attributable to organic growth • Successful integration of acquired retail chains in Samara, Mari El, Chuvashia, Orenburg and several central regions • Increase of LFL sales of refurbished stores by ca. 20% for Pyaterochka and Perekrestok • Strategic partnerships with large networks (Rostelecom, Voyentorg, MSPK, ZhTK and others)	
EXCELLENCE IN OPERATIONAL EXECUTION	• In-store execution • Distribution centre logistics, transportation • Shelf availability	• Improved NPS across all formats • Decrease of tariffs for X5's own transport fleet by up to 60% year-on-year for some routes due to improved efficiency, decrease of fuel costs by 5% per unit on average, reduction of diversions from planned routes from 20% to 4% • Enhancing Pyaterochka's loyalty programme • Increasing efficiency of supply chains, launch of lean distribution centres programme	
STRONG LEADERSHIP TEAM	• Right mix of skills to execute even in a tough operating environment • Motivation based on long-term value creation and market leadership	• Continued assembly of a strong leadership team with substantial Russian and international expertise • An effective motivation scheme helped to achieve strong results	

DELIVERING GROWTH

25 % increase in the number of cities and towns where we are present



① **North region**

PYATEROCHKA 146 (+62)

② **North-West region**

PYATEROCHKA 635 (+54)
PEREKRESTOK 47 (+8)
KARUSEL 17 (+1)
DISTRIBUTION CENTRES 6
(IN 2015: 1 OPENED)

③ **Central region**

PYATEROCHKA 2,325 (+422)
PEREKRESTOK 288 (+52)
KARUSEL 27 (+3)
DISTRIBUTION CENTRES 12
(IN 2015: 2 OPENED, 2 CLOSED)

④ **Central-Chernozemny region**

PYATEROCHKA 415 (+133)
PEREKRESTOK 13 (+1)
KARUSEL 7 (N/A)
DISTRIBUTION CENTRES 3
(IN 2015: 1 OPENED, 1 CLOSED)

⑤ **North-Caucasus region**

PYATEROCHKA 457 (+153)
PEREKRESTOK 24 (+3)
KARUSEL 2 (+1)
DISTRIBUTION CENTRES 2

⑥ **Povolzhsky region**

PYATEROCHKA 768 (+148)
PEREKRESTOK 44 (+4)
KARUSEL 14 (N/A)
DISTRIBUTION CENTRES 4
(IN 2015: 1 OPENED)

⑦ **Volgo-Vyatsky region**

PYATEROCHKA 467 (+104)
PEREKRESTOK 32 (+4)
KARUSEL 9 (N/A)
DISTRIBUTION CENTRES 2

⑧ **Ural region**

PYATEROCHKA 1,003 (+358)
PEREKRESTOK 23 (+7)
KARUSEL 11 (+1)
DISTRIBUTION CENTRES 6
(IN 2015: 1 OPENED, 1 CLOSED)

⑨ **Western Siberia region**

PYATEROCHKA 49 (+22)
PEREKRESTOK 7 (N/A)
KARUSEL 3 (+2)

Multi-format presence in 9 regions

Total stores

7,020

6,265 Pyaterochkas
478 Perekrestoks
90 Karusels
187 Express

53.7	3	CENTRAL
15.2	2	NORTH-WEST
8.0	6	POVOLZHSKY
7.7	8	URAL
5.7	7	VOLGO-VYATSKY
4.6	4	CENTRAL-CHERNOZEMNY
3.6	5	NORTH-CAUCASUS
1.0	1	NORTH
0.6	9	WESTERN SIBERIAN

With a focus on organic growth, we have a clear approach to securing fast, sustainable expansion as we contribute to modernising Russia's food retail market:

- Defend and expand core 'home' regions
- Expand in other regions and build critical mass, including with the help of tactical M&A with clear selection criteria & fast integration
- Target new regions over time
- Synchronised/coordinated store and DC expansion/transportation
- Develop a store-opening pipeline & land bank

A platform for sustainable growth[1]

REGIONS	NUMBER OF STORES				
	2011	2012	2013	2014	2015
Central	1,443	1,770	2,062	2,352	2,827
North-West	478	530	585	636	699
Central and North-West economic regions	**1,921**	**2,300**	**2,647**	**2,988**	**3,526**
Ural	254	391	509	671	1,037
Povolzhsky	280	371	470	678	826
Volgo-Vyatsky	221	276	326	400	508
Central-Chernozemny	162	209	252	301	435
North-Caucasus	140	198	243	326	483
North	11	32	59	84	146
Western Siberia	3	13	26	35	59
Ukraine	10	12	12	0	0
Total	**3,002**	**3,802**	**4,544**	**5,483**	**7,020**

[1] The regions are defined according to the economic classification of Russian regions promulgated by the Ministry of Economy. This classification differs from previously reported information regarding the regional breakdown of our store base, which was based on internal definitions of regions and which changed in 2013 for some brands. The regional breakdown of stores and sales reported in the 'Our brands' section are based on the new internal definitions for each brand.

STRATEGIC REVIEW

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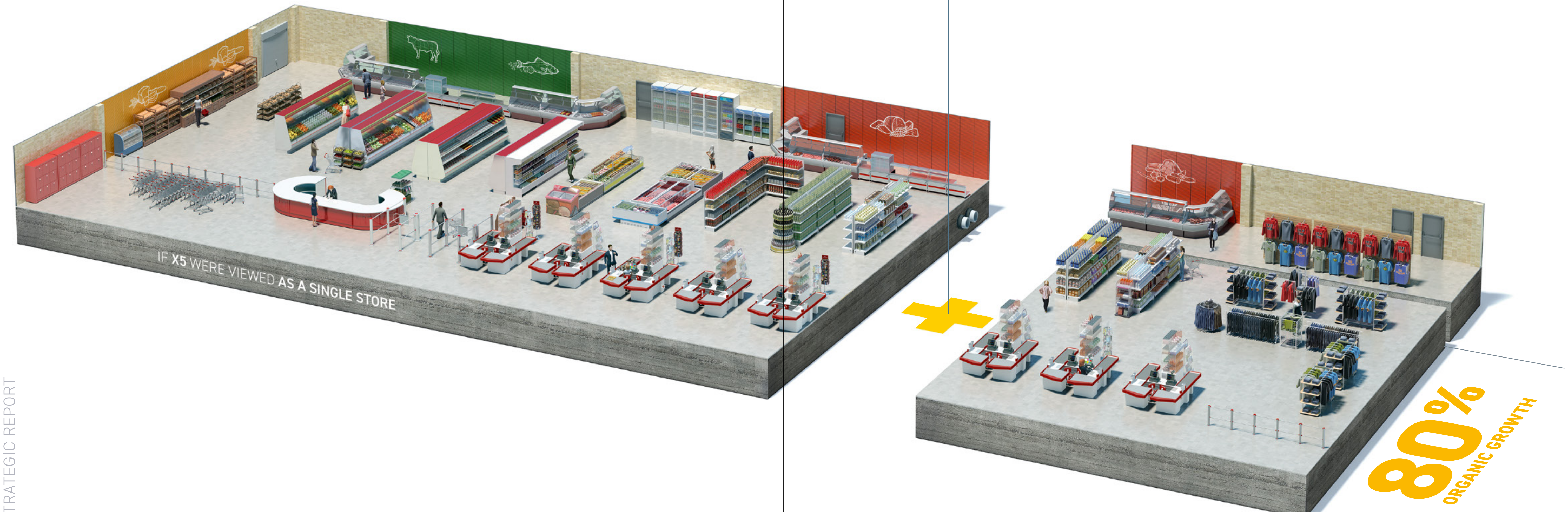
OPERATIONAL REVIEW

Net selling space increased by **29.6%** year-on-year,

with X5 adding a record

760,931 m²



As of 31 December 2015, the X5 Retail Group made up Russia's second-largest retail chain, with net retail sales of ₽ 804.1 billion from 7,020 stores with 3,333 th. m² of selling space.

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X5 Retail Group formats — snapshot as of 31 December 2015

X5 Retail Group at a glance

	Multi-format	Stores number	Distribution centers	Trucks	Employees	Customer visits / mln
Pyaterochka	Proximity / soft discounter	6,265	22[1]	1,561	102,034	1,990.0
Perekrestok	Supermarket	478	11		24,441[2]	304.0
Karusel	Hypermarket (compact)	90			12,198	128.6
	Other	187	2		8,825[3]	45.5

[1] Including six DCs serving Pyaterochka, Perekrestok and Karusel stores
[2] Including 1,735 employees from logistic department serving both Perekrestok and Karusel
[3] Including personnel of transport department, real estate, Perekrestok Express stores, X5 corporate centre

Source: X5 data

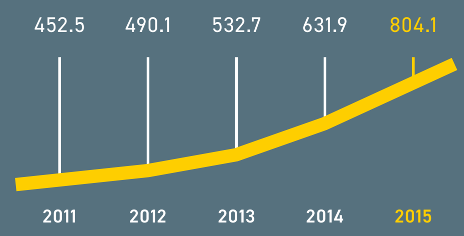
In line with our strategic priority of intelligent growth, X5 added 760.9 th. sq. m. of selling space in 2015, an increase of 29.6% year-on-year, and more than twice than the volume added in 2014. Approximately 80% of this increase was attributable to organic expansion. Pyaterochka was the main driver for the store base increase, accounting for ca. 88% of selling space added in 2015, with its 668.4 th. sq. m. expansion representing the largest addition of new space in one year by any Russian food retail chain ever.

Growth in selling space, combined with continued adjustments to the value propositions for customers in each of the formats, helped to make 2015 X5's best year since 2011 in terms of retail sales growth, and the best ever year for organic growth: at RUB 804.1 billion, 2015 net retail sales increased by 27.3% year-on-year, with like-for-like sales up to 13.7%.

Under the refurbishment programme to upgrade existing stores, 1,411 Pyaterochka stores were refurbished in 2015, bringing the total share of rebranded stores to more than 70% as of 31 December 2015. In the Perekrestok chain, 51 stores were refurbished, bringing the total share of rebranded stores to more than 25% as of 31 December 2015. Five Karusel stores were refurbished in 2015.

Net retail sales dynamics, bn ₽

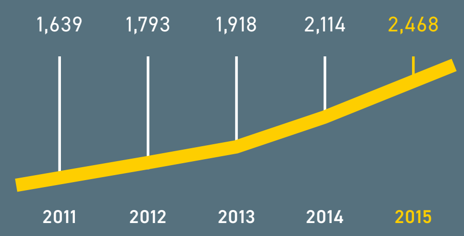
CAGR 2011–2015: 15.5%
CAGR 2013–2015: 22.9%



Growth in net retail sales was the best since 2011, driven by a 13.7% increase in like-for-like sales, and 29.6% expansion in selling space

Customer visits, mln

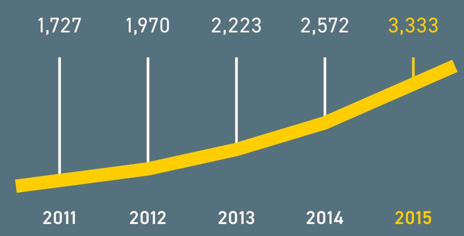
CAGR 2011–2015: 10.8%
CAGR 2013–2015: 13.4%



We had nearly 2.5 billion customer visits in 2015, up from 2.1 billion a year earlier

Selling space, th. m^2

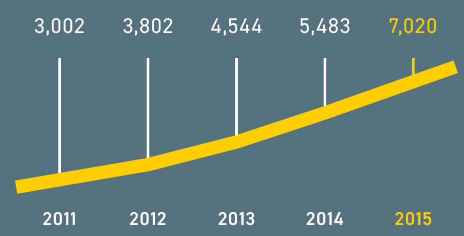
CAGR 2011–2015: 17.9%
CAGR 2013–2015: 22.5%



Selling space expansion, around 80% of which was organic, set an all-time record for X5 and the entire Russian food retail market

Number of stores, end of period

CAGR 2011–2015: 23.7%
CAGR 2013–2015: 24.3%



Pyaterochka accounted for the majority of new store openings in 2015, with 1,476 added during the year

Source: X5 data

EXECUTIVE COMMITTEE

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STRONG LEADERSHIP TEAM WITH SUBSTANTIAL RUSSIAN & INTERNATIONAL EXPERIENCE

OLGA KRUZHKOVA
Organisational Development Director

OLGA NAUMOVA
General Director of Pyaterochka

VLADIMIR SOROKIN
General Director of Perekrestok

ELENA MILINOVA
X5 Chief Financial Officer

IGOR SHEKHTERMAN
X5 Chief Executive Officer, Chairman and Member of the Management Board

ANTON MIRONENKOV
Director of Strategy

VLADLENA YAVORSKAYA
General Counsel

DMITRY KHOLKIN
Chief Information Officer

DMITRY AGUREEV
Head of Corporate Security

ELENA KONNOVA
Corporate Communication Director

FRANK LHOËST
Company Secretary, Member of the Management Board

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THE EXECUTIVE COMMITTEE

Igor Shekhterman

X5 Chief Executive Officer, Chairman
and Member of the Management Board

Igor has served on X5's Supervisory Board since 2013. He has been Managing Partner and CEO at RosExpert, which he co-founded in 1996 and subsequently successfully developed into the Russian alliance partner of Korn Ferry International. Igor started his career as finance manager at the Russian branch of Beoluna, the Japanese jewellry producer. Igor holds a degree in Economics from the Kaliningrad Technical Institute (1992), and degrees in Business Administration from the Institute d'Administration des Enterprises (France, 1994) and the Danish Management School (1995).

Elena Milinova

X5 Chief Financial Officer

Elena joined X5 in October 2014. She has ca. 14 years of experience in financial management in leading Russian industrial companies and in international professional services. Elena served as CFO, Deputy CEO and Management Board Member for KAMAZ, a Russian automotive manufacturer, from 2011 to 2014. From 2008 to 2011 she served as Government Relations Director and Corporate Finance Director for KAMAZ. Prior to that, Elena held the positions of CFO at Geotransgaz, as well as Head of Reporting and Investor Relations with Sollers ST, a Russian automotive manufacturer. Elena started her professional career with PricewaterhouseCoopers in Russia. She graduated from the Togliatti Academy of Management with a degree in Finance and Credit.

Olga Naumova

General Director of Pyaterochka

Olga joined X5 in May 2013. She has over 20 years of managerial experience at the senior executive level with leading Russian and international companies, including Rimera, Severstal and IBS. During this time Olga has effectively managed very large teams in both Russian and international environments and has a track record of success in business integration and restructuring. Olga graduated from the Faculty of Social Sciences at Moscow State University in 1994.

Vladimir Sorokin

General Director of Perekrestok

Vladimir joined X5 in January 2013 as Deputy Purchasing Director and, in June 2013 he became the Director of Category Management for Pyaterochka. Vladimir has approximately 20 years of experience in the retail, FMCG and insurance industries and has held senior management positions at Alfa Insurance, SunInterbrew and Gillette, where he has successfully led both strategy development and business transformation projects. Vladimir attended the St. Petersburg Institute of Economics and Trade, where he specialised in food production technology, and the National Research University Higher School of Economics, where his specialization was finance and credit.

Anton Mironenkov

Director of Strategy

Anton joined X5 as Deputy Director of the M&A Department in September 2006. In March 2011, he was appointed Director for M&A and Business Development and in 2012 became the Director for Strategy and Business Development. From 2005 to 2006, Anton managed various projects at Alfa Group, including the merger of Pyaterochka and Perekrestok. He began his business career in 2000 as an auditor at PricewaterhouseCoopers, and subsequently spent four years as an investment banker at Troika Dialog before becoming Vice President at Troika Dialog Asset Management in 2005. Anton graduated with honours from Moscow State University in 2000 with a degree in Economics.

Olga Kruzhkova

Organisational Development Director

Olga joined the X5 team in October 2015. She has a strong track record in implementing organisational change, improving governance, developing internal communications and managing HR projects. Before joining X5, Olga was a directorate head in the Organisational Development Department at Rosatom. In 2006–2008, she ran a project management office at UC RUSAL. In 2005–2009, Olga was a senior partner and deputy CEO at AXES Management. In 1999–2005, she held various positions at ECOPSY Consulting, starting from associate and working her way up to Head of the Executive Coaching Practice. Olga graduated from Moscow State University with a degree in Psychology.

Dmitry Kholkin

Chief Information Officer

Dmitry joined X5 in April 2011 and was promoted to Chief Information Officer in January 2015. He has over 10 years of management experience in IT and Finance. At X5, Dmitry has held director-level positions in charge of financial systems, IT operations and business support. Prior to joining X5, Dmitry held the position of Regional Finance Manager for Wrigley. Dmitry graduated in 2001 from the State University of Management in Moscow with a degree in Information Technology.

Vladlena Yavorskaya

General Counsel

Vladlena joined X5 in July 2013. She has over 30 years of legal experience in both Russian and multinational enterprises. Prior to joining X5, Vladlena was the Director of the Legal Department at Rolf, a leading automotive retail business in Russia. From 2001 to 2006, she was the Director of the Legal Department at Wrigley, where she was responsible for Eastern Europe and the Middle East. Vladlena graduated from the Law Faculty at Moscow State University.

Elena Konnova

Corporate Communication Director

Elena joined X5 in January 2015. She has 15 years of experience handling public relations at some of Russia's largest companies. Before joining X5, Elena worked for Volga Group, Gazprom Neft, NIS (Naftna Industrija Srbije) and the Ilim Group (a Russian pulp and paper holding). Prior to that, Elena spent over a decade working as a journalist for the Russian business press, including at Kommersant and Expert. Elena graduated from St. Petersburg State University with a degree in Sociology and Economics.

Dmitry Agureev

Head of Corporate Security

Dmitriy has approximately 23 years of experience working in government and corporate security, including at leading Russian and international companies. He started his career in the Intelligence Service of the Russian Federation. Prior to joining X5, he was the Security Director for the Volvo Group Russia, Ukraine and Belarus and also held security positions at Gazprom and Transneft. Mr. Agureev holds degrees from the Moscow Suvorov Military School, the Serpukhov Military Command-Engineering College of Nuclear-Missile Forces and Russian Academy of the Intelligence Service, as well as Volvo MBA.

Frank Lhoëst

Company Secretary,
Member of the Management Board

Frank joined X5 in November 2007. Previously he held several positions at Intertrust Group, from account manager in the Netherlands Antilles to founder and Director of the Intertrust office in Vienna, Austria. In 2002, Frank established the Intellectual Property Group of Intertrust in the Netherlands. Frank graduated from Leiden University with a degree in Law.

OUR BRANDS

PYATEROCHKA PROXIMITY STORES

Pyaterochka is a key growth engine for X5 thanks to its customer value proposition, which has already proved its efficiency and is especially sustainable in crisis

Net retail sales increase / y-o-y

34.3%

Selling space increase / y-o-y

38.1%

Пятёрочка

1 /7

PYATEROCHKA: FULL SPEED AHEAD!

Pyaterochka is our conveniently located proximity store, situated primarily in residential areas and close to shoppers' homes, where customers can always find quality goods at reasonable prices. It is also one of Russia's leading national brands and one of the first modern grocery retail chains to open in Russia. Originally launched in St. Petersburg in 1999, the brand had 6,265 stores across European Russia and Western Siberia as of 31 December 2015.

/ Pyaterochka stores are focused on **easy and economical shopping**

/ The brand offers quality fresh products and a non-food assortment supported by attractive promotions

/ Stores have an average range of 4,000 PLUs, and an average size of approximately 387 sq. m.

Olga Naumova

/ GENERAL DIRECTOR OF PYATEROCHKA

"Pyaterochka delivered on all strategic fronts in 2015: we set a new record for Russia's food retail market with 668.4 th. sq. m. of new selling space added during the year, while like-for-like sales grew 16.7% year-on-year. We had nearly two billion customer visits in 2015, an increase of 21.0% from a year earlier. This achievement was thanks to our focus on intelligent growth and successful efforts to adapt Pyaterochka's value proposition to meet the needs of Russian consumers."

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2015 highlights

+668 th. m² — Selling space added

2.0 bn — Customer visits

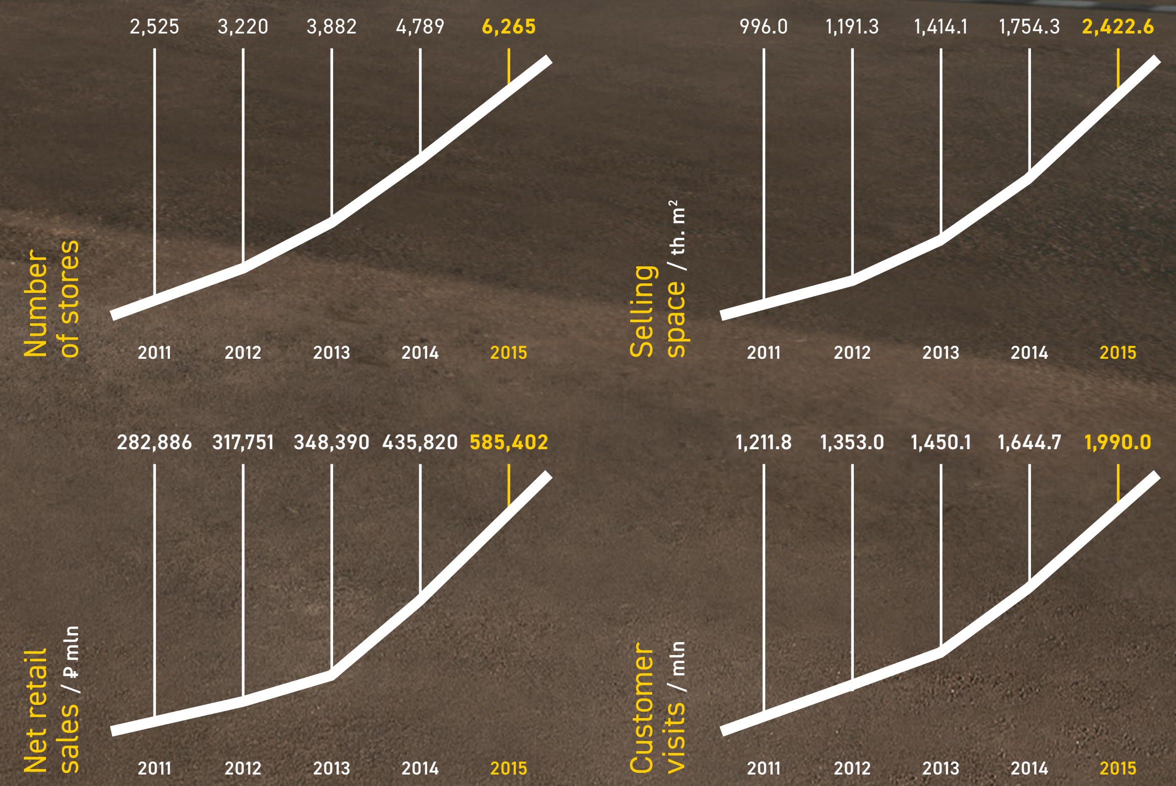
585 ₽ bn — Net retail sales

+1,476 — Net stores added

1,411 — Refurbished stores

25 % y-o-y — Increase in cities and towns of operation

Pyaterochka at a glance



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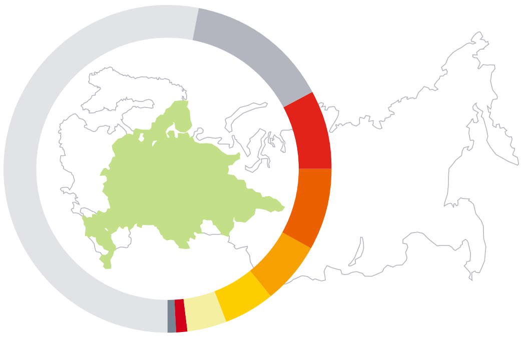
PYATEROCHKA NET RETAIL SALES

BY REGION IN 2015



51 %	CENTRAL
15 %	NORTH-WEST
9 %	URAL
8 %	POVOLZHSKY
6 %	VOLGO-VYATSKY
5 %	CENTRAL-CHERNOZEMNY
4 %	NORTH-CAUCASUS
1 %	NORTH
0.4 %	WESTERN SIBERIAN

In accordance with the classification of economic regions in Russia

In 2015, Pyaterochka stores reported net retail sales of ₽ 585,402 million, representing a year-on-year increase of 34.3%. This was the fastest rate of growth among Russia's top-10 food retailers, and accounted for 72.8% of X5's total 2015 net retail sales.

Pyaterochka is meeting the needs of Russian consumers and growing at a record-setting pace by delivering on all of its strategic priorities.

Strategic priorities for 2015

OUR PRIORITIES	WHAT WE DID
INCREASE SELLING SPACE	• 6,265 stores as of 31 December 2015, up 30.8% year-on-year • 2,423 th. sq. m. of selling space, up 38.1% year-on-year
INDUSTRIALISE REFURBISHMENT PROGRAMME	• 1,411 stores refurbished in 2015, vs. 460 in 2014
IMPROVE SALES DENSITIES	• Further improvements on assortment, promos & pricing • Differentiation through promos and loyalty programmes • Increased the average number of PLUs to 4,000 with a maximum of 5,300 PLUs in larger stores
IMPROVE PURCHASING TERMS	• Negotiating improved terms if margin from supplier is below a category average • Requiring suppliers to increase investments in promotions (more frequent promotions without sacrificing margin)
INCREASE SG&A AND CAPITAL EFFICIENCY	• Promo optimisation, better aged stock management, launch of network optimisation and Lean DC programmes
IMPROVE EMPLOYEE MOTIVATION AND DEVELOPMENT OF CORPORATE CULTURE	• New remuneration system • Flexible schedules, biometry • Team-building and increased employee engagements
IMPROVE CUSTOMER SERVICE SYSTEMS (FEEDBACK, PERCEPTION)	• 'Mystery Shoppers', 'Freshness Director' in the stores • New communications concept 'Pyaterochka is helping out' • Continue to develop partnerships that provide synergetic value to customers and drive additional traffic to stores

PRIORITIES GOING FORWARD

Pyaterochka is X5's key growth engine thanks to its customer value proposition, which is especially sustainable in crisis. Going forward, the format will continue to focus on its key strategic priorities:

- Maintaining a maximum growth rate, with a focus on organic growth; entry and development in new regions with full coverage of all location types, as well as defending core regions where customers already prefer our value proposition; sustaining the speed of new store openings
- Preserving current value propositions with selective improvements in perceived quality and freshness
- Differentiation through promos (to be personalised in future) and loyalty programmes

Rapid & intelligent expansion

We added 1,476 net new Pyaterochka stores, or 668 th. sq. m. of net selling space in 2015, the largest increase in the format's history and in the history of Russia's food retail market. During the year we celebrated a number of landmark openings, including the 5,000th and the 6,000th Pyaterochka stores.

To help us identify the best possible locations for stores, we use advanced geographic information system (GIS) software that provides data on a locality's population, competition, social infrastructure, local market share, personal income and transport accessibility. This both simplifies and speeds our decision-making process, and has helped us to achieve our target of rapid, intelligent growth.

We are also focusing on strategic partnerships to help us reach our target demographic in cooperation with other Russian organisations with large nationwide networks. Under recently-launched programmes with MSPK and Voyentorg, for example, we opened 50 co-branded partnership stores in 2015. We have a similar agreement in place with Russian Railways to launch co-branded stores with ZhTK in coming years.

Refurbishment on track

We continued with our store refurbishment programme that was launched in 2013 to update store facades and equipment, improve in-store navigation and lighting and optimise trade areas. Our refurbishment programme is designed to help increase sales at existing stores, with minimum interruption to its operations and a quick payback period. This programme has been highly successful at: faster ramp-up as compared to new selling space, increase of LFL sales driven by both traffic and basket, return of mass market customers, Pyaterochka brand recognition.

In 2015, we refurbished 1,411 Pyaterochka stores, and the share of stores operating under the new format (including new stores) reached 70% by year end. Refurbished stores saw average LFL sales grow by ca. 20% in 2015.

With an average capital expenditure of RUB 11.4 million (excluding VAT), the refurbishment resulted in an average net selling space increase of 20.4%, with an average store closure of 16 days. The average payback period for this work is around 23 months.

5 /7

Value proposition & customer satisfaction

We fine-tuned our value proposition in 2015 in response to the challenging economic situation that many of our target customers now face, helping to ensure that our customers would get what they are looking for at their local Pyaterochka stores. This has been embodied in the 'Pyaterochka is helping out' concept, as well as the further development of private-label products. The rebranded 'Red Price' private-label series has been available exclusively at Pyaterochka stores since Q2 2015, and it now reflects the store's brand identity.

We have also made changes to our packaging and presentation: in many cases, we reviewed the entire product range and manufacturers, as well as the system we use to choose these goods and to control their quality. In some instances, we changed the size of packaging so that it would better suit customer needs: customers now prefer to buy in small amounts but frequently, rather than in big amounts but seldom.

We respond to our customers' needs promptly, and this has been reflected in Pyaterochka's Net Promoter Score (NPS). Combined with renovations and a focus on quality service, Pyaterochka succeeded in steadily increasing its NPS from 10.8 in Q4 2014 to 18.9 in Q4 2015.

As part of our focus on adapting our value proposition to customers' needs, we are developing partnerships in the high-value segments of additional services, which also include mobile phone stores, repairs and everyday service kiosks, children's stores, bakers, farmers' markets and more. Such partnerships help to drive traffic by creating synergetic value offerings to our customers.

The main purpose of sublease agreements is to create a comprehensive product and service offering tailored to customers' needs at each location. In line with this initiative, Pyaterochka is working to build a strong pool of major partners that provide specialised services or goods of the highest quality. Pyaterochka has successfully implemented similar cooperation agreements with the Planeta Zdorovya pharmacy chain and other partners offering highvalue additional services, including Rospechat, Tele2, Euroset and other companies and regional chains.

VALUE PROPOSITION

PRICE
Store with low prices near home

PROMOS AND REBATES
Most attractive promos and discounts

QUALITY AND FRESHNESS
Always fresh and good quality products

PRODUCT RANGE
You can always fulfill your daily needs here and also find something new

LOCATION
Always nearby in any situation

SHOPPING CONVENIENCE
Most natural and convenient shopping option for my family

SERVICE
A store with good day-to-day service level

CONSUMER BEHAVIOR IN CRISIS

LOOKING FOR STORES WITH LOWER PRICES:
every 4th buyer increased their purchases in discounters and convenience stores

CHOOSE CHEAPER LABELS ACROSS ALL PRODUCT CATEGORIES

REDUCE CONSUMPTION OF NON-ESSENTIAL CATEGORIES
(alcohol, beverages, snacks, candy)

PROACTIVELY SEEK PROMO AND COMPARE PRICES
Prefer price discounts over all other types of promo

RARELY MAKE SUBSTANTIAL CUPBOARD PURCHASES

Supply chain efficiency

At year end in 2015, Pyaterochka had 22 distribution centres in operation. In the course of 2016, we plan to focus on streamlining operations by opening up to seven new distribution centres while closing down those that do not meet our strict efficiency requirements.

In order to provide Pyaterochka stores with the necessary support to be successful in an increasingly competitive market, and in recognition of the distinct needs of proximity stores compared to larger supermarket and hypermarkets, we have established a dedicated supply chain function for this format.

The dedicated logistics system for Pyaterochka includes construction of new distribution centres using the 'Lean DC' model. Our pilot project is already operating in Vorsino, and based on our know-how and expertise, we will implement an additional pilot project in Samara. We aim to roll out these best-practice technologies across all our DCs in 2016–2017. This includes full optimisation of the existing network, while new DCs opened after 2016 will be fully compliant with the 'Lean DC' system using our guidelines for details like layout, management, transportation and property management (including entry, exit and optimal management of fleet within the structure).

Better service

Our focus on service quality has produced positive results. In 2015, we rolled out initiatives like 'Mystery Shopper' and 'Freshness Director' in our stores, which have helped to identify problem areas and establish clear responsibility for the quality of Pyaterochka's fresh selection. We also introduced a new communications concept to improve our operations: we changed the communications concept from 'Surprise', which was launched in 2013, to 'Pyaterochka is helping out'—a concept that is more in tune with current consumer moods.

Improved sales densities

Pyaterochka is continuously working on its PLU range with the aim of improving shelves in terms of sales density. In 2015, we increased the average number of PLUs in Pyaterochka's assortment, bringing the average to approximately 4,000 PLUs, including the weekly rotation of new products primarily in the fresh category. We are also focused on improving promo planning and operations, which is especially important for consumers in the current challenging environment.

We also continued to add more local goods to our assortment: in 2015, the number of locally produced items increased by 15%, while turnover of local goods increased by 45%.

PLUs per store up to

5,300

7 / 7

TURBOLIADA 2015





Employee motivation and loyalty

The ability to hire and retain high-quality staff is one of the most important aspects of any retail business. With 102,034 employees as of 31 December 2015, we view this as one of the keys to the success of Pyaterochka's continued rapid expansion. We offer competitive wages, with a focus on increasing employees' bonuses to encourage good performance.

One example of how we are trying to differentiate ourselves from other employers is with events like Turboliada: we held the first Turboliada in 2015 across all of Pyaterochka's divisions and clusters. This massive-scale event was like a modern-day Great Race, with a large number of athletes involved, including both children and adults. We believe that events like these make Pyaterochka an even more interesting and attractive employer, which contributes to better performance, increases motivation and helps support our drive for leadership.

We also conduct regular professional competitions aimed at rewarding employees for high quality work. During 2015, for example, we ran a 'best cashier' competition. This event involved 3,500 cashiers and tested them on their ability to answer customer inquiries, deal with difficult customers, and quickly scan items at the check-out counter. For DC employees Pyaterochka also held a competition that rewarded employees for their professional skills and ability to deal with difficult situations.

Similar to our customer value proposition, Pyaterochka has developed an employee value proposition, which aims to define what we can provide to employees to encourage them to grow and succeed as part of the Pyaterochka team.

OUR BRANDS

PEREKRESTOK SUPERMARKETS

Perekrestok has made significant progress fine-tuning its value proposition in 2015, including an updated product range, rebranding and refurbishment programme

Net retail sales increase / y-o-y

12.5%

Selling space increase / y-o-y

16.4%

1 /6

PEREKRESTOK: REFINING SERVICE AND OPERATIONS

Perekrestok was one of the first modern supermarkets to open in the Russian retail space. Launched in 1995, today it is Russia's leading national supermarket chain, with 478 stores located primarily in the largest cities of European Russia.

/ Perekrestok strives to be the customer's first choice for fresh products, supported by the right complementary assortment and pricing strategy

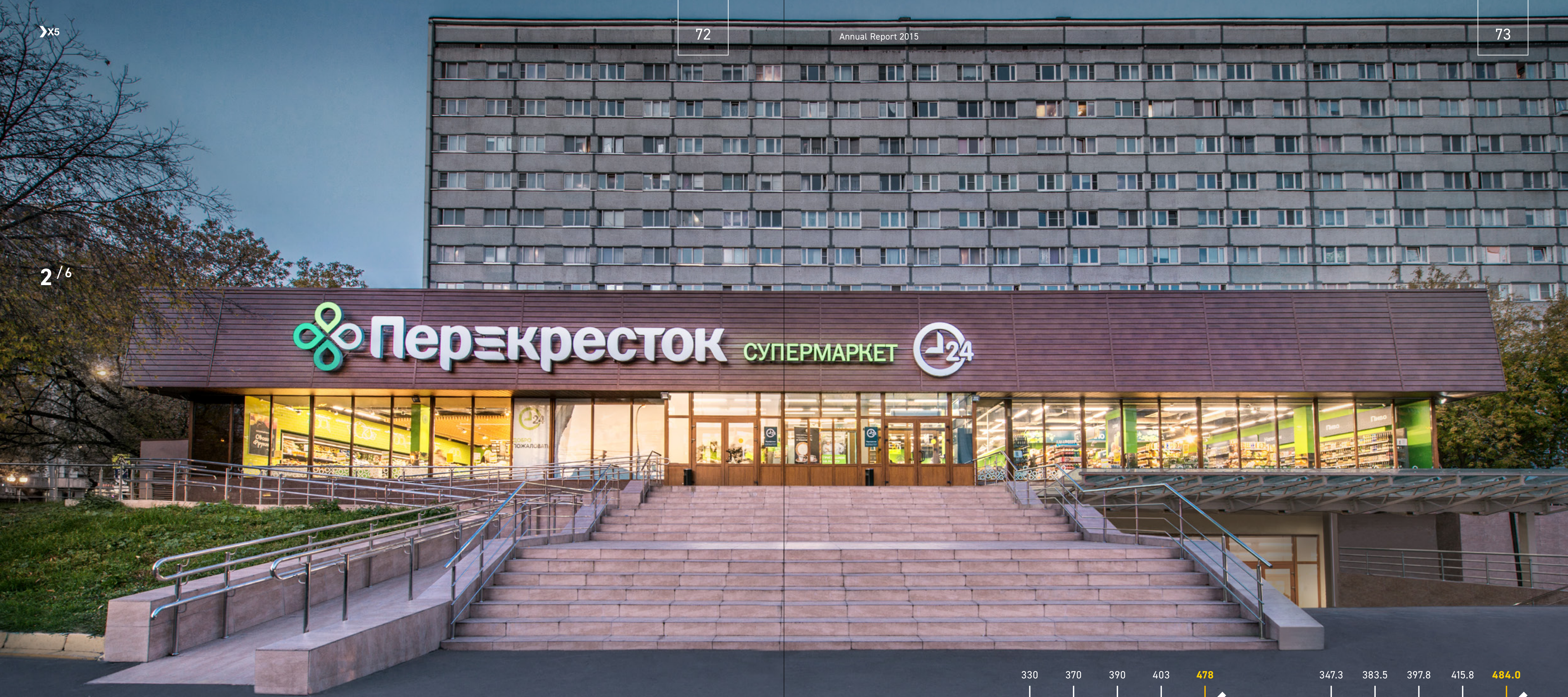
/ The stores offer an assortment of 10,000 to 15,000 PLUs, with net selling space ranging from 800 to 1,600 sq. m.

Vladimir Sorokin

/ GENERAL DIRECTOR OF PEREKRESTOK

"Perekrestok continued to develop its value proposition aimed at providing customers with an excellent shopping experience for a wide range of high-quality and fresh goods at fair prices. Service quality was one of our key areas of focus in 2015, and we made very good progress during the year, significantly improving our NPS score. We also succeeded in accelerating our decision-making and operational processes in 2015, with considerably higher numbers of store openings and renovations."

