

X5 RETAIL GROUP N.V.

**Notes to the Company Financial Statements**

for the year ended 31 December 2017

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

35

**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 retail chains operating mainly in Russia. The number at Chamber of Commerce is 33143036.

**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).

**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 (proximity stores, 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 remeasured 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.

**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 reporting date in accordance with section 373 sub 5 of book 2 of the Dutch Civil Code. The difference is settled in the other reserves.

36

## Financial fixed assets

	31 December 2017	31 December 2016
<b>a. Movements in the interests in group companies have been as follows</b>		
Opening balance	138,150	111,227
Acquisitions/capital contribution	9,228	4,126
Divestment of group companies/ capital repayments	(9,592)	-
Profit from group companies for the year	33,526	22,797
<b>Closing balance</b>	<b>171,312</b>	<b>138,150</b>

A complete list of group companies has been disclosed in the consolidated financial statements (refer to Note 6 of the consolidated financial statements).

	31 December 2017	31 December 2016
<b>b. Movements in the loans to group companies have been as follows</b>		
Opening balance	7,313	11,194
Settlement/repayment	-	(8,638)
Additions	14	4,761
Foreign exchange differences	(6)	(4)
<b>Closing balance</b>	<b>7,321</b>	<b>7,313</b>
Non-current financial assets	178,614	145,462
Current financial assets	19	1
<b>TOTAL FINANCIAL FIXED ASSETS</b>	<b>178,633</b>	<b>145,463</b>

31 December 2017				
Borrowing group company	Loan currency	Carrying value	Interest rate, % p.a.	Maturity date
GSWL Finance Ltd	RUB	4,598	11%	December 2022
GSWL Finance Ltd.	RUB	2,570	Mosprime1m + 3.6%	December 2021
Perekrestok Holdings Ltd.	USD	133	11%	December 2022
X5 Capital S.A.R.L	EUR	19	4.5%	December 2022
X5 Capital S.A.R.L	EUR	1	4%	December 2018
<b>TOTAL LOANS TO GROUP COMPANIES</b>		<b>7,321</b>		

36

## Financial fixed assets

31 December 2016				
Borrowing group company	Loan currency	Carrying value	Interest rate, % p.a.	Maturity date
GSWL Finance Ltd	RUB	4,598	Mosprime1m + 3.6%	December 2021
GSWL Finance Ltd.	RUB	2,569	11%	December 2022
Perekrestok Holdings Ltd.	USD	140	11%	December 2022
X5 Capital S.A.R.L	EUR	5	4.5%	December 2018
X5 Capital S.A.R.L	EUR	1	4%	December 2017
<b>TOTAL LOANS TO GROUP COMPANIES</b>		<b>7,313</b>		

The total amount of the loans provided to group companies was RUB 7,321 (2016: RUB 7,313) and it approximated the fair value. The loans have not been secured.

37

## Shareholders' equity

	Share capital <sup>1</sup>	Share premium	Other reserves	Profit/(loss)	Share-based payment (equity)	Total
<b>Balance as at 1 January 2016</b>	<b>5,410</b>	<b>46,253</b>	<b>38,844</b>	<b>14,174</b>	<b>37</b>	<b>104,718</b>
Share-based payment compensation (Note 27)	-	-	-	-	31	31
Transfer	-	-	14,174	(14,174)	-	-
Currency translation	(1,078)	-	1,078	-	-	-
Transfer of vested equity rights	-	(2)	-	-	2	-
Result for the period	-	-	-	22,291	-	22,291
<b>Balance as at 1 January 2017</b>	<b>4,332</b>	<b>46,251</b>	<b>54,096</b>	<b>22,291</b>	<b>70</b>	<b>127,040</b>
Share-based payment compensation (Note 27)	-	-	-	-	71	71
Transfer	-	-	22,291	(22,291)	-	-
Currency translation	343	-	(343)	-	-	-
Transfer of vested equity rights	-	(39)	-	-	(24)	(63)
Result for the period	-	-	-	31,394	-	31,394
<b>Balance as at 31 December 2017</b>	<b>4,675</b>	<b>46,212</b>	<b>76,044</b>	<b>31,394</b>	<b>117</b>	<b>158,442</b>

<sup>1</sup> Share capital translated at the year end exchange rate EUR/RUB of 68.8668 (2016: 63.8111).

## Share capital issued

As at 31 December 2017 the Group had 190,000,000 authorised ordinary shares (31 December 2016: 190,000,000) of which 67,886,748 ordinary shares were outstanding (31 December 2016: 67,884,340) and 6,470 ordinary shares held as treasury stock (31 December 2016: 8,878). 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 2017 included translation reserve of RUB 2,217 (2016: RUB 1,874) and legal reserves of RUB 517 (2016: RUB 276).

## Statutory profit appropriation

The Supervisory Board proposed to the General Meeting to distribute in 2018 current year profit in the amount of RUB 21,590 (318.03 RUB per ordinary share) to shareholders.

