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 Couvreux
	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.

Independent auditor's report

To: The Supervisory Board and Shareholders of X5 Retail Group N.V.

EY

Building a better working world

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

We have audited the financial statements 2017 of X5 Retail Group N.V., based in Amsterdam, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

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 2017, and of its result and its cash flows for 2017 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 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the following statements for 2017: the consolidated statement of profit or loss, the consolidated statements of comprehensive income, cash flows and changes in equity;
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2017;
- the company statement of profit or loss for 2017;
- the notes comprising a summary of the accounting policies and other explanatory information.

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 EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	RUB 2.4 billion
Benchmark	2.5% of EBITDA
Explanation	Based on our professional judgment, we consider an earnings-based measure as the most appropriate basis to determine materiality. On the basis of our analysis of stakeholders' needs and main KPIs set for the Management Board, we believe that EBITDA is an important benchmark for the financial performance of the Group. The materiality and applied benchmark are in line with the 2016 audit.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of RUB 114 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

X5 Retail Group N.V. is established in the Netherlands and is head of a group of subsidiaries operating food retail stores in Russia ("the Group"). The financial information of all these entities is included in the consolidated financial statements