2 / 6



2015 highlights

+68 th. m²
Net selling space added

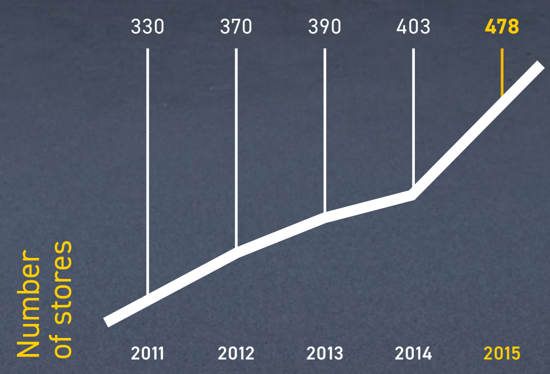
304 mln
Customer visits

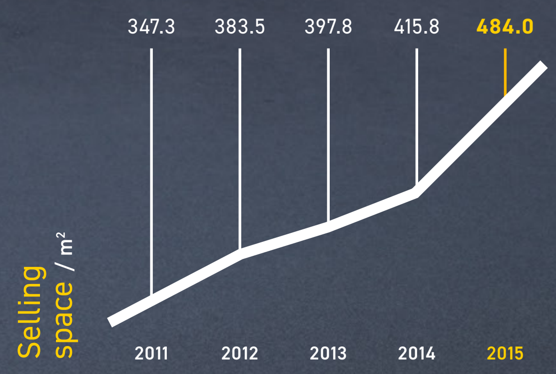
130 ₽ bn
Net retail sales

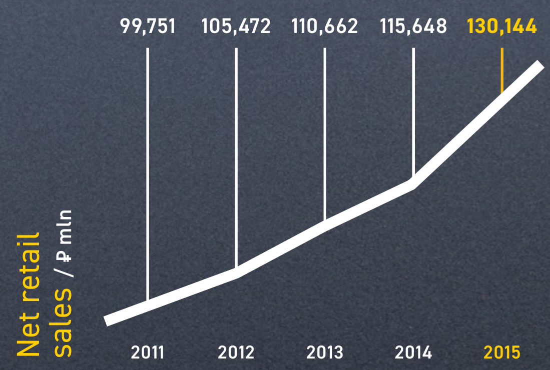
+75
Net stores added

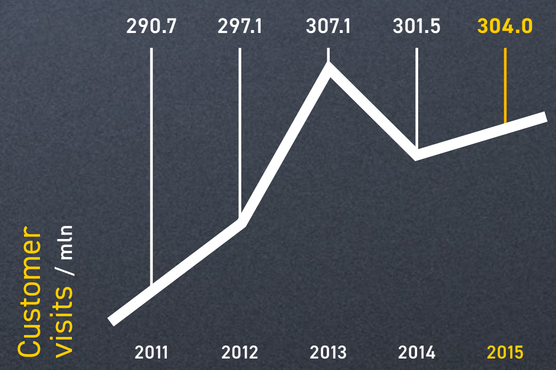
51
Refurbished Stores

Perekrestok at a glance









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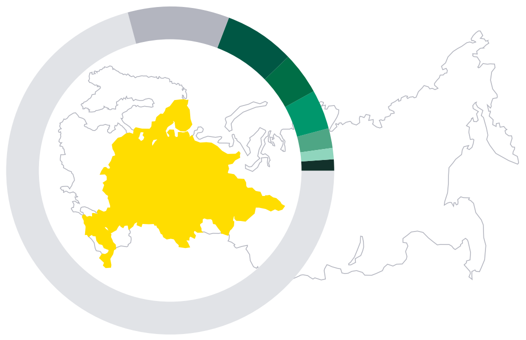
/ **PEREKRESTOK**
NET RETAIL SALES
BY REGION IN 2015



In 2015, Perekrestok stores reported net retail sales of ₽ 130,144 million, representing a year-on-year increase of 12.5%, and accounting for 16.2% of X5's total 2015 net retail sales. This marks a significant success for a supermarket chain targeting Russia's middle class in the face of the severe economic challenges the country faced last year.

> Perekrestok's success at accelerating its profitable growth is the result of strong execution on its strategy.

Strategic priorities for 2015

WHAT WE SAID	WHAT WE DID
INCREASE NUMBER OF STORES	• 75 net new stores, with 68 th. sq. m. of new selling space added
'SPEED UP' THE DECISION-MAKING PROCESS	• Majority of investment projects approved, including reconstruction, organic growth, M&A
'SPEED UP' AND 'INDUSTRIALISE' STORE OPENINGS	• 51 Perekrestok stores refurbished in 2015 vs. 27 in 2014 • Refurbishment period reduced from 50 days to 45 days
IMPROVE SALES DENSITIES	• Improvements on assortment, promos and pricing • Development of a private-label strategy based on a mono-brand label development. Replacement of X5's cross-format private-label brands with Perekrestok individual brands • Enhancing loyalty programme for customer retention
OPTIMISE SELLING SPACE	• Improved the efficiency of store layouts after refurbishment
IMPROVE SERVICE	• Higher NPS score from −27% in Q4 2014 to −2% in Q4 2015 with +5% in Moscow as a result of improved service

PRIORITIES GOING FORWARD

Perekrestok made significant progress fine-tuning its value proposition in 2015, including an updated product range, rebranding and refurbishment programme. Looking ahead, we plan to continue to accelerate growth in key target locations:

- Development in Moscow and St. Petersburg is a priority, critical mass growth in regional cities with over 1 million population
- Continue with our refurbishment programme; new store openings to preserve a foothold for future growth
- Regional model trial in 2016, with roll-out starting in 2017
- Focus on improving service and efficiency of operations

4 /6

Focus on top-line growth & accelerating store openings

We accelerated store openings in 2015, with 75 net new stores added, compared to 13 in 2014. Net selling space added was 68.2 th. sq. m. in 2015, vs. 18.0 th. sq. m. a year earlier. Developing the Perekrestok format in Moscow, the Moscow region and St. Petersburg is one of our key priorities, while we are also focused on achieving critical mass in regional cities with populations of more than 1 million.

Private-label and loyalty programmes

We introduced a new private-label strategy that will gradually replace X5's cross-format private-label brands with Perekrestok-specific brands.

We offer cross-category private labels in the low-price (Prosto) and the mid-price (Market Perekrestok) categories. We are also currently developing a high-price segment private label. Perekrestok has launched several niche private labels: Bonte (confectionary), Novy Okean (seafood) and Chef Perekrestok (cookery). In the near term, we plan to launch private labels for 'fresh from the farm' and for children's products. The share of private label products increased to 5% as of December 2015, from 1.6% in January 2015. In December 2015, we offered over 800 private-label PLUs, compared to 200 in January 2015.

The Perekrestok Club loyalty programme has also been updated: we are seeking to leverage our significant knowledge of Perekrestok's 9 million customers to ensure we offer them just the right value proposition. We have introduced customised promo programmes that automatically offer discounts to loyal customers on goods we know that they buy regularly. With this far more individual approach, our customers enjoy a club system, where each loyalty card holder feels like we are giving them individual attention.

5 /6

Value proposition & customer satisfaction

We fine-tuned our value proposition in 2015, helping to ensure that our customers get the best modern retail experience at Perekrestok stores.

Our target customers for Perekrestok know the modern retail format well, so we need to outperform our peers in areas like service, selection and quality. They expect variety as well as novelty items — but they are also rational and price-aware, meaning they need a good reason if they are to pay more for a product.

We are also opening new channels for our customers to communicate their feedback: in addition to the traditional call centre, we have opened dedicated channels on Viber and WhatsApp so that customers can reach us via these messaging platforms.

VALUE PROPOSITION

PRICE
Fair price

PROMOS AND REBATES
Shop with us: Delicious and good value

QUALITY AND FRESHNESS
Affordable high quality

PRODUCT RANGE
Variety, broad choice, novelties

LOCATION
Main store in a district

SHOPPING CONVENIENCE
Shopping in our supermarket is an exciting journey into food world

SERVICE
Quick and sincere response to customer needs, personalised approach

LOYALTY PROGRAMME
Personalised offers for me and my family

TARGET AUDIENCE

CLIENT BASE
- Everyone living within 1.5 km of the store
- Women and men (70/30), 25–55 y. o., mid/high income, married, live in big cities, rational approach to shopping

TARGET AUDIENCE (CORE)
Female, 35–45 years, married, one or two kids, medium and higher income, car owner, higher education, lives in a big city

NEEDS
- Buy everything you need in one place
- Service ensuring pleasure from shopping
- High quality
- Variety, broad choice, novelties

IMPLICATIONS
- Active modern middle class representatives
- Rational, know prices, reluctant to pay more without good reason

6 /6

Refurbishment on track

We continued with our store refurbishment programme, which was designed to introduce a completely new and more modern format for Perekrestok. The programme includes the installation of state-of-the-art equipment and an updated interior and exterior. The new concept is focused on efficient store layouts and improved lighting, resulting in more space and light in the store to offer customers a better shopping experience. This includes the zoning and the location of promotional offers.

In 2015, we refurbished 51 Perekrestok stores, bringing the total share of rebranded stores (including new stores) to more than 25% by year end.

In 2014 and 2015, refurbished stores saw average LFL sales grow by ca. 20% after a recovery period of four to six months.

With an average capital expenditure of ₽ 55.6 million, we are updating Perekrestok stores to offer the best modern retail shopping experience for Russian consumers.

Focus on efficiency

Efficiency remains one of the key areas of focus for the Perekrestok format. In terms of operations, this ranges from optimisation of retail and administrative operating expenses, review of rent terms, introducing energy-saving technologies and initiatives, reducing losses and improving inventory turnover.

We also aim to improve logistics costs by monitoring the technical condition of refrigeration units through TMS optimisation and transport monitoring.

On the supplier level, we constantly seek to improve purchasing terms in order to achieve mutually beneficial and profitable growth.

Prioritising service

Improving the quality of customer service is a key priority for Perekrestok, and we are using a number of measures to achieve this. The 'mystery shopper' programme was launched at the beginning of 2015, whereby Perekrestok's own customers were hired by an external agency to fill out detailed questionnaires about the store. The feedback from this programme has been used to identify problem areas and make adjustments to store operations — and we have seen very positive results, with Perekrestok's NPS improving from –27 at the start of the year to –2 in December 2015 (with +5 in Moscow).

OUR BRANDS

KARUSEL HYPERMARKETS

Development and testing of value proposition is at the core of Karusel's strategic agenda, as well as a focus on operations and efficiencies

Net retail sales increase / y-o-y

11.6%

Selling space increase / y-o-y

8.8%

гипермаркет КАРУСЕЛЬ

1 /6

KARUSEL: ENTERING A GROWTH PHASE

Karusel is our national hypermarket brand and one of the largest hypermarket chains currently operating in the Russian market. X5 had been developing hypermarkets under the Perekrestok brand until the acquisition of Karusel in 2008, which significantly strengthened our position in this attractive and growing segment.

/ Karusel hypermarkets offer customers convenient one-stop shopping at fair prices in city locations with a wide range of quality food and non-food products. The format is focused on expanding its product offer to improve the shopping experience across Karusel's diverse customer base supported by weekly catalogues and an exciting loyalty programme

/ As of 31 December 2015, the chain included 90 hypermarkets located in European Russia and the Urals

/ The stores offer a range of up to 20,000 PLUs

Emin Rustamov

/ INTERIM GENERAL DIRECTOR OF KARUSEL

"Karusel hypermarkets give consumers everything they need for their weekly shopping in one place. In 2015, we saw an increase in LFL traffic and total sales, as well as a 10 % year-on-year increase in sales densities. Karusel is on course for profitable growth going forward: we launched a new operating model pilot at three stores and achieved very positive results, and will be rolling this out in 2016 and beyond."

2 / 6

2015 highlights

+ **32** th. m²
Net selling space added

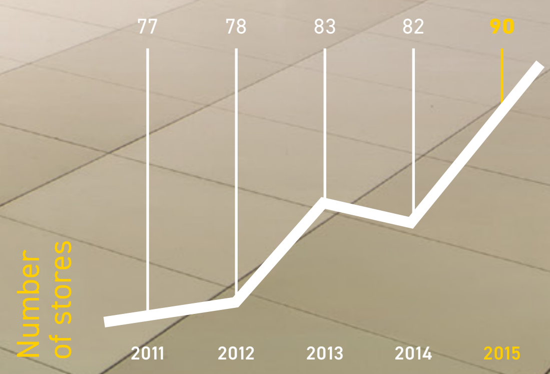
129 mln
Customer visits

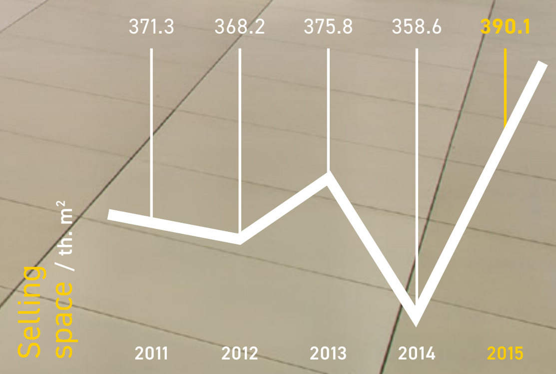
77 ₽ bn
Net retail sales

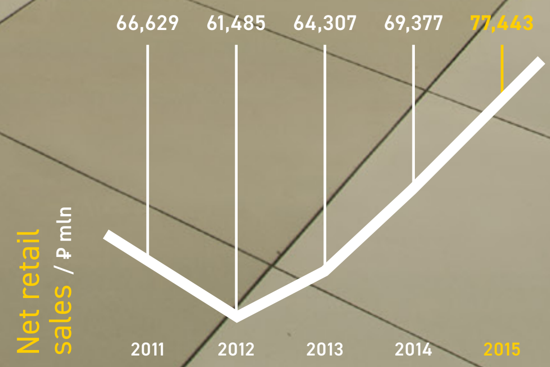
+ **8**
Net stores added

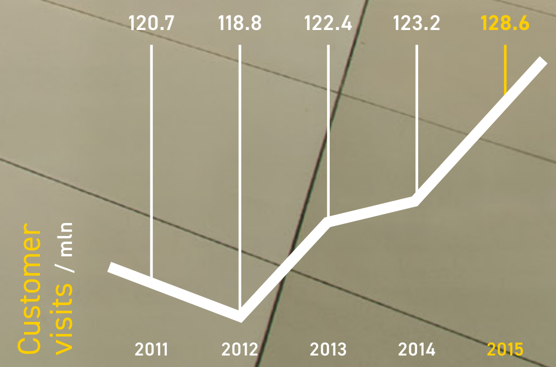
5
Refurbished stores

Karusel at a glance









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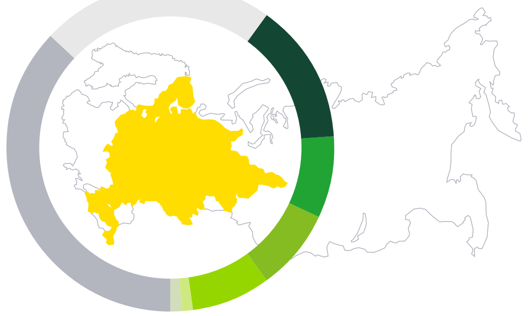
KARUSEL NET RETAIL SALES
BY REGION IN 2015



37 %	CENTRAL
23 %	NORTH-WEST
14 %	POVOLZHSKY
8 %	URAL
8 %	VOLGO-VYATSKY
8 %	CENTRAL-CHERNOZEMNY
1 %	NORTH-CAUCASUS
1 %	WESTERN SIBERIAN

In 2015, Karusel hypermarkets reported net retail sales of ₽ 77,443 million, representing a year-on-year increase of 11.6%, and accounting for 9.6% of X5's total 2015 net retail sales.

Karusel's strategy aims to support faster growth as the hypermarket chain rolls out a new operating model while leveraging innovative solutions to enhance customer service and operational efficiency.

Strategic priorities for 2015

WHAT WE SAID	WHAT WE DID
NEW PRICING POLICY AND STRONG COMMUNICATION CAMPAIGN	• Completed new Karusel brand book and store concept; • Significant progress on category management roll-out and further improvement of assortment (introducing new products and rotating existing products) to improve Karusel's product offer; • Positive trend in LFL traffic, up 2.6% y-o-y, total sales growth (+9.1% LFL); • Sales density (sales/sq. m.) increased by 10% year-on-year
TOP-LINE GROWTH	• Net retail sales increased by 11.6% year-on-year in 2015; • Selling space increased by 31.5 th. sq. m (or by 8.8%) in 2015
REFURBISHMENT PROGRAMME	• Five stores were refurbished in 2015 (three of them in Q4 2015)
NEW OPENINGS	• 90 stores at year-end 2015, vs. 82 stores as of 31 December 2014 (9.8% year-on-year increase); • Store-bank for 2016–2017 guarantees around 10 new stores per year
IMPROVED OPERATIONS	• Operational process improvements (decentralisation of orders, shelf space adaptation to sales needs, operational effectiveness); • Improved service, reflected in NPS growth. In 2H 2015, NPS increased from 24 in August to 48 in December
NEW OPERATIONAL MODEL LAUNCH: THREE MODEL STORES	• Increased efficiency, with an effective and competitive operational model; • Customer loyalty improvement, with LFL sales growth of 13.9% year-on-year and LFL traffic growth of 8.4% year-on-year in Q4 2015; • Rolling out model for the whole chain
PRIVATE LABEL	• New private-label programme with focus on low- and mid-price categories; • 230 PLUs launched in 2015, accounting for 2.2% of net retail sales (private-label products in every fifth check) by December 2015
LOYALTY PROGRAMME	• New loyalty programme launched in September 2015 with greater clarity and transparency; • The share of cardholders in total traffic increased from 21% in September to 29% in December after launch of Karusel card; • Implementing tools for in-depth analytics and targeted marketing based on personal data collection

PRIORITIES GOING FORWARD

Development and testing the value proposition is at the core of Karusel's strategic agenda, as well as a focus on operations and efficiencies:

- Roll-out of compact city hypermarket model with a focus on operating improvements and a better shopping experience
- Focus on increasing sales density
- Transition to active growth after detailed analysis of actual results of pilot models
- Development of Karusel's loyalty programme, promo optimisation, further development of private label
- Focus on efficiency and bottom-line growth by improving assortment profitability, logistics-costs optimisation, loss reduction and labour-cost optimisation

4 /6

New operating model at pilot stores

We have launched three new pilot stores that use a compact 'city hypermarket' operating model, focused on operating improvements and a better shopping experience. The results in these stores have been positive, with LFL sales increasing by 13.9% in Q4 2015. With rezoning, new internal navigation, a new approach to merchandising, a modified KVI basket and new trading equipment the pilot stores reflect Karusel's updated value proposition — giving consumers everything they want in one place at the best price.

Own production

Karusel's own production is also something we are very proud of, and it brings our hypermarkets some of their highest margins. The share of Karusel's own production in sales increased to 10.2% in 2015 from 9.4% in 2014. Karusel is constantly focusing on improving quality and selection in this area, with a long-term goal of reaching an average share of 15.5% of sales across the chain.

5 /6

Value proposition & customer satisfaction

We worked hard to refine Karusel's value proposition in 2015, with the aim of adapting to current consumer needs, including by increasing our low-price assortment. Our aim at Karusel is to give consumers everything they need for their weekly shopping trip. We are working on assortment optimisation by constantly introducing new products and rotating the existing range, with a focus on locally produced goods and our own production in-store.

VALUE PROPOSITION

PRICE
No need to compare, Karusel offers best price

PROMOS AND REBATES
We love 'low prices'!

QUALITY AND FRESHNESS
- Always fresh
- Increasing the share of own production

PRODUCT RANGE
Just the right amount of choice

LOCATION
Always on the way and easy to find!

SHOPPING CONVENIENCE
Trouble-free, quick shopping — convenient navigation, clear merchandising

SERVICE
Service — fast, simple and respectful

LOYALTY PROGRAMME
Personalised offer, clear communication

TARGET AUDIENCE

TARGET AUDIENCE (CORE)
- Families, mostly with children
- Mid and low income
- Primarily with jobs
- Could own a car

CORE MISSION
Stock-up purchasing (buying 'in advance') for one week or 2–3 days

IMPLICATIONS
Price sensitive

6 /6

Private label

Karusel launched a new private-label programme in 2015. The private label, called Year-round, was launched in August 2015 and aimed at low- and mid-pricing tiers. We had 230 PLUs by the end of 2015.

Loyalty programme

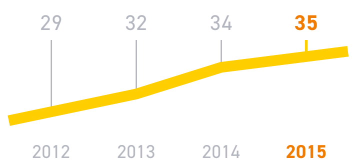
Karusel's loyalty programme was relaunched in 2015. Originally created as a simple discount programme, it is now operating with an easy-to-use cashback approach. The new programme will also switch to personalised offers based on individual buying records.

RETAIL OPERATIONS INFRASTRUCTURE

1 /4

We have invested significant resources into developing our own transport fleet, optimising and modernising our logistics infrastructure and integrating the best-in-class IT solutions. This has produced positive results, with superior fleet efficiency and the roll-out of a best-in-class distribution operating model.

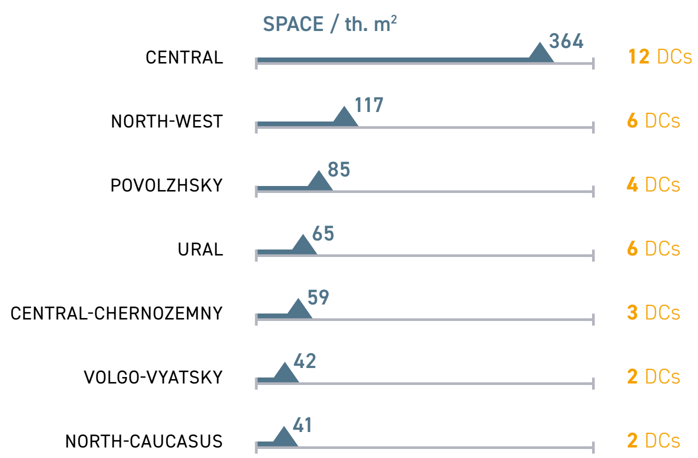
NUMBER OF DISTRIBUTION CENTRES



SPACE AND NUMBER OF DCS
BY REGION

773 th. m²
Total space

35
Total Distribution Centres



Leading innovation

X5 views innovation as an opportunity to continuously enhance operating performance in retail and logistics leveraging advanced IT tools, effectively manage the existing tailor-made customer offering and come up with even more new offers

- Industry leader in IT infrastructure investments: 10% of the Company's Capex is invested in IT
- Developer of an in-house geographic information system for assessing the investment potential of new store openings and M&As
- Leader in the implementation of EDI enabling the automation of supplier relationship management
- Building an agile approach that enables innovation and transformation by empowering our own internal resources to help us respond faster to challenges and opportunities

Logistics

2 / 4

In 2015, X5 opened **six new distribution centres** (DCs) and closed five as part of its ongoing programme to optimise DC operations. At the end of 2015, X5 owned or was leasing 35 DCs with a total floor space of 773 th. sq. m., providing sufficient coverage for the Company's operations.

We also continued to split our logistics operations by format, in line with our new operating model launched in 2013, to make sure that logistics services are tailored to the business models of each of our retail chains.

Our DCs run an automated warehouse management system (WMS) featuring voice picking and weighing technology to ensure efficient monitoring of goods traffic and storage and to optimise our shipping, receiving and picking operations.

The Company-wide SLT level (order processing based on timely deliveries) rose by 72 b.p. to 91.7% (in Pyaterochka by 72 b.p. to 92.1% in Perekrestok by 74 b.p. to 90.5% and in Karusel by 59 b.p. to 89.8%). This demonstrates that logistics decentralisation has contributed to the timely processing of orders.

Our centralisation level in 2015 was 85%, compared to 78% in 2014. Company-owned DCs are instrumental in maximising product traffic centralisation and optimising deliveries and in-store product ranging.

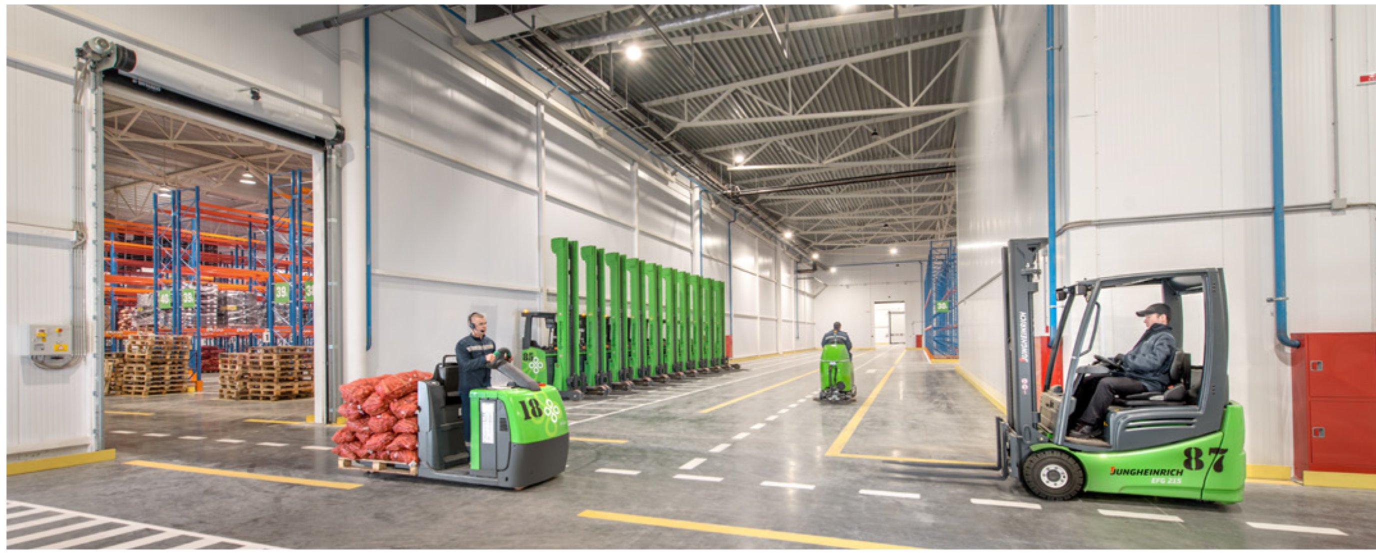
Plug-in rechargeable battery cars

Lean distribution centres

We completed the first phase of organisational optimisations in 2015, with a focus on flattening DC management. We introduced new procedures to improve and unify HR management across DCs, including universal training materials, a mentoring programme and employee qualification monitoring systems.

Pyaterochka launched a 'Model DC' project in 2H 2015, with the aim of standardising and optimising all of its DC processes. Going forward, we also plan further organisational structure optimisations, with a unified staffing list and improved motivation programmes that reward improved service quality and productivity.

Perekrestok began integrating of a new forecasting and replenishment system in 2015 that is aimed at enabling end-to-end management of the supply chain all the way to store shelves. Ongoing implementation of lean management systems, as well as new sales and operation planning technologies, helped Perekrestok to achieve tangible efficiency improvements in its logistics operations in 2015 on the back of significant improvements in productivity and inventory management.



One of our regional distribution centres / St. Petersburg

Innovative solutions

Pyaterochka is implementing integrated business planning (IBP) to create a unified planning system designed to help us better meet customer demand. Some of the key advantages of this system include:

- What we offer customers (assortment, price, promos, etc.) and the way we obtain goods (supply chain, inventories, service level) are all focused on profitable demand response;
- 'One version of the truth': planning (including sales planning) is unified across all divisions: different business units develop plans together with an understanding of the full picture.

This approach will enable Pyaterochka to continue improving sales, decreasing costs and improving margins.

X5's large formats completed the roll-out of JDA Software's replenishment and demand planning solution across its distribution centres (for categories other than ultra-fresh) in 2014, optimising office headcount and increasing the availability of in-store goods by category. In 2015, Perekrestok and Karusel rolled out JDA Software's replenishment and demand planning solution across the entire supply chain for store replenishment.

Transport

+355 OWN FLEET

New trucks
to support retail chain growth

Our transportation strategy is aimed at significantly improving efficiency by gradually bringing fleet management in-house. We have introduced tariffs for transportation on own fleet, benchmarking against market rates, and a piece-rate wage structure for drivers, enabling us to achieve lower costs than third-party providers on most routes by Q3 2015.

Fleet management

This strategy has already had a significant positive effect on X5's transport costs. Some routes saw costs decrease by as much as 60% year-on-year in 2015. With the new salary structure and optimised routes launched, total payroll per truck decreased by 9% year-on-year, while average salaries for drivers increased by 10%. Mileage monitoring systems implemented in 2015 significantly reduced diversions from planned routes—from 20% down to just 4% in 2015. As a result of the successful efforts by X5's Transportation Department, in 2015 we managed to significantly improve cost controls and achieve key performance targets in areas like improving the overall quality of the fleet, improving the timeliness of deliveries (including due to more efficient repair services), as well as higher fleet turnover.

Going forward, we plan to continue to develop our own fleet, while maintaining relationships with a number of fleet owners to reduce dependency on freight forwarding companies. We also plan to offer transportation services to external clients in order to reduce empty runs. With a sophisticated fleet management system now in place, we will continue to refine our transport operations to help drive efficiency and quality across all of our formats.

Following the efficiency gains from using our own fleet, in 2015 we decided to purchase 355 new trucks to support retail chain growth. No such purchases had taken place since 2012.

Information technologies

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Implementation of effective information technologies is one of the keys to our efficient operations and to successfully meeting customer demand in a profitable way.

In June 2015, the Supervisory Board approved X5's new IT strategy, which outlines how technology will contribute to meeting our business growth targets. This strategy has a strong focus on evolving IT solutions at X5 and establishing systems that enable us to analyse big data in a way that generates value for our business as a result. It is amed at accelerating the preparation of information that supports data-driven decision-making at all levels, to enable fast changes and to be responsive to all kinds of digital demand. It is aimed at ensuring that the functionality and capacity of our information systems are scalable for growth.

We are constantly looking for innovative solutions that help us improve efficiency and service quality, and are in the process of integrating some of the best products available across our retail chains. We also want to make sure the solutions we use are relevant and address real needs. We are actively exploring agility, as we recognise the necessity of responding to fast-changing requirements and of removing barriers between business and IT. To achieve this, we are launching an agile competence centre pilot project called the IT Store. The IT Store entails moving system analysts, solution architects and developers into a real Pyaterochka store in Moscow, where they will work part-time as a cashiers or store managers, in order to better understand in-store operations and to gain a first-hand understanding of customer needs.

X5 head office / Moscow

In addition to the JDA solution for demand planning for our distribution centres and stores, some other highlights of the leading IT solutions we are in the process of implementing include:

- A new analytical platform that enables much more detailed and granular analytics of customer buying patterns in order to more precisely meet demand and increase sales densities
- Loyalty solution: a best-in-class food retail CRM combined with a best-of-breed analytical platform
- We are actively evolving our web presence across all formats, developing mobile solutions for our customers, while growing and developing an understanding of the X5's digital strategy.

PRODUCT SAFETY & PRODUCTION QUALITY

1 /3

X5 implements standardised quality control procedures for supply chain management across all retail formats.

2015 highlights

/ We are responsible for the quality and safety of all the products sold in our stores, and we have a clear set of rules and guidelines in place.

/ X5 continued to upgrade safety and quality procedures across its formats, implementing best practice recommendations from leading inspection, verification, testing and certification companies.

/ In 2015, X5 conducted audits of 548 food product manufacturers, and 1,065 items were sent to independent, accredited testing facilities for analysis.

/ X5's Quality Department is actively engaged in drafting national food standards, technical regulations, laws and proposals on consumer rights protection, including chairing the Quality Committee of the Retail Companies Association.

/ Active engagement with a broad range of stakeholders:

- Responded to 5,438 customer complaints
- Proposed 29 changes to national standards as part of a working group for WTO harmonisation
- Drafted 106 amendments or changes to regulations and legislation governing technical regulations, accreditation and standardisation, food product quality and safety, veterinary control and supervision, sanitary and phyto-sanitary measures and consumer rights protection.

Safety and quality are top priorities

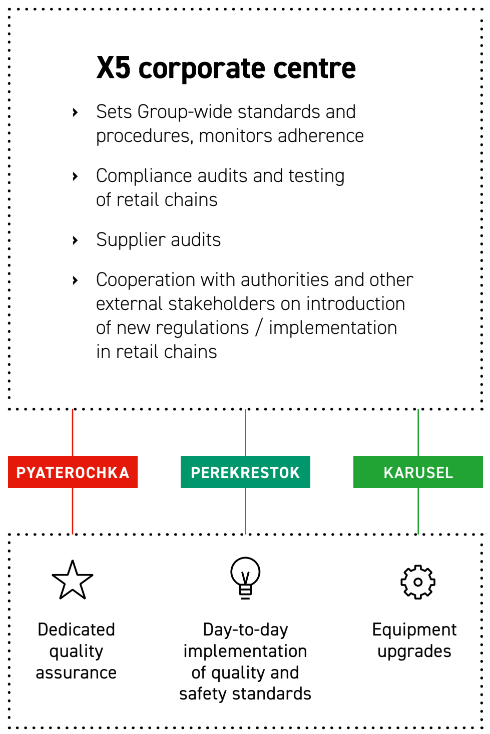
Our approach to safety and quality

Providing our customers with high-quality fresh products is one of our top priorities. This is achieved by implementing rules and regulations across the entire food product chain, from production to end consumption, that adhere to Russian laws and regulations and reflect good practice in food retail.

To ensure that our products are safe for consumption and for the environment, and that they comply with retail standards and consumer requirements, we employ HACCP (Hazard Analysis and Critical Control Points) principles, as well as the following quality assurance practices:

- laboratory testing and analysis at research and development centres and accredited research laboratories;
- personnel training;
- safe product storage and handling;
- using modern methods for monitoring and testing, including innovative technologies and express tests;
- supplier audits.

How it works in practice:



As part of the ongoing evolution of our multi-format operating model, the Company's retail divisions have dedicated quality assurance functions, which together with the X5 Commercial and Category Management Departments oversee all stages of the production cycle. The corporate centre's Oversight Department is, inter alia, engaged in developing regulatory quality requirements, reviewing draft laws and interacting with industry associations and unions, such as the Consumer Market Participants Union, the Russian Union of Industrialists and Entrepreneurs, the All-Russian Association of SMEs (Opora), the Civic Chamber of the Russian Federation, the National Dairy Producers Union, the RusBrand Association of Branded Goods Manufacturers, the Seafood Processors Union and the RusProdSoyuz Association of Food Manufacturers and Suppliers.

Maintaining high product quality is a priority for all our operational divisions. The X5 performs regular supplier audits by engaging independent accredited international audit organisations. We continuously refine quality specifications and standards for food products, private labels and packing materials.

Progress in 2015

In 2015, we implemented improvements in our quality control system based on an audit of Perekrestok stores and distribution centres conducted by independent experts from SGS Vostok Ltd., a subsidiary of the SGS Group, the world's leading inspection, verification, testing and certification company. The audit, conducted in 2014, checked for compliance with International Featured Standard (IFS) Logistics and IFS Food Store version 1 international standards. The first initiative to be launched following this audit was a real-time transportation monitoring system, which enables us to control storage temperatures across our entire supply chain.

Quality control at all stages of the product life cycle

Introducing goods to our product range

Before entering into supply contracts, suppliers provide product samples and documents certifying product quality, safety and origin to the Company's quality experts, who check them for compliance with the Company's requirements and with regulatory requirements.

Acceptance at distribution centres

Each batch of food products delivered to our distribution centres is subject to control for compliance with organoleptic standards (appearance, texture, taste and smell properties), as well as with the Customs Union and other applicable federal standards. Our quality control of fruit, vegetables and exotic fruit is in line with national and United Nations Economic Commission for Europe (UNECE) standards, X5's quality catalogue and acceptance criteria such as calibre, size and ripeness.

In 2015, Pyaterochka launched a pilot project called 'Trusted acceptance of fruits and vegetables', which reduced losses by 1.5% in this category and sped up control procedures. In 2016, the Company plans to install air decontamination units in fruit and vegetable storage facilities, which should improve storage of fresh produce by 30% and further reduce losses in this category.

Quality control in stores

All our stores run the Quality Hour programme: every morning, from 9 a.m. to 10 a.m., all products on our shelves are sorted and checked for quality and freshness. Additionally, as part of the New Pyaterochka initiative launched in October 2013, product freshness is now the personal responsibility of the store director, who also plays the role of 'Freshness Director'.

In addition, the quality control services for each of our formats conduct regular audits of stores to monitor their compliance with standards for quality and safety of food products. This enables us to quickly address any quality issues and to improve service quality.

Interaction with consumers

The Company's Consumer Rights Protection Department carefully investigates all complaints received via numerous consumer feedback channels, in some cases making control purchases and sending product samples for analysis to verify complaints. In addition, we regularly publish quality monitoring results in the Quality section on our website to keep consumers informed and prevent distribution of low-quality and counterfeit products. In 2015, we inspected 720 food samples under this monitoring programme. In case of any quality issues related to the products sold in our stores, such products are immediately withdrawn from sale and returned to the supplier.

Customer feedback channels:

IN 2015, WE REVIEWED AND PROVIDED SUBSTANTIATED RESPONSES TO **5,438 COMPLAINTS**

In store:
- complaints book
- shift manager

Online: via customer feedback forms on each format's website

Telephone: via dedicated customer hotlines for each of the formats

Other:
- WhatsApp
- Viber
- Telegram

Audit of branded and private-label products

In 2015, we conducted a total of 548 audits of our suppliers, including 344 audits of our private-label products and 174 audits of core branded products. All audits were conducted jointly with independent auditors from SGS Vostok Limited, ControlUnion.

In the course of the year, 1,065 product items were sent to independent, accredited testing facilities for analysis, with 98 private-label items, or 9.2%, and 246 key core branded items (out of 1,193 tested), or 10.9%, failing to meet applicable quality requirements and returned to suppliers.

The analysis was aimed at verifying the product's organoleptic, physical, chemical and microbiological properties and, in some cases, the declared ingredients, specifically to identify any replacements with cheaper alternatives and any use of food additives, artificial colorants, sweeteners or preserving agents not indicated on the label.

In 2015, Perekrestok established a division for private-label quality control and regulatory compliance. The chain also implemented new business processes for developing and introducing new private-label goods.

We have also introduced X5-wide principles for evaluating suppliers across all formats, meaning audit results from one chain can be used by all of X5's brands. We have also established processes for dealing with customer complaints about private-label products via call centres.

Interaction with public authorities and self-regulating organisations

X5's Quality Department employees are current members of the technical committees (TCs) under the Governmental Agency for Technical Regulation and Metrology (Rosstandart), part of the Russian Ministry of Industry and Trade.

The TCs include:

- TC 226, Meat and Meat Products
- TC 299, Fish and Non-fish Preserves, Packaging and Control Methods
- TC 300, Fish Products: Food, Feed Grade, Technical and Packaging
- TC 347, Trade and Food Service Industry
- TC 116, Poultry, Egg and Freeze-Dried Products

Since the beginning of 2015, the Quality Department has drafted 106 proposals on refining existing legislation and amending specific legal acts regarding technical regulation, accreditation and standardisation, food product quality and safety, veterinary control and supervision, sanitary and phyto-sanitary measures and consumer rights protection.

The Quality Department, jointly with the Retail Companies Association, the Consumer Market Participants Union, the Russian Union of Industrialists and Entrepreneurs, the All-Russian Association of SMEs (Opora), the Civic Chamber of the Russian Federation and the Office of the Presidential Commissioner for Entrepreneurs' Rights, has also participated in developing a common industry-wide position and unifying retailers' efforts in such key areas as providing guaranteed product quality, protecting consumer rights, promoting HACCP principles among Russian manufacturers, ensuring public health protection and strengthening the social responsibility of food production and distribution market participants.