38

## Loan from group company

	Loan currency	31 December 2017	Interest rate, % p.a.	Final maturity date
JSC Trade House Perekriostok	RUB	15,628	10%	December 2020
JSC Trade House Perekriostok	USD	1,235	10%	December 2020
JSC Trade House Perekriostok	EUR	312	10%	December 2020
<b>TOTAL</b>		<b>17,175</b>		

	Loan currency	31 December 2016	Interest rate, % p.a.	Final maturity date
JSC Trade House Perekriostok	RUB	15,629	10%	December 2020
JSC Trade House Perekriostok	USD	1,300	10%	December 2020
JSC Trade House Perekriostok	EUR	107	10%	December 2020
<b>TOTAL</b>		<b>17,036</b>		

The loan payable to JSC Trade House Perekriostok denominated in RUB/USD/EUR. RUB facility amounted to 15,628 (2016: RUB 15,629), USD 21.4 million (2016: USD 21.4 million) and EUR 4,5 million (2016: EUR 1.7 million).

39

## Share-based payments

X5 Retail Group N.V. operates equity settled share based compensation plan in the form of its 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).

39

## Share-based payments

The following is included in the entity's accounts for the Restricted Stock Unit Plan:

	2017	2016
Equity share-based payment reserve as at 31 December	117	70
Expenses for the year ended 31 December	71	48

40

## General and administrative expenses

	2017	2016
Other expenses	194	248
Audit expenses	12	12
RSU + LTI programme	62	38
<b>TOTAL</b>	<b>268</b>	<b>298</b>

In accordance with the Dutch legislation article 2:382a the total audit fees related to the accounting organisation Ernst & Young Accountants LLP amounted to RUB 12 (2016: RUB 12).

41

## Income tax expense

	2017	2016
Current income tax charge	-	-
Deferred income tax charge	1,158	-
Income tax charge for the year	<b>1,158</b>	-

The theoretical and effective tax rates are reconciled as follows:

	2017	2016
<b>Loss before taxation</b>	(974)	(506)
<b>Theoretical tax at the effective statutory rate<sup>1</sup></b>	<b>(244)</b>	<b>(127)</b>
<b>Tax effect of items which are not deductible or assessable for taxation purposes</b>		
Unrecognised tax loss carry forwards for the year	119	110
Change in deferred tax liability associated with investments in subsidiaries	1,158	-
Other non-deductible expense	125	17
<b>INCOME TAX CHARGE FOR THE YEAR</b>	<b>1,158</b>	<b>-</b>

No deferred tax asset has been recognised due to uncertainty of future taxable income to offset the current tax losses.

<sup>1</sup> Profit before taxation on operations in Netherlands is assessed based on the statutory rate of 25%.

### Deferred income tax

Deferred tax liabilities and the deferred tax charge in the company statement of profit or loss were attributable to the following items for the year ended 31 December 2017:

	31 December 2016	Credited/ (debited) to profit and loss	31 December 2017
<b>Tax effects of taxable temporary differences</b>			
Investments into subsidiary	–	(1,158)	(1,158)
<b>Gross deferred tax liabilities</b>	–	(1,158)	(1,158)
<b>Recognised deferred tax liabilities</b>	–	<b>(1,158)</b>	<b>(1,158)</b>

In September 2017 the Group approved dividend policy and proposed to the General Meeting to distribute dividends to its shareholders in 2018 based on the results of 2017. As a result the Group estimates that part of temporary difference related to investments in subsidiaries will be reversed in the foreseeable future and therefore accrued related deferred tax liability.

There were no deferred tax liabilities and the deferred tax charge in the company statement of profit or loss for the year ended 31 December 2016.

The Company estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 794 (2016: RUB 675). Unused tax losses are available for carry forward for a period not less than five years (for 2016 – six years).

42

### Staff numbers and employee expenses

The number of persons having a contract with the Company is four: one of them has a services contract, and three of them have a contract of employment. One of them was posted outside of the Netherlands. For the remuneration of past and present members of the Management Board, please refer to note 26 Staff Cost in the consolidated financial statements, which is deemed incorporated and repeated herein by reference. Incurred wages, salaries and related social security charges in relation to the other two employees comprise RUB 9 (2016: RUB 10).

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 Company had the following guarantees issued under obligations of its group companies:

	31 December 2017	31 December 2016
Irrevocable offer to holders of X5 Finance LLC bonds	45,000	35,000
Irrevocable offer to holders of X5 Finance B.V. eurobonds	20,000	–
Suretyship for JSC Trade House Perekriostok	62,400	23,500

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 36.

### Loan from group company

For loan received from and interest expenses to the group company refer to Note 38.

45

## Subsequent events for the company

There were no significant events after the reporting date.

### Amsterdam, 28 March 2018

Management Board:	Supervisory Board:
Frank Lhoëst	Stephan DuCharme
Igor Shekhterman	Mikhail Fridman
	Andrei Elinson
	Christian Couvreur
	Pawel Musial
	Geoff King
	Peter Demchenkov
	Michael Kuchment

## OTHER INFORMATION

### Auditor's report

The auditor's report is included on pages 265-275.

### 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.

The Supervisory Board proposed to the General Meeting to distribute in 2018 current year profit in the amount of RUB 21,590 (318.03 RUB per ordinary share) to shareholders.

### Subsequent events

For subsequent events, please refer to note 45 of the financial statements.