Russia's joining the World Trade Organization (WTO) in 2012 required harmonisation of Russian legislation with international rules, regulations and standards. X5's Quality Department is actively engaged in drafting national food standards, technical regulations, laws and proposals on consumer rights protection. Since the beginning of 2015, the department has prepared 29 proposals for draft national standards, including those harmonised with the international standards and those considered as part of the 'Russian system of quality'.

In 2015, the Retail Companies Association's quality committee was once again chaired by the X5's Quality Director. The committee was created in 2014 with the goals of consumer rights protection, promoting Russian retailers' strong reputation for product quality, developing a common position and representing retailers' interests in relation to quality assurance matters. The committee has already earned the trust of other retailers in the Association, as well as regulatory officials. The committee held 33 meetings in 2015, including three committee meetings, 22 joint meetings with supplier industry associations and unions to address problem areas and eight with regulatory officials. These meetings resulted in 69 addresses to the EEC, the Government of the Russian Federation, the Presidential Administration and federal executive authorities, reviews of 37 draft regulatory acts and the circulation of 275 memoranda, including those on legislative amendments.

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SOCIAL, CORPORATE & ENVIRONMENTAL RESPONSIBILITY

Corporate responsibility

As a leading Russian retailer, we recognise that our long-term success depends not only on the efficient and profitable growth of our business, but on our responsible approach towards the communities where we operate, our employees and the environment.

X5 and local communities

X5 is a significant contributor to the local communities where we operate and to Russian society and the economy in general. Our stores operate in more than 1,500 cities and towns, including metropolitan areas such as Moscow, St. Petersburg, Yekaterinburg and Nizhny Novgorod, as well as smaller towns with under a thousand inhabitants.

We offer quality products at reasonable prices and a modern retail shopping experience in both densely populated and remote regions. We employ thousands of people, and their families depend on us, our strategy and our performance for their livelihoods.

We work with a large number of suppliers, including international, national and local companies. We pay special attention to our local product offerings and are committed to building strong relationships with local suppliers. We are looking to increase the levels of local sourcing not only to better meet the needs and preferences of local shoppers but also to support regional economies and contribute to their growth.

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Social partnerships

Life Line Charitable Foundation

Donation boxes

We have installed dedicated collection boxes for the Life Line Charitable Foundation in our stores to help children with severe health problems. In 2015, we collected RUB 16.7 million for Life Line through these boxes, which helped to fund 80 surgical procedures for children in need. This represented 54% of all partner donations that the Foundation received through its collection box programme.

Running for Life charity marathon

Each year, the X5 team participates in Running for Life, a charity running event organised by Life Line and the United Way of Russia. In 2015, more than 250 X5 employees ran the marathon. All of the funds raised as a result of the run were donated to United Way and Life Line.

Kindness Candy charity project

Since 2014, X5 and Life Line have also been conducting the Kindness Candy charity project. Under this programme, special candies sold for RUB 15 each are available in the checkout areas of all Perekrestok, Pyaterochka and Karusel stores, with RUB 5 from each purchase donated to finance surgeries through the Foundation. In 2015 we collected RUB 6.5 million through the Kindness Candy project, which helped to fund operations for 19 children.

'Garden of Life'

To celebrate International Children's Day on 1 June 2015, Life Line, X5, and the Moscow Research Centre for Children's Health organised an event to raise funds for seriously ill children through the 'Garden of Life' project.

More information about Life Line and the Garden of Life project can be found online at:

http://www.life-line.ru/eng/
http://1000serdec.ru/index.php?route=common/home

Running for Life charity marathon

PART 1 — STRATEGIC REPORT

Food aid

In August 2015, X5 in partnership with the Rus Food Foundation launched a project called 'Basket of Kindness' to collect and provide for vulnerable people across Russia. Between August and December 2015, over 2,500 customers donated more than 5 tonnes of food to low-income families through the 23 stores involved in the project. Food aid was provided to over 1,000 families in Moscow, St. Petersburg, Tyumen, Perm and other regions of Russia.

X5 became the first Russian retailer to collect and distribute food donations with its joint project with the Rus Food Foundation. In 2016, X5 plans to continue working with the Rus Food Foundation to provide aid to low-income families. From February to December 2016, 12 campaigns lasting from several days to one month will be held in the Pyaterochka, Perekrestok and Karusel chains in Moscow, St. Petersburg, Lipetsk, Rostov, Krasnodar, Samara, Kazan, Yekaterinburg, Sochi and Nizhny Novgorod.

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Supporting veterans

X5 provided gifts to over 6,000 combat veterans in Moscow, St. Petersburg and other regions of Russia 2015.

Pyaterochka, together with its partner Voyentorg, provided gift assortments to over 500 veterans in Moscow and the Moscow region during special receptions and holiday concerts organised by veterans' organisations.

In honour of the 70th anniversary of the victory in WWII, X5's retail chains launched widespread discount programmes. At Pyaterochka stores, over 200 items were discounted to 50% off. Karusel hypermarkets and Perekrestok supermarkets offered 'buy one, get one for 70% off' promotions on certain items.

Pyaterochka also took part in in 'Forget No One!', an event organised by the Rostov region Public Chamber. The chain issued 2,000 discount cards for veterans and their relatives for this event.

In St. Petersburg and Nizhniy Novgorod, more than 400 cards with special offers for Perekrestok stores were issued for veterans.

Supporting vulnerable population groups

We consider it our responsibility as a leading Russian food retailer to ensure, to the best of our ability, that vulnerable sections of society have access to basic food products at affordable prices. For several years, we have been offering Russia's senior citizens discounts at our stores, and we plan to continue this practice going forward. At most of our Pyaterochka, Perekrestok and Karusel stores, pensioners enjoy a 5% discount on weekdays from 9 a.m. to 1 p.m. (with some regional variations).

Electronic social certificates

In October 2013, the Moscow city government launched an electronic social certificates programme. Those eligible to receive these certificates include senior citizens, multi-child families, the disabled and people suffering specific hardships. The certificates have a monthly balance of RUB 500 that can be used to purchase food products. The certificates can be used in a number of Pyaterochka, Perekrestok and Karusel stores. In 2015, the programme was extended, with around 200 th. people eligible to use the certificates.

Charitable giving

'Victory' Forest

In 2015, we partnered with Komsomolskaya Pravda to support the Victory Forest project organised by the Green Russia environmental movement. Under the project, trees were planted to honour the 27 million people in the Soviet Union who were killed in WWII. Veterans, heads of regional administrations, and employees of the X5 corporate centre and retail chains took part in the event. As part of of the Victory Forest event, X5 gave gift baskets to veterans in Moscow, St. Petersburg, Yaroslavl, Kazan, Yekaterinburg, Samara and Nizhny Novgorod.

Live Classics Contest

In April 2014, X5 signed a strategic cooperation agreement with Live Classics International Awards Foundation (Live Classics). The Live Classics Contest is a unique, large-scale project promoting reading among 11- and 12-year-olds. In 2015, X5 supported this project with prizes, sweets and food items for participants and winners of the competition.

Human resources

Our people

Our team is one of our key assets at the X5. Our people combine their expertise and experience in retail and other industries to achieve our overall strategic objective of becoming the Russia's food retail leader.

With a multi-format brand portfolio and significant scale of operations, our team is professionally diverse. Our people are managers who ensure that X5 is successful in its pursuit of market leadership, builders who construct new stores for our customers, drivers who deliver the freshest products, IT professionals who help us process, analyse and protect our data, and of course retail staff, who communicate with our customers and bring smiles to their faces.

The fast-growing and dynamic nature of our business allows us to provide numerous career opportunities for our stuff. Our employees always have ambitious tasks, clear objectives, exciting goals and attractive rewards.

Providing competitive wages and benefits

At X5, we want our people to receive a fair reward for their performance by offering competitive pay and benefits. In order to establish a transparent system of compensation, X5 has introduced a structured salary grid for each format.

We provide diverse compensation packages, which are different across formats and depend on the job level. This includes competitive fixed salaries, variable salary components, medical and accident insurance and mobile phone packages.

2015 highlights

25.7%

Staff increase

+29.6% increase in selling space

147,498

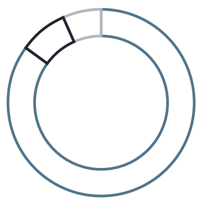
Employees

Employee breakdown by type of operations

85.0% RETAIL OPERATIONS

8.6% LOGISTICS

6.4% OFFICE AND OTHER



Employee breakdown by format

69.2% PYATEROCHKA

16.6% PEREKRESTOK

8.3% KARUSEL

6.0% OTHER

Welcoming newcomers

A high quality and fast recruitment process is critical for a growing company of our scale. Because of the different skills and competences required, recruitment for offices and operations has been split between the X5 head office and the formats across regions.

In order to better understand how we are perceived by our current and potential employees, X5 conducted an employer brand survey among its employees, labour market opinion leaders and potential job candidates. The results of the survey were used to develop employer brand value propositions for X5 and its retail formats.

In 2015, we developed a new orientation programme for newcomers, which starts even before the new employee joins the Company. An individual plan is created for each newcomer and comprises a series of activities for the first trial period. This plan includes a newcomer's induction programme, which consists of an online introductory course, an X5 Strategy business game, a visit to a logistics centre and an internship at our stores. Line managers set targets for newcomers, and the X5 recruitment team meets each newcomer on a regular basis to exchange feedback.

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PART 1 — STRATEGIC REPORT

Creating a high-performance team

Our goal is to attract professionals with diverse backgrounds and enable them to deliver outstanding results that will drive X5's leadership in the Russian food retail market. In 2015, X5 strengthened its top management team by hiring a Corporate Communications Director, a GR Director, a Large Format Real Estate Management Director, and an Organisational Development Director.

At X5, we believe that the best-performing teams are created by people who are engaged and motivated and who understand their roles in business, as well as how their individual efforts impact X5's overall success. This is why we focus on engaging with people and internal communications when creating our high-performance team.

Last year marked the first time since 2012 that X5 conducted an employee engagement survey among office staff and retail formats. The survey enabled us to measure not only our employees' level of engagement, but also to determine how content they are to be working at X5 based on a variety of measures such as the management board, their compensation package, training and development etc. The results of this survey served as the basis for action plans for each department on how to create value for employees and to inspire them to achieve greater results.

In 2015, we worked on improving internal communications systems to enhance employee awareness on X5's strategic goals, key events and projects, policies and codes, etc. As we are a rapidly developing business with regular changes to our operational model, we constantly review policies and seek to inform our staff of any changes that could affect them.

We want our employees to be fully informed of all aspects of our business in order to support effective decision-making. In 2015, key communication channels such as mailings, a news digest and a corporate web portal were relaunched. We also started a corporate TV channel and a new system of communicating financial and operating results to employees.

67 %
X5 office engagement

59 %
Worldwide food retail benchmark
SOURCE: AON PLC.

Ensuring long-term success

In 2015, we continued to build a strong pipeline of leaders, implementing a new performance appraisal system for middle management. We assessed the performance and potential of all of our potential leaders based on competencies that reflect our strategy and values. In 2015, we conducted reviews and provided feedback for approximately 2,800 managers.

We also continued to implement Compass X5, our annual target-setting and individual performance measurement programme. Annual target-setting helps to evaluate employees' efforts on key business priorities and to provide fair bonuses for real achievements, regardless of age, gender, or years of experience in the Company.

To accelerate the development of our people, X5 offers special training programmes to help develop new skills. Training is offered through both internal and external courses, and is accessible in a variety of formats: lectures, business games, web-based learning, videos, and others. In 2015, we relaunched our e-learning portal for employees, which quickly became highly popular.

Ethics and compliance

We aim to uphold high ethical standards in our relationships with employees and in upholding their statutory rights. X5's code of corporate conduct and ethics defines the key principles of how we take care of our employees, including providing equal opportunities, a safe and healthy workplace, and supporting an ethical working environment.

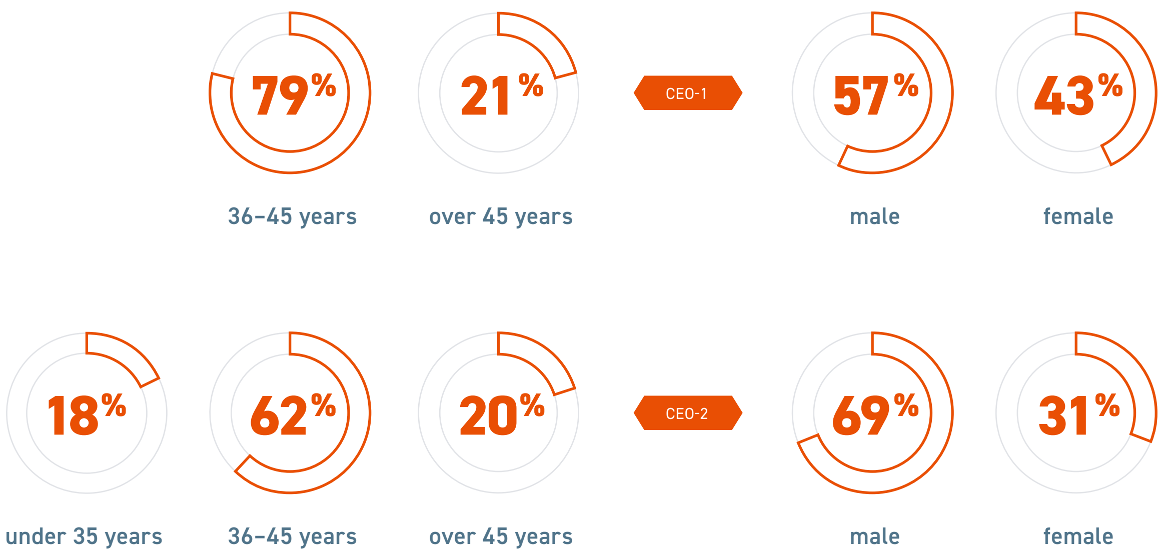
We run telephone and email whistle-blower hotlines for employees to report ethics and other violations, including relating to violations of labour law. Every complaint that contains sufficient information for an investigation is dealt with appropriately. We also have a special commission that reviews conflict situations in order to find ways to resolve them. X5's compliance department, which is part of the independent directorate for audit, risks and compliance, is responsible for overseeing the employee hotline.

Supporting diversity

Our recruitment approach is to support people of different cultural backgrounds, genders, race/ethnicity or generations, as well as people with disabilities. We also seek to support work–life balance, focusing on flexible scheduling for parents and students.

Top management breakdown

by age / gender



Workplace health and safety

Overview

Ensuring the health and safety of our employees is a priority for X5, and management pays regular attention to this issue. We have established an occupational health and safety department (OHS).

The OHS department is based in the X5 corporate headquarters in Moscow, and is responsible for developing labour safety policy and standards, internal health and safety guidelines and regulations, monitoring changes in Russian Federation OHS legislation or regulations and ensuring that X5 remains compliant, and coordinating health and safety activities across the Company. To manage and oversee compliance with the Company's health and safety policy and the applicable Russian legislation, each of the retail formats has dedicated OHS functions in charge of health and safety.

Our OHS specialists have the following responsibilities:

- ongoing improvements to workplace conditions by ensuring adherence to policies
- providing support in developing a new and modern system for OHS management
- implementing monitoring and training activities
- reducing accident and illness rates across the Company

Medical examinations

Medical examinations and screenings are an effective measure of monitoring our employees' health and diagnosing occupational diseases at early stages. Our aim is to detect illnesses promptly, to prevent and contain contagious diseases and to take action to mitigate health risks and provide the required treatment. X5's personnel employed in retail, logistics and transportation undergo medical examinations when joining the company and on an annual basis thereafter.

Employee training

All our managers (store, distribution centre, logistics and transportation unit directors, store-based department heads, security heads, and other managers) and specialists are required to take regular OHS training courses at specialised training centres or using online distance learning tools. This enables management across our chains to improve their professional knowledge in relation to OHS. In 2015, approximately 8,000 people completed such courses. New employees receive a safety briefing upon joining the Company and in the course of their work, if required. In addition, employees working in hazardous environments (for example, electricians, forklift and truck operators) receive regular specialised training. Only employees that have received relevant training are allowed to engage in any type of hazardous work.

Oversight and monitoring

X5 carries out regular monitoring and internal audits of workplaces to ensure compliance with the Company's health and safety policy and federal laws, and to identify potential areas for OHS improvements. OHS specialists in the relevant retail chains conduct comprehensive audits, specific monitoring activities, and unplanned checks on an ongoing basis. Our DCs, for example, undergo daily monitoring before each shift. Our stores undergo comprehensive audits for sanitary and safety compliance.

In 2015, the Company conducted 1,300 internal audits. Audit findings and recommendations were reflected in audit reports, and relevant measures were taken to remedy identified violations. Over 90% of violations were eliminated within five days (compared to 10 days in 2014), while the remaining 10% were addressed in 10–14 days.

We are also working on developing and implementing entirely new approaches to managing OHS. In addition to daily monitoring at DCs for example, Perekrestok has launched a 'self-audit' pilot project at its DCs. This system engages all DC employees in monitoring compliance with workplace health and safety requirements and regulations. This project has helped the Company to quickly identify OHS issues, and Perekrestok DCs had no fatal incidents in 2015 (compared to four in 2014). Based on the successful results of this pilot project, we plan to roll out a self-audit programme at Pyaterochka DCs in 2016.

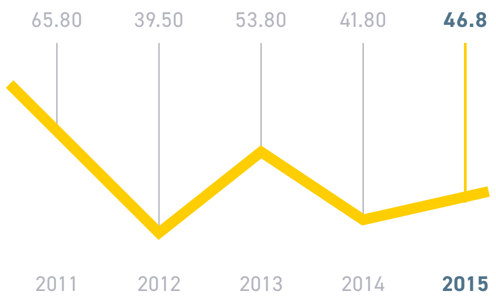
X5 is in the process of conducing a comprehensive review of all potential workplace hazards throughout the company. As hazards are identified, we develop ways to reduce or eliminate them. By the end of 2015, we had inspected 90% of our properties to ensure that they adhere to current OHS regulations.

Injury statistics

In spite of our efforts to minimise risks and prevent accidents, our business scale makes it hard to completely avoid any occupational injuries. We investigate these accidents and take action to reduce the underlying risks and minimise the impact. Most injuries in 2015 were minor and required minimum disability leave. The severity rate indicating an average number of work days lost per accident increased from 41.8 days in 2014 to 46.8 days in 2015 due to an updated methodology for recording accidents that broadened the definition of what is considered an accident. The accident frequency rate, indicating the number of accidents per 1,000 employees, also went up slightly, from 0.57 in 2014 to 0.92 in 2015, due to business expansion.

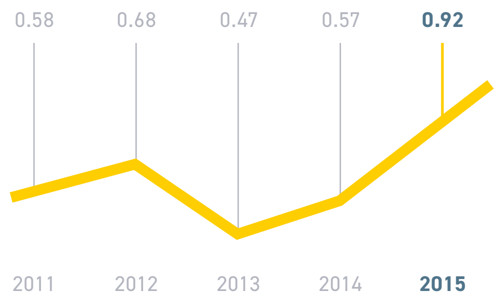
Severe accident ratio

Total number of employee work days lost per accident



Accident frequency rate

Number of accidents per 1,000 employees



Compensation

To compensate for injuries caused by workplace accidents, the Company has put the following initiatives in place:

- insuring each employee against industrial accidents and occupational diseases;
- making payments to injured persons (through federal social insurance authorities) in the event of severe accidents and to employee dependants in case of the loss of a breadwinner;
- providing post-accident rehabilitation and health resort treatment (through federal social insurance authorities);
- providing financial aid from the Company's budget in the event of severe or fatal accidents.

Environmental review

Taking a responsible approach to our impact on the environment is key for X5's successful and sustainable long-term development. As our business grows and develops, so does our environmental impact. Industrial packaging, bakery waste and waste from preparing meat and fish for sale, used frying oil, polyethylene bags, electricity consumed by refrigeration and lighting equipment, and vehicle exhaust are all examples of how a modern retail company impacts the environment.

X5 strives to fully comply with Russian legislative requirements and the highest international environmental protection standards wherever possible. We believe that environmental care is not just a part of a large company's social responsibility, it also provides ample opportunities to improve business efficiency and reduce costs, and in some cases, even to generate additional income.

Waste recycling and disposal

Currently, the waste generated by our stores is transferred to third parties either for utilisation and burial at landfill sites or for further recycling. We have made a list of recyclable waste to be disposed of by third parties, significantly reducing the quantities to be buried and, as a result, the negative environmental impact from landfills, while also cutting our expenses for landfill use and generating income from the sales of recyclable waste. Pyaterochka's income from the sale of recyclable waste increased by 30% year-on-year in 2015 to RUB 682 million.

In 2015, we expanded our list of recyclable waste and increased its volume for sale. Apart from recycling cardboard, polyethylene, used oil, plastic boxes, stretch wrap, banana boxes and polystyrene, we started selling broken shopping trolleys. This helped us generate additional income and reduce our bulk waste removal expenses.

The Company sells its domestic solid waste, in particular used oil from Perekrestok and Karusel grills and roasters, to a specialist company that uses it as feedstock for biofuel production.

Reuse of shipping materials

To minimise supply waste and the waste resulting from transportation of products from distribution centres to our stores we use reusable containers returned to suppliers after deliveries, as well as wooden pallets and trays that are returned to distribution centres.

Starting in 2015, we launched a lean manufacturing initiative, under which Pyaterochka began implementation of a programme to automate the tracking and return to suppliers of shipping pallets. This programme will eventually give suppliers the ability to monitor and plan pickups of their pallets from Pyaterochka DCs.

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Environmental initiatives in logistics

We manage environmental risks separately for our distribution centres and transportation divisions. Our distribution centres transfer plastic shrink wrap, cardboard and packing materials, as well as domestic solid waste, for recycling. The transportation division disposes of car tyres and tubes, batteries, ferrous and non-ferrous metals, car oil and other materials as required by Russian legislation.

Distribution centres

Pyaterochka is implementing Ecodevelopment principles for its logistics network. The main goals of these principles are to reduce the consumption of energy and materials, while also increasing the quality of buildings and reducing exploitation costs. As a result of this initiative, we expect to reduce the impact of DC construction on the environment.

Transport

Our most significant environmental impact comes from our transportation unit where we use various approaches to minimise the damage caused by transportation from our distribution centres to stores. Our fleet now covers 60–70% (depending on the season) of our transportation needs, and is newer than the fleets of most of our external contractors. Contractors are responsible for compliance with environmental requirements, and our transportation services agreements stipulate that trucks must meet all legislative requirements, including environmental ones.

We use certified service stations to provide regular maintenance for our trucks in line with legislation and the norms established by truck manufacturers based on either the number of kilometres on the odometer or the vehicle's working life. Daily monitoring of the condition of our vehicles, including their exhaust systems, is part of our mechanics' and drivers' responsibilities. If serious failures are detected, in a vehicle, it is withdrawn from use and sent for repair.

In addition, we do not purchase used or outdated vehicles, nor do we use vehicles that have reached the end of their service life in accordance with the manufacturer's recommendations. By the end of 2015, the average age of our fleet was four years, compared to an average age of five years at the end of 2014.

A full 90% of our transportation fleet meets Euro 3 and Euro 4 standards. Since 2014, we have been purchasing only Euro 4 or higher class vehicles, using only high-quality fuel from leading producers.

Energy consumption and efficiency

The cost of utilities, as a percentage of net sales, amounted to 1.9% in 2015. Of this, approximately 1.3% represents utility payments, while the remaining 0.6% is made up of cleaning expenses, telecommunications, and other expenses, demonstrating that our energy-efficiency programme outstrips any other environmental initiative in yielding tangible results.

Energy consumption accounts for approximately 80% to 85% of total utilities expenses, with heating and water consumption representing approximately 10–15% and 5%, respectively. Therefore, our energy-efficiency programme has the most pronounced impact on our cost base of all our environmental initiatives.

Currently approximately 40% of energy consumption is attributable to refrigeration equipment, 20% to lighting and the remainder to other equipment, air conditioning systems and other energy consumption sources.

Recognising the importance of improved energy efficiency, we have been implementing energy saving technologies since 2011. Some of the 2015 highlights include:

- We installed LED lighting for refrigeration equipment at approximately 4,000 stores; savings as a result of this project are expected to surpass costs by the end of 1H 2016.
- Automatic monitoring systems for the volume and quality of electricity consumed were rolled out, with a systems monitoring and control centre commissioned in 2014. Analysis of the data from this system has enabled us to plan our utilities costs better and implement regulations for the use of electricity and heat energy.
- Establishing energy use benchmarks helped us set targets for energy savings throughout the Company. In 2015, we reduced our energy consumption rate by 15% year-on-year. We aim to achieve a further 3% decrease in 2016 while maintaining our fast pace of growth.
- In addition to energy-efficient technologies used in new and refurbished Pyaterochka stores, the format's DCs have also begun to install energy-efficient LED lighting.
- During the first two quarters of 2015, we rolled out Russia's first refrigeration equipment monitoring centre at all Pyaterochka and Karusel stores. This system enables stores operating the system to control energy consumption, while also improving our ability to manage servicing companies and improve quality control of refrigerated goods, in order to ensure compliance with HACCP principles.
- The Pyaterochka refurbishment programme is also based on energy-efficient technologies, including the installation of improved energy efficient refrigeration and lighting equipment that produces more light for less energy. New and refurbished Karusel stores also use energy-efficient LED lighting.

Our focus on energy efficient technologies applies not only to our stores, but also to our offices. After the successful launch of the 'Turn off the lights and save money' programme at our Moscow headquarters in 2013 and the installation of highly efficient LED indoor lighting equipment, electricity consumption dropped by 63%.

FINANCIAL REVIEW

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CFO OVERVIEW

We delivered strong results in 2015, growing revenue by 27.6 % year-on-year to RUB 808.8 billion while maintaining profitability. This is no easy task in Russia's difficult economic environment, but X5's team proved its ability to grow the business rapidly and profitably.

This exceptionally strong performance triggered phase 1 of the long term incentive (LTI) programme. The LTI programme represents the Company's long-term ambitions, with a specific focus on net revenue and market share relative to the competition, without sacrificing EBITDA.[1]

EBITDA for 2015 was adjusted for the LTI bonus and other one-off remuneration payments as we believe that this more accurately reflects the ongoing performance of X5 Retail Group. On this basis the EBITDA margin improved by 2 b.p. to 7.3 %.

We maintained comfortable debt levels throughout the year, and refinanced all of our MosPrime-based facilities to mitigate the risk of future interest-rate rises. Combined with very strong cash flows, we are in an excellent position to continue to accelerate our pace of growth in 2016.

[1] For more detailed information, please refer to the remuneration report on page 162 and note 26 to the audited financial statements on page 205.

Elena Milinova

/ Chief Financial Officer

The financial and operational information contained in this financial review comprises information about X5 Retail Group N.V. and its consolidated subsidiaries (hereinafter jointly referred to as 'we', 'X5' or the 'Company').

The following is a review of our financial condition and results of operations as of 31 December 2015 and for the years ended 31 December 2015 and 31 December 2014. The consolidated financial statements and the related notes thereto are available on pages 166–239 of this document, and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

FINANCIAL REVIEW

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OVERVIEW

Revenue

808.8 ₽ bn

+27.6 % YEAR-ON-YEAR

Gross profit margin

24.5 %

8 B.P. YEAR-ON-YEAR INCREASE

adj. EBITDA margin

7.3 %

2 B.P. YEAR-ON-YEAR INCREASE

Capital expenditures

71.1 ₽ bn

2.1× INCREASE YEAR-ON-YEAR

X5 is the second-largest food retailer in Russia, which is one of the largest and most dynamic consumer markets in the world. We operate three main brands in various market segments, with unique value propositions and offers that appeal to a wide range of shoppers and budgets. Our retail operations, including sourcing, production, distribution and sales principally of food products, are conducted within the Russian Federation.

The Company operates the following retail chains: a proximity store chain under the Pyaterochka brand, a supermarket chain under the Perekrestok brand, a hypermarket chain under the Karusel brand and convenience stores under the Perekrestok Express brand located in Moscow and the Moscow region.

Despite a challenging economic environment in Russia, the Company delivered strong results in 2015 and grew faster than the Russian food retail market average.
The Company delivered 29.6 % net selling space growth, adding 760.9 th. sq. m; 80 % of this was attributable to organic growth. In 2015, revenue increased by 27.6 % while adjusted EBITDA grew by 28.0 %, all compared to 2014.

Selected macroeconomic data

RUSSIAN MACROECONOMIC INDICATORS, YEAR-OR-YEAR COMPARISON	Q1		Q2		Q3		Q4		FY	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
RUB/USD exchange rate, weighted average for the period	35.0	62.2	35.0	52.7	36.2	63.0	47.4	65.9	38.4	61.0
CPI	6.4 %	16.2 %	7.6 %	15.8 %	7.7 %	15.7 %	9.6 %	14.5 %	7.8 %	15.6 %
Food inflation	7.3 %	22.3 %	9.4 %	20.3 %	10.5 %	18.0 %	13.2 %	15.9 %	10.1 %	19.1 %
PPI	4.2 %	9.9	8.3 %	13.8	6.1 %	13.2	5.7 %	12.9	6.1 %	12.5
Real wage growth	4.4 %	(9.0 %)	2.4 %	(8.5 %)	0.6 %	(9.5 %)	(1.7 %)	(9.8 %)	1.2 %	(9.3 %)
Unemployment rate	5.5 %	5.7 %	5.0 %	5.6 %	4.9 %	5.3 %	5.2 %	5.7 %	5.2 %	5.6 %
Retail turnover	10.5 %	8.8 %	10.0 %	6.0 %	10.7 %	5.0 %	13.6 %	0.01 %	11.3 %	4.6 %
Food retail turnover	10.0 %	13.5 %	10.2 %	9.7 %	11.4 %	7.3 %	12.5 %	4.1 %	11.1 %	8.3 %

Results of operations for the year ended 31 December 2015 compared to the year ended 31 December 2014

The following table and discussion is a summary of our consolidated results of operations for the years ended 31 December 2015 and 31 December 2014.

Profit and loss statement highlights

RUSSIAN ROUBLE (RUB), MILLION[2]	2015	2014	% CHANGE YEAR-ON-YEAR
Revenue	**808,818**	**633,873**	**27.6**
Incl. net retail sales[3,4]	804,132	631,930	27.3
Pyaterochka	585,402	435,820	34.3
Perekrestok	130,144	115,648	12.5
Karusel	77,443	69,376	11.6
Express	11,143	10,135	9.9
E5.RU	-	950	-
Gross profit	**198,390**	**154,982**	**28.0**
Gross profit margin, %	24.5	24.5	8 b.p.
Adj. EBITDA	**59,413**	**46,404**	**28.0**
Adj. EBITDA margin, %	7.3	7.3	2 b.p.
Operating profit	**34,449**	**28,288**	**21.8**
Operating profit margin, %	4.3	4.5	(20) b.p.
Profit for the period	**14,174**	**12,691**	**11.7**
Profit margin, %	1.8	2.0	(25) b.p.

[2] Please note, that in this and other tables and text, immaterial deviations in the calculation of % changes, subtotals and totals are explained by rounding.
[3] Net of VAT and revenue from wholesale operations, as well as revenue from franchise and other services.
[4] Effective 1 January 2015, X5's online retail channel, E5.RU ceased commercial operations; however E5.RU's results are included in the X5 Retail Group's 2014 total net retail sales.

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Revenue and net retail sales

In 2015, X5's revenue increased by 27.6% year-on-year amounting to RUB 808.8 billion. Net retail sales grew by 27.3%, driven by a 13.7% increase in like-for-like (LFL) sales and a 13.6% sales growth contribution from a 29.6% rise in selling space. Net retail sales growth of RUB 172.2 billion was the highest in X5's history.

LFL sales growth year-on-year improved across all three of the Company's major formats.

LFL traffic growth accelerated to 2.3% in 2015, up from 0.6% in 2014.

NET 2015 RUB RETAIL SALES DYNAMICS, YEAR-ON-YEAR % CHANGE	AVERAGE TICKET	NUMBER OF CUSTOMERS	NET RETAIL SALES
Pyaterochka	11.0	21.0	34.3
Perekrestok	11.2	0.8	12.5
Karusel	6.7	4.4	11.6
Express	6.1	3.6	9.9
X5 Retail Group	**8.9**	**16.8**	**27.3**

SELLING SPACE END-OF-PERIOD, SQ. M.	31-DEC-2015	31-DEC-2014	% CHANGE YEAR-ON-YEAR
Pyaterochka	2,422,626	1,754,250	38.1
Perekrestok	484,008	415,788	16.4
Karusel	390,133	358,593	8.8
Express	36,407	43,612	(16.5)
X5 Retail Group	**3,333,174**	**2,572,243**	**29.6**

2015 LFL[5] RESULTS, % GROWTH YEAR-ON-YEAR	SALES	TRAFFIC	BASKET
Pyaterochka	16.7	3.6	12.7
Perekrestok	5.8	(4.6)	10.9
Karusel	9.1	2.6	6.3
Express	1.4	(3.9)	5.4
X5 Retail Group	**13.7**	**2.3**	**11.2**

[5] 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 calculations starting from the day of the store's opening. We include all stores that fit our LFL criteria in each reporting period.

Pyaterochka was the main driver of growth in 2015: net retail sales rose by 34.3% year-on-year, driven by 16.7% growth in like-for-like (LFL) sales and a 17.6% contribution to sales growth from a 38.1% increase in selling space.

Gross profit margin

The Company's gross profit margin in 2015 increased year-on-year by 8 basis points (b.p.) to 24.5%.

Adjusted Selling, general and administrative (SG&A) expenses (excl. D&A&I)[6]

RUB MILLION	2015	2014	% CHANGE YEAR-ON-YEAR
Staff costs	**(63,052)**	**(50,593)**	**24.6**
% of revenue	7.8	8.0	(19) b.p.
Lease expenses	**(36,365)**	**(28,150)**	**29.2**
% of revenue	4.5	4.4	6 b.p.
Utilities	**(15,449)**	**(13,105)**	**17.9**
% of revenue	1.9	2.1	(16) b.p.
Third party services	**(7,879)**	**(6,365)**	**23.8**
% of revenue	1.0	1.0	(3) b.p.
Other store costs	**(12,766)**	**(10,086)**	**26.6**
% of revenue	1.6	1.6	(1) b.p.
Other expenses	**(9,590)**	**(7,097)**	**35.1**
% of revenue	1.2	1.1	7 b.p.
Adj. SG&A (excl. D&A&I)	**(145,101)**	**(115,396)**	**25.7**
% of revenue	17.9	18.2	(26) b.p.

[6] SG&A expenses are adjusted for accrued LTI and exit payment.

In 2015, adjusted SG&A expenses (excl. D&A&I), as a percentage of revenue, declined year-on-year by 26 b.p. to 17.9%, primarily due to staff costs and utilities expenses optimisation.

Staff costs in 2015, as a percentage of revenue, declined year-on-year by 19 b.p. to 7.8% mainly due to the positive operating leverage effect.

Lease expenses in 2015, as a percentage of revenue, increased year-on-year by 6 b.p. to 4.5%. The effect of new store openings resulting in a large number of stores in ramp-up phase and the subsequent increase in the proportion of leased space as a percentage of the total real estate portfolio, was only partially offset by higher operating leverage. As a percentage of X5's total real estate portfolio, leased space accounted for 61% as of 31 December 2015, compared to 59% as of 31 December 2014.

Utilities expenses, as a percentage of revenue, declined year-on-year in 2015 by 16 b.p. due to the operating leverage effect.

Third-party services, other store costs and other expenses changed immaterially as a percentage of revenue in 2015 compared to 2014.

Lease/sublease and other income

As a percentage of revenue, the Company's income from lease, sublease and other operations decreased in 2015 by 32 b.p. year-on-year and totalled 0.8%, as sales density dynamics at Pyaterochka stores outpaced X5 income dynamics from lease and sublease operations.

EBITDA and Adjusted EBITDA

RUB MILLION	2015	2014	% CHANGE, YEAR-ON-YEAR
Gross profit	**198,390**	**154,982**	**28.0**
Gross profit margin, %	24.5	24.5	8 b.p.
Adj. SG&A (excl. D&A&I)	(145,101)	(115,396)	25.7
% of Revenue	17.9	18.2	(26) b.p.
Lease/sublease and other income	6,124	6,818	(10.2)
% of Revenue	0.8	1.1	(32) b.p.
Adj. EBITDA	**59,413**	**46,404**	**28.0**
Adj. EBITDA margin, %	7.3	7.3	2 b.p.
Accrued LTI and exit payment	(3,729)	(502)	642.8
% of Revenue	0.5	0.1	38 b.p.
SSC attributable to accrued LTI and exit payment	(451)	(42)	973.8
% of Revenue	0.06	0.01	5 b.p.
EBITDA	**55,233**	**45,860**	**20.4**
EBITDA margin, %	6.8	7.2	(41) b.p.

As a result of the factors discussed above, X5's Adjusted EBITDA in 2015 grew year-on-year by 28.0% and totalled RUB 59,413 million, while the Adjusted EBITDA margin increased by 2 b.p. and comprised 7.3%.

Segment reporting

RUB MILLION		2015	2014	% CHANGE, YEAR-ON-YEAR
Pyaterochka Proximity Stores	Revenue	587,280	436,427	34.6
	EBITDA	45,154	32,890	37.3
	EBITDA margin, %	7.7	7.5	15 b.p.
Perekrestok Supermarket	Revenue	131,332	115,910	13.3
	EBITDA	10,095	11,176	(9.7)
	EBITDA margin, %	7.7	9.6	(196) b.p.
Karusel Hypermarket	Revenue	77,778	69,433	12.0
	EBITDA	3,568	4,524	(21.1)
	EBITDA margin, %	4.6	6.5	(193) b.p.
Other segments	Revenue	12,428	12,103	2.7
	EBITDA	426	(420)	-
	EBITDA margin, %	3.4	(3.5)	-
Corporate	EBITDA	(4,010)	(2,310)	-

The segment EBITDA reported in accordance with IFRS 8 and Note 5 of the Consolidated Financial Statements.

In 2015, Pyaterochka's EBITDA margin increased year-on-year by 15 b.p. to 7.7%, driven by an improved value proposition and solid performance of mature stores operating under the new concept.

Perekrestok's EBITDA margin declined year-on-year by 196 b.p. to 7.7% due to an increase in the share of stores in ramp-up phase following organic openings, acquisitions and our accelerated refurbishment programme, as well as higher rental costs and an increase in our share of leased space in 2015. Perekrestok's EBITDA in 2014 also included gains from the sale of real estate assets in the amount of RUB 196 million.

In 2015, Karusel's EBITDA margin decreased year-on-year by 193 b.p. to 4.6% on the back of higher shrinkage levels due to new store openings; the expansion of, and changes in, assortment; increased rental costs and higher operational expenses, driven by strengthening of the hypermarket team and making it a separate unit.

Other segments include Perekrestok Express and E5.ru (E5.ru's commercial operations were ceased as of 1 January 2015).

X5's corporate centre expenses grew on the back of costs associated with strong business expansion, as well as changes to Russian social tax regulation.

D&A&I

Depreciation, amortisation and impairment costs in 2015 totalled RUB 20,784 million, decreasing year-on-year as a percentage of revenue by 20 b.p. to 2.6%. 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 MILLION	2015	2014	% CHANGE, YEAR-ON-YEAR
Operating profit	**34,449**	**28,288**	**21.8**
Net finance costs	(16,537)	(12,058)	37.1
Net FX result	18	25	(28.0)
Share of loss of associates	-	(37)	n/a
Profit before tax	**17,930**	**16,218**	**10.6**
Income tax expenses	(3,756)	(3,527)	6.5
Net profit	**14,174**	**12,691**	**11.7**
Net profit margin, %	1.8	2.0	(25) b.p.

Net finance costs in 2015 amounted to RUB 16,537 million, a 37.1% increase compared to 2014. The weighted average effective interest rate on X5's total debt for 2015 increased to 12.67% per annum from 10.0% per annum in 2014 due to weighted average gross debt increasing, rising interest rates in the local debt market and the Bank of Russia's decisions to raise its key rate.

Income tax expenses increased by 6.5% and reached RUB 3,756 million.

In 2015, X5's effective tax rate was 20.9%. The Russian statutory income tax rate for both periods was 20.0%. The difference between X5's effective and statutory tax rates is primarily due to the impact of non-deductible expenses.

Consolidated cash flow

RUB MILLION	2015	2014	% CHANGE YEAR-ON-YEAR
Net cash from operating activities before changes in working capital	56,678	45,766	23.8
Change in working capital	(1,406)	(2,212)	(36.4)
Net interest and income tax paid	(19,785)	(14,987)	32.0
Net cash flows generated from operating activities	**35,487**	**28,567**	**24.2**
Net cash used in investment activities	**(59,645)**	**(29,737)**	**100.6**
Net cash generated from financing activities	**7,498**	**19,344**	**(61.2)**
Effect of exchange rate changes on cash & cash equivalents	(5)	(162)	(96.9%)
Net decrease/(increase) in cash & cash equivalents	**(16,665)**	**18,012**	**n/a**

In 2015, net cash flows generated from operating activities totalled RUB 35,487 million, compared to RUB 28,567 million in the same period of 2014. This growth related to business expansion was partially offset by:

- an increased outflow related to changes in working capital due to lower trade accounts payable following X5's strategic decision to make faster payments to suppliers as a way of supporting long-term partners and local producers;
- increased interest and income tax paid primarily due to higher interest rates and higher gross debt, as well as due to an increase in profit before tax.

Net cash used in investment activities, which generally consists of payments for property, plants and equipment, totalled RUB 59,645 million in 2015, compared to RUB 29,737 million in 2014, and reflects higher expenditures for store expansion and refurbishment.

X5 added 760.9 th. sq. m. of selling space in 2015, a 117.8% increase compared to the same period the previous year. Moreover, 1,411 Pyaterochka, 51 Perekrestok and five Karusel stores were refurbished in 2015, compared to 460 Pyaterochka, 27 Perekrestok and seven Karusel stores in 2014.

Net cash generated from financing activities totalled RUB 7,498 million in 2015, compared to RUB 19,344 million for 2014. The decrease was related to extra cash balances on 31 December 2014, which lead to lower growth of total debt in 2015 compared to 2014.

Liquidity Update

RUB MILLION	31-DEC-15	% IN TOTAL	31-DEC-14	% IN TOTAL	31-DEC-13	% IN TOTAL
Total debt	**144,215**		**130,986**		**110,523**	
Short-term debt	42,670	29.6	15,834	12.1	30,680	27.8
Long-term debt	101,545	70.4	115,152	87.9	79,843	72.2
Net debt	**135,257**		**105,363**		**102,912**	
Net debt/EBITDA	2.45x		2.30x		2.68x	

As of 31 December 2015, the Company's total debt amounted to RUB 144,215 million, of which 29.6% was short-term debt and 70.4% was long-term debt. The Company's debt is 100% denominated in Russian roubles. In 2015, the Company refinanced 100% of MosPrime-linked loans as loans with an interest rate linked to the Bank of Russia's key rate with significantly lower margins on them, thereby mitigating the risk of an interest rate increase.

At 31 December 2015, the Company had access to RUB 140.2 billion in undrawn credit limits with major Russian and international banks.

PART 2

Corporate Governance

31 DECEMBER 2015

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Corporate Governance report

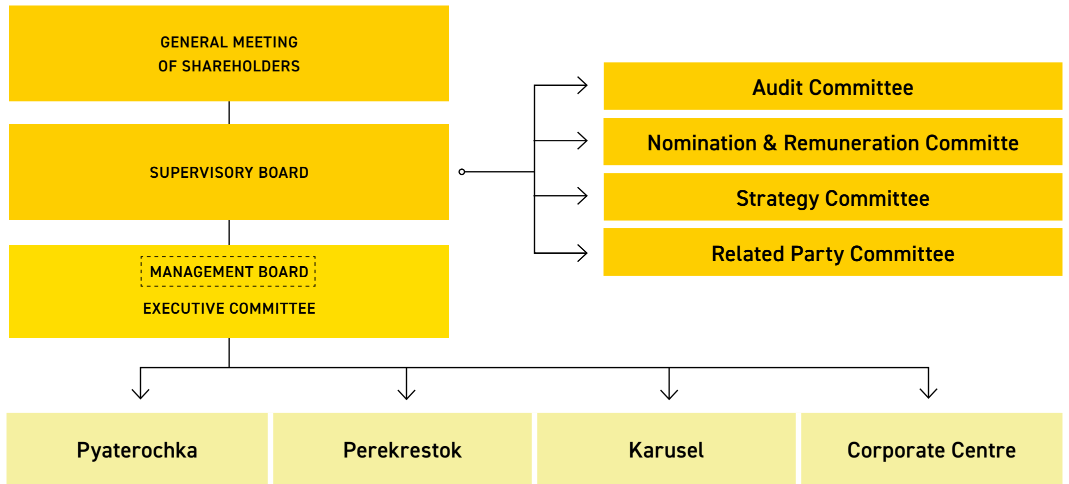
As a public company under Dutch law, with global depositary receipts listed on the London Stock Exchange, X5 Retail Group N.V. (the "Company" or "X5") is subject to the Dutch Corporate Governance Code (the "Code").

The full text of the Code can be viewed on X5's website at www.x5.ru

In accordance with the Code, a broad outline of the corporate governance structure of the Company is presented in this section, including any deviations from the Code's principles and best practice provisions. X5 aspires to high standards of corporate governance and is committed to a corporate governance structure that best supports its business, meets the needs of its stakeholders, and which is in compliance with applicable rules and regulations.

1 / GOVERNANCE STRUCTURE

X5 has a two-tier board structure, comprising a Management Board and a Supervisory Board. Both the Management Board and the Supervisory Board are accountable to the General Meeting of Shareholders for the performance of their functions and discharging their responsibilities.



Management Board and Executive Committee

The Management Board is responsible for X5's overall management. It is accountable for the Company's pursuit and achievement of corporate goals and objectives, its strategies and policies. The Management Board is responsible for complying with all relevant legislation and regulations, for managing the risks associated with the Company's activities and for financing and external communication.

X5 also has an Executive Committee that is comprised of the Management Board as well as certain key officers, allowing both the functions and the business operations to be represented at the highest executive level in the Company. The Executive Committee supports the Management Board in managing the general affairs of X5 and its day-to-day operations, ensuring that the Company can effectively implement its strategy and achieve its objectives. The Management Board is ultimately responsible for the actions and decisions of the Executive Committee, and the overall management of X5. The current members of the Management Board and the Executive Committee, including their biographies, are presented on pages 46—51 and 157.

Possible reappointment schedule of the Management Board

NAME	YEAR OF BIRTH	YEAR OF FIRST APPOINTMENT	END OF CURRENT TERM OF APPOINTMENT
Igor Shekhterman[1]	1970	2015	2019
Frank Lhoëst[2]	1962	2007	2019

[1] Igor Shekhterman was appointed as CEO and member of the Management Board at the extraordinary meeting of shareholders on 12 November 2015.

[2] At the annual general meeting of shareholders on 7 May 2015 Frank Lhoëst was re-appointed as member of the Management Board for another four year term.

Supervisory Board

The Supervisory Board is responsible for advising and supervising the Management Board and the general course of affairs of X5 and its businesses. In performing its duties, the Supervisory Board takes into account the relevant interests of the Company's stakeholders, and, to that end, considers all appropriate interests associated with the Company. Major business decisions require the approval of the Supervisory Board. The Supervisory Board also oversees the structure and management of internal control systems, as well as the financial reporting process. The Supervisory Board meets at least four times per year.

The General Meeting of Shareholders determines the number of members of the Supervisory Board. The Supervisory Board currently consists of eight members. The current members, including their biographies, are presented on page 156.

The Supervisory Board has prepared a profile of its size and composition, taking account of the nature of the Company's business and its activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board evaluates its profile and composition annually.

Supervisory Board members are appointed for a period of up to four years and may be re-elected, whereby the total term of office may not exceed twelve years. The Supervisory Board has prepared a retirement and reappointment schedule to, as far as possible, prevent re-appointments occurring simultaneously. The Supervisory Board profile and rotation plan can be viewed on the Company's website.

Reappointment schedule of the Supervisory Board

NAME	YEAR OF BIRTH	YEAR OF FIRST APPOINTMENT	YEAR OF POSSIBLE REAPPOINTMENT
Stephan DuCharme (Chairman)[1]	1964	2015	2019
Mikhail Fridman	1964	2006	2017
Dmitry Dorofeev[2]	1977	2012	2016
Christian Couvreux	1950	2010	2018
Pawel Musial	1968	2013	2017
Geoff King[1]	1965	2015	2019
Peter Demchenkov[1]	1973	2015	2019
Mikhail Kuchment[1]	1973	2015	2019

[1] Supervisory Board members appointed in 2015; Stephan DuCharme previously served on the Supervisory Board from 2008 until 2012.

[2] Dmitry Dorofeev, who's term expires in 2016, is not available for reappointment and will step down from the Supervisory Board following the 2016 Annual General Meeting of Shareholders.

Committees of the Supervisory Board

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its four permanent Committees: the Audit Committee, the Nomination and Remuneration Committee, the Related Party Committee and he Strategy Committee. Each Committee is composed of a minimum of two members, at least one of whom must be independent within the meaning of the Dutch Corporate Governance Code. The members of each Committee are appointed by and from the Supervisory Board. Each Committee has a charter describing its role and responsibilities and the manner in which it discharges its duties and reports to the full Supervisory Board. These charters are included in the Rules governing the Principles and Practices of the Supervisory Board, which can be viewed on X5's website.

Audit Committee

The Audit Committee assists the Supervisory Board in overseeing the integrity of X5's financial statements, system of internal business controls and risk management, financing and finance related strategies, tax planning, the Company's compliance with legal and regulatory requirements, as well as the qualifications, performance and independence of the external auditor and the performance of the internal audit function.

Members:

- Geoff King, Chairman
- Christian Couvreux
- Dmitry Dorofeev
- Pawel Musial

Nomination and Remuneration Committee

The Nomination and Remuneration Committee recommends the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders, prepares proposals to the Supervisory Board for remuneration of the individual members of the Management Board in line with the remuneration policy and advises the Management Board on the level and structure of compensation for other senior personnel.

The Nomination and Remuneration Committee also advises in respect of the selection and appointment of members of the Supervisory Board, the Management Board and the Executive Committee. At least annually the Nomination and Remuneration Committee evaluates the size and composition of the Supervisory Board and the Management Board, as well as the functioning of the individual members, and reports the results of such evaluations to the Supervisory Board.

Members:

- Stephan DuCharme, Chairman
- Christian Couvreux
- Dmitry Dorofeev
- Peter Demchenkov

Related Party Committee

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

Members:

- Geoff King, Chairman
- Michael Kuchment

Strategy Committee

The Strategy Committee advises in respect of the general strategy of X5, including, but not limited to, the future direction to be taken by X5 as a whole and each of its affiliated businesses, overall growth and development strategy, mergers and acquisitions and financing strategy.

Members:

- Christian Couvreux, Chairman
- Dmitry Dorofeev
- Pawel Musial
- Michael Kuchment

Composition of the Supervisory Board Committees

NAME	AUDIT COMMITTEE	NOMINATION AND REMUNERATION COMMITTEE	RELATED PARTY COMMITTEE	STRATEGY COMMITTEE
Stephan DuCharme		Chairman		
Mikhail Fridman				
Dmitry Dorofeev	Member	Member		Member
Christian Couvreux	Member	Member		Chairman
Pawel Musial	Member			Member
Geoff King	Chairman		Chairman	
Peter Demchenkov		Member		
Mikhail Kuchment			Member	Member

Gender diversity
Pursuant to the Dutch 'Management and Supervision Act' which took effect on 1 January 2013, at least 30% of the positions on the Management Board and the Supervisory Board are to be held by women. Currently, X5's Management and Supervisory Boards are not balanced in accordance with the Act. This deviation is unintentional; X5 generally aims for a diverse composition, and has a successful track record of developing the critical executive layer of female business leaders. The Company continues to recruit female executives, as demonstrated by the composition of the Executive Committee in which five out of ten positions are held by women.

Appointment, Suspension and Dismissal
The General Meeting of Shareholders shall appoint the members of the Management and Supervisory Board from a binding nomination, to be drawn up by the Supervisory Board. The recommended candidate will be appointed by the General Meeting of Shareholders unless the nomination is deprived of its binding character by a qualified majority vote of at least two thirds of the votes cast, representing more than one-half of the issued share capital of the Company.

Supervisory Board members are appointed for a period of up to four years and may be re-elected, whereby the total term of office may not exceed twelve years. Members of the Management Board are also elected for a period of four years. The Articles of Association do not limit the total term of office for Management Board members.

Each member of the Supervisory Board and Management Board may, at any time, be dismissed or suspended by the General Meeting of Shareholders. A member of the Management Board may at any time be suspended by the Supervisory Board. Such suspension may be discontinued by the General Meeting of Shareholders at any time.

Remuneration
In line with the remuneration policy adopted by the General Meeting of Shareholders, the remuneration of the individual members of the Management Board will be decided by the Supervisory Board on the recommendation of its Nomination and Remuneration Committee. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders. The remuneration policy for members of the Management Board, Executive Committee and Supervisory Board can be found under Remuneration on page 162.

Reporting on Conflicts of Interest
A member of the Management Board or Supervisory Board is required to immediately report and provide all relevant information to the Chairman of the Supervisory Board (and to the other members of the Management Board, if it concerns a member of that board) on any conflict of interest, or potential conflict of interest, that he may have with the Company and that may be of material significance to him or the Company.

If a member of the Supervisory Board or a member of the Management Board has a conflict of interest with the Company, such member may not participate in the discussions and decision-making process on subjects or transactions relating to the conflict of interest. A decision of X5 to enter into a transaction involving a conflict of interest with a member of the Management Board or a member of the Supervisory Board that is of material significance to him or the Company requires the approval of the Supervisory Board. The Related Party Committee advises the Supervisory Board on the handling and deciding on (potential) conflicts of interest and prepares resolutions of the Supervisory Board in relation thereto. An account of related party transactions in 2015 is included in the Report of the Supervisory Board on page 158.

Shareholders and Their Rights

General Meeting of Shareholders
X5 Retail Group N.V. is required to hold a General Meeting of Shareholders within six months after the end of the financial year, among other things, to adopt the financial statements, to decide on any proposal concerning profit allocation and to discharge the members of the Management Board and Supervisory Board from their responsibility for the performance of their respective duties for the previous financial year.

Extraordinary meetings will be held as often as the Management Board or the Supervisory Board deems necessary. In addition, shareholders and holders of Global Depositary Receipts (GDRs) jointly representing 10% of the outstanding share capital may request the Management Board and the Supervisory Board that a General Meeting of Shareholders be held, stating their proposed agenda in detail.

The powers of the General Meeting of Shareholders are defined in the Articles of Association. Apart from the decisions taken at the Annual General Meeting of Shareholders, the main powers of the General Meeting of Shareholders are to appoint (subject to the Supervisory Board's right of making binding nominations), suspend and dismiss members of the Management Board and Supervisory Board, to appoint the external auditor, to adopt amendments to the Articles of Association, to issue shares and grant subscriptions for shares, to authorize the Management Board or the Supervisory Board to issue shares and grant subscriptions for shares, to authorize the Management Board or the Supervisory Board to restrict or exclude pre-emptive rights of shareholders upon issuance of shares, to authorize the Management Board to repurchase outstanding shares of the Company, to adopt the remuneration policy of the Management Board, to determine the remuneration of members of the Supervisory Board, and to merge, demerge or dissolve the Company.

The notice for a General Meeting of Shareholders needs to be published not later than the 42nd day prior to the day of the meeting. The mandatory record date, establishing which shareholders are entitled to attend and vote at the General Meeting of Shareholders, is fixed at the 28th day prior to the date of the meeting.

One or more shareholders or holders of GDRs representing at least 3% of X5's issued share capital are entitled to request a matter to be included on the agenda of the General Meeting of Shareholders. Such requests, if sufficiently substantiated and received by the Company at least 60 days before the date of the meeting, can only be refused on the grounds of exceptional circumstances, to be checked against the principles of reasonableness and fairness.

All shareholders and other persons who, pursuant to Dutch law or the Articles of Association, are entitled to attend and/or vote at a General Meeting of Shareholders are entitled to address the General Meeting of Shareholders. X5 uses the Bank of New York Mellon, the depositary for X5's GDR facility (the "Depositary"), to enable GDR holders to exercise their voting rights represented by the shares underlying the GDRs. As described in the "Terms and Conditions of the Global Depositary Receipts", holders of GDRs may instruct the Depositary with regard to the exercise of the voting rights connected to the shares underlying their GDRs. Alternatively, upon request of the holders of such depositary receipts, the Depositary will grant a proxy to such holders who wish to vote in person at a General Meeting of Shareholders. Persons who hold a written proxy may represent shareholders at a General Meeting of Shareholders. The written proxy must be duly executed and legalised in accordance with the applicable laws, and may be submitted electronically.

Voting Rights
Each share confers the right to cast one vote at the General Meeting of Shareholders. There are no restrictions, either under Dutch law or in the Articles of Association, on the right of non-residents of the Netherlands or foreign owners to hold or vote the shares, other than those also imposed on residents of the Netherlands. Resolutions of the General Meeting of Shareholders will be passed by a simple majority of the votes cast in a meeting where more than 25% of the issued share capital is present or represented. If 25% or less of the issued share capital is present or represented, a second meeting should be convened no later than four weeks following the first meeting. At such second meeting, no quorum requirement will apply. However, the General Meeting of Shareholders can only resolve on a merger or demerger with a majority of at least two thirds of the votes cast, if less than 50% of the issued capital is represented in that meeting.

Dividend Rights
Any distribution of profits to shareholders will be made after the adoption by the General Meeting of Shareholders of the annual accounts of the Company from which it appears that such distribution is permitted. The Company may only declare profit distributions insofar as its net assets exceed the sum of its issued share capital plus any legal reserves required to be maintained pursuant to Dutch law. A loss may only be applied against such reserves to the extent permitted by Dutch law. On a proposal of the Supervisory Board, the General Meeting of Shareholders will determine which part of the profits will be added to the reserves and the allocation of the remaining profits.

On a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to pay an interim dividend insofar as X5's net assets exceed the sum of its issued share capital and the reserves that are required to be maintained pursuant to Dutch law, as evidenced by an interim financial statement prepared and signed by all the members of the Management Board. In addition, on a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to make distributions to the shareholders out of any reserves that need not to be maintained pursuant to Dutch law.

Dividends and other distributions that have not been claimed within five years after the date on which they became due and payable revert to the Company.

Significant Ownership of Voting Shares
According to the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht), any person or legal entity who, directly or indirectly, acquires or disposes of an interest in X5's capital and/or voting rights must immediately give written notice to the Netherlands Authority for the Financial Markets ('AFM'), if the acquisition or disposal causes the percentage of outstanding capital interest and/or voting rights held by that person or legal entity to reach, exceed or fall below any of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

The following table lists the shareholders on record on 29 February 2016 in the AFM's public register that hold an interest of 3% or more in the share capital of the Company:

SHAREHOLDER	DATE OF DISCLOSURE	SHARE-HOLDING [1]	VOTING RIGHTS
CTF Holdings Ltd.	2 August 2007	48.41%	48.41%
Axon Trust	22 December 2009	11.43%	11.43%
Genesis Asset Managers, LLP	1 July 2013	6.18%	4.24%

[1] In accordance with the filing requirements the percentages shown include both direct and indirect capital interests and voting rights. The percentages may differ from the actual shareholders' interests due to the fact that changes within the thresholds mentioned above do not require a notification to the AFM. Further details can be obtained at www.afm.nl

Securities Owned by Board Members
The members of the Management Board and Supervisory Board and X5's other senior management are subject to the Company's Code of Conduct with regard to Insider Trading, which contains rules of conduct to prevent trading in X5's Global Depositary Receipts of shares or other financial instruments when holding inside information. The Code of Conduct with regard to Insider Trading can be viewed on the Company's website.

The Code of Conduct includes a specific section on obligations of members of the Management Board to report to the Compliance Officer in case of changes in their holding of securities in any Dutch listed company, not being X5 securities, in accordance with the Dutch Corporate Governance Code.

Furthermore, under the Dutch Financial Markets Supervision Act, members of the Management Board and Supervisory Board shall notify the AFM of X5 securities and voting rights at their disposal. These positions can be viewed on the AFM's public register.

In addition, under the Disclosure and Transparency Rules in the United Kingdom, X5 must notify a Regulatory Information Service (RIS) of the occurrence of all transactions in X5 securities conducted on their own account and notified by members of the Management Board and Supervisory Board.

Repurchase by the Company of Its Own Shares
The Company may acquire fully paid shares, or GDRs thereof, in its capital for a consideration only following authorization of the General Meeting of Shareholders and subject to certain provisions of Dutch law and the Company's Articles of Association, if:

- Shareholders' equity minus the purchase price is not less than the sum of X5's issued and fully paid-in capital plus any reserves required to be maintained by Dutch law;
- X5 and its subsidiaries would not, as a result, hold shares or GDRs thereof with an aggregate nominal value exceeding half of the issued share capital.

In 2015 the Management Board has been authorized to acquire up to 10% of the shares or GDRs thereof. This authorization is valid through 7 November 2016. In addition, the Supervisory Board has resolved that in case a purchase of shares or depositary receipts thereof by X5 would lead to X5 holding more than 5% of the shares or GDRs thereof, the Management Board requires the Supervisory Board's prior approval for such purchase.

Authorization by the General Meeting of Shareholders is not required if X5's own shares are acquired for the purpose of transferring those shares to X5 employees pursuant to any arrangements applicable to such employees.

Shares or GDRs thereof held by X5 or a subsidiary may not be voted on and are not taken into account for determining whether quorum requirements, if any, are satisfied.

Issue of New Shares and Pre-emptive Rights
Shares in X5 may be issued, and rights to subscribe for shares may be granted, pursuant to a resolution of the General Meeting of Shareholders or another corporate body of X5 to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. In 2015, the General Meeting of Shareholders approved a delegation of this authority to the Supervisory Board, relating to the issuance and/or granting of rights to acquire up to 6,789,322 shares (10% of the issued share capital) through 7 November 2016.

Upon the issue of new shares, holders of X5's shares have a pre-emptive right to subscribe for shares in proportion to the aggregate amount of their existing holdings of X5's shares. According to the Company's Articles of Association, this pre-emptive right does not apply to any issue of shares to employees of X5 or a group company. Pre-emptive rights may be restricted or excluded pursuant to a resolution of the General Meeting of Shareholders or another corporate body of X5 to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. The General Meeting of Shareholders has delegated the authority to restrict or exclude the pre-emptive rights of shareholders upon the issue of shares and/or the granting of rights to subscribe for shares to the Supervisory Board through 7 November 2016.

Articles of Association
X5's Articles of Association contain rules on organization and corporate governance of the Company.

An amendment of the Articles of Association of the Company requires a resolution of the General Meeting of Shareholders. A proposal to amend the Articles of Association including the text of the proposed amendment must be made available to the holders of shares and GDRs for inspection at the offices of X5 as of the date of the notice convening the meeting of the General Meeting of Shareholders until the end of the meeting of the General Meeting of Shareholders at which the proposed amendment is voted on.

In May 2015 the Company's Articles of Association were amended, mainly to include references to the Company's internal rules for the Management Board and the Supervisory Board. The current text of the Articles of Association is available on the Company's website.

Anti-takeover measures and change-of-control provisions
According to provision IV.3.11 of the Code, the Company is required to provide a survey of its actual or potential anti-takeover measures, and to indicate in what circumstances it is expected that they may be issued. No special rights of control as referred to in Article 10 of the EU Directive on takeover bids are attached to any share or GDR in X5. X5 and X5 subsidiaries may have customary change of control arrangements included in agreements, such as credit facilities, ISDA-agreements and debt instruments. Following a change of control of X5 (as the result of a public bid or otherwise), such agreements may be amended or terminated, leading, for example, to an early repayment of amounts due under existing credit facilities.

Auditor

The General Meeting of Shareholders appoints the external auditor. The Audit Committee makes a recommendation to the Supervisory Board with respect to the external auditor to be proposed for (re)appointment by the General Meeting of Shareholders. In addition, the Audit Committee evaluates and, where appropriate, recommends the replacement of the external auditor. The Audit Committee also pre-approves the fees for audit and permitted non-audit services to be performed by the external auditor as negotiated by the Management Board. The Audit Committee shall not approve the engagement of the external auditor to render non-audit services prohibited by applicable laws and regulations or that would compromise the independence of the auditor. Specific rules relating to non-audit work performed by the external auditor are included in X5's 'Rules on External Auditor Independence and Selection' adopted by the Supervisory Board in 2015. This document is available on the Company's website.

In accordance with mandatory audit firm rotation rules, EY was appointed by the General Meeting of Shareholders on 12 November 2015 as the new external auditor for X5 as of 2016, for an initial period of 3 years.

Compliance with Dutch Corporate Governance Code

X5 applies the relevant principles and best practices of the Code in the manner as described in this Corporate Governance Report. X5's policy with respect to the implementation of the Code was last discussed with its shareholders at the 2010 General Meeting of Shareholders. Since then, there were no substantial changes in the corporate governance structure of the Company. Committed to a corporate governance structure that best serves the interests of all stakeholders, including shareholders, X5 continues to seek ways to improve and enhance its corporate governance standards in line with international best practices. X5 generally adheres to the Code, but does not comply with the following recommendations:

II.3.4, III.6.3 and III.6.4: Disclosure of transactions with related parties in the Annual Report
In accordance with the Code, transactions with members of the Management Board, Supervisory Board, or persons holding at least 10% of shares or GDRs thereof in which there are significant conflicting interests will be published in X5's Annual Report. However, in deviation from the Code, a detailed statement of the relevant conflict of interest is not published if (i) this conflicts with the law, (ii) the confidential, share-price sensitive or competition-sensitive nature of the transaction prevents publication or could damage X5's competitive position.

III.2 / Independence of members of the Supervisory Board
Both Mikhail Fridman and Dmitry Dorofeev are related to companies that are owned or controlled by companies that ultimately hold 10% or more of the shares or GDRs in X5. Stephan DuCharme has been member of the Management Board immediately prior to his appointment to the Supervisory Board in November 2015. These members of the Supervisory Board are, therefore, not considered to be independent within the meaning of the Code.

X5 believes that the non-independent members of the Supervisory Board have an in-depth knowledge of the geographic market, of business in general and of retail specifically, as well as a relevant track record, in the markets in which X5 operates. This is of particular advantage to X5 and its shareholders.

In addition, it is felt that the appointment of Stephan DuCharme as Chairman of the Supervisory Board offers shareholders and other stakeholders the greatest continuity (see also the explanation of the deviation to provision III.4.2, below). Meanwhile, as evidenced by the appointments of Geoff King, Peter Demchenkov and Mikhail Kuchment in 2015, the Supervisory Board remains committed to improve the ratio between independent and non-independent board members, and open to engage with shareholders on governance issues.

III.4.2 / Chairman of the Supervisory Board may not be a former member of the Management Board of the Company
In the third quarter of 2015 Stephan DuCharme stepped down as CEO and was appointed as Chairman of the Supervisory Board. Having carefully considered the interests of the Company and its shareholders, the Supervisory Board has taken the view that these interests are best served by retaining Stephan's experience and leadership for X5 in a renewed capacity as Chairman of the Supervisory Board. This offers shareholders the greatest continuity and ensures that the Chairman entrusted with X5's progress to the next phase of its development has a proven track record, as well as the confidence of critical stakeholder groups and investors. Having successfully served as CEO during the past three years, and previously as member of the Supervisory Board from 2008 to 2012, Stephan's contribution as Chairman will also be enhanced by his prior finance and banking experience.

The Company consulted with its major shareholders to provide additional background on both Stephan DuCharme's nomination, and the nomination of his successor Igor Shekhterman. These consultations have resulted in positive feedback from major shareholders who have expressed their support for the continuity of strategy, operating model and leadership at X5.

III.5 / If the Supervisory Board comprises more than four members, it should designate [...], a Remuneration Committee and a Selection and Appointment Committee
The Supervisory Board recognises the importance of effective selection, appointment and remuneration processes and also perceives these activities to be interlinked. For the benefit of the Company, the Supervisory Board has therefore decided that all these activities should be dealt with by one Committee: the Nomination and Remuneration Committee.

III.5.11 / The remuneration committee may not be chaired by the chairman of the Supervisory Board or by a former member of the Management Board
In 2015 Stephan DuCharme stepped down as CEO, and was appointed as Chairman of the Supervisory Board. For continuity purposes X5 considers it vital that Stephan DuCharme, also in his new role, remains closely involved in the recruitment and retention of current and future senior management, as well as the longer-term succession planning for the Executive Committee. This is reflected in his appointment as Chairman of the Nomination and Remuneration Committee, an appointment that he exercises with diligence and judgement.

III.7.1 / No grant of shares and options to members of the Supervisory Board
As determined by the General Meeting of Shareholders, the independent members of the Supervisory Board participate in the Company's restricted stock unit plan. X5 acknowledges that the award of shares to members of the Supervisory Board constitutes a deviation from the Code. However, in order to attract and reward experienced individuals with a track record that is of specific relevance to the Company, X5 believes it is necessary to allow members of the Supervisory Board to participate in the Company's equity-based remuneration plan. This structure aligns the interests of Supervisory Board members with those of shareholders and strengthens their commitment and confidence in the future of the Company. Equity-based awards to members of the Supervisory Board are not subject to performance criteria, and shall be determined by the General Meeting of Shareholders.

2 / HOW WE MANAGE RISK

The Management Board of X5, supported by the Executive Committee and the central Risk Management Team, is responsible for designing, implementing and operating an adequately functioning risk management system in the Company. The aim of the system is to ensure that the extent to which the Company's strategic and operational objectives are being achieved is understood, that the Company's reporting is reliable and that the Company complies with relevant laws and regulations.

Risk management and internal control

Risk management
Under the authority delegated by the Management Board, the management teams at all levels of the organisation are responsible for designing internal control systems appropriate to their respective business units, and monitoring relevant risks. The Finance function assists management at all levels in developing internal control procedures that are risk-oriented and 'built into' the business processes.

The central Risk Management Team facilitates a Company-wide view on risk relevant issues, helps to develop risk management activities in both retail chains and the corporate centre, and ensures that the Executive Committee is continuously and promptly informed of important developments in our risk management.

From 2016 onward the Risk Management Team is to be part of a newly formed corporate function in charge of internal audit, risk management and compliance. Management expect that this will ensure a more co-ordinated and independent evaluation of the effectiveness of risk responses and internal controls, which is critical for proper risk assessment of residual risks.

Control framework
The X5 risk management system is based on the recommendations of the COSO-ERM framework. It has been designed to achieve maximum integration of the risk management process in normal business processes. It provides for risk assessment tools, controls for risks that commonly occur in the Company and monitoring and reporting procedures and systems.

Internal environment for risk management
Values and business principles are an important element of the internal environment for risk management. In order to develop a shared culture, X5's Code of Business Conduct and Ethics outlines our guiding principles of ethical behaviour.

X5's Guiding Principles of Business Conduct are the following[1]:

1. Responsibility before the government and the community
- We support fair competition
- We observe trade laws
- We care about quality
- We do not accept bribery and corruption
- We do not accept money laundering
- We maintain accurate business and financial records
- We care about environment

2. Protection of company interests
- We protect the Company's assets
- We protect personal data
- We protect confidential information
- We establish the rules of public communication
- We avoid conflicts of interest

3. Responsibility to our staff
- We respect differences and provide equal opportunities
- We do not use child labour or any other form of forced labour
- We create safe and healthy working conditions
- We maintain a respectful and harassment-free work environment

4. Business integrity in dealing with customers, suppliers, competitors.

[1] The full Code is available in the corporate governance section of X5's website at www.x5.ru.

The principles of the Code apply to all employees of X5. The compliance department plays an important role in enhancing awareness and compliance with the Code. New employees are trained and acknowledge compliance with the Code upon hiring. The Code is also aimed to help employees understand when and where to ask for advice or report a breach of the Code, if necessary through the Ethics Hotline. All cases reported through the Ethics Hotline are thoroughly reviewed by the Compliance Department and investigations are performed by a forensic team of the Security function when needed. The Compliance Department also monitors X5 employees' potential conflicts of interest. All the issues and incidents related to these areas are reviewed by the Ethics Committee, a sub-committee of the Executive Committee, and reported to the Audit Committee on a regular basis.

Another important factor determining the internal environment for risk management is the risk appetite. As a fast growing company operating in a developing market, X5 is particularly exposed to a number of external risk factors related to a changing political and economic environment, as well as internal risks related to the pace of our expansion. In order to fully utilise the opportunities existing in the Russian food market, the Company must constantly evaluate risks related to operating in a developing market environment and to recognise and accept a certain degree of economically justifiable risk. These and other factors determine the Company's risk appetite, namely the level of risk required to achieve X5's active business expansion and growth.

Risk assessment
In the last quarter of 2015 the Company launched the annual formal risk assessment & analysis process. It consists of a periodic identification, measurement and prioritisation of business risks with the help of risk maps. It is intended to identify potential internal and external risks, to measure their relative importance and the probability of their occurrence, as well as the significance of their impact. In order to perform this risk assessment, X5 has developed its own "risk universe", which covers about 100 risks in the categories of strategic, operational, financial and compliance risks.

A detailed assessment of inherent and residual risks was performed at the end of 2015 by Internal Audit for each retail chain and the corporate centre. As a result of this assessment, risk maps were produced and validated with the executive management team members of the retail chains and the corporate functions.

Risk response and control activities
The evaluation of residual risks has made it possible to develop remediation plans and to focus specifically on managing and mitigating the principal risks the Company needs to address in 2016. Ten 'Risk Management Initiatives' were identified, for each of which an owner from the Executive Committee is assigned, and mitigating action plans are prepared. Progress in the implementation of these plans is reported to the Audit Committee on a quarterly basis.

Internal controls are designed and implemented by executive management and Company personnel under the control of the Executive Committee with the aim of providing reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations.

In addition, finance teams play an active role in this process and perform various control activities.

The quality of the Company's systems of business controls and the findings of internal and external auditors are regularly reported to the Executive Committee and the Audit Committee.

Monitoring and assurance
The Internal Control and Internal Audit functions help to ensure that we maintain and improve the integrity and effectiveness of our system of risk management and internal control. Internal Audit provides independent and objective assurance and value-adding advisory activity that assists the Company in achieving business objectives and improves operations. Systematic and disciplined evaluations of the operational, financial and information systems regarding risk management, internal control and governance processes are aimed to improve their effectiveness.

Following a risk based audit approach, Internal Audit assesses the design of internal controls, performs tests of controls on key business processes, and provides recommendations for improvement of the respective internal controls. Implementation of such recommendations is carefully monitored by Internal Audit and controlled through follow-up audits. Progress on implementation of management action plans for resolving internal control issues is regularly reported to the Executive Committee and the Audit Committee.

X5 Risk Management and Internal Controls Framework

COMPONENT PER COSO IC AND ERM INTEGRATED FRAMEWORKS		RISK MANAGEMENT	INTERNAL AUDIT	COMPLIANCE
Develop and Maintain Proper Control Environment	Annual and Ongoing Risk Assessment	Annual risk assessment (inherent and residual risks) for 3 retail chains and corporate center using X5 "risk universe".		
		Risk Management Initiatives (to mitigate risks) identified.	Annual risk based audit plan for Internal Audit.	
	Mitigating Risk Responses and Control Activities	Action plans for risk management initiatives are designed and approved. Implement risk response activities within risk management initiatives.	Internal Audit projects for various business processes with high risks Business addresses issues reported by Internal Audit. Follow-up on implementing action plans to resolve internal control issues reported by Internal Audit.	For regulatory risks Compliance Department monitors how they are mitigated.
	Communication and Monitoring	Quarterly updates on progress in implementing risk response activities within risk management initiatives.	Reports to business management, Executive Committee and Audit Committee.	Manage Ethics Hotline and Whistleblower policy. Monitoring of investigation of fraud/ ethics issues.

The Company's principal risks

The principal risks that may impede the achievement of X5's objectives with respect to strategy, operations, compliance and financial matters are described below. 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 not aware of.

RISK	DESCRIPTION	MITIGATION
1. Strategic risks		
Business Strategy If our strategy follows a less-optimal direction or is not sufficiently clear, effectively communicated or implemented, the business may suffer.	X5 has a multi-year strategy which includes both plans for growth and financial targets. We need to understand and properly manage strategic risks in order to deliver sustainable long-term financial success. X5's position in the Russian retail market depends largely on how well we adapt our strategy in the context of the macroeconomic and competitive industry environment, and how well we communicate and execute the right strategic direction.	To ensure that the Company's strategy is successfully delivered, the strategy is broken down into plans which form the core of managements' objectives. In addition progress is reviewed regularly by the executive team and quarterly by the Strategy Committee of the Supervisory Board. The strategic direction is refreshed annually to ensure that all changing factors are taken into account.

RISK	DESCRIPTION	MITIGATION
Economic and Market Conditions Significant changes to the economic environment can challenge the existing business strategy and materially impact financial performance. Not adapting quickly to new situations can lead to a competitive disadvantage.	• The Russian economy is vulnerable to fluctuations in the price of oil and natural gas in the world market. A decline in the price of oil and natural gas can significantly slow or disrupt the Russian economy. • Consumer demand depends largely on a range of external factors outside of X5's control. These factors include demographic changes, employment levels, discretionary consumer spending and changing consumer preferences. • In periods of economic uncertainty, customers tend to reduce spending both by reducing the volume of their purchases and by shifting their purchasing pattern towards less expensive products.	• X5's management both at the corporate level and at the level of retail chains pays particular attention and allocates significant resources to optimising its organic expansion strategy and support processes. • Our investment decisions are supported by robust financial and nonfinancial assessments that provide reasonable assurance that we are obtaining long term attractive facilities at attractive prices. • The Company has made a significant shift in its growth strategy, from reliance on acquisitions to increased focus on opening new stores organically. However, our capability to identify and quickly integrate regional acquisitions has been retained.
Expansion Our expansion plans for the future are significantly influenced by: (1) ability to find and effectively manage retail locations and negotiate appropriate purchase and lease terms; and (2) effective development and implementation of plans and procedures to support organic growth.	• To deliver sustainable long-term market leadership, X5 must expand at a rate that equals or exceeds that of its competitors. The failure of X5 to open new stores will directly impact its growth and profitability. • Our strategy requires us to be able to avail of emerging opportunities to grow market share through both acquisition and organic expansion.	• X5's management both at the corporate level and at the level of retail chains pays particular attention and allocates significant resources to optimising its organic expansion strategy and support processes. • Our investment decisions are supported by robust financial and nonfinancial assessments that provide reasonable assurance that we are obtaining long term attractive facilities at attractive prices. • The Company has made a significant shift in its growth strategy, from reliance on acquisitions to increased focus on opening new stores organically. However, our capability to identify and quickly integrate regional acquisitions has been retained.

PART 2 — CORPORATE GOVERNANCE

RISK	DESCRIPTION	MITIGATION
2. Operational Risks		
Retail Operations Effective and consistent management of our multi-site operations is key to earning continued loyalty from our customers. In addition we must stay in touch with changing customer needs to ensure we remain a favoured destination over that of our competition.	**The key risks related to these activities are:** • Our ability to define a product range that is in line with customer needs; • Our ability to provide our customers with an attractive shopping experience • Our ability to maintain a competitive price position with our customers.	• Our customers are our main focus. In order to consistently provide high-quality goods and services at a reasonable price, we constantly analyse and improve our operational processes related to, for instance, assortment management, pricing, supplier relationships, merchandising, sales and customer relations. • We regularly use trading and research data to continually assess our performance in meeting customer priorities around prices, product range, availability and service.
		• To be more responsive to meeting customer needs we have successfully introduced our new operating model which provides more autonomy to retail chain directors. The resulting improved accountability and speed of decision making is balanced by regular reviews and aligned motivation systems for improving operational standards.
Human Resources Our success in achieving the Company's strategic objectives relies heavily on the dedication of our employees and the effectiveness of our organisation.	• Our ability to succeed can be limited by a failure to recruit, train and retain the optimal number and quality of staff at both managerial and operational levels; and by a failure to create a balanced organisational structure that enables and motivates personnel to achieve key objectives.	In order to be an employer of choice, we recruit, develop and reward employees according to leading human resource (HR) practices: • We are developing X5's corporate culture, with a focus on shared business values, personal initiative and accountability at all levels. • A competitive compensation package is provided to our executive and line managers, whose performance is evaluated through well-defined targets, set in advance and in alignment with the Company's goals. • We are continually hiring a significant number of new employees and constantly improving and developing our recruitment methods. • Our remuneration packages are benchmarked annually with competition, enabling us to attract and keep talent. • Our Talent Development Program meets the succession and capability needs of our businesses and enables career development across the Company, helping employees realise their full potential.

RISK	DESCRIPTION	MITIGATION
IT Systems and Infrastructure We rely on our IT systems and infrastructure in order to trade efficiently. Failure of key systems could have a significant impact on our business.	If investment in the IT infrastructure and business support systems are not kept in pace with business growth there is a material risk of failures in customer service, business continuity and expansion support.	The Company recognises the importance of IT to sustain growth and invests accordingly. The Company has extensive controls in place to maintain the integrity and efficiency of its IT systems, including detailed recovery and contingency plans in the event of a significant failure.
Real Estate Our ability to open new stores is heavily dependent on identifying and leasing and/or purchasing properties that are suitable for its needs on commercially reasonable terms.	The acquisition, development and management of property sites carry inherent risk. Challenges may arise in relation to (1) obtaining planning or other consents; (2) compliance with varying country safety, design and construction standards; (3) tenant management; and developing a cost-effective estate with the right balance of freehold and leasehold sites and maintaining them to an acceptable standard.	When identifying, leasing, purchasing or refurbishing suitable properties, our real estate divisions monitor and address regulatory and other risks related to construction work. The performance of the estate is monitored and reviewed on an ongoing basis and a refurbishment program for stores is in place to maintain and optimise the estate.
Supply Chain Sound transport and warehouse infrastructure and management systems are vital to ensure efficient distribution across the entire supply chain.	A key trading risk is our ability to maintain (1) effective inventory management, ensuring an adequate flow of goods to our customers, while minimising shrinkage and excessive stock; and (2) relationships with suppliers and producers of private label goods to ensure supply while meeting our quality standards.	X5 stores are part of a complex supply chain with logistics function decentralised by retail chains and with distribution centres dedicated to particular retail chains as well. Such organisational design allows retail chains to manage inventory across the supply chain effectively. The Company works in partnership with its suppliers to manage the risk of any delays or interruptions in this supply, which might affect its retail operations.
Performance Risk Our operational plans are derived from trading and research data and are targeted to deliver noticeable performance improvements.	There is an operational risk that the Company does not deliver the estate expansion and operational improvements the strategy demands either because of external factors or internal performance reasons.	All of our retail chains and business units have stretch targets and their performance is monitored continually and reported monthly to the Executive Committee and the Supervisory Board. Personal motivation rewards are aligned to business performance targets.
Reputational Risk As X5's success depends to a significant extent upon brand recognition, the brand names Pyaterochka, Perekrestok and Karusel and their associated reputations are key assets of X5's business.	X5 has brand risk through either: 1. Leakage of intellectual property to competition, 2. Carrying out activity that attracts negative CSR reactions, or 3. Demonstrating poor ethical or non-customer centric behaviour	X5 is committed to being a responsible corporate citizen that strives to meet international standards and best practices in the operation of its business and in its relationships with shareholders, partners and society. The Company has ensured it has a well-communicated code of Ethics and continually monitors activities to ensure compliance. The Company believes it has taken appropriate steps to protect its trademarks and other intellectual property rights.

RISK	DESCRIPTION	MITIGATION
3. Compliance risks		
Regulatory Environment Operating successfully depends on: (1) ability to identify, quickly respond to and attempt to modify proposed unfavourable changes in applicable laws and regulations stemming from changes in political and economic conditions; and (2) ability to quickly establish compliance with new standards.	X5's operations are subject to various laws and regulations relating to, among other areas, land use, antitrust restrictions, alcoholic beverage sales, and our relationship with employees. The procedures for obtaining and renewing the licenses and permits required by X5's operations and with respect to various quality, health and safety, packaging, labelling and distribution standards are subject to supervision and regulation by various government authorities and agencies.	By permanently monitoring regulatory developments we strive to ensure that all existing and forthcoming regulations are complied with. We also engage with public and governmental organisations to ensure that the interests of our customers are represented. In addition, X5 is consulted on and invited to contribute to shaping government regulations concerning the retail industry. We regularly monitor our compliance to existing regulations and take necessary steps to maintain adequate adherence.
Legal and Litigation Entering into contracts that are unfavourable to the Company and the failure to comply with and monitor contract terms to protect the Company from financial losses.	X5 is exposed to pervasive contractual and litigation risks due to the Company's operational scale, number of employees and scope of commercial activities including suppliers' contracts, real estate and M&A transactions.	The quality and safety of our products is of the highest importance. We have strict product safety procedures for ensuring product integrity at all times. We work in partnership with suppliers to ensure mutual understanding of the standards required. The Company also monitors the changes in the regulations regarding food safety and regularly reviews its respective policies and procedures to ensure compliance.
Health and Safety With many customers and employees across many locations, effective controls to ensure employee and customer safety is of paramount importance.	Prevention of injury or loss of life to both employees and customers is of utmost importance. Failures could damage customer trust and confidence, impacting our customer loyalty and ultimately our financial results.	The Company has a health and safety policy in place to cover workplaces across its various functions. We are committed to promoting the highest health and safety standards by implementing advanced safety technologies and techniques, ongoing risk monitoring, analysis and mitigation. To oversee compliance with the Company's health and safety policy we have occupational health and safety teams in each retail chain.

RISK	DESCRIPTION	MITIGATION
Taxation Compliance to taxation regulations is often complex, open to differing interpretation, and dependent on the company's risk appetite.	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 activities of X5 may be challenged by the relevant regional and federal tax authorities. The values involved in tax and penalties are often very large. In recent years the tax authorities in the Russian Federation have taken a more assertive approach in their enforcement of tax legislation, and it is possible that transactions and activities that have not been challenged in the past may now be challenged.	Management regularly reviews the Company's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities. It also thoroughly reviews the judicial precedents that come out of tax disputes of other companies operating in Russia. The Company further protects itself against tax risks by establishing provisions in its IFRS consolidated financial statements for items in dispute. Note 33 "Commitments and Contingencies" to the IFRS consolidated financial statements in this Annual Report contains the description of the main tax uncertainties and an estimate of the related liability.
Fraud Inability to set and promote a company-wide culture of ethical integrity, and failure to detect or prevent corruption and fraud can lead to a leakage in economic value and significant reputation damage.	The company places large trust in its employees to carry out their duties in an ethical way and in accordance with company policies and the laws of the country. Whilst we persistently strive to high integrity standards among our staff, there remains the potential for fraud and other dishonest activity at all levels of the business, from store level to senior management.	X5 gives clear guidance on behaviour to employees through the Code of Business Conduct and Ethics. The Company constantly emphasises its whistle-blower policy and the 'ethics hotline' through which employees can report suspected violations of the Code, on an anonymous basis. Allegations of fraud are investigated, discussed at the Ethics Committee and reported to the Management Board and the Audit Committee of the Supervisory Board on a regular basis.
4. Financial Risks		
Funding and Liquidity Risk Our ability to generate and access sufficient funds is critical in order to satisfy our business and expansion needs.	The risk of failure to ensure continuity of funding on the best available market terms, with a diversity of credit portfolio, to arrange funding ahead of requirements and to maintain sufficient undrawn credit lines, and a strong credit rating so that maturing debt may be refinanced as it falls due.	We finance our operations by a combination of internal cash flows, short-term treasury lines, exchange trade rouble bonds and long-term bank borrowings. The company seeks to lower the cost of funding by reacting to market trends and through renegotiation. The Company was recently able to increase the size of available credit limits with major Russian and international banks which can be utilised in addition to the cash balances and cash flows from operating activities. Also X5 has proven access to rouble bond market.

RISK	DESCRIPTION	MITIGATION
Interest Rate Risk Unfavourable price paid per unit of funds borrowed per year may limit Company's expansion ambition, if cost of borrowing increases.	The objective is to limit our exposure to increases in interest rates while retaining the opportunity to benefit from interest rate reductions.	In 2015 the Company has refinanced 100% of mosprime-linked loans by loans with interest rate linked to CBR key rate, with significantly lower margins. Also, more than 70% of X5's debt has fixed interest rates.
Foreign Currency Risk Unfavourable fluctuations in hard currencies (e.g. Euros and US dollars) that are used to carry out direct import of goods for resale or that impact transactions nominated in a hard currency.	Foreign currency fluctuations bring instability in prices to imported goods and services and certain rental obligations which may impact profitability if not compensated by adjustments in selling prices.	Direct import of goods for resale is not significant as a proportion of total goods sold. Most imported products are purchased locally, while sharing the risk of currency fluctuations with suppliers. The majority of X5's long-term rental agreements are nominated in roubles, while the remaining part nominated in hard currency has a cap. In addition, foreign currency denominated rental agreements are re-negotiated following recent judicial precedents in Russia.

Statements of the Management Board

The Management Board has reviewed and analysed the strategic, operational, compliance and financial risks to which the Company is exposed, as well as the effectiveness of the Company's internal risk management and control systems, over the course of 2015. The outcome of this review and analysis has been shared with the Audit Committee and the Supervisory Board and has been discussed with X5's external auditors.

On the basis of the above and in accordance with best practice provision II.1.5 of the Dutch Corporate Governance Code, and article 5.25c of the Dutch Financial Supervision Act, the Management Board confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so. The financial statements fairly represent the Company's financial condition and the results of the Company's operations and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realisation of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliance with legislation, rules and regulations.

In view of all of the above, the Management Board confirms that, to the best of its knowledge, the consolidated financial statements prepared in accordance with IFRS as adopted in the European Union give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its consolidated subsidiaries, and the management report includes a fair review of the position at the balance sheet date and the development and performance of the business during the financial year together with a description of the principal risks and uncertainties that the Company faces.

The Management Board
17 March 2016

STEPHAN DUCHARME
Chairman of the Supervisory Board, Chairman of the Nomination and Remuneration Committee

MIKHAIL FRIDMAN
Member of the Supervisory Board

CHRISTIAN COUVREUX
Chairman of the Strategy Committee

DMITRY DOROFEEV
Member of the Supervisory Board

PAWEL MUSIAL
Member of the Supervisory Board

GEOFF KING
Chairman of the Audit Committee, Chairman of the Related Party Committee

PETER DEMCHENKOV
Member of the Supervisory Board

MICHAEL KUCHMENT
Member of the Supervisory Board

IGOR SHEKHTERMAN
X5 Chief Executive Officer, Chairman and Member of the Management Board

FRANK LHOËST
Company Secretary, Member of the Management Board

Supervisory Board

Stephan DuCharme

Chairman of the Supervisory Board, Chairman of the Nomination and Remuneration Committee

Mr DuCharme, a dual U.S./German citizen, served as CEO and Chairman of the X5's Management Board from July 2012 until November 2015, after having previously served on X5's Supervisory Board from 2008. Prior to X5, he held senior management positions with SUN Group and Alfa Group, preceded by senior banking positions with the European Bank for Reconstruction and Development (EBRD) and Salomon Brothers Inc. Stephan has served on the Boards of Directors of CSA Czech Airlines, Alfa Bank, SUN-Interbrew Ltd. and JSC SUEK. He graduated with distinction from the University of California at Berkeley and received an MBA from INSEAD.

Mikhail Fridman

Member of the Supervisory Board

Mr Fridman, one of the original founders of Alfa Group Consortium, is Chairman of the Supervisory Board of Alfa Group Consortium, one of Russia's largest privately owned financial-industrial conglomerates. Mikhail is also a member of the Supervisory Board of VimpelCom Ltd., a member of the Board of Directors of Alfa Bank, a member of the Board of Directors at ABH Holdings. Mikhail is a member of the Board of the Russian Union of Industrialists and Entrepreneurs and the International Advisory Board of the Council on Foreign Relations (USA). He graduated from the Moscow Institute of Steel and Alloys in 1986. Mikhail was born in Lvov, Ukraine, in 1964.

Christian Couvreux

Chairman of the Strategy Committee

Mr Couvreux, a French citizen, formerly held several leadership positions at Group Casino, including the position of CEO from 1997 until 2003, as well as at CFAO (now part of PPR), CFAO-Congo and La Ruche Meridionale, in particular. More recently, he acted as a retail consultant in a number of Asian countries, including Thailand, Vietnam, Indonesia and the Philippines. Christian holds a master's degree in Economics from the University of Paris and an MBA from the French business school H.E.C.

Dmitry Dorofeev

Member of the Supervisory Board

Mr Dorofeev, a Russian citizen, joined Alfa Group in May 2012 as Director of Group Portfolio Management and Control. His responsibilities include analysis and coordination of investment and strategic planning for Alfa Group's companies. Dmitry also serves as a member at the Supervisory Board of Alfa Group. Dmitry worked at McKinsey & Company in Moscow from 2004 until joining Alfa Group in 2012. From 2000 to 2004, he also held various positions at Ernst & Young in both St. Petersburg and in Moscow. Dmitry received his Master of Science degree from the Faculty of International Industrial Management at the Voenmeh D. Ustinov Baltic State Technical University. He also graduated from the Faculty of International Business at the Bodo Graduate School of Business in Norway. Dmitry qualified as a Chartered Certified Accountant (ACCA) in 2004.

Pawel Musial

Member of the Supervisory Board

Mr Musial, a Polish citizen, is CEO of Profi Rom Food, one of the largest supermarket chains in Romania. Beginning in 2008, Pawel held positions on the supervisory board of, consecutively, Ukraine Eko Market (Chairman) and Profi Rom Food. From 2006 to 2007, Pawel was Chief Commercial Officer and a member of the management board of X5, having previously been General Director and Chief Operating Officer of the Perekrestok chain beginning in 2004. Prior to joining Perekrestok, Pawel held senior management positions in the food retail industry in Poland, including five years with Tesco Poland, with his last position as Regional Director. Pawel graduated from the Warsaw University of Life Sciences (SGGW) with an engineering degree in Nutrition Technology.

Geoff King

Chairman of the Audit Committee, Chairman of the Related Party Committee

Mr King is a British national. He has extensive financial and retail experience, including almost 22 years at Tesco PLC, where he held various finance positions, including CFO for Tesco Ireland, Tesco International and Tesco Poland. More recently, he was the Group CFO of Maxis Communications Berhad, a major telecoms operator in Malaysia and India, and for the past 10 months has been an advisor to the X5 CEO, which gave him an opportunity to gain a detailed understanding of the company's activities.

Peter Demchenkov

Member of the Supervisory Board

Mr Demchenkov, a Russian citizen, is CEO of ALIDI, a leading provider of distribution and logistics services in Russia. From 2004 to 2005, Peter was Development Director of the Investment bank CIT Finance, and he worked in Procter & Gamble's Business Development Department in Eastern Europe from 1997 to 2004. Peter graduated from the St. Petersburg Polytechnical University with a degree in Technical Cybernetics.

Michael Kuchment

Member of the Supervisory Board

Mr Kuchment, a Russian citizen, is the co-founder and vice-president of Hoff, one of the leading home furnishing retailers in Russia. Michael is currently also Chairman of the Supervisory Board of Sovcombank, one of the leading Russian consumer banks. From 2008 until 2015, Michael was a board member of M.Video, the largest consumer electronics chain in Russia and the country's first public non-food retailer. Previously, from 2002 until 2008, Michael worked as the commercial director at M.Video. Michael graduated from the Moscow Institute of Physics and Technology with a qualification as a physics researcher, and holds an Executive MBA from the Skolkovo Moscow School of Management.

Management Board

Igor Shekhterman

X5 Chief Executive Officer, Chairman and Member of the Management Board

Mr Shekhterman has served on X5's Supervisory Board since 2013. He used to be Managing Partner and CEO at RosExpert, which he co-founded in 1996 and subsequently successfully developed into the Russian partner of Korn/Ferry International. Igor started his career as finance manager at the Russian branch of Beoluna, the Japanese jewellery producer. Igor holds a degree in Economics from the Kaliningrad Technical Institute (1992) and degrees in Business Administration from the Institute d'Administration des Enterprises (France, 1994) and the Danish Management School (1995).

Frank Lhoëst

Company Secretary, Member of the Management Board

Mr Lhoëst joined X5 in November 2007, having previously held several positions at Intertrust Group, from Account Manager in the Netherlands Antilles to founder and Director of the Intertrust office in Vienna, Austria. In 2002, Frank established Intertrust's Intellectual Property Group in the Netherlands. Frank graduated from Leiden University with a degree in Law.

4 / REPORT OF THE SUPERVISORY BOARD

The Supervisory Board is in charge of supervising and advising the Management Board and overseeing the general course of affairs and strategy of the Company. In performing its duties the Supervisory Board acts in accordance with the interests of the Company and its affiliated businesses. It also takes into account the relevant interest of the Company's stakeholders and, to that end, considers all appropriate interests associated with the Company. In X5's two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independently of the Management Board.

Composition and Profile of the Supervisory Board

X5's General Meeting of Shareholders determines the number of members of the Supervisory Board. Currently X5's Supervisory Board consists of eight members. The Supervisory Board reviews on an annual basis the profile of its size and composition, taking into account the evolving nature of X5's business and activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board profile is published on X5's corporate website.

At the Annual General Meeting of Shareholders on 7 May 2015, Geoff King and Peter Demchenkov were appointed as new Supervisory Board members. At the same meeting, David Gould, Alexander Tynkovan and Alexander Malis stepped down as member of the Supervisory Board.

In the third quarter of 2015 Stephan DuCharme stepped down as CEO and was nominated as member of the Supervisory Board, having previously served on the Board from 2008 to 2012. His nomination was approved by the Board in September, simultaneously with the nomination of Igor Shekhterman as his successor. In addition, to increase the number of independent Board members and the level of retail industry experience, the Board nominated Mikhail Kuchment as new member of the Supervisory Board. All three individuals were subsequently appointed by the General Meeting of Shareholders on 12 November 2015. At the time of his appointment, Stephan DuCharme took over as Chairman of the Board from Dmitry Dorofeev, who remained on the Board as member of the Audit Committee, Nomination and Remuneration Committee and Strategy Committee.

On 17 March 2016 the Supervisory Board nominated Andrey Elinson as new member of the Supervisory Board. Andrey Elinson will succeed Dmitry Dorofeev who will not be available for reappointment at the 2016 Annual General Meeting of Shareholders.

An overview of the current composition of the Supervisory Board is presented on pages 156 and 157.

Composition of the Committees

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its four permanent committees: the Audit Committee, the Nomination and Remuneration Committee, the Related Party Committee and the Strategy Committee. An overview of the current composition of the committees is presented in the Corporate Governance Report.

Induction

Induction and permanent education are key elements of good governance. Following their appointment new Supervisory Board members go through X5's strategic, financial, legal and reporting affairs with senior executives of the Company. In addition, prior to their appointment, they attend meetings of the Supervisory Board and its committees. On an ongoing basis, members of the Supervisory Board visit operating companies and other parts of the business including stores and distribution centers, to gain greater familiarity with senior management, and to develop deeper knowledge of local operations, opportunities and challenges.

Meetings of the Supervisory Board

In 2015 the Supervisory Board held four regular meetings, and one extraordinary meeting in September dedicated to the CEO transition as described above. Further resolutions in writing were taken when necessary during the year. On each of four occasions in 2015 the Supervisory Board meeting was preceded by meetings of the Audit Committee, the Strategy Committee and the Nomination and Remuneration Committee. The Related Party Committee convened throughout the year, if and when necessary. In 2015 the Supervisory Board continued its practice to have all meetings of the Strategy Committee attended by all members of the Supervisory Board. As a result the Supervisory Board effectively convened four times for two consecutive days, thus ensuring sufficient time for the meetings and discussions on specific themes, such as operational performance, strategy and management development. All these meetings included feedback sessions with members of the Executive Committee.

All meetings were attended by the full Supervisory Board. The CEO and CFO attended the meetings, and other members of senior management were regularly invited to present to the Supervisory Board. In 2015 the Supervisory Board held regular private sessions with no members of the Management Board present, to independently discuss matters related to the performance, functioning and development of members of the Executive Committee. The external auditor attended the meeting in March at which the 2014 Annual Report and financial statements were recommended for adoption by the Annual General Meeting of Shareholders. In between the Supervisory Board meetings, several informal meetings and telephone calls took place among Supervisory Board members and members of the Management Board and other Company management, to consult with each other on various topics and to ensure that the Supervisory Board remains well informed about the running of the Company operations.

In March the Supervisory Board discussed the recommendations from the Board assessment performed by an external party in fall 2014. Items assessed and subsequently discussed included: composition and independence of the Supervisory Board, meeting and decision-making processes, level of skills and expertise, individual contributions and relationship with the Executive Committee. The Supervisory Board attaches great value to these evaluations. They ensure continuous focus on the quality of the activities, composition and functioning of the Supervisory Board and its Committees and its relationship with the Executive Committee.

During 2015 the Supervisory Board reviewed various matters related to all significant aspects of the Company, its activities and operational results, strategy going forward and the management team and its development. Throughout the year the Board closely monitored the implementation of the Company's accelerated growth and expansion strategy, with a focus on operational discipline and sustainable margin optimization, taking into consideration changes in customer behavior as a result of the increasingly challenging economic situation in Russia.

Main topics reviewed and discussed by the Supervisory Board included:

- The distinct value propositions within the multi-format operating model, and opportunities to diversify and increase x5's share of the russian retail market, against the background of the challenging economic climate and its impact on customers;
- The development strategy for each of the formats, with a focus on disciplined growth, operational efficiencies and cost control;
- Role and size of the corporate center under the new operating model;
- Stock management and loss reduction across all formats;
- The further development and testing of the Karusel value proposition, with a focus on operational improvements and bottom-line growth;
- The CEO transition process, following Igor Shekhterman's nomination as new CEO in September, taking over from Stephan DuCharme;
- Composition of the Supervisory Board and the nomination of Geoff King and Peter Demchenkov (both appointed in May), and Stephan DuCharme and Michael Kuchment (both appointed in November);
- Review of X5's medium- to long-term strategic vision and objectives, serving as a framework for the multi-year plan, and the annual budget approved for 2016.

Other topics included:

- The financial reporting process and in particular the approval of the 2014 annual report and review of the 2015 half-yearly and quarterly financial reports;
- Reports by the internal and external auditors;
- The regular assessment of the members of the Executive Committee, including talent management and succession planning;
- Selection, appointment and remuneration of new members of Executive Committee and other senior managers of the company;
- The annual review of the composition of the committees of the Supervisory Board;
- The ongoing performance review of the various functions and business divisions of the company;
- The financing strategy;
- The IT strategy;
- Risk management.

Meetings of the Committees

Audit Committee

The role of the Audit Committee is described in its charter which is available on the Company's website. On 31 December 2015 the Audit Committee consisted of Geoff King (Chairman), Christian Couvreux, Dmitry Dorofeev and Pawel Musial. In 2015 the Audit Committee held four meetings in person. Additional meetings were held by conference call when necessary, for instance to review the publication of the quarterly financial reports and trading updates. As a rule, all meetings were attended by the CFO, the external auditor and the internal audit director. Other members of the Supervisory Board and senior management were invited when necessary or appropriate. The Audit Committee met once with the external auditor without the presence of management.

The agenda of the Audit Committee during the year was shaped to give attention to perceived priority areas as well as planned items. Priority areas were identified through reviewing updates on the functioning and development of various aspects of its control framework. These updates covered the Company's Enterprise Risk Management status and plans, Ethics Committee and Whistleblower Program, both Financial and Regulatory Compliance, and Internal Audit investigative findings on areas of concern.

Discussions were held with the external auditor both about the control improvements identified from the 2014 financial statements audit, as well as planning for 2015 reporting. As part of this planning process, the topics raised by the external auditors included: key audit matters, adoption of segmental reporting, impairment testing methodology for underperforming stores, and compliance with economic sanctions.

In accordance with mandatory audit firm rotation rules, EY was appointed by the General Meeting of Shareholders on 12 November 2015 as the new external auditor for X5 as of 2016, for an initial period of 3 years. The Audit Committee was closely involved in the preceding tender and selection process of the new audit firm, and subsequently discussed and monitored the transition plan for the handover from PwC to EY. The Audit Committee approved audit fees, as well as new rules on external auditor independence and selection, including instructions and conditions for non-audit work performed by the external auditor.

During 2015 the Audit Committee reviewed the stock holding and loss levels across all formats. To facilitate a more detailed understanding of these areas, senior operational management was invited to Audit Committee meetings to report progress in aged inventory and loss prevention plans. Also, the Audit Committee reviewed the investment appraisal methodology relating to new, refurbished and acquired stores, as well as an annual assessment of the accuracy of the investment predictions approved by the various Company investment decision committees.

In addition, the Audit Committee discussed topics including:

- The 2014 annual report and financial statements;
- The external auditors' report with respect to accounting and audit issues and internal control recommendations in respect of their audit of the 2014 consolidated financial statements;
- Quarterly interim financial reports and trading updates;
- The launch of an internal control self assessment tool, aimed at enhancing ownership and effectiveness of internal controls in the businesses;
- A review of the management response to the growing economic, financial and trading risks caused by the economic crisis and imposed sanctions in Russia;
- Perekrestok's operational control system;
- Material legal cases;
- X5's tax planning and residual tax risks;
- X5's financing strategy;
- Review and approval of the internal audit plan and budget for 2016.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is described in its charter which is available on the Company's website. On 31 December 2015 the Nomination and Remuneration Committee consisted of Stephan DuCharme (Chairman), Christian Couvreux, Dmitry Dorofeev and Peter Demchenkov. The Nomination and Remuneration Committee held four meetings in 2015, to all of which the CEO was invited to attend. Other members of the Supervisory Board and senior management were invited when necessary or appropriate.

In 2015 discussions focused on succession planning as well as leadership and human resource needs in relation to the Company's multi-format operating model and growth objectives. The Committee furthermore discussed the succession planning of the Management Board and Supervisory Board, specifically following Stephan DuCharme's stepping down as CEO in fall, and the nomination of Igor Shekhterman as his successor. As Igor Shekhterman was member — and chairman — of the Nomination and Remuneration Committee, this discussion was held in his absence, also at plenary Board level. Also in fall, the Committee discussed and recommended the nomination of Mikhail Kuchment as member of the Supervisory Board. Furthermore, in accordance with the retirement and re-appointment schedule of the Management Board, the Committee discussed and proposed the re-appointment of Mr. Lhoëst for a new term until 2019.

In the context of X5's HR strategy discussed in March, and acknowledging that staff training and development is a key element to support the growth of the Company, the Committee discussed and reviewed the training program for store managers and personnel.

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

- Regular assessment of the members of the Executive Committee;
- Variable remuneration of the members of the Executive Committee, and review and approval of corporate and individual targets under the short-term incentive plan;
- Appointment of senior managers based on selection criteria prepared in advance, as well as their remuneration in accordance with the Company's remuneration policy.

For information on the remuneration policy, see Remuneration on page 162. Details of actual remuneration in 2015 can be found in notes 26 and 27 of the Consolidated Financial Statements.

Related Party Committee

The role of the Related Party Committee is described in its charter which is available on the Company's website. On 31 December 2015 the Related Party Committee consisted of Geoff King (Chairman) and Mikhail Kuchment. During the year the Related Party Committee considered a number of transactions which gave rise to -the appearance of a conflict of interest with the Company.

More specifically, the Related Party Committee discussed the following transactions:

- Insurance contracts with Alfastrahovanie;
- Foreign exchange agreements, bond issues, revolving credit facilities and other bank products with Alfa Bank;
- Service agreements with CTF Holdings limited;
- Agreements for executive search services with Rosexpert.

These transactions were discussed and/or approved by the Related Party Committee and the Supervisory Board with due observance of best practice provisions II.3.2 to II.3.4 and III.6.1 to III.6.4 of the Dutch Corporate Governance Code, and the rules set forth in Chapter VI (Conflict of Interests) of the Rules Governing the Principles and Practices of the Supervisory Board, which Rules are available on the Company's website. The Supervisory Board assessed that, to the extent any of the listed transactions constitutes a conflict of interest for certain members of the Supervisory Board, such conflict does not undermine the independent judgment of these Board members while performing their duties for X5.

Strategy Committee

The role of the Strategy Committee is described in its charter which is available on the Company's website. On 31 December 2015 the Strategy Committee consisted of Christian Couvreux (Chairman), Dmitry Dorofeev, Pawel Musial and Mikhail Kuchment. The responsibilities of the Strategy Committee include the review of the general strategy of the Company including but not limited to the following main areas: overall growth and development strategy, financing strategy, budget and key-performance indicators, mergers and acquisitions.

The Strategy Committee held four meetings in 2015. All meetings were attended by all other members of the Supervisory Board as well as the CEO and the CFO, and included feedback sessions with members of the Executive Committee. In 2015 an important part of the Committee's activities was focused on refining the value propositions of the core formats within X5's multi-format operating model, reviewing opportunities to diversify and increase X5's share of the Russian retail market in a sustainable manner, monitoring operational performance and cost control measures, as well as preparing the new corporate strategy update to be discussed and approved in 2016. In December, the Strategy Committee discussed the Company's budget for 2016.

Corporate Governance

Both the Supervisory Board and the Management Board continued their efforts to ensure that the Company's practices and procedures comply with the Dutch Corporate Governance Code. In accordance with the Code, a broad outline of the corporate governance structure of the Company is presented in the Corporate Governance Report.

Financial Statements

This Annual Report and the 2015 consolidated financial statements, audited by PricewaterhouseCoopers Accountants N.V., were presented to the Supervisory Board in the presence of the Management Board and the external auditor. PricewaterhouseCoopers' report can be found on page 166.

The Supervisory Board recommends that the General Meeting of Shareholders adopts the 2015 consolidated financial statements of X5 Retail Group N.V. The General Meeting of Shareholders will be asked to release the members of the Management Board from liability for the exercise of the management of the Company's affairs. The appropriation of results approved by the Supervisory Board can be found on page 219.

The Supervisory Board wishes to express its sincere appreciation for the results achieved and would like to thank the Executive Committee and all X5 employees for their continued dedication and efforts in 2015.

The Supervisory Board
17 March 2016

5 / REMUNERATION

This chapter outlines the remuneration policy for the Management Board and the Supervisory Board, as approved by the General Meeting of Shareholders. Details of actual remuneration in 2015 can be found in notes 26 and 27 of the Consolidated Financial Statements.

Since members of the Management Board are also members of the Executive Committee and the Supervisory Board resolved that the remuneration policy shall equally apply to all members of the Executive Committee, this section will refer to the Executive Committee, unless specific provisions apply to members of the Management Board only which will be indicated.

The objective of X5's remuneration policy is twofold:

- to create a remuneration structure that will allow the Company to attract, reward and retain qualified executives who will lead the Company in achieving its strategic objectives and
- to balance short-term operational performance with the long-term objectives of the Company and value creation for its shareholders and stakeholders, with due regard for the risks to which variable remuneration may expose the Company.

In response to proposal from the Nomination and Remuneration Committee, and if in the interest of the Company, the Supervisory Board may at its discretion deviate from the remuneration policy when offering a remuneration package to a newly appointed member of the Executive Committee. This discretion may be applied in the event of exceptional circumstances or if deemed appropriate and if in the interest of the company and its shareholders.

Adjustments to remuneration policy in 2015

The Annual General Meeting of Shareholders of 7 May 2015 approved an amendment of the remuneration policy, substituting the deferred cash incentive plan launched in 2013 with a short-term incentive and a long-term incentive, both cash based. These changes were aimed at:

- Improving the balance between short-term operational performance and the medium and long-term objective of creating sustainable value for all stakeholders thereby following good practice;
- Enhanced alignment of the remuneration policy with the Company's targets and strategic objectives defined in 2014, with specific incentives for profitable growth and increasing market share.

All other features of the remuneration policy remained unchanged.

Benchmarking with industry peers

As a company with operations mainly in Russia, with international exposure due to its governance structure and listing on the London Stock Exchange, distinct benchmarking is applied to X5 base salaries as well as variable salary components. Base salaries are benchmarked against mainly Russian peers while variable salary components, including long term incentive elements, are benchmarked against relevant western peers as well. The peer group applied to the benchmarking of base salaries is currently composed of Russian companies equivalent in terms of size of business, complexity of operations, growth dynamics and corporate governance.

Total direct compensation

The total direct compensation consists of the following components: base salary, performance related short-term incentive (STI) and performance-related long-term incentive (LTI).

In addition to this total direct compensation, members of the Executive Committee are entitled to other benefits, such as described below under 'Other remuneration components'.

Base salary

Base salaries are specified in the individual contracts with members of the Executive Committee and reflect their qualifications, experience, expertise and responsibilities.

The levels of base salaries are determined by:

- Benchmarking with industry peers, as described above;
- the specific responsibilities of the individual member of the Executive Committee.

The annual review date for the base salaries is April 1.

Short-term incentive (STI)

The annual incentive for members of the Executive Committee is predicated upon both quantitative financial indicators and individual targets. The on-target pay-out as a percentage of base salary is 100%, contingent on full achievement of the objectives, with a cap at 140% in case of exceptional performance.

The Supervisory Board sets the annual incentive targets -and their weight- at the beginning of each financial year, as well as performance ranges, i.e. the value below which no pay-out will be made (the threshold), the on-target value and the maximum pay-out level. The financial targets consist of elements related to the Company's operational performance, including net sales, with an EBITDA threshold as a condition for STI pay-out. The individual targets include targets related to divisional performance, mission-related or key project-related targets, as well as qualitative cultural and behavioral targets.

Both the financial and individual performance measures contribute to the Company's success in the short term, while also securing the long-term objectives of the Company. X5 does not disclose the targets for the STI programme which represent commercially sensitive information.

Long-term incentive (LTI)

The LTI is a programme in two 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 Company's long-term ambitions, with a specific focus on net revenue and market share relative to the competition, without sacrificing EBITDA. The total available fund for all payouts under the LTI programme is capped at 12% of EBITDA in the year that the final stage performance targets are acheived.

The size of each individual cash award is based on a pre-determined score, reflecting the participant's role and function within the Company and his or her contribution to meeting the LTI targets, both at individual and team level. The LTI includes an award for non-financial individual targets with a weight up to 20% of the total incentive opportunity, determined at the discretion of the Supervisory Board.

Other remuneration components

A number of other arrangements may be offered to members of the Executive Committee, such as expense allowance, medical insurance, accident insurance and life insurance, in accordance with general policies approved by the Supervisory Board. The Company's policy does not allow personal loans and guarantees to members of the Executive Committee. The Company does not provide for pension arrangements for members of the Executive Committee.

Contractual arrangements

Management Board members appointed prior to 1 January 2013 are engaged on the basis of an employment agreement for an indefinite period of time. Russia-based members of the Management Board are engaged on the basis of a Management Services Agreement with a four-year term, to be extended at reappointment by the Annual General Meeting of Shareholders, and a contract of employment with an operational subsidiary in Russia. The fixed and variable salary components stipulated in each contract reflect the relevant responsibilities of each member of the Management Board in the Netherlands and in Russia.

Claw-back / change-of control

New claw-back legislation introduced in the Netherlands as per 1 January 2014 strengthens the Company's ability to revise and claw back director's variable pay components if they are excessive or wrongly awarded. Under the new rules the Supervisory Board may recover from the Management Board members all or part of a paid bonus if such bonus is based on incorrect information regarding the targets or the conditions of the bonus. Furthermore, the Supervisory Board has the discretionary authority to adjust an unpaid bonus to an appropriate amount if payment of the bonus is considered unreasonable or unfair. In addition, it is enacted that in the case of a change-of-control event a related increase in value of the securities that have been granted to a board member as part of his/her remuneration will be deducted from the remuneration to be paid to the board member at the time of selling these securities or when his/her board membership ends.

Severance arrangement

The severance payment is in principle limited to a maximum of one year's base salary for members of the Management Board, and a six months' base salary for Executive Committee members. The Supervisory Board reserves the right to agree to a different amount if required under individual circumstances.

Loans

X5 does not provide any loans or guarantees to members of the Executive Committee.

Insurance and indemnity arrangements

Members of the Management Board, as well as certain senior management members, are insured under X5's Directors and Officers Insurance Policy.

Although the insurance policy provides for a wide coverage, X5's directors and officers may incur uninsured liabilities. Members of the Management Board may be indemnified by the Company against any claims arising out of or in connection with the general performance of their duties, provided that such claim is not attributable to gross negligence, willful misconduct or intentional misrepresentation by such director or officer. Similar indemnities to be granted by the Company to members of the Supervisory Board shall be submitted to the 2016 Annual General Meeting of Shareholders.

Supervisory Board Remuneration

The remuneration principles for the Supervisory Board, adopted by the General Meeting of Shareholders in 2013 are as follows: the Chairman receives a fee of EUR 250,000 members chairing a committee receive a fee of EUR 200,000 with other members drawing a fee of EUR 100,000.

Any non-independent member of the Supervisory Board who is -either directly or indirectly- affiliated with, engaged or employed by a legal entity or person holding at least thirty per cent of the voting rights in the Company, shall waive his/her entitlement to remuneration for acting as a member of the Supervisory Board.

X5 believes it is necessary to allow members of the Supervisory Board to align their interests with those of shareholders and strengthen their commitment and confidence in the future of the Company. Therefore, members of the Supervisory Board are entitled to an annual grant of Restricted Stock Units (RSUs), with award date on 19 May of the subsequent year, subject to the relevant Supervisory Board member holding office during the period until the award date. The number of Restricted Stock Units (RSUs) granted in each given year is based on 100% of the Board member's fixed annual remuneration, divided by the average market value[1] of a GDR on the relevant grant date.

RSU awards are subject to a two-year vesting period. Provided that the Supervisory Board member still holds office when RSUs vest, the RSUs will be converted into an equal number of GDRs which cannot be traded during a further two-year lock-in period. RSUs awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders.

Remuneration Policy in 2016 and beyond

As described in Note 26 'Staff Costs' to the Consolidated Financial Statements, the targets set for the first stage of the LTI were achieved as per 31 December 2015, as specific comparative performance indicators were met, and also the profitability threshold was exceeded. In order to ensure continued executive alignment and motivation, the Supervisory Board reserved a discretionary part of the first stage bonus fund for deferred, conditional payouts during the remainder of the period covered by the first stage of the LTI, in accordance with the programme rules.

During the course of 2016 the Nomination and Remuneration Committee will continue to reflect on the current policy and the balance between short and long term compensation and the Company's targets, taking into account the Company's strategic plan defined during the year.

Furthermore, the Board will propose to the General Meeting of Shareholders an amendment of the remuneration principles for members of the Supervisory Board, aimed at (i) introducing a compensation policy for extraordinary assignments of a non-executive nature, performed by members of the Supervisory Board and (ii) simplifying the RSU award mechanism, while safeguarding the existing terms and conditions for vesting and lock-up under the RSU plan. Further details of the proposed amendments will be submitted to the 2016 Annual General Meeting of Shareholders.

The Supervisory Board
17 March 2016

[1] The Average Market Value is defined as "on any particular day the volume weighted average price of a GDR over the thirty immediately preceding calendar days. The volume weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange".

PART 3

Financial Statements

31 DECEMBER 2015

X5 Retail Group N.V.

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Consolidated financial statements

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X5 Retail Group N.V.

Consolidated Statement of **Financial Position** at 31 December 2015

Expressed in millions of Russian Roubles, unless otherwise stated

	NOTE	31 DECEMBER 2015	31 DECEMBER 2014
Assets			
Non-current assets			
Property, plant and equipment	10	189,000	150,328
Investment property	11	4,828	3,718
Goodwill	12	75,313	65,684
Other intangible assets	13	15,101	14,618
Investment in associates	8	-	31
Available-for-sale investments		-	213
Other non-current assets	16	3,751	2,251
Deferred tax assets	28	5,417	3,568
		293,410	**240,411**
Current assets			
Inventories	14	57,887	47,084
Indemnification asset	7, 33	1,261	240
Trade and other accounts receivable	16	25,008	21,464
Current income tax receivable		1,729	2,610
VAT and other taxes receivable	17	13,862	13,488
Cash and cash equivalents	9	8,958	25,623
		108,705	**110,509**
Total assets		**402,115**	**350,920**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	20	2,458	2,457
Share premium		46,253	46,218
Retained earnings		55,970	41,789
Share-based payment reserve	27	37	94
		104,718	**90,558**
Total equity		**104,718**	**90,558**
Non-current liabilities			
Long-term borrowings	19	101,545	115,152
Deferred tax liabilities	28	4,961	3,924
Long-term deferred revenue		11	13
		106,517	**119,089**
Current liabilities			
Trade accounts payable		103,773	92,001
Short-term borrowings	19	42,670	15,834
Interest accrued		1,390	693
Short-term deferred revenue		243	555
Current income tax payable		1,684	1,770
Provisions and other liabilities	18	41,120	30,420
		190,880	**141,273**
Total liabilities		**297,397**	**260,362**
Total equity and liabilities		**402,115**	**350,920**

X5 Retail Group N.V.

Consolidated Statement of **Profit or Loss** for the year ended 31 December 2015

Expressed in millions of Russian Roubles, unless otherwise stated

	NOTE	31 DECEMBER 2015	31 DECEMBER 2014
Revenue	22	808,818	633,873
Cost of sales	23	(610,428)	(478,891)
Gross profit		**198,390**	**154,982**
Selling, general and administrative expenses	23	(170,065)	(133,512)
Lease/sublease and other income	24	6,124	6,818
Operating profit		**34,449**	**28,288**
Finance costs	25	(17,131)	(12,175)
Finance income	25	594	117
Share of loss of associates		-	(37)
Net foreign exchange gain		18	25
Profit before tax		**17,930**	**16,218**
Income tax expense	28	(3,756)	(3,527)
Profit for the period		**14,174**	**12,691**
Profit for the period attributable to:			
Equity holders of the parent		14,174	12,691
Basic earnings per share for profit attributable to the equity holders of the parent (EXPRESSED IN RUB PER SHARE)	21	208.82	187.02
Diluted earnings per share for profit attributable to the equity holders of the parent (EXPRESSED IN RUB PER SHARE)	21	208.82	187.02

X5 Retail Group N.V.

Consolidated Statement of **Comprehensive Income** for the year ended 31 December 2015

Expressed in millions of Russian Roubles, unless otherwise stated

	31 DECEMBER 2015	31 DECEMBER 2014
Profit for the period	**14,174**	**12,691**
Other comprehensive income/(loss) Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation from functional to presentation currency	-	(23)
Reclassification of cumulative translation reserve attributable to disposed subsidiaries	-	67
Reclassification of changes in fair value attributable to disposed available-for-sale investments	7	-
Total items that may be reclassified subsequently to profit and loss, net of tax	**7**	**44**
Other comprehensive income, net of tax	**7**	**44**
Total comprehensive income for the period, net of tax	**14,181**	**12,735**
Total comprehensive income for the period attributable to:		
Equity holders of the parent	**14,181**	**12,735**

X5 Retail Group N.V.

Consolidated Statement of **Cash Flows** for the year ended 31 December 2015

Expressed in millions of Russian Roubles, unless otherwise stated

	NOTE	31 DECEMBER 2015	31 DECEMBER 2014
Profit before tax		**17,930**	**16,218**
ADJUSTMENTS FOR:			
Depreciation, amortisation and impairment of property, plant and equipment, investment property and intangible assets	23	20,784	17,572
Loss/(gain) on disposal of property, plant and equipment, investment property and intangible assets		77	(496)
Finance costs, net	25	16,537	12,058
Impairment of trade and other accounts receivable	23	1,260	533
Share-based compensation expense	27	18	32
Net foreign exchange gain		(18)	(25)
Loss from associate		-	37
Other non-cash items		90	(163)
Net cash from operating activities before changes in working capital		**56,678**	**45,766**
Increase in trade and other accounts receivable		(6,228)	(7,312)
Increase in inventories		(10,152)	(9,283)
Increase in trade payable		9,339	10,566
Increase in other accounts payable		5,635	3,817
Net cash generated from operations		**55,272**	**43,554**
Interest paid		(15,924)	(11,771)
Interest received		387	117
Income tax paid		(4,248)	(3,333)
Net cash from operating activities		**35,487**	**28,567**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(51,605)	(28,260)
Acquisition of subsidiaries	7	(5,884)	(2,297)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		288	1,651
Purchase of other intangible assets		(2,685)	(831)
Proceeds from disposal of available-for-sale investments		210	-
Proceeds from associate		31	-
Net cash used in investing activities		**(59,645)**	**(29,737)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans		66,320	70,655
Repayment of loans		(58,822)	(51,307)
Principal payments on finance lease obligations		-	(4)
Net cash generated from financing activities		**7,498**	**19,344**
Effect of exchange rate changes on cash and cash equivalents		(5)	(162)
Net (decrease)/increase in cash and cash equivalents		**(16,665)**	**18,012**
MOVEMENTS IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year	9	25,623	7,611
Net (decrease)/increase in cash and cash equivalents		**(16,665)**	**18,012**
Cash and cash equivalents at the end of the year	9	**8,958**	**25,623**

X5 Retail Group N.V.

Consolidated Statement of **Changes in Equity** for the year ended 31 December 2015

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	Cumulative translation reserve	Retained earnings	Total shareholders' equity	Total
Balance as at 1 January 2014	**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	-	-	-	-	-	12,691	12,691	**12,691**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**44**	**12,691**	**12,735**	**12,735**
Share-based payment compensation (Note 27)	-	-	-	17	-	-	17	**17**
Transfer of vested equity rights	23,078	1	92	(93)	-	-	-	**-**
Balance as at 31 December 2014	**67,867,743**	**2,457**	**46,218**	**94**	**-**	**41,789**	**90,558**	**90,558**
Balance as at 1 January 2015	**67,867,743**	**2,457**	**46,218**	**94**	**-**	**41,789**	**90,558**	**90,558**
Other comprehensive income for the period	-	-	-	-	-	7	7	**7**
Profit for the period	-	-	-	-	-	14,174	14,174	**14,174**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**14,181**	**14,181**	**14,181**
Share-based payment compensation (Note 27)	-	-	-	(21)	-	-	(21)	**(21)**
Transfer of vested equity rights	14,678	1	35	(36)	-	-	-	**-**
Balance as at 31 December 2015	**67,882,421**	**2,458**	**46,253**	**37**	**-**	**55,970**	**104,718**	**104,718**

X5 Retail Group N.V.

Notes to the Consolidated Financial Statements for the year ended 31 December 2015

Expressed in millions of Russian Roubles, unless otherwise stated

1 / PRINCIPAL ACTIVITIES AND THE GROUP STRUCTURE

These consolidated financial statements are for the economic entity comprising X5 Retail Group N.V. (the "Company") and its subsidiaries, as set out in Note 6 (the "Group").

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

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2015 the Group operated a retail chain of 7,020 proximity stores, 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 2014: 5,483 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express"), with the following number of stores:

		31 DECEMBER 2015	31 DECEMBER 2014
Perekrestok Supermarket	Central	288	236
	Povolzhye	44	44
	North-West	47	39
	Volgo-Vyatsky	32	28
	North Caucasus	24	21
	Ural	23	16
	Central-Chernozemny	13	12
	Western Siberia	7	7
		478	**403**
Pyaterochka Proximity Stores	Central	2,325	1,883
	Ural	1,003	645
	Povolzhye	768	620
	North-West	635	581
	Volgo-Vyatsky	467	363
	North Caucasus	457	304
	Central-Chernozemny	415	282
	North	146	84
	West Siberia	49	27
		6,265	**4,789**
Karusel Hypermarket	Central	27	24
	North-West	17	16
	Povolzhye	14	14
	Ural	11	10
	Volgo-Vyatsky	9	9
	Central-Chernozemny	7	7
	Western Siberia	3	1
	North Caucasus	2	1
		90	**82**
Express		187	209
Total stores		**7,020**	**5,483**

As at 31 December 2015 the Company's principal shareholder 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 31 December 2015 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share (Note 20).

2 / SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These consolidated financial statements for the year ended 31 December 2015 have been prepared in accordance with, and comply with International Financial Reporting Standards as adopted by the European Union and with Part 9 Book 2 of The Netherlands Civil Code. In accordance with article 402 Book 2 of The Netherlands Civil Code the statement of profit or loss in the Company Financial Statements is presented in abbreviated form.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. However, when a business combination is achieved in stages by successive share purchases, the date of exchange is the date of each exchange transaction; whereas the acquisition date is the date on which acquirer obtains control of the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Goodwill is measured by deducting the fair value of net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in consolidated statement of profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts.

The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to other reserve within equity.

2.3 Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.4 Foreign currency translation and transactions

A / **Functional and presentation currency**

Functional currency. The functional currencies of the Group's entities are the national currency of the Russian Federation, 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 consolidated financial statements.

B / **Transactions and balances**

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

2.5 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Management Board. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Starting from 2015 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. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment are capitalised and the replaced parts are retired. Capitalised costs are depreciated over the remaining useful life of the property, plant and equipment or part's estimated useful life whichever is sooner.

Expressed in millions of Russian Roubles, unless otherwise stated

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment including construction in progress. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a favourable change in circumstances affecting estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing the proceeds with the carrying amount are recognised in profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

Buildings	20–50 years
Machinery and equipment	5–10 years
Refrigerating equipment	7–10 years
Vehicles	5–7 years
Other	3–5 years

Leasehold improvements are capitalised when it is probable that future economic benefits associated with the improvements will flow to the Company and the cost can be measured reliably. Capitalised leasehold improvements are depreciated over their useful life.

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

2.7 Investment property

Investment property consists of buildings held by the Group to earn rental income or for capital appreciation, or both, and which are not occupied by the Group. The Group recognises the part of owned shopping centres that are leased to third party retailers as investment property, unless they represent insignificant portions of the property and are used primarily to provide auxiliary services to retail customers not provided by the Group rather than to earn rental income. After purchase or construction of the building the Group assesses the main purpose of its use and, if the main purpose is to earn rental income or for capital appreciation, or both, the building is classified as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment without changes in the carrying amount and cost of that property for measurement or disclosure purposes. Depreciation on items of investment property is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are 20–50 years.

Fair value represents the price at which a property could be sold to a knowledgeable, willing party and has generally been determined using the income approach. The Group engaged an independent valuation specialist to assess the fair value of investment properties. The measurement is classified in level 3 of the fair value hierarchy.

2.8 Intangible assets

A / **Goodwill**
Goodwill is carried at cost less accumulated impairment losses. Goodwill represents the excess of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date over the fair value of the net assets of the acquired subsidiary at the date of exchange. Goodwill is not deductible for tax purposes.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is tested on the operating segment level.

B / **Lease rights**
Lease rights represent rights for favourable operating leases acquired in business combinations. Lease rights acquired in a business combination are recognised initially at fair value. Lease rights are amortised using the straight-line method over the lease term of the respective lease contracts — ranging from 5 to 50 years.

C / **Brand and private labels**
Brand and private labels acquired in a business combination are recognised initially at fair value. Brand and private labels are amortised using the straight-line method over their useful lives:

	USEFUL LIVES
Brand	5–20 years
Private labels	1–8 years

D / **Franchise agreements**
Franchise agreements represent rights to receive royalties. Franchise agreements acquired in a business combination are recognised initially at fair value. Franchise agreements are amortised using the straight-line method over their useful lives ranging from 7 to 10 years (8 on average).

E / **Other intangible assets**
Expenditure on acquired patents, software, trademarks and licenses is capitalised and amortised using the straight-line method over their useful lives ranging from 1 to 10 years (5 on average).

F / **Prepaid leases**
Prepaid leases are key money payments due to incumbent tenants and other directly attributable costs for entering into lease contracts. Prepaid leases are amortised using the straight-line basis over their useful lives (terms of the lease contracts).

G / **Impairment of intangible assets**
Where an indication of impairment exists, the recoverable amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount. Goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever impairment indicators exist.

2.9 Operating leases

Leases of assets under which substantially all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease except preopening rentals, which are directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management, capitalised as a part of retail store or distribution centre construction costs.

The Group leases retail outlets and distribution centres under terms of fixed and variable lease payments. The variable lease payments depend on revenue earned by the respective retail outlets. The Group classifies variable lease payments as contingent rents unless the Group is virtually certain of the expected amount of the future lease payments in which case they are classified as minimum lease payments (Note 33).

Initial direct costs incurred by the Group in negotiating and arranging an operating lease including key money paid to previous tenants for entering into lease contracts are recognised as lease rights.

2.10 Inventories of goods for resale

Inventories at warehouses and retail outlets are stated at the lower of cost and net realisable value. Cost comprises direct costs of goods, transportation and handling costs. Cost is determined by the weighted average method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

The Group provides for estimated inventory losses (shrinkage) between physical inventory counts on the basis of a percentage of cost of sales. The provision is adjusted to actual shrinkage based on regular inventory counts. The provision is recorded as a component of cost of sales. The Group also provides for slow moving inventory where the expected selling price is below cost.

2.11 Financial assets and liabilities

The Group classifies its financial assets into the following measurement categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, if required under IFRS. The Group designates investments as available-for-sale only when they fall outside the other category of financial assets.

Initial recognition of financial instruments
Financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

Impairment
The Group reviews the carrying value of its financial assets on a regular basis. If the carrying value of an asset is greater than the recoverable amount, the Group records an impairment loss and reduces the carrying amount of assets by using an allowance account.

Derecognition of financial assets
The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into the following measurement categories: (a) financial derivatives and (b) other financial liabilities. Financial derivatives are carried at fair value with changes in value recognised in the consolidated statement of profit or loss in the period in which they arise. Other financial liabilities are carried at amortised cost.

2.12 Loans, trade and other receivables

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans receivable and other receivables are carried at amortised cost using the effective interest rate method. Trade receivables are initially recognised at their fair values and are subsequently carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Group determines that there is objective evidence of impairment by assessing groups of receivables against credit risk factors established based on historical loss experience for each group. Indications that the trade receivable may be impaired include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment. The amount of the provision is recognised in the consolidated statement of profit or loss. Uncollectible receivables are written off against the related impairment provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recovery of amounts previously written off is credited to impairment account within the profit or loss for the year.

2.13 Available-for-sale investments

Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss and subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and such increase can objectively relate to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the current period's profit or loss.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments used for meeting short term cash commitments.

2.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the reporting date.

2.16 Value added tax

Output VAT related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice and fulfilment of other conditions in compliance with Russian tax legislation.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability, except for VAT, presented within other non-current assets. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.17 Employee benefits

Wages, salaries, bonuses, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by the employees of the Group. The Group's entities contribute to the Russian Federation's state pension and social insurance funds in respect of their employees. These contributions are accrued when incurred. The Group's commitment ends with the payment of these contributions.

2.18 Share-based payments

Employee stock plan
The Group receives services from employees as consideration for conditional rights to receive GDRs after vesting period of 3 years and fulfilment of certain predetermined performance conditions.

Share-based payment transactions under the employee stock plan are accounted for as equity-settled transactions.

The fair value of the employee services received in exchange for the grant of the conditional rights is recognised as an expense over the vesting period and measured by reference to the market price of the GDRs which is determined at grant date.

2.19 Borrowings

Borrowings are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs directly attributable to the acquisition, construction or production of assets necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.20 Trade and other payables

Trade and other payables are accrued when the counterparty performs its obligation under the contract and are carried at amortised cost using the effective interest method. Trade payables are recognised initially at fair value.

2.21 Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

2.22 Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared on or before the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

2.23 Treasury shares

Where any group company purchases the Company's equity share capital, the paid consideration, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any received consideration, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.24 Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting period. Diluted earnings per share are calculated by adjusting the earnings and the number of shares for the effects of dilutive options.

2.25 Taxes

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Current income tax liabilities (assets) are measured in accordance with IAS 12, Income Taxes, based on legislation that is enacted or substantively enacted at the reporting date, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided, using the reporting liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In accordance with the initial recognition exemption, deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on tax rates which are enacted or substantially enacted at the reporting date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing.

2.26 Income and expense recognition

Income and expenses are recognised on an accrual basis as earned or incurred. Recognition of the principal types of income and expenses is as follows:

A / **Revenue**
Revenue from the sale of goods through retail outlets is recognised at the point of sale. Revenue from franchisee fees is recognised based on contractual agreements over the term of the contracts. The up-front non-refundable franchisee fees received by the Group are deferred and recognised over the contractual term. Revenue from advertising services is recognised based on contractual agreements. Revenues are measured at the fair value of the consideration received or receivable. Revenues are recognised net of value added tax.

The Group has a loyalty card scheme. Discounts earned by customers through loyalty cards, are recorded by the Group by allocating some of the consideration received from the initial sales transaction to the award credits and deferring the recognition of revenue.

B / **Cost of sales**
Cost of sales include the purchase price of the products sold and other costs incurred in bringing the inventories to the location and condition ready for sale, i.e. retail outlets. These costs include costs of purchasing, storing, rent, salaries and transporting the products to the extent it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of allowances from suppliers in the form of volume discounts and other forms of payment. In accounting for supplier bonuses received by the Group, the Group determined that these bonuses are a reduction in prices paid for the product and are reported as part of the cost of sales as the related inventory is sold. Bonuses receivable from suppliers in cash are presented as trade receivables

C / **Interest income and expense**
Interest income and expense are recognised on an effective yield basis.

D / **Selling, general and administrative expenses**
Selling expenses consist of salaries and wages of stores employees, store expenses, rent or depreciation of stores, utilities, advertising costs and other selling expenses. General and administrative expenses include costs of salaries and wages of support office employees, rent and depreciation of support offices, impairment and amortisation charges of non-current assets and other general and administrative expenses. Selling, general and administrative expenses are recognised on an accrual basis as incurred.

2.27 Impairment of non-current assets other than goodwill

The Group periodically assesses whether there is any indication that non-current assets may be impaired. If any such indicators exist, the Group estimates the recoverable amount of the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which it belongs. Individual stores are considered separate cash-generating units for impairment testing purposes. Impairment loss is recognised whenever the carrying amount of an asset or the related cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of profit or loss. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.28 Fair value of assets and liabilities at the acquisition date

A primary valuation of assets and liabilities of acquired companies was performed on a provisional basis. Once the valuation is finalised, any adjustments arising are recognised retrospectively.

2.29 Indemnification asset

The indemnification asset equivalent to the fair value of the indemnified liabilities is deducted from consideration transferred for the business combination if the selling shareholders of the acquiree agreed to compensate possible claims or contingencies. Subsequent measurement of the indemnification asset and contingent liability will have no net impact on future earnings, unless the indemnification asset becomes impaired.

2.30 Offsetting of financial assets and financial liabilities

Accounts receivable and accounts payable are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

3 / CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include:

Impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amount of a cash-generating unit has been determined based on the higher of fair value less costs to sell or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 12.

Provisional fair values of net assets of acquired businesses. During the reporting period the Group made several acquisitions (Note 7) and applied a number of estimates to define the provisional fair value of acquired businesses' net assets. In estimating the provisional values of property and lease rights, direct references to observable prices in an active market are used (market approach). Estimates of other assets and liabilities are consistent with the Group policies with regard to other subsidiaries.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 33).

Property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 10). The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets. Management will increase the depreciation charge where useful lives are less than previously estimated lives or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or reclassified as held for sale.

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. The Group performs assets impairment testing (Note 10). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2015 the Group recognised an impairment loss in the amount of RUB 2,266 (year ended 31 December 2014: an impairment loss in the amount of RUB 2,530).

Investment property. The Group's management determines the estimated useful lives and related depreciation charges for its investment properties (Note 11). Management will increase the depreciation charge where useful lives are less than previously estimated lives or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or reclassified as held for sale.

The Group periodically assesses whether there is any indication that investment property may be impaired. The Group performs assets impairment testing (Note 11). 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 year ended 31 December 2015 the Group recognised an impairment gain in the amount of RUB 2 (year ended 31 December 2014: an impairment gain in the amount of RUB 43).

Lease rights. The Group's management determines the fair value of lease rights acquired in business combinations. The assessment of the fair value of such lease rights is based on the estimate of the market rates of the lease (Note 13). The Group periodically assesses whether there is any indication that lease rights may be impaired. The Group performs assets impairment testing (Note 13). 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 year ended 31 December 2015 the Group recognised an impairment loss in the amount of RUB 249 (year ended 31 December 2014: an impairment gain in the amount of RUB 84).

Prepaid leases. The Group periodically assesses whether there is any indication that prepaid leases may be impaired. The Group performs assets impairment testing (Note 13). 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 year ended 31 December 2015 the Group recognised an impairment loss in the amount of RUB 281 (year ended 31 December 2014: an impairment gain in the amount of RUB 58).

Inventories of goods for resale provisions. The Group provides for estimated inventory shrinkage on the basis of historical shrinkage as a percentage of cost of sales. This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results. The Group also provides for slow moving inventory where the expected time to sell exceeds norms established by the Group (Note 14).

Provision for impairment of trade and other receivables. The Group's management determines an allowance for doubtful accounts receivable at the end of the reporting period (Note 16). In estimating an allowance for uncollectible accounts receivable the Group takes into account the historical collectability of the outstanding accounts receivable balances supplemented by the judgement of management.

Brand and private labels. The Group' management determines the fair value of brand and private labels acquired in business combinations. The assessment of the fair value of a brand is based on the income approach using the relief-from-royalty method. The assessment of fair value of private labels is based on either the income method using discounted annual savings for the remaining useful life of the labels or the cost method (Note 13). The Group periodically assesses whether there is any indication that brand and private labels may be impaired. The Group performs assets impairment testing (Note 13). The Group estimates the recoverable amount of the asset and if it is less than the carrying amount an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2015 the Group recognised an impairment loss in the amount of RUB 38 (year ended 31 December 2014: nil).

4 / ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS

New standards, interpretations and amendments to IFRSs effective for the financial year beginning 1 January 2015 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 2015 and have not been early adopted:

IFRS 9 "Financial Instruments"
(issued in July 2014 and effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- 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.
- IFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- 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 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 February 2015 for 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 reporting date, with changes in fair value recognised 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.

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). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Clarification of Acceptable Methods of Depreciation and Amortisation — Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018; not yet adopted by the EU). The new standard introduces the core principle that revenue must be recognised 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 recognised, 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 recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Equity Method in Separate Financial Statements — Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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

Expressed in millions of Russian Roubles, unless otherwise stated

5 / SEGMENT REPORTING

In 2014 the Group started the transition to the new operational model. In early 2015 the process was mostly finalised, therefore starting from 2015 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.

Up until 2014 the company had one operating segment (Group's retail business), as all formats demonstrated similar economic characteristics:

- the products and customers;
- the business processes were integrated and uniform: the Group managed its store operations centrally, sourced products centrally, supporting functions like purchasing, logistics, investment control, finance, strategy, HR, IT were centralised;
- the Group's activities were limited to a common market zone (i.e. Russia) with uniform legislation and regulatory environment.

Starting from 2015 the following significant operating functions were decentralised by formats:

- category management, including purchasing, pricing, assortment management, promotion management;
- distribution centres logistics;
- development function.

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

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

The accounting policies used for segments are the same as accounting policies applied for these consolidated financial statements. The comparative figures for earlier periods have been adjusted in order to provide meaningful comparative information.

The segment information for the period ended 31 December 2015, comparative figures for earlier periods and reconciliation of EBITDA to profit for the period is provided as follows:

YEAR ENDED 31 DECEMBER 2015	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	CORPORATE	TOTAL
Revenue	587,280	131,332	77,778	12,428	-	**808,818**
EBITDA	45,154	10,095	3,568	426	(4,010)	**55,233**
Depreciation, amortisation and impairment						(20,784)
Operating profit						**34,449**
Finance cost, net						(16,537)
Net foreign exchange result						18
Profit before income tax						**17,930**
Income tax expense						(3,756)
Profit for the year						**14,174**
Capital expenditure	50,658	13,657	6,305	347	95	71,062
31 DECEMBER 2015						
Inventories	42,069	8,443	6,641	734	-	57,887

YEAR ENDED 31 DECEMBER 2014	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	CORPORATE	TOTAL
Revenue	436,427	115,910	69,433	12,103	-	**633,873**
EBITDA	32,890	11,176	4,524	(420)	(2,310)	**45,860**
Depreciation, amortisation and impairment						(17,572)
Operating profit						**28,288**
Finance cost, net						(12,058)
Share of loss of associates						(37)
Net foreign exchange result						25
Profit before income tax						**16,218**
Income tax expense						(3,527)
Profit for the year						**12,691**
Capital expenditure	24,316	4,850	4,197	951	119	34,433
31 DECEMBER 2014						
Inventories	29,353	9,605	7,299	827	-	47,084

6 / SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2015 and 31 December 2014 are as follows:

Ownership / %

COMPANY	COUNTRY	NATURE OF OPERATIONS	31 DECEMBER 2015	31 DECEMBER 2014
Agroaspekt LLC	Russia	Retailing	100	100
Agrotorg LLC	Russia	Retailing	100	100
Alpegru Retail Properties Ltd.	Cyprus	Real estate	100	100
Beta Estate LLC	Russia	Real estate	100	100
GSWL Finance Ltd.	Cyprus	Financing	100	100
Kopeyka-Moscow LLC	Russia	Retailing	100	100
Krasnoborskoye LLC	Russia	Real estate	100	100
Perekrestok Holdings Ltd.	Gibraltar	Holding company	100	100
Perekrestok 2000 LLC	Russia	Real estate	100	100
Sladkaya Zhizn N.N. LLC	Russia	Retailing	100	100
Speak Global Ltd.	Cyprus	Holding company	100	100
TH Perekrestok CJSC	Russia	Retailing	100	100
X5 Finance LLC	Russia	Bond issuer	100	100
X5 Nedvizhimost CJSC	Russia	Real estate	100	100
TD Kopeyka LLC	Russia	Holding Company	100	100

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7 / ACQUISITION OF SUBSIDIARIES

SPAR Retail AO

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

In the year ended 31 December 2015 the acquired business of SPAR Retail CJSC contributed revenue of RUB 2,620 and a net loss of RUB 890 from the date of acquisition. If the acquisition of SPAR Retail CJSC had occurred on 1 January 2015, the Group's revenue for the year ended 31 December 2015 would have been RUB 810,558 and the Group's net profit for the year ended 31 December 2015 would have been RUB 16,465. Estimates of the contribution of revenue and profit to the Group are based on pro-forma information derived from SPAR Retail CJSC consolidated financial statements prepared in accordance with IFRS.

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

	PROVISIONAL VALUES AT THE ACQUISITION DATE
Property, plant and equipment (Note 10)	1,916
Other intangible assets (Note 13)	51
Other non-current assets	49
Inventories	131
Trade and other accounts receivable	206
VAT and other taxes receivable	10
Cash and cash equivalents	22
Long-term borrowings	(2,260)
Deferred tax liability (Note 28)	(119)
Trade accounts payable	(1,208)
Current income tax payable	(529)
Provisions and other liabilities	(534)
Net assets acquired	(2,265)
Goodwill (Note 12)	1,708
Total acquisition cost	**(557)**
Indemnification asset	797
Purchase consideration	**240**
Net cash outflow arising from the acquisition	**218**

The Group assigned provisional values to net assets acquired based on estimates of an independent appraiser. The Group will finalise the purchase price allocation within 12 month from the acquisition date, any difference will be included in goodwill.

The purchase consideration comprises cash and cash equivalents paid of RUB 240 compensated by indemnification asset deducted from consideration transferred for the business combination.

An indemnification asset of RUB 797, equivalent to the fair value of the indemnified liability, has been recognised by the Group. The selling shareholders of SPAR Retail CJSC have contractually agreed to indemnify potential tax and other contingencies that may become payable in respect of the SPAR Retail CJSC company.

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

Soseddushka retail chain

In July 2015 the Group acquired 100% share of Soseddushka Ltd., subsidiaries of which operated a Russian retail chain of proximity stores in the Orenburg region.

In the year ended 31 December 2015 the acquired business of Soseddushka contributed revenue of RUB 491 and a net loss of RUB 262 from the date of acquisition. If the acquisition of Soseddushka had occurred on 1 January 2015, the Group's revenue for the year ended 31 December 2015 would have been RUB 809,657 and the Group's net profit for the year ended 31 December 2015 would have been RUB 16,808. Estimates of the contribution of revenue and profit to the Group are based on pro-forma information derived from Soseddushka consolidated financial statements prepared in accordance with IFRS.

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

	PROVISIONAL VALUES AT THE ACQUISITION DATE
Property, plant and equipment (Note 10)	170
Other intangible assets (Note 13)	(16)
Other non-current assets	18
Deferred tax assets (Note 28)	130
Inventories	189
Trade and other accounts receivable	70
VAT and other taxes receivable	6
Cash and cash equivalents	9
Long-term borrowings	(8)
Trade accounts payable	(576)
Short-term borrowings	(204)
Interest accrued	(3)
Current income tax payable	(38)
Provisions and other liabilities	(558)
Net assets acquired	(811)
Goodwill (Note 12)	2,054
Total acquisition cost	**1,243**
Indemnification asset	137
Purchase consideration	**1,380**
Net cash outflow arising from the acquisition	**1,371**

The Group assigned provisional values to net assets acquired based on estimates of an independent appraiser. The Group will finalise the purchase price allocation within 12 month from the acquisition date, any difference will be included in goodwill.

The purchase consideration comprises cash and cash equivalents paid of RUB 1,380 compensated by indemnification asset deducted from consideration transferred for the business combination.

An indemnification asset of RUB 137, equivalent to the fair value of the indemnified liability, has been recognised by the Group. The selling shareholders of Soseddushka have contractually agreed to indemnify potential tax and other contingencies that may become payable in respect of the acquired companies.

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

RegionProduct and Region-Product

In August 2015 the Group acquired 100% share of RegionProduct LLC and Region-Product LLC — companies, which operated a Russian retail chain of proximity stores in the Orel, Lipetsk and Voronezh regions.

In the year ended 31 December 2015 the acquired business of RegionProduct and Region-Product contributed revenue of RUB 1,605 and a net loss of RUB 355 from the date of acquisition. If the acquisition of RegionProduct and Region-Product had occurred on 1 January 2015, the Group's revenue for the year ended 31 December 2015 would have been RUB 813,669 and the Group's net profit for the year ended 31 December 2015 would have been RUB 16,618. Estimates of the contribution of revenue and profit to the Group are based on pro-forma information derived from RegionProduct and Region-Product consolidated financial statements prepared in accordance with IFRS.

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

	PROVISIONAL VALUES AT THE ACQUISITION DATE
Property, plant and equipment (Note 10)	1,299
Other intangible assets (Note 13)	3
Deferred tax assets (Note 28)	313
Inventories	331
Trade and other accounts receivable	161
Cash and cash equivalents	28
Long-term borrowings	(459)
Trade accounts payable	(743)
Short-term borrowings	(2,492)
Interest accrued	(49)
Current income tax payable	(366)
Provisions and other liabilities	(1,611)
Net assets acquired	(3,585)
Goodwill (Note 12)	3,949
Total acquisition cost	**364**
Indemnification asset	673
Purchase consideration	**1,037**
Net cash outflow arising from the acquisition	**1,009**

The Group assigned provisional values to net assets acquired based on estimates of an independent appraiser. The Group will finalise the purchase price allocation within 12 month from the acquisition date, any difference will be included in goodwill.

The purchase consideration comprises cash and cash equivalents paid of RUB 1,037 compensated by indemnification asset deducted from consideration transferred for the business combination.

An indemnification asset of RUB 673 has been recognised by the Group. The selling shareholders of RegionProduct and Region-Product have contractually agreed to indemnify potential tax and other contingencies that may become payable in respect of the acquired companies.

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

Other acquisitions

In 2015 the Group acquired several businesses of other retail chains in Russian regions.

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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 year ended 31 December 2015 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 (Note10)	296
Other intangible assets (Note 13)	1,143
Deferred tax assets (Note 28)	57
Net assets acquired	1,496
Goodwill (Note 12)	1,795
Total acquisition cost	**3,291**
Purchase consideration	**3,291**
Net cash outflow arising from the acquisition	**3,286**

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

The purchase consideration comprises cash and cash equivalents paid of RUB 3,286 and deferred consideration of RUB 5.

The goodwill recognised is 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 the acquired retail chains into the Group's operational structure immediately after acquisition, therefore post acquisition separate financial information for these businesses is not relevant.

All the above mentioned acquisitions are expected to increase the Group's share in certain regions and to improve profitability through the economies of scale.

Agrotorg-Samara

In October 2014 the Group acquired 100% share of Agrotorg-Samara. The Group has finalised the purchase price allocation within 12 months from the acquisition date.

Effect of change on assets and liabilities acquired and the related goodwill is as follows:

	EFFECT OF CHANGE IN PURCHASE PRICE ALLOCATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015
Trade and other accounts receivable	(50)
Deferred tax liability (Note 28)	(27)
Current income tax payable	(23)
Provisions and other liabilities	(23)
Net assets acquired	(123)
Goodwill (Note 12)	123

8 / RELATED PARTY TRANSACTIONS

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

The nature of the relationships for those related parties with which the Group entered into transactions or had balances outstanding at 31 December 2015 are provided below. The ownership structure is disclosed in Note 1.

The following transactions were carried out with related parties:

	RELATIONSHIP		2015	2014
CTF Holdings Ltd.	ULTIMATE PARENT COMPANY	Management services received	65	54
		Recharged expenses	-	2
Alfa-Bank	UNDER COMMON CONTROL (CEASED TO BE A RELATED PARTY DURING 2014)	Interest expense on loan received	-	1,235
		Rent revenue	-	2
		Commission income	-	8
		Bank charges	-	3
VimpelCom	UNDER COMMON CONTROL (CEASED TO BE A RELATED PARTY DURING 2014)	Communication services received	-	190
		Commission for mobile phone payments processing rendered by the Group	-	1
		Rent revenue	-	2
Other	UNDER COMMON CONTROL	Purchases from related party	1,190	1,383
		Insurance expenses	161	127
		Other operating expenses	155	103
		Bonuses from related parties	301	306
Other	OTHER	Other operating expenses	52	54

The consolidated financial statements include the following balances with the related parties:

	RELATIONSHIP		31 DECEMBER 2015	31 DECEMBER 2014
Other	UNDER COMMON CONTROL	Trade accounts payable	236	263
		Other accounts payable	4	13
		Trade accounts receivable	38	42
		Other receivable from related party	7	21
Other	OTHER	Other accounts payable	9	6
		Other accounts receivable	3	-

Magazin Buduschego

The Group together with Rosnano and Sitronix has investments in Magazin Budushego. The share in this associate equals to 33.34%, no additional payments were made during the year 2015. Starting from December 2014 the associate is in the process of liquidation. During the year ended 31 December 2015 the Group received cash in the amount of RUB 31 as its share in the associate being liquidated and wrote-off the investment in the associate to nil (as at 31 December 2014 the investment in the associate equaled to RUB 31). Total assets, liabilities, revenue and loss of associate are not significant. The Group did not have any other significant balances and transactions with the associate.

Key management personnel compensation

Key management personnel compensation is disclosed in Note 26.

Expressed in millions of Russian Roubles, unless otherwise stated

9 / CASH AND CASH EQUIVALENTS

	31 DECEMBER 2015	31 DECEMBER 2014
Cash in hand (roubles)	2,118	1,870
Bank current account (roubles)	1,143	5,766
Bank current accounts and deposits (other currencies)	5	13
Cash in transit (roubles)	4,954	4,630
Short-term deposits (roubles)	738	13,344
	8,958	25,623

The bank accounts represent current accounts. Interest income on overnights/term deposits is immaterial. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

The Group assesses credit quality of outstanding cash and cash equivalents balances as high and considers that there is no significant individual exposure. The maximum exposure to credit risk at the reporting date is the carrying value of cash and bank balances.

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

BANK	MOODY'S	FITCH	S&P	31 DECEMBER 2015	31 DECEMBER 2014
Alfa-Bank	Ba2	BB+	BB	621	3,214
Sberbank	Ba1	BBB-	-	246	2,544
Raiffeisenbank	Ba2	BBB-	-	5	6
HSBC	A1	AA-	A	3	13
MCB	B1/NP	BB	BB-	912	317
Gazprombank	Ba2	BB+	BB+	-	2
VTB	Ba1	-	BB+	91	13,018
Other banks				8	9
Cash in transit and in hand				7,072	6,500
				8,958	25,623

10 / PROPERTY, PLANT AND EQUIPMENT

COST	LAND AND BUILDINGS	MACHINERY & EQUIPMENT	REFRIGERATING EQUIPMENT	VEHICLES	OTHER	CONSTRUCTION IN PROGRESS	TOTAL
At 1 January 2014	**130,346**	**16,652**	**16,898**	**7,321**	**13,642**	**7,436**	**192,295**
Additions	-	-	-	-	-	30,164	30,164
Transfers	13,848	3,558	4,824	44	3,802	(26,076)	-
Transfers to investment property (Note 11)	(2,086)	-	-	-	-	-	(2,086)
Assets from acquisitions	664	28	40	-	20	760	1,512
Disposals	(1,375)	(1,475)	(1,295)	(506)	(836)	(218)	(5,705)
Translation movement	(15)	(15)	(10)	-	(8)	(23)	(71)
At 31 December 2014	**141,382**	**18,748**	**20,457**	**6,859**	**16,620**	**12,043**	**216,109**
Additions	-	-	-	-	-	53,887	53,887
Transfers	29,535	7,208	9,218	1,415	6,173	(53,549)	-
Transfers to investment property (Note 11)	(1,530)	-	-	-	-	-	(1,530)
Assets from acquisitions (Note 7)	2,994	91	211	38	37	310	3,681
Disposals	(400)	(1,638)	(1,833)	(945)	(871)	(78)	(5,765)
Translation movement	-	-	-	-	-	-	-
At 31 December 2015	**171 981**	**24,409**	**28,053**	**7,367**	**21,959**	**12,613**	**266,382**

ACCUMULATED DEPRECIATION AND IMPAIRMENT	LAND AND BUILDINGS	MACHINERY & EQUIPMENT	REFRIGERATING EQUIPMENT	VEHICLES	OTHER	CONSTRUCTION IN PROGRESS	TOTAL
At 1 January 2014	**(29,980)**	**(8,809)**	**(6,996)**	**(3,182)**	**(7,899)**	**(431)**	**(57,297)**
Depreciation charge	(4,859)	(2,017)	(2,153)	(925)	(2,577)	-	(12,531)
Impairment charge	(3,390)	(432)	(318)	(98)	(338)	(298)	(4,874)
Reversal of impairment	2,176	72	17	-	1	78	2,344
Transfers to investment property (Note 11)	1 505	-	-	-	-	-	1,505
Disposals	999	1,428	1,254	448	811	93	5,033
Translation movement	9	8	7	2	15	(2)	39
At 31 December 2014	**(33,540)**	**(9,750)**	**(8,189)**	**(3,755)**	**(9,987)**	**(560)**	**(65,781)**
Depreciation charge	(5,766)	(2,440)	(2,834)	(947)	(2,950)	-	(14,937)
Impairment charge	(3,156)	(366)	(468)	(69)	(128)	(427)	(4,614)
Reversal of impairment	2,334	-	-	-	-	14	2,348
Transfers to investment property (Note 11)	221	-	-	-	-	-	221
Disposals	320	1,572	1,741	823	849	76	5,381
Translation movement	-	-	-	-	-	-	-
At 31 December 2015	**(39,587)**	**(10,984)**	**(9,750)**	**(3,948)**	**(12,216)**	**(897)**	**(77,382)**
Net book value at 31 December 2015	132,394	13,425	18,303	3,419	9,743	11,716	**189,000**
Net book value at 31 December 2014	107,842	8,998	12,268	3,104	6,633	11,483	**150,328**
Net book value at 1 January 2014	100,366	7,843	9,902	4,139	5,743	7,005	**134,998**

Depreciation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2015 and 31 December 2014.

Construction in progress predominantly relates to the development of stores through the use of sub-contractors.

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 33). No loans are collateralised by land and buildings including investment property as of 31 December 2015.

Impairment test

At the end of 2015 management performed an impairment test of land, buildings, construction in progress, vehicles, equipment and other items of property, plant and equipment. The approach for determination of the recoverable amount of an asset was different for each listed class of property, plant and equipment.

The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally at the individual store/unit level. The variability of these factors depends on a number of conditions, including uncertainty about future events and changes in demand.

The impairment review has been carried out by comparing recoverable amount of the individual store/unit with their carrying values. The recoverable amount of store/unit is determined as the higher of fair value less cost to sell or value in use.

The resulting impairment charge arose primarily from underperforming stores. At the same time the Group recognised the reversal of previously recorded impairment charges due to improved performance of certain stores.

Fair value less costs to sell

The Group defines fair value less costs to sell of the item of land and buildings and construction in progress either by reference to current observable prices on an active market or to market value determined by an independent appraiser. The fair value less costs to sell of vehicles is determined based on prices on an active market. The fair value measurement is classified at level 3 of the fair value hierarchy.

Value in use

For items of land, buildings and construction in progress the discounted free cash flow approach is applied and covered a 10 year period from 2015 onwards. The free cash flows are based on the current budgets and forecasts approved by the management. For the subsequent years, the data of the strategic business plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the subsequent years is revenue growth being in the range from 0% to 12.25% depending on the individual dynamics of the store and the region in which it operates. The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a post-tax basis and discounted at the Group post-tax weighted average cost of capital (14.67% for 2016–2017 years and 13.39% for subsequent years). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

Expressed in millions of Russian Roubles, unless otherwise stated

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions. If the revised estimated discount rate consistently applied to the discounted cash flows had been 200 b.p. higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment, investment property and intangible assets by RUB 840, if 200 b.p. lower — increase by RUB 1,152. If the annual revenue growth rate used in calculations of value in use had been 200 b.p. higher/lower, the Group would need to increase/decrease the carrying value of property, plant and equipment, investment property and intangible assets by RUB 1,374.

11 / INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2015 and 31 December 2014:

	2015	2014
Cost:		
Cost at 1 January	6,510	4,911
Transfer from fixed assets	1,530	2,086
Disposals	-	(487)
Cost at 31 December	**8,040**	**6,510**
Accumulated depreciation and impairment:		
Accumulated depreciation and impairment at 1 January	(2,792)	(1,443)
Depreciation charge	(201)	(184)
Impairment charge	-	(3)
Reversal of impairment	2	46
Transfer from fixed assets	(221)	(1,505)
Disposals	-	297
Accumulated depreciation and impairment at 31 December	(3,212)	(2,792)
Net book value at 31 December	**4,828**	**3,718**
Net book value at 1 January	**3,718**	**3,468**

Depreciation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2015 and 31 December 2014.

Rental income from investment property amounted to RUB 1,186 (2014: RUB 1,157). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 409 (2014: RUB 405). There were no significant direct operating expenses incurred by the Group in relation to investment property that did not generate rental income.

Management estimates that the fair value of investment property at 31 December 2015 amounted to RUB 8,494 (31 December 2014: RUB 7,209).

Impairment test

At the end of 2015 management performed an impairment test of investment property. The evaluation performed and reasons for it are consistent with the approach for impairment testing of PPE (Note 10).

12 / GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries at 31 December 2015 and 31 December 2014 are:

	2015	2014
Cost:		
Gross book value at 1 January	131,996	130,815
Acquisition of subsidiaries (Note 7)	9,629	1,304
Disposal of subsidiaries	-	(123)
Gross book value at 31 December	**141,625**	**131,996**
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(66,312)	(66,312)
Accumulated impairment losses at 31 December	(66,312)	(66,312)
Carrying amount at 1 January	**65,684**	**64,503**
Carrying amount at 31 December	**75,313**	**65,684**

Goodwill **impairment test**

Goodwill is monitored for internal management purposes at the operating segment (cash generating unit) level. As at 31 December 2015 the retail chain of each format represents the cash generating unit for the goodwill impairment test purposes. As at 31 December 2014 there was a single CGU which was the entire retail business of the Group.

Goodwill is tested for impairment at the CGU level by comparing the carrying values of the CGU assets to their recoverable amounts. The recoverable amount of the CGU being the higher of its fair value less costs to sell or value in use is determined as the sum of recoverable amounts of each store included in the CGU.

The allocation of carrying amounts of goodwill to each CGU is as follows:

YEAR ENDED 31 DECEMBER 2015	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER	TOTAL
Goodwill	60,133	10,344	4,550	286	75,313

Fair value less costs to sell

The Group defines fair value less costs to sell of each store included in the CGU as a sum of fair values less costs to sell of its components, being items of property, plant and equipment, investment property and other intangible assets (Note 10, 11, 13).

Value in use

The discounted free cash flow approach is utilised. For the 10 year period from 2015 the free cash flows are based on the current budgets and forecasts approved by key management. For the subsequent years, the data of the strategic plan are extrapolated based on the consumer price index as obtained from external resources and based on key performance indicators inherent to the strategic plan. One of the main assumptions used for the subsequent years is revenue growth being in the range from 0% to 12.25% depending on the individual dynamics of the store and the region in which it operates. The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a post-tax basis and discounted at the Group post-tax weighted average cost of capital (14.67% for 2016–2017 years and 13.39% for subsequent years). Inflation rates are in line with consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best estimates.

The changes in assumptions applied in the model used for impairment testing don't indicate any trigger for impairment because the fair value less cost to sell and the value in use are significantly greater than the carrying values of the cash generating unit assets.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions.

Impairment Test

The recoverable amount of the CGUs calculated exceeds their carrying amounts. Therefore no impairment is recognised.

Expressed in millions of Russian Roubles, unless otherwise stated

13 / OTHER INTANGIBLE ASSETS

Other intangible assets comprise the following:

COST	BRAND AND PRIVATE LABELS	FRANCHISE AGREEMENTS	SOFTWARE AND OTHER	PREPAID LEASE	LEASE RIGHTS	TOTAL
At 1 January 2014	17,136	2,191	5,281	3,880	5,924	34,412
Additions	-	-	968	119	-	1,087
Acquisition of subsidiaries	-	-	-	-	366	366
Disposals	-	(61)	(94)	(455)	(271)	(881)
At 31 December 2014	17,136	2,130	6,155	3,544	6,019	34,984
Additions	-	-	1,407	1,277	-	2,684
Acquisition of subsidiaries (Note 7)	-	-	-	-	1,181	1,181
Disposals	-	(2,118)	(61)	(8)	(28)	(2,215)
At 31 December 2015	17,136	12	7,501	4,813	7,172	36,634

ACCUMULATED AMORTISATION AND IMPAIRMENT	BRAND AND PRIVATE LABELS	FRANCHISE AGREEMENTS	SOFTWARE AND OTHER	PREPAID LEASE	LEASE RIGHTS	TOTAL
At 1 January 2014	(9,362)	(1,799)	(1,961)	(2,354)	(3,431)	(18,907)
Amortisation charge	(812)	(166)	(493)	(232)	(371)	(2,074)
Impairment charge	-	(196)	(119)	(23)	(93)	(431)
Reversal of impairment	-	-	-	81	177	258
Disposals	-	61	90	435	202	788
At 31 December 2014	(10,174)	(2,100)	(2,483)	(2,093)	(3,516)	(20,366)
Amortisation charge	(784)	(18)	(607)	(1,009)	(396)	(2,814)
Impairment charge	(38)	-	-	(317)	(406)	(761)
Reversal of impairment	-	-	-	36	157	193
Disposals	-	2,118	61	8	28	2,215
At 31 December 2015	(10,996)	-	(3,029)	(3,375)	(4,133)	(21,533)
Net book value at 31 December 2015	**6,140**	**12**	**4,472**	**1,438**	**3,039**	**15,101**
Net book value at 31 December 2014	**6,962**	**30**	**3,672**	**1,451**	**2,503**	**14,618**
Net book value at 1 January 2014	**7,774**	**392**	**3,320**	**1,526**	**2,493**	**15,505**

Amortisation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2015 and 31 December 2014.

Impairment test

At the end of 2015 management performed an impairment test of lease rights and franchise agreements.

The evaluation performed and reasons for it are consistent with the approach for impairment testing of property, plant and equipment (Note 10).

Also the Group recognised an impairment of private labels which are no longer used.

14 / INVENTORIES

Inventories as of 31 December 2015 and 31 December 2014 comprise the following:

	31 DECEMBER 2015	31 DECEMBER 2014
Inventories	60,733	49,824
Less: provision for shrinkage and slow moving stock	(2,846)	(2,740)
	57,887	47,084

Inventory shrinkage and slow moving stock recognised as cost of sales in the consolidated statement of profit or loss amounted to RUB 26,248 (2014: RUB 18,473).

15 / FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2015
Assets as per consolidated statement of financial position

	LOANS AND RECEIVABLES
Trade and other receivables excluding prepayments	22,408
Cash and cash equivalents	8,958
	31,366

31 December 2015
Liabilities as per consolidated statement of financial position

	FINANCIAL LIABILITIES AT AMORTISED COST
Borrowings	144,215
Interest accrued	1,390
Trade and other payables excluding statutory liabilities and advances	133,224
	278,829

31 December 2014
Assets as per consolidated statement of financial position

	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE INVESTMENTS	TOTAL
Available-for-sale investments	-	213	213
Trade and other receivables excluding prepayments	19,045	-	19,045
Cash and cash equivalents	25,623	-	25,623
	44,668	213	44,881

31 December 2014
Liabilities as per consolidated statement of financial position

	FINANCIAL LIABILITIES AT AMORTISED COST
Borrowings	130,986
Interest accrued	693
Trade and other payables excluding statutory liabilities and advances	113,858
	245,537

Expressed in millions of Russian Roubles, unless otherwise stated

16 / TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 DECEMBER 2015	31 DECEMBER 2014
Trade accounts receivable	22,278	18,194
Advances made to trade suppliers	975	1,301
Other receivables	2,209	1,787
Prepayments	2,483	1,993
Accounts receivable for franchise services	23	21
Receivables from related parties (Note 8)	45	65
Provision for impairment of trade and other receivables	(3,005)	(1,897)
	25,008	21,464

All classes of receivables are categorised as loans and receivables under IAS 39 classification. The carrying amounts of the Group's trade and other receivables are primarily denominated in Russian Roubles. Other non-current assets are mainly represented by long-term prepayments for rent in the amount of RUB 3,548 (31 December 2014: RUB 2,134).

Trade receivables

There are balances of RUB 708 that in accordance with accounting policies are past due but not impaired as at 31 December 2015 (31 December 2014: RUB 107).

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

	31 DECEMBER 2015	31 DECEMBER 2014
2–6 months	708	107
	708	107

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

	2015	2014
At 1 January	(260)	(433)
Addition of provision for receivables impairment	(1,048)	(135)
Release of provision for receivables impairment	93	57
Receivables written off as uncollectable	25	251
At 31 December	(1,190)	(260)

The creation and release of the provision for impaired receivables have been included in general and administrative costs in the consolidated statement of profit or loss.

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

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

	31 DECEMBER 2015	31 DECEMBER 2014
3–6 months	270	97
Over 6 months	1,037	309
	1,307	406

For those receivables that are neither past due nor impaired the Group considers the credit quality as high. Trade receivables are mainly bonuses from suppliers of goods for resale receivable on quarterly basis with a low historic default rate. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

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

There are balances of RUB 1,092 that in accordance with accounting policies are past due but not impaired as at 31 December 2015 (31 December 2014: RUB 317).

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

	31 DECEMBER 2015	31 DECEMBER 2014
2–6 months	1,092	317
	1,092	317

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

	2015	2014
At 1 January	(1,637)	(1,987)
Addition of provision for receivables impairment	(967)	(1,151)
Release of provision for receivables impairment	514	747
Receivables written off as uncollectable	275	754
At 31 December	(1,815)	(1,637)

The creation and release of the provision for impaired receivables have been included in general and administrative costs in the consolidated statement of profit or loss.

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

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

	31 DECEMBER 2015	31 DECEMBER 2014
3–6 months	229	441
Over 6 months	2,112	1,560
	2,341	2,001

For those receivables that are neither past due nor impaired the Group considers the credit quality as high. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

17 / VAT AND OTHER TAXES RECEIVABLE

	31 DECEMBER 2015	31 DECEMBER 2014
VAT receivable	13,680	13,227
Other taxes receivable	182	261
	13,862	13,488

VAT receivable related to property, plant and equipment of RUB 492 (31 December 2014: RUB 335) is recorded within current assets because management expects it will be recovered within 12 months after the reporting date. The terms of recovery of VAT depend on the registration of certain property, plant and equipment or stage of completion of the construction works and fulfilment of other conditions in compliance with Russian tax legislation, therefore there are risks that recovering the balance may take longer than 12 months.

18 / PROVISIONS AND OTHER LIABILITIES

	31 DECEMBER 2015	31 DECEMBER 2014
Taxes other than income tax	7,806	6,141
Provisions and liabilities for tax uncertainties (Note 33)	2,392	882
Accrued salaries and bonuses	10,238	6,838
Payables to landlords	911	717
Other accounts payable and accruals	9,861	8,420
Accounts payable for property, plant and equipment	8,441	5,882
Advances received	1,471	1,540
	41,120	30,420

There are no significant amounts of other payables to foreign counterparties as at 31 December 2015 and 31 December 2014.

Expressed in millions of Russian Roubles, unless otherwise stated

19 / BORROWINGS

The Group had the following borrowings at 31 December 2015 and 31 December 2014:

CURRENT	INTEREST RATE, % P.A.		FINAL MATURITY YEAR	FAIR VALUE		CARRYING VALUE	
	2015	2014		2015	2014	2015	2014
RUB Bonds X5 Finance series 04	10.5%	-	2016	7,992	-	8,000	-
RUB Bonds X5 Finance series BO-01	-	9.5%	-	-	4,850	-	5,000
RUB Bonds X5 Finance series BO-02	9.1%	-	2016	4,950	-	4,997	-
RUB Bonds X5 Finance series BO-03	8.85%	-	2016	4,914	-	4,999	-
RUB Bilateral Loans	10.72–12.10%	9.0%	2016	24,674	10,834	24,674	10,834
Total current borrowings				42,530	15,684	42,670	15,834

NON-CURRENT	INTEREST RATE, % P.A.		FINAL MATURITY YEAR	FAIR VALUE		CARRYING VALUE	
	2015	2014		2015	2014	2015	2014
RUB Club loan	-	MosPrime +2.5/2.75%	-	-	14,871	-	14,871
RUB Bonds X5 Finance series 04	-	10.5%	-	-	6,959	-	8,000
RUB Bonds X5 Finance series BO-02	-	9.1%	-	-	4,364	-	4,994
RUB Bonds X5 Finance series BO-03	-	8.85%	-	-	4,690	-	4,997
RUB Bonds X5 Finance series BO-04	11.9%	-	2019	5,000	-	4,991	-
RUB Bilateral Loans	-	MosPrime 3m +1.85–2.6%	-	-	21,436	-	21,436
RUB Bilateral Loans	11.50–12.65%	8.51–11.36%	2018	98,018	47,114	96,554	60,854
Total non-current borrowings				103,018	99,434	101,545	115,152
Total borrowings				**145,548**	**115,118**	**144,215**	**130,986**

In 2015 the Group made early repayments of the following long-term loans with interest rates linked to MosPrime:

- RUB 9 billion VTB Capital loan;
- RUB 15 billion Club loan;
- RUB 12.5 billion VTB Capital loan.

In 2015 the Group executed and made drawdowns of the following long-term loans:

- RUB 7.5 billion loan under three years term credit line with Credit Bank of Moscow;
- RUB 24 billion VTB bank loan with 2.5/3-year tranches;
- RUB 8.5 billion loan from Sberbank with 3-year maturity.

In October 2015 the Group issued exchange corporate bonds series BO-04 with 11.90% coupon rate and 3.5-year oferta (put-option).

All borrowings at 31 December 2015 are shown net of related transaction costs of RUB 207 which are amortised over the term of the loans using the effective interest method (31 December 2014: RUB 394). Borrowing costs capitalised for the year ended 31 December 2015 amounted to RUB 272 (2014: RUB 128). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 12.41% (2014: 9.70%).

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 31 December 2015 the Group complied with this covenant.

20 / SHARE CAPITAL

As at 31 December 2015 the Group had 190,000,000 authorised ordinary shares (31 December 2014: 190,000,000) of which 67,882,421 ordinary shares are outstanding (31 December 2014: 67,867,743) and 10,797 ordinary shares are held as treasury stock (31 December 2014: 25,475) The nominal par value of each ordinary share is EUR 1.

No dividends were paid or declared during the year ended 31 December 2015 and the year ended 31 December 2014.

21 / EARNINGS PER SHARE

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

Earnings per share are calculated as follows:

	2015	2014
Profit attributable to equity holders of the parent	14,174	12,691
Weighted average number of ordinary shares in issue	67,876,926	67,859,817
Effect of share options granted to employees, number of shares	-	370
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,876,926	67,860,187
Basic earnings per share for profit from continuing operations (expressed in RUB per share)	208.82	187.02
Diluted earnings per share for profit from continuing operations (expressed in RUB per share)	208.82	187.02

22 / REVENUE

	2015	2014
Revenue from sale of goods	808,497	633,577
Revenue from franchise services	35	56
Revenue from other services	286	240
	808,818	633,873

Expressed in millions of Russian Roubles, unless otherwise stated

23 / EXPENSES BY NATURE

	2015	2014
Cost of goods sold	583,970	454,429
Staff costs (Note 26)	78,343	61,987
Operating lease expenses	39,773	30,577
Depreciation, amortisation	17,952	14,912
Impairment of non-current assets	2,832	2,660
Other store costs	15,795	12,810
Utilities	16,086	13,707
Other	25,742	21,321
	780,493	612,403

Operating lease expenses include RUB 38,901 (2014: RUB 29,709) of minimum lease payments and contingent rents of RUB 872 (2014: RUB 868).

Impairment of trade and other receivables amounted to RUB 1,260 for the year ended 31 December 2015 (2014: RUB 533).

The fees listed below relate to the procedures applied to the Group by accounting firms and external auditors as referred to in article 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta):

	2015	2014
Financial statement audit	75	57
Tax services	14	52
Other non-audit services	8	5
	97	114

24 / OPERATING LEASE/SUBLEASE INCOME

The Group leases part of its store space to companies selling supplementary goods and services to customers. The lease arrangements are operating leases, the majority of which are short-term.

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

	31 DECEMBER 2015	31 DECEMBER 2014
Not later than 1 year	2,166	2,148
Later than 1 year and no later than 5 years	970	986
Later than 5 years	427	375
	3,563	3,509

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

	31 DECEMBER 2015	31 DECEMBER 2014
Not later than 1 year	624	491
Later than 1 year and no later than 5 years	117	40
Later than 5 years	88	7
	829	538

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2015 amounted to RUB 5,519 (2014: RUB 5,691). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2015 amounted to RUB 142 (2014: RUB 58).

25 / FINANCE INCOME AND COSTS

	2015	2014
Interest expense	16,570	11,646
Interest income	(387)	(109)
Other finance costs, net	354	521
	16,537	12,058

Other finance costs include transaction costs of RUB 309 written-off to the consolidated statement of profit or loss (2014: RUB 385) (Note 19).

26 / STAFF COSTS

	2015	2014
Wages and salaries	61,510	48,678
Social security costs	16,815	13,277
Share-based payments expense	18	32
	78,343	61,987

Wages and salaries in 2015 include expenses of RUB 3,277 related to the long-term incentive programme (LTI) for a selected group of key executives, including members of the Management Board and other key management as described below.

For the year ended 31 December 2015 statutory pension contributions amounted to RUB 10,894 (2014: RUB 8,517).

Key executive 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 plan; independent members of the Supervisory Board receive an annual base compensation in cash and share-based payments.

Management Board

The remuneration of the members of the Management Board, which comprises the CEO and the Company Secretary, is determined by the Supervisory Board within the framework of the remuneration policy as approved by the General Meeting of Shareholders. In 2015 the General Meeting of Shareholders approved an amendment of the remuneration policy, substituting a single deferred cash incentive plan launched in 2013 with a short-term incentive and a long-term incentive, both cash based. More details about the remuneration policy are included in the 'Remuneration' section on page 162 onwards.

As described in the Corporate Governance Report on page 139, the composition of the Management Board changed in 2015. At the Extraordinary General Meeting of Shareholders on 12 November 2015 Mr. DuCharme stepped down as CEO and member of the Management Board after completing a turnaround programme over a three year period to become chairman of the Supervisory Board as per the same date. Mr. DuCharme was succeeded by Mr. Shekhterman, who had served on the Supervisory Board since 19 July 2013.

Base salaries in 2015
The total remuneration of each member of the Management Board is determined in line with compensation levels in peer companies as set out in the remuneration policy. For the newly appointed CEO, the Supervisory Board has applied its discretionary authority to deviate from the remuneration policy in the same way that it had previously done for Mr. DuCharme when in office as CEO, thereby securing continuity. As such, Mr. Shekhterman's reward package does not include a severance entitlement and instead, he shall be entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, Mr. Shekhterman shall be entitled to the difference upon completion of his full term as CEO.

Expressed in millions of Russian Roubles, unless otherwise stated

Short-term incentive (STI) for 2015

For 2015 the Supervisory Board had determined that 70% of the total on-target bonus opportunity for the CEO would depend on achieving group targets, with individual targets having a weight of 30%. For the Company Secretary the ratio is 50/50. The on-target payout as a percentage of base salary is set at a level of 100% for the CEO, and 20% for the Company Secretary. With regard to financial targets, the Group achieved EBITDA above the target threshold, while other financial targets, including the net sales target, were fully met. The achievement of individual performance targets was assessed and determined by the Supervisory Board for each Management Board member individually, as reflected in the table below. It includes the STI payout as a percentage of individual base salary and also reflects the CEO transition from Mr. DuCharme to Mr. Shekhterman which took place during the year.

Long-term incentive (LTI)

The LTI is a programme in two 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. The total available fund for all payouts under the LTI programme is capped at 12% of EBITDA in the year that the final stage performance targets are 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. The size of each individual cash award is based on a 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 by up to 20%, either upwards or downwards, based on performance against non-financial individual targets determined at the discretion of the Supervisory Board.

Mr. Shekhterman, appointed acting CEO in September 2015 in a transition phase with his predecessor and formally appointed as CEO on 12 November 2015, was eligible for a payout, details of which are provided in the table below.

Mr. DuCharme's participation in the LTI is based on his tenure as CEO until September 2015, and his role in establishing X5 on a firm path towards the LTI targets. Details of Mr. DuCharme's payout under the programme are set out in the table below.

Remuneration of the members of the Management Board:

NAME	YEAR	BASE SALARY[1]	SHORT-TERM INCENTIVE[2]	LONG-TERM INCENTIVE[3]	EXIT PAYMENT[4]	SHARE BASED COMPENSATION[5]	TOTAL
I. Shekhterman	2015	13	16	143	-	-	172
F. Lhoëst	2015	19	5	20	-	1	45
	2014	14	10	5	-	4	33
S. DuCharme[1]	2015	41	33	399	440	3	916
	2014	42	108	-	-	9	159
S. Piven[6]	2014	7	6	-	9	1	23
V. Yavorskaya[6]	2014	5	6	-	-	-	11
Total	**2015**	73	54	562	440	4	**1,133**
	2014	68	130	5	9	14	**226**

[1] Mr. Shekhterman succeeded Mr. DuCharme as member of the Management Board and CEO on 12 November 2015. For Mr. DuCharme and Mr. Shekhterman the annual base salary is RUB 42 million, reflected in the table on a pro rata basis, respectively, until and from 8 September 2015, the day that Mr. Shekhterman started a transition period following his nomination as CEO. The table reflects actual base salary amounts, including adjustments based on number of days spent on vacation and business trips, in accordance with Russian labor law.

[2] Short-term incentives are based on results achieved in 2015 and payable in 2016. The short-term incentive levels are based on full achievement of both group and individual targets with additional coefficients for outperformance of group targets and, for Mr. DuCharme, extraordinary individual performance, resulting in payouts of 123% of adjusted pro-rata base salary for Mr. Shekhterman, 80% of adjusted pro-rata base salary for Mr. DuCharme (re. note 1 above) and 26% of base salary for Mr. Lhoëst. In 2014 the short-term incentive for Mr. Lhoëst was the short-term component of the cash incentive for 2014 under the Deferred Cash Incentive Plan terminated in 2015.

[3] For Mr. Shekhterman and Mr. DuCharme respectively the long-term incentive reward is calculated on a pro-rata basis which reflects their term in office as CEO. For Mr. Lhoëst the long-term incentive is composed of the deferred components of the cash incentives awarded for performance in the years 2013 and 2014 respectively under the Deferred Cash Incentive Plan.

[4] Mr. DuCharme stepped down as CEO and member of the Management Board on 12 November 2015, to become Chairman of the Supervisory Board as per the same date. In accordance with a settlement agreement dated 21 September 2015 Mr. DuCharme is entitled to a deferred parts of bonuses awarded in 2014 and 2015 under the Deferred Cash Incentive Plan (USD 1,540,773) and a discretionary transformation bonus approved by the Supervisory Board (USD 5,000,000).

[5] Since 2013 members of the Management Board no longer participate in the Company's Restricted Stock Unit Plan. The share based compensation reflects the accrued amounts related to previous awards under the Restricted Stock Unit Plan (see table below) and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

[6] Mr. Piven and Mrs. Yavorskaya stepped down from the Management Board on 1 June 2014.

Restricted Stock Units (RSU) awarded and outstanding to members of the Management Board:

NAME	TRANCHE	CONDITIONAL GRANT 2015	RSUS AWARDED IN 2011	RSUS AWARDED IN 2012	RSUS AWARDED IN 2013	RSUS AWARDED IN 2014	RSUS AWARDED IN 2015	YEAR OF VESTING	RSUS VESTED	VALUE ON VESTING DATE[1]	GDRS LOCKED-UP AS PER 31/12/2015[2]	END OF LOCK-UP PERIOD	RSUS OUTSTANDING AS PER 31/12/2015	RSUS OUTSTANDING AS PER 31/12/2014
I. Shekhterman	4	-	-	-	-	7,384	-	2016	-	-	-	2018	7,384	7,384
	5	-	-	-	-	-	15,793	2017	-	-	-	2019	15,793	-
	6	11,396	-	-	-	-	-	2018	-	-	-	2020	-	-
F. Lhoëst	1	-	9,024	-	-	-	-	2013	9,024	5	-	2015	-	-
	2	-	-	13,645	-	-	-	2014	13,645	8	6,908	2016	-	-
	3	-	-	-	7,192	-	-	2015	7,192	7	4,068	2017	-	7,192

[1] Vesting date is 19 May of each respective year of vesting.

[2] Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.

Supervisory Board

As described in the Corporate Governance Report on page 140, the composition of the Supervisory Board changed in 2015. At the Annual General Meeting of Shareholders in May, Messrs. Gould, Tynkovan and Malis stepped down, and Messrs. King and Demchenkov were appointed as new Board members. At the Extraordinary General Meeting of Shareholders in November Mr. Shekhterman stepped down to become CEO, while Mr. DuCharme was appointed as new Board member and Chairman.

Supervisory Board members received remuneration in cash which accrued evenly throughout the year in proportion to the period of service. In accordance with the remuneration principles for the Supervisory Board, (i) the non-independent Board members Mr. Dorofeev, Mr. Fridman and Mr. Gould were not remunerated by the Group, and (ii) remunerated members of the Supervisory Board are entitled to an annual grant of Restricted Stock Units (RSUs), subject to approval of the General Meeting of Shareholders.

Restricted Stock Units

In 2015 the Annual General Meeting of Shareholders approved that the Supervisory Directors Christian Couvreux, Igor Shekhterman, Pawel Musial, Geoff King and Peter Demchenkov be granted a number of RSUs with award date 19 May 2016, equal to 100% of the fixed remuneration in 2015 of the relevant Board member, divided by the average market value of one GDR as of 19 May 2015. Under the rules of the plan, the average market value is defined as the volume weighted average price of a GDR over the thirty calendar days immediately preceding 19 May 2015. The volume weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange. The award is subject to the relevant supervisory director holding office during the period until the award date. The awarded RSUs will vest on 19 May 2018, followed by a lock-in period ending on 19 May 2020.

The number of RSUs granted and outstanding to the members of the Supervisory Board is shown below. For the calculation of the intrinsic value and further details refer to Note 27.

Expressed in millions of Russian Roubles, unless otherwise stated

Remuneration of the members of the Supervisory Board:

	BASE REMUNERATION [1]		ADDITIONAL REMUNERATION [2]		SHARE-BASED COMPENSATION [3]	
CURRENT MEMBERS:	2015	2014	2015	2014	2015	2014
S. DuCharme (appointed 12 November 2015)	11	-	-	-	-	-
D. Dorofeev	-	-	-	-	-	-
M. Fridman	-	-	-	-	-	-
C. Couvreux	14	10	2	-	7	8
P. Musial	7	5	-	24	3	1
G. King (appointed 7 May 2015)	16	-	2	-	3	-
P. Demchenkov (appointed 7 May 2015)	7	-	-	-	1	-
M. Kuchment (appointed 12 November 2015)	3	-	-	-	-	-
FORMER MEMBERS:						
D. Gould (stepped down 7 May 2015)	-	-	-	-	-	-
A. Tynkovan (stepped down 7 May 2015)	4	10	-	8	13	6
A. Malis (stepped down 7 May 2015)	2	5	-	-	(2)	2
I. Shekhterman (stepped down 12 November 2015)	9	10	-	8	6	3
	73	40	4	40	31	20

[1] The annual membership allowance for independent Supervisory Board members is determined and paid in Euro, as follows: chairman EUR 250,000; members chairing a committee EUR 200,000; other members EUR 100,000. Of former Board members and Board members appointed during the year, the actual pro-rata amounts are reflected. In accordance with the remuneration principles for the Supervisory Board, non-independent Board members Messrs. Dorofeev, Fridman and Gould were not remunerated.

[2] Additional cash remuneration for extraordinary time and efforts spent on key strategic projects, subject to approval of the General Meeting of Shareholders.

[3] The share-based compensation reflects the accrued amounts related to the Restricted Stock Unit Plan (see table below) and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

Restricted Stock Units awarded and outstanding to members of the Supervisory Board:

NAME	TRANCHE	CONDITIONAL GRANT 2015	RSUS AWARDED IN 2011	RSUS AWARDED IN 2012	RSUS AWARDED IN 2013	RSUS AWARDED IN 2014	RSUS AWARDED IN 2015	YEAR OF VESTING	RSUS VESTED	VALUE ON VESTING DATE[1]	GDRS LOCKED-UP AS PER 31/12/2014[2]	END OF LOCK-UP PERIOD	RSUS OUTSTANDING AS PER 31/12/2015	RSUS OUTSTANDING AS PER 31/12/2014
S. DuCharme[3]	1	-	7,219	-	-	-	-	2013	7,219	4	-	2015	-	-
	2	-	-	7,939	-	-	-	2014	7,939	5	-	2015	-	-
	3	-	-	-	28,830	-	-	2015	28,830	30	-	2015	-	28,830
A. Tynkovan[4]	1	-	4,331	-	-	-	-	2013	4,331	3	-	2015	-	-
	2	-	-	4,763	-	-	-	2014	4,763	3	-	2016	-	-
	3	-	-	-	6,277	-	-	2015	6,277	6	-	2017		6,277
	4	-	-	-	-	10,830	-	2015	10,830	10	-	2018	-	10,830
	5	-	-	-	-	-	15,793	2015	15,793	16	-	2019	-	-
C. Couvreux	1	-	7,219	-	-	-	-	2013	7,219	4	-	2015	-	-
	2	-	-	7,939	-	-	-	2014	7,939	5	7,939	2016	-	-
	3	-	-	-	10,461	-	-	2015	10,461	11	6,904	2017	-	10,461
	4	-	-	-	-	14,768	-	2016	-	-	-	2018	14,768	14,768
	5	-	-	-	-	-	15,793	2017	-	-	-	2019	15,793	-
	6	11,396	-	-	-	-	-	2018	-	-	-	2020	-	-
A. Malis[5]	4	-	-	-	-	3,692	-	2015	1,230	1	-	2018	-	3,692
	5	-	-	-	-	-	-	2017	-	-	-	2019	-	-
P.Musial	4	-	-	-	-	2,461	-	2016	-	-	-	2018	-	2,461
	5	-	-	-	-	-	7,897	2017	-	-	-	2019	7,897	-
	6	5,698	-	-	-	-	-	2018	-	-	-	2020	-	-
G. King	6	13,250	-	-	-	-	-	2018	-	-	-	2020	-	-
P. Demchenkov	6	5,698	-	-	-	-	-	2018	-	-	-	2020	-	-

[1] Vesting date is 19 May of each respective year of vesting.

[2] Number of GDRs held during lock-up period equals the number of vested RSUs minus GDRs sold to cover taxes, if any.

[3] Mr. DuCharme stepped down as CEO, and was re-appointed as member of the Supervisory Board on 12 November 2015. As part of his termination package as CEO, the lock-up on the 36,769 vested GDRs awarded under tranches 2 and 3 was lifted.

[4] Mr. Tynkovan stepped down from the Supervisory Board per the AGM on 7 May 2015. The Supervisory Board resolved to accelerate vesting and release of 32,900 RSUs awarded under tranches 3, 4 and 5. Subsequently, all RSUs under tranches 1–5 were settled in cash at the amount of USD 551,439.

[5] Mr. Malis stepped down from the Supervisory Board per the AGM on 7 May 2015. In accordance with the RSU Plan Rules, one third of the number of RSUs awarded under tranche 4 vested in 2015.

Other key management personnel

Other key management personnel consists of certain members of the Executive Committee. In accordance with the Remuneration Policy, the total direct compensation of other key management personnel consists of a base salary, a short-term incentive and a long-term incentive.

Base salaries in 2015

The total remuneration of members of the Executive Committee is determined in line with compensation levels in peer companies as set out in the remuneration policy. Based on a salary benchmarking survey conducted in 2014, the Supervisory Board approved base salary adjustments for certain members of the Executive Committee, resulting in an average base salary increase of 10% vs. 2014.

Short-term incentive

For 2015, as in 2014, the Supervisory Board had determined that 70% of the total on-target bonus opportunity for leaders of the formats would be based on achieving financial targets at both group and format level, with individual targets having a weight of 30%. For functional leaders the ratio between group financial targets and personal targets is 50/50. The on-target payout as a percentage of base salary is set at a level of 100%. In terms of financial targets, average achievement levels exceeded targets set, including the net sales targets, while also EBITDA exceeded the target threshold. With regard to the individual performance targets the cash incentive is approved by the Supervisory Board for each executive individually. For other key management personnel this results in an average 75% cash payout as a percentage of base salary.

Expressed in millions of Russian Roubles, unless otherwise stated

Long-term incentive

As indicated above under 'Management Board', the targets set for the first stage of the LTI were achieved, as specific comparative performance indicators were met with EBITDA exceeding the required threshold. The size of each individual cash award is based on a 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 by up to 20%, either upwards or downwards, based on performance against non-financial individual targets determined at the discretion of the Supervisory Board. Payout details resulting from the fulfilment of LTI targets by 'other key management personnel' as per 31 December 2015 are set out below.

Remuneration of other key management personnel

	YEAR	BASE SALARY[1]	SHORT-TERM INCENTIVE[2]	LONG-TERM INCENTIVE[3]	EXIT PAYMENT	TOTAL
Other key management personnel	**2015**	148	121	891	8	**1,168**
	2014	110	115	23	17	**265**

[1] Base salary remuneration reflects the increase in salary for some key management personnel, as well as fluctuation in base salary due to the number of days spent on vacation and business trips, in accordance with Russian labor law.

[2] Short-term incentive for performance in the year 2015 (2014) paid in cash in 2016 (2015).

[3] In 2014 and 2015 the long-term incentive include deferred components of the cash incentives awarded for, respectively, the performance years 2013 and 2014 to participants under the Deferred Cash Incentive Plan.

27 / SHARE-BASED PAYMENTS

Restricted Stock Unit 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 the year ended 31 December 2015 6,161 GDRs out of 102,528 vested under the first tranche in 2013 and 12,072 GDRs out of 114,285 vested in 2014 were waived in exchange for cash compensation. In May 2015 the Group vested 87,947 GDRs under the third tranche of long term incentive plan out of treasury stock, 11,001 of them were waived and the remaining 76,946 GDRs were locked-in for 2 years in accordance with RSU plan rules. The fourth, fifth and sixth tranches will vest on 19 May 2016, 19 May 2017 and 19 May 2018 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 the GDRs cannot be traded.

In total, during the year ended 31 December 2015 the Group recognised expense related to the RSU plan in the amount of RUB 18 (expense during the year ended 31 December 2014: RUB 32). At 31 December 2015 the equity component was RUB 37 (31 December 2014: RUB 94). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding are as follows:

	2015		2014	
	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	235,425	659.61	318,531	830.48
Granted during the period	47,438	1,033.57	63,173	608.64
Vested during the period	(58,713)	606.52	(92,310)	1,000.48
Forfeited during the period	(101,027)	737.34	(53,969)	1,025.42
Outstanding at the end of the period	123,123	765.23	235,425	659.61

28 / INCOME TAX

	YEAR ENDED 31 DECEMBER 2015	YEAR ENDED 31 DECEMBER 2014
Current income tax charge	4,214	3,674
Deferred income tax benefit	(458)	(147)
Income tax charge for the year	3,756	3,527

The theoretical and effective tax rates are reconciled as follows:

	YEAR ENDED 31 DECEMBER 2015	YEAR ENDED 31 DECEMBER 2014
Profit before taxation	17,930	16,218
Theoretical tax at the effective statutory rates *	3,586	3,244
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of income taxable at rates different from standard statutory rates	(1,206)	(952)
Expenses on inventory shrinkage	1,479	1,086
Unrecognised tax loss carry forwards for the year	465	254
Deferred tax (income) arising from recovery of deferred tax assets written down in previous periods/ deferred tax expenses arising from the write-down of the deferred tax asset	(454)	483
Other non-taxable income	(114)	(588)
Income tax charge for the year	3,756	3,527

* Profit before taxation on Russian operations is assessed based on the statutory rate of 20%.

Effective 1 January 2014, 39 Russian subsidiaries of the Group formed a consolidated group of taxpayers (CGT) with "TH "PEREKRESTOK" CJSC acting as the responsible CGT member. In 2015 two Russian subsidiaries left CGT.

Expressed in millions of Russian Roubles, unless otherwise stated

DEFERRED INCOME TAX

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss are attributable to the following items for the year ended 31 December **2015**:

	31 DECEMBER 2014	CREDITED/ (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	DISPOSAL OF SUBSIDIARIES	31 DECEMBER 2015
Tax effects of deductible temporary differences and tax loss carry forwards:					
Tax losses available for carry forward	3,589	1,050	22	-	4,661
Property, plant and equipment and Investment property	205	141	291	-	637
Other intangible assets	5	(152)	165	-	18
Inventories	2,476	(82)	-	-	2,394
Accounts receivable	128	(41)	106	-	193
Accounts payable	3,514	1,501	130	-	5,145
Other	221	(39)	8	-	190
Gross deferred tax asset	**10,138**	**2,378**	**722**	**-**	**13,238**
Less offsetting with deferred tax liabilities	(6,570)	(1,079)	(172)	-	(7,821)
Recognised deferred tax asset	**3,568**	**1,299**	**550**	**-**	**5,417**
Tax effects of taxable temporary differences:					
Property, plant and equipment and Investment property	(5,558)	(892)	(280)	-	(6,730)
Other intangible assets	(2,253)	163	(88)	-	(2,178)
Accounts receivable	(2,464)	(1,165)	-	-	(3,629)
Accounts payable	(1)	(44)	-	-	(45)
Other	(218)	18	-	-	(200)
Gross deferred tax liability	**(10,494)**	**(1,920)**	**(368)**	**-**	**(12,782)**
Less offsetting with deferred tax assets	6,570	1,079	172	-	7,821
Recognised deferred tax liability	**(3,924)**	**(841)**	**(196)**	**-**	**(4,961)**

DEFERRED INCOME TAX

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss are attributable to the following items for the year ended 31 December **2014**:

	31 DECEMBER 2013	CREDITED/ (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	DISPOSAL OF SUBSIDIARIES	31 DECEMBER 2014
Tax effects of deductible temporary differences and tax loss carry forwards:					
Tax losses available for carry forward	3,932	(269)	-	74	3,589
Property, plant and equipment and Investment property	798	(583)	30	40	205
Other intangible assets	124	(161)	42	-	5
Inventories	1,668	808	-	-	2,476
Accounts receivable	200	(72)	-	-	128
Accounts payable	3,182	328	4	-	3,514
Other	301	(80)	-	-	221
Gross deferred tax asset	**10,205**	**(29)**	**76**	**114**	**10,138**
Less offsetting with deferred tax liabilities	(5,259)	(1,307)	(4)	-	(6,570)
Recognised deferred tax asset	**4,946**	**(1,336)**	**72**	**114**	**3,568**
Tax effects of taxable temporary differences:					
Property, plant and equipment and Investment property	(5,957)	443	(44)	-	(5,558)
Other Intangible assets	(2,498)	273	(28)	-	(2,253)
Accounts receivable	(1,905)	(559)	-	-	(2,464)
Accounts payable	(10)	9	-	-	(1)
Other	(228)	10	-	-	(218)
Gross deferred tax liability	**(10,598)**	**176**	**(72)**	**-**	**(10,494)**
Less offsetting with deferred tax assets	5,259	1,307	4	-	6,570
Recognised deferred tax liability	**(5,339)**	**1,483**	**(68)**	**-**	**(3,924)**

Temporary differences on unremitted earnings of certain subsidiaries amounted to RUB 26,294 (2014: RUB 27,603) for which the deferred tax liability was not recognised as such amounts are being reinvested for the foreseeable future.

The current portion of the gross deferred tax liability amounted to RUB 4,204 (31 December 2014: RUB 2,929), the current portion of the gross deferred tax asset amounted to RUB 7,243 (31 December 2014: RUB 6,251).

Management believes that the future taxable profits in tax jurisdictions that suffered a loss in the current or preceding years will be available to utilise the deferred tax asset of RUB 4,661 recognised at 31 December 2015 for the carry forward of unused tax losses (31 December 2014: RUB 3,589).

The Group estimates unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 2,613 (2014: RUB 1,284).

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

Expressed in millions of Russian Roubles, unless otherwise stated

29 / FINANCIAL RISK MANAGEMENT

Financial risk management is a part of integrated risk management and internal control framework described in "Corporate Governance" section of this Annual Report. The primary objectives of the financial risk management are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Financial risk management is carried out by Corporate Finance Department. Corporate Finance Department monitors and measures financial risks and undertakes steps to limit their influence on the Group's performance.

A / Market risk

Currency risk
The Group is exposed to foreign exchange risk arising from foreign currency denominated assets and liabilities with respect to import purchases. As at 31 December 2015 the Group has trade accounts payable denominated in foreign currency in the amount of RUB 1,731 (31 December 2014: RUB 1,215). As at 31 December 2015 the Group does not have any other significant assets and liabilities denominated in foreign currency and the exposure for the Group is estimated as not significant.

Interest rates risk
As at 31 December 2015 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.

B / Credit risk

Financial assets, which are potentially subject to credit risk, consist principally of cash and cash equivalents held in banks, trade and other receivables (Note 9 and Note 16). Due to the nature of its main activities (retail sales to individual customers) the Group has no significant concentration of credit risk. Cash is placed in financial institutions which are considered at the time of deposit to have minimal risk of default (Note 9). The Group has policies in place to ensure that in case of credit sales of products and services to wholesale customers only those with an appropriate credit history are selected. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant.

C / Liquidity risk

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

The Group finances its operations by a combination of cash flows from operating activities and, long and short-term debt. The objective is to ensure continuity of funding on the best available market terms. The policy is to keep the Group's credit portfolio diversified structure, continue to improve the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn available bank facilities, and a strong credit rating so that maturing debt may be refinanced as it falls due.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and as at the reporting date at spot foreign exchange rates:

Year ended 31 December 2015

	DURING 1 YEAR	IN 1 TO 4 YEARS
Borrowings	58,041	114,225
Trade payables	103,773	-
Other finance liabilities	29,451	-
	191,265	114,225

Year ended 31 December 2014

	DURING 1 YEAR	IN 1 TO 4 YEARS
Borrowings	34,136	131,497
Trade payables	92,001	-
Other finance liabilities	21,857	-
	147,994	131,497

At 31 December 2015 the Group had net current liabilities of RUB 82,175 (31 December 2014: RUB 30,764) including short-term borrowings of RUB 42,670 (31 December 2014: RUB 15,834). At 31 December 2015 the Group had available bank credit lines of RUB 140,176 (31 December 2014: RUB 84,200). At 31 December 2015 the Group had RUB bonds available for issue on MICEX of RUB 15,000 (31 December 2014: RUB 20,000).

Management regularly monitors the Group's operating cash flows and available credit lines to ensure that these are adequate to meet the Group's ongoing obligations and its expansion programs. Part of the short term of the liquidity risk is seasonal, with the highest peak in 1st quarter and strong cash generation in 4th quarter, therefore the Group negotiates the maturity of credit lines for the 4th quarter, when the free cash flow allows for the repayment of debts. Part of the existing lines in the local currency (RUB) are provided on rolling basis which is closely monitored by detailed cash flow forecasts and are managed by the Group Treasury.

The Group's capital expenditure program is highly discretionary. The Group optimizes its cash outflows by managing the speed of execution of current capex projects and by delaying future capital extensive programs, if required.

The Group is carefully monitoring its liquidity profile by optimising the cost of funding and the drawdown periods within revolving credit facilities as well as extending existing credit facilities or obtaining new credit lines. The Group manages liquidity requirements by the use of both short-term and long-term projections and maintaining the availability of funding. Based on the review of the current liquidity position of the Group management considers that the available credit lines and expected cash flows are more than sufficient to finance the Group's current operations.

30 / OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

During 2015 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

31 / CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages total equity attributable to equity holders recognised under IFRS requirements. The Group is in compliance with externally imposed capital requirements.

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain requirements: the maximum level of Net Debt/EBITDA (4.00/4.25 after acquisition). This ratio is included as covenants into loan agreements (Note 19). At 31 December 2015 the Group complied with the requirements under the loan facilities.

32 / 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 method ologies. 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 fair value of cash and cash equivalents (Level 1 of the fair value hierarchy), available-for-sale investments and trade and other financial receivables and payables (Level 3 of the fair value hierarchy) approximates their carrying value. The fair value of financial assets measured at level 3 of the fair value hierarchy is estimated based on future cash flows expected to be received including expected losses.

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 22,856 at 31 December 2015 (31 December 2014: RUB 20,863). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 22,987 at 31 December 2015 (31 December 2014: RUB 22,991) (Note 19). The fair value of long-term borrowings amounted to RUB 98,018 at 31 December 2015 (31 December 2014: RUB 83,421). 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 1,812 at 31 December 2015. The fair value of short-term borrowings was not materially different from their carrying amounts.

33 / COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 December 2015, the Group operated 5,270 stores through rented premises (31 December 2014: 3,901 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 rent payments.

The Group entered into a number of short-term and long-term lease agreements which are cancellable by voluntary agreement of the parties or by payment of termination compensation. The expected annual lease payments under these agreements amount to RUB 26,211 (net of VAT) (2014: RUB 20,260).

Capital expenditure commitments

At 31 December 2015 the Group contracted for capital expenditure for the acquisition of property, plant and equipment of RUB 7,271 (net of VAT) (2014: RUB 10,448).

Legal contingencies

During the year ended 31 December 2015 the Group was the defendant in a claim amounting to USD 58 million which had been lodged against the Group in the English courts. In November 2015 a settlement with the claimant was signed and the case was closed. The cash outflow in relation to the settlement was USD 21.5 million. Management does not anticipate any material negative impact on the resolution of other cases in which the Group is involved in the normal course of business.

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 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 2014–2015 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.

Starting from 1 January 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.

Expressed in millions of Russian Roubles, unless otherwise stated

Broader rules for determining the tax residency of legal entities

Starting from 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 entity's 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. 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.

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

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

Management estimates that possible exposure in relation to the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times the additional accrued liabilities and provisions reflected on the statement of financial position at that date. This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability.

Provisions and liabilities for tax uncertainties are attributable to profit tax and non-profits tax risks with expiration within three years, in 2015 the Group net released a provision of RUB 1,783 including net release non-income tax of RUB 196, income tax net release of RUB 990 and net release of RUB 597 indemnified by previous shareholders of acquired companies.

In 2014 the Group net released a provision of RUB 521 including net accrued non-income tax of RUB 175, income tax net release of RUB 645 and net release of RUB 51 indemnified by previous shareholders of acquired companies.

At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of RUB 3,740 at 31 December 2015 (31 December 2014: RUB 2,595) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2014	**1,268**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	273
Release of provision	(4,424)
Accrual of provision	3,903
Offset of provision	1,575
Balance at 31 December 2014	**2,595**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	2,791
Release of provision	(4,058)
Accrual of provision	2,275
Offset of provision	137
Balance at 31 December 2015	**3,740**

X5 Retail Group N.V.

Company Financial Statements

31 December 2015

X5 Retail Group N.V.

Company Statement of **Financial Position** at 31 December 2015 Before appropriation of profit

Expressed in millions of Russian Roubles, unless otherwise stated

	NOTE	31 DECEMBER 2015	31 DECEMBER 2014
Assets			
Non-current assets			
Financial fixed assets	35	111,233	105,813
		111,233	**105,813**
Current assets			
Financial assets	35	11,188	-
Amounts due from subsidiaries		793	521
Prepaid expenses		4	3
Other receivables		98	-
VAT receivable		-	8
Cash and cash equivalents		-	3
		12,083	**534**
Total assets		**123,316**	**106,347**
Equity and liabilities			
Paid up and called up share capital	36	5,410	4,638
Share premium account	36	46,253	46,218
Share-based payment reserve	39	37	94
Other reserves		38,844	26,917
Result for the year		14,174	12,691
Total equity		**104,718**	**90,558**
Non-current liabilities			
Bank loans	37	-	14,871
Loan from group company	38	-	344
		-	**15,216**
Current liabilities			
Loan form group company	38	17,242	-
Amounts due to group companies		1,286	524
Accrued expenses and other liabilities		48	47
VAT and other tax payable		22	2
		18,598	**573**
Total equity and liabilities		**123,316**	**106,347**

X5 Retail Group N.V.

Company Statement of **Profit or Loss** for the year ended 31 December 2015

Expressed in millions of Russian Roubles, unless otherwise stated

	NOTES	31 DECEMBER 2015	31 DECEMBER 2014
Other expenses after tax	40	(1,129)	(890)
Income on participating interest after tax		15,303	13,581
Profit after taxation		**14,174**	**12,691**

34 / ACCOUNTING PRINCIPLES

General

The Company was incorporated as a limited liability Company under the laws of The Netherlands on 13 August 1975 and has its statutory seat in Amsterdam.
The Company is publicly owned. The principal activity of the Company is to act as the listed holding company for a retail chain operating mainly in Russia.

Basis of presentation

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands, in accordance with Part 9 of Book 2 of the Dutch Civil Code (art 362.8).

As the financial data of the company are included in the consolidated financial statements, the income statement in the company financial statements is presented in its condensed form (in accordance with article 402, Book 2 of the Dutch Civil Code).

Accounting principles

Unless stated otherwise below, the accounting principles applied for the Company accounts are similar to those used in the IFRS Consolidated Financial Statements (refer to Note 2.1 to the Consolidated Financial Statements). The consolidated accounts of companies publicly listed in the European Union must be prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and adopted by the European Commission.

As the Company mainly exploits Russian grocery stores in four formats (soft-discount, supermarket, hypermarket and convenience stores), the functional currency of the Company is the Russian Rouble as this is the currency of its primarily business environment and reflects the economic reality. Unless stated otherwise all amounts are in millions of Russian Rouble ('RUB').

Investments in group companies

Investments in group companies are entities (including intermediate subsidiaries and special purpose entities) over which the Company has control, because the Company (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. Group companies are recognised from the date on which control is transferred to the Company or its intermediate holding entities. They are derecognised from the date that control ceases.

The Company applies the acquisition method to account for acquiring group companies, consistent with the approach identified in the consolidated financial statements. Investments in group companies are presented in accordance with the net asset value method. When an acquisition of an investment in a group company is achieved in stages, any previously held equity interest is remeasured to fair value on the date of acquisition. The measurement against the book value is accounted for in the statement of profit and loss.

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

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

Expressed in millions of Russian Roubles, unless otherwise stated

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

Shareholders' Equity
Issued and paid up share capital, which is denominated in Euro, is restated into Russian Rouble ('RUB') at the official exchange rate of the Central Bank of the Russian Federation as at balance date in accordance with section 373 sub 5 of book 2 of the Dutch Civil Code. The difference is settled in the other reserves.

35 / FINANCIAL FIXED ASSETS

A / MOVEMENTS IN THE INTERESTS IN GROUP COMPANIES HAVE BEEN AS FOLLOWS:	31 DECEMBER 2015	31 DECEMBER 2014
Opening balance	94,778	81,105
Acquisitions/capital contribution	1,162	212
Divestment of group companies/ capital repayments	(16)	(120)
Profit from group companies for the year	15,303	13,581
Closing balance	111,227	94,778

A complete list of group companies has been disclosed in the consolidated financial statements (refer to Note 6 of consolidated financial statements).

B / MOVEMENTS IN THE LOANS TO GROUP COMPANIES HAVE BEEN AS FOLLOWS:		
Opening balance	11,035	11,522
Settlement/Repayment	(111)	(783)
Additions	269	296
Foreign exchange differences	1	1
Closing balance	11,194	11,035
Non-current financial assets	111,233	105,813
Current financial assets	11,188	-
Total Financial fixed assets	122,421	105,813

LOANS PROVIDED TO FOLLOWING GROUP COMPANIES:	CURRENCY	INTEREST RATE	MATURITY DATE
GSWL Finance Ltd	RUB	Mosprime1m +3.6%	August 2016
Perekrestok Holdings Ltd.	RUB	(Libor1m + Mosprime1m) × ½ +4.5%	December 2016
X5 Capital S.A.R.L	EUR	4%–4.5%	December 2017

The total amount of the loans provided to group companies is RUB 11,194 (2014: RUB 11,035) and it approximates the fair value. The loans have not been secured.

On 16 September and 24 October 2014 the Company entered into the new loans facility agreement with X5 Capital S.A.R.L. The subject of the agreement is the establishment of the loan up to EUR 500,000. As at 31 December 2015 the loan provided to X5 Capital S.A.R.L. amounted EUR 72,018 (equivalent in RUB 5.7 million) (2014: EUR 39,273 (equivalent in RUB 2.7 million)).

36 / SHAREHOLDERS' EQUITY

	SHARE CAPITAL[1]	SHARE PREMIUM	OTHER RESERVES	PROFIT/ (LOSS)	SHARE-BASED PAYMENT (EQUITY)	TOTAL
Balance as at 1 January 2014	**3,050**	**46,126**	**17,476**	**10,984**	**170**	**77,806**
Share-based compensation (Note 27)	-	-	-	-	17	17
Transfer	-	-	10,984	(10,984)	-	-
Currency translation	1,586	-	(1,542)	-	-	44
Transfer of vested equity rights	2	92	(1)	-	(93)	-
Result for the period	-	-	-	12,691	-	12,691
Balance as at 1 January 2015	**4,638**	**46,218**	**26,917**	**12,691**	**94**	**90,558**
Share-based compensation (Note 27)	-	-	-	-	(21)	(21)
Transfer	-	-	12,691	(12,691)	-	-
Currency translation	771	-	(771)	-	-	-
Transfer of vested equity rights	1	35	-	-	(36)	-
Result for the period	-	-	-	14,174	-	14,174
Disposed available-for-sale investments	-	-	7	-	-	7
Balance as at 31 December 2015	**5,410**	**46,253**	**38,844**	**14,174**	**37**	**104,718**

[1] Share capital translated at the year end exchange rate EUR/RUB of 79.6972 (2014: 68.3427).

Share capital issued
As at 31 December 2015 the Group had 190,000,000 authorised ordinary shares (31 December 2014: 190,000,000) of which 67,882,421 ordinary shares are outstanding (31 December 2014: 67,867,743) and 10,797 ordinary shares held as treasury stock (31 December 2014: 25,475). The nominal par value of each ordinary share is EUR 1.

The acquisition price of the shares purchased was charged against other reserves. Other reserves as at 31 December 2015 include RUB Nil (2014: RUB 44) translation reserve.

No dividends were paid or declared during the years ended 31 December 2015 and 2014.

37 / BANK LOANS

The movements in the bank loans have been as follows:

	31 DECEMBER 2015	31 DECEMBER 2014
Opening balance	14,871	14,800
Repaid (Club loan)	(15,000)	-
Amortisation of transaction costs capitalised (Club loan)	129	71
Closing balance	-	14,871

In September 2015 the club loan facility which had 2,5–2,75% margin over MOSPRIME was refinanced with the loan from group company Trade House Perekrestok (Note 38).

Expressed in millions of Russian Roubles, unless otherwise stated

38 / LOAN FROM GROUP COMPANIES

	31 DECEMBER 2015	31 DECEMBER 2014
Trade House Perekrestok	17,242	344

The loan payable to Trade House Perekrestok denominated in RUB/USD/EUR. RUB facility amounts to 15,000 (2014: RUB 344), USD 21.5 million (2014: USD 0) and EUR 0.6 million (2014: EUR 0). Loans are attracted at 10% interest per annum for all currencies and mature in April 2016.

39 / SHARE-BASED PAYMENTS

X5 Retail Group N.V. operates both cash and equity settled share based compensation plans in the form of Restricted Stock Unit Plan.

The Restricted Stock Unit Plan consists of performance based awards and awards subject to the employment condition only. For employees of the Company an expense is recorded in the profit and loss account.

The receivable or expense is accounted for at the fair value determined in accordance with the policy on share-based payments as included in the consolidated financial statements, including the related liability for cash settled plans or as equity increase for equity settled plans Note 27).

The following is included in the entity's accounts for the Restricted Stock Unit Plan:

	2015	2014
Equity share-based payment reserve as at 31 December	37	94
Expenses for the year ended 31 December	35	48

40 / OTHER INCOME AND EXPENSES AFTER TAX

	31 DECEMBER 2015	31 DECEMBER 2014
Interest income from group companies	(1,967)	(1,661)
Interest expenses	2,557	1,966
General and administrative expenses	267	149
Other expenses	75	421
RSU program	35	48
Currency exchange rate differences	162	(33)
	1,129	890

In accordance with the Dutch legislation article 2:382a the total audit fees related to the accounting organisation PricewaterhouseCoopers Accountants N.V. amounted to RUB 10 (2014: RUB 6).

41 / INCOME TAX EXPENSE

	31 DECEMBER 2015	31 DECEMBER 2014
Operating loss before tax	(1,129)	(890)
Income on participating interest after tax	15,303	13,581
Current income tax	-	-
Deferred income tax	-	-
Effective tax rate	0%	0%
Applicable tax rate	25.0%	25.0%

No deferred tax asset has been recognised in relation to uncertainty of future taxable income to offset the current tax losses.

The Company estimates unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 565 (2014: RUB 293). Unused tax losses are available for carry forward for a period not less than seven years.

42 / STAFF NUMBERS AND EMPLOYMENT COSTS

Other than Management and Supervisory Board the Company has 2 employees in the Netherlands, incurred wages, salaries and related social security charges comprise RUB 1,8 (2014: RUB 2).

43 / CONTINGENT RIGHTS AND LIABILITIES

Reference is made to the commitments and contingencies as disclosed in Note 33 in the consolidated financial statements. Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Group has the following guarantees issued under obligations of its group companies:

	31 DECEMBER 2015	31 DECEMBER 2014
Irrevocable offer to holders of X5 Finance bonds	23,000	23,000
Guarantee for Agrotorg	11,000	21,880
Guarantee for TH Perekrestok	67,500	56,500

44 / RELATED PARTY TRANSACTIONS

Refer to Note 8 of the consolidated financial statements;
all group companies are also considered related parties.

Statutory director's compensation

The Company has a Management Board and a Supervisory Board. The total remuneration of all board members as well as key management is disclosed in Note 26 and Note 27 of the Consolidated Financial Statements.

Loans to group companies

For loans issued to and interest income from the group companies refer to Note 35 and Note 40.

Loan from group company

For loan received from and interest expenses to the group company refer to Note 38 and Note 40.

45 / SUBSEQUENT EVENTS

In February 2016 the Group purchased the retail chain, which operates stores in the Komi Republic.

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 and maturity in 3 years.

The Group appointed the issue date of new bonds series BO-05 with a maximum nominal value of RUB 5 bn under 10.9% coupon rate on 2.5-year term as 17 March 2016.

Management Board:

- Igor Shekhterman
- Frank Lhoëst

Supervisory Board:

- Stephan DuCharme
- Mikhail Fridman
- Dmitry Dorofeev
- Christian Couvreux
- Pawel Musial
- Geoff King
- Peter Demchenkov
- Michael Kuchment

Amsterdam
17 March 2016

/ OTHER INFORMATION

Auditor's report

The auditor's report is included on page 228.

Statutory profit appropriation

In Article 28 of the Company's statutory regulations the following has been stated concerning the appropriation of result:

On proposal of the Supervisory Board, the General meeting shall determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits..

Subsequent events

For subsequent events, please refer to note 45 of the financial statements.

FINANCIAL STATEMENTS

1 /6

Independent auditor's report

To: the General Meeting and Supervisory Board of X5 Retail Group N.V.

pwc

Report on the financial statements 2015

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2015 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2015 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2015 of X5 Retail Group N.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of X5 Retail Group N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2015;
- the following statements for 2015: the consolidated statement of profit or loss and the consolidated statements of comprehensive income, changes in equity and cash flows;
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2015;
- the company statement of profit or loss for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of X5 Retail Group N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview and context

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In 2015 the Group incurred costs for a Long Term Incentive plan, that are not expected to be incurred annually. We therefore excluded these costs in determining the materiality. In particular, we looked at where the management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. Most of these areas are included in the key audit matters section below and are similar to previous year as the areas relate to the primary business of the Group and are inherently subject to management's estimation. Additionally the economic environment that the Group is operating in, continues to present challenges. Due a change in the segmentation to multiple operating segments, the approach to the audit of the goodwill impairment assessment was adjusted compared to previous year as explained in the key audit matter on goodwill below.

Apart from the key audit matters, which are explained below, other points of focus in our audit included, among others, the liability for the Long Term Incentive plan, acquisitions of businesses, the valuation of inventory and fixed asset additions in connection with new store openings and the corporate income tax position. In addition we performed procedures on the inventory and revenue process, such as attending a sample of physical inventory counts in the stores and at distribution centres and reconciling daily revenue according to the cash registers to cash deposits made at the bank and revenue recorded in the accounting records of the Group.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competencies which are needed for the audit of a retail company. We therefore included specialists in the areas of real estate, information technology, valuation and taxation in our team.

Materiality

- Overall materiality: RUB 1.5 billion which represents 2.5% of EBITDA adjusted for Long Term Incentive plan expenses.

Audit scope

- Our audit covered all subsidiaries within the Group that are of relevance for the financial statements.
- Because of the centralised structure, the entire Group has been audited by the Group engagement team.
- The Group engagement team performed its audits in both the Netherlands and Russia.

Key audit matters

- Impairment of goodwill
- Impairment of stores and other assets
- Recognition of vendor allowances
- Impact of the Russian economic crisis

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality

RUB 1.5 billion
(2014: RUB 1.1 billion)

How we determined it

2.5% of EBITDA adjusted for Long Term Incentive plan expenses.

Rationale for benchmark applied

We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the stakeholders of X5 Retail Group N.V. On this basis we believe that EBITDA (adjusted for the Long Term Incentive Plan expenses) is an important metric for the financial performance of the Group. We have excluded the expenses for the Long Term Incentive plan (as disclosed in note 26 of the financial statements), as these expenses are not expected to recur annually and the expenses are audited separately.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above RUB 70 million (2014: RUB 55 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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The scope of our Group audit

X5 Retail Group N.V. is the parent company of a group of entities. The financial information of this Group is included in the consolidated financial statements of X5 Retail Group N.V.

The Group includes a large number of subsidiaries, mainly located in Russia. The Group accounting function is centralized in Moscow and Nizhny Novgorod and the Group is primarily managed as a single operating unit with multiple operating segments. The Group uses centralized IT systems for its business processes and financial reporting including consolidation. Therefore all of the audit work was performed by the Group engagement team including the audit of the Group's consolidation and financial statement disclosures.

By performing the procedures above, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters below. On pages 149 to 155 of the 2015 Annual Report, the Company also disclosed several financial and/or operational risk factors that could have a material adverse effect on its financial position and results of operations.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

Key audit matter	How our audit addressed the matter
Impairment of goodwill Note 12 to the financial statements As a result of past acquisitions, the Group carries capitalised goodwill with a value of RUB 75 billion as at 31 December 2015. Management performs an impairment assessment on an annual basis as required by IAS 36 Impairment of Assets. In 2015 there was a change in the operating segments following a change in the Company's operational model in 2015. The Company identified separate operating segments for each of its retail formats, whereas in the recent past the Group had one operating segment. The impairment assessment for 2015 has been performed at the level of the operating segments, Pyaterochka, Perekrestok, Karusel and Other as disclosed in notes 5 and 12 to the financial statements, which required an allocation of the goodwill to each operating segment. The Company has allocated the goodwill based on the purchase price allocations at the time of the acquisitions. The impairment assessment includes the assessment of the value in use based on expected cash flows. These cash flows are based on current budgets and forecast approved by key management and for subsequent years extrapolated based on consumer price index. Key assumptions are revenue growth and the weighted average cost of capital ("WACC") as disclosed in note 12. In case of the carrying value being higher than the value in use, an assessment of the fair value less cost to sell is used. The impairment assessment and the conclusion that there is no impairment of goodwill as at 31 December 2015, has been disclosed in notes 3 and 12 to the financial statements. We consider this to be a key audit matter as the goodwill amount is significant, the test has been performed for multiple operating segments for the first time and the current economic environment in Russia specifically requires management to exercise judgement in performing the impairment assessment.	We performed an evaluation of managements' assessment of the (change in) operating segments based on the criteria included in IFRS 8 Operating segments. Our evaluation included discussion with management, review of the internal reporting structure, the decision making process and how resources are allocated among business units of the Group. We audited the allocation of the goodwill to the operating segments based on the purchase price allocations at the time of the acquisitions. We subsequently evaluated the impairment assessment made by management to also ensure they were in accordance with IFRS. We challenged management's key assumptions underlying the cash flow forecasts such as revenue growth and corroborated them through comparison to management's internal forecasts, long term and strategic plans that were approved by the Board, external data and historical performance. We also involved our internal valuation experts to evaluate the applied weighted average cost of capital ("WACC") calculated by the Group and to assist us with the audit of the impairment calculation model. An independent WACC calculation was prepared and compared to the WACC that was used by management. The audit of the model included verification that the impairment methodology applied was in accordance with general practice and that the model was mathematically accurate.

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Key audit matter | How our audit addressed the matter

Impairment of stores and other assets

Notes 10, 11 and 13 to the financial statements

The Group operates in excess of 7,000 retail stores in Russia. The associated valuation of store- and other non-current assets, such as property, equipment and intangible assets, approximates RUB 200 billion and are considered a key audit matter due to the magnitude of the carrying value as well as the judgment involved in assessing the recoverability of the invested amounts as disclosed in note 3 to the financial statements. Management assesses annually the existence of triggering events for potential impairment of assets or reversals thereof related to underperforming stores. For the impairment assessment that is performed in accordance with Group policies and procedures, management first determines the value in use for each store and compares this to the carrying value, where the carrying value is higher than the value in use, the fair value less cost to sell is determined.

The policies used, for example, exclude recently opened stores from the impairment assessment as it takes from one to three years for a store to mature in terms of reaching its longer term revenue and profitability capabilities.

The judgement involved focuses predominantly on the WACC and future store performance, which is, among others, dependent on the expected revenue and the local competition. The expected revenue is determined by categorising stores by format and region and applying different growth rates for the various categories based on past years' development. Management assesses the impairment and impairment reversal annually using an internal calculation model.

Judgement is also involved for determination of the fair value of property undertaken on the basis of internal and external property valuation reports.

In 2015 management recognised net impairment losses of RUB 2.7 billion as disclosed in notes 10, 11 and 13 to the financial statements.

Among other audit procedures, we performed an evaluation of the Group's policies and procedures to identify triggering events for potential (reversal of) impairment of assets related to underperforming stores.

We challenged management's key assumptions underlying the cash flow forecast such as revenue growth and corroborated them through comparison to management's internal forecasts and long term, strategic plans that were approved by the Board, external data and historical performance. We also involved our internal valuation experts to evaluate the applied WACC calculated by the Group and to assist us with the audit of the impairment calculation model. An independent WACC calculation was prepared and compared to the WACC that was used by management.

The audit of the model included verification that the impairment methodology was consistently applied and that the model was mathematically accurate.

We also involved our internal valuation experts to assess the (market) property valuations performed by the Group. The competency and independence of the external property appraisers was assessed and the property valuations reviewed to assess their adequacy.

Key audit matter | How our audit addressed the matter

Recognition of vendor allowances

Note 2.26 of the financial statements

The Group receives various types of vendor allowances such as rebates and service fees as further discussed in note 2.26 to the financial statements. Rebates are to a large extent dependent on volumes of products purchased and service fees are received for promotional activities that the Group undertakes for certain products. These allowances are a significant component of cost of sales and represent a reduction of the inventory cost value. While the majority of the allowances are settled during the financial year, a substantial amount nevertheless remains outstanding at each year-end and is included as part of trade receivables. We considered this to be a key audit matter because the allowances are individually different, can be complex and recognition of vendor allowance income and receivables requires, to some extent, judgement from management— for example, concerning delivery of the service and evidence thereof. In addition, the internal controls in the process of accounting for vendor allowances are mainly manual. The allocation of the allowances to inventory cost value also has some element of judgement.

Our procedures included, among others, testing internal controls around the completeness and accuracy of the allowances recognised in the accounting system. We also agreed, on a sample basis, the recorded amounts to contracts and confirmed the positions and terms with the vendors. For the service fees we reconciled the allowances received or receivable to the confirmations of the vendors that the service has been delivered. For the volume rebates we reconciled the receivables to the calculations, the contracts and the volumes purchased. In addition, we performed a margin analysis over time and we reviewed subsequent collections on prior period vendor allowance receivables and subsequent collections of the vendor allowances receivable in the current year.

We have verified that the policy for the reduction in inventory cost from the vendor allowances is appropriate and has been applied correctly. We have recalculated the reduction of the inventory cost value for the rebates that have been recognised.

Impact of the Russian economic crisis

Note 30 of the financial statements

During 2015 the RUB continued to devaluate against most major foreign currencies resulting in sustained high inflation and interest rates and negative economic growth in the Russia. As set out in the risk section of the Management Board report and note 30 to the financial statements, management is adapting its operational strategy to these developments and is managing and monitoring its financial risk management. As there is uncertainty on the implications of the crisis for the Group, management evaluated the potential impact for the 2015 financial statements, the most important being the liquidity assessment and the assumptions underlying the impairment assessment.

At 31 December 2015, the Group had RUB 144 billion of short and long term borrowings with a remaining average maturity of 1.5 years. The total amount of available credit lines and other financing as at 31 December 2015 is RUB 140 billion. Refer to notes 19 and 29 to the financial statements. The liquidity assessment is important for the Group and our audit as in addition to the increase in interest rates the liquidity in the Russian Federation's financial markets has decreased.

Additionally the economic slow-down could also impact the assumptions underlying the annual impairment calculation. As disclosed in notes 10 and 12 to the financial statements, the Company has made a sensitivity analysis focusing on those variables that are the most sensitive to the impairment calculation.

We evaluated the Group's financing facilities (which are largely in RUB) and access to finance as part of our audit procedures. We confirmed the existing financing and available credit lines with contracts and providers of finance, compliance with covenants and evaluated the access to capital markets. We agreed the cash requirements for the 12 months following the date of the statement of financial position to the budget that was approved by the Board. We compared the assumptions used in the 2016 budget to external information and extended the evaluation to 12 months after the date of the financial statements.

We assessed the impact of these developments on the WACC that was used for the impairment assessment and the potential impact on the revenues and EBITDA, for example through estimating the impact of inflation and the purchases of goods or services in foreign currencies. The impact on the WACC, inflation, foreign currencies and EBITDA has been included in the impairment sensitivity calculations.

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Responsibilities of the Management and the Supervisory Board

Management is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Management Board report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and for
- such internal control as the management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management should prepare the financial statements using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A more detailed description of our responsibilities is set out in the appendix to our report.

/ Report on other legal and regulatory requirements

Our report on the Management Board report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the Management Board report and other information):

- We have no deficiencies to report as a result of our examination whether the Management Board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the Management Board report, to the extent we can assess, is consistent with the financial statements.

Our appointment

We were appointed as auditors of X5 Retail Group N.V. by the shareholders at the annual meeting held on 16 June 2006 and have been re-appointed annually by the shareholders representing a total period of uninterrupted engagement appointment of 10 years.

Amsterdam, 17 March 2016
PricewaterhouseCoopers Accountants N.V.
A.G.J. Gerritsen RA

Appendix to our auditor's report on the financial statements 2015 of X5 Retail Group N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluding on the appropriateness of the management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the Company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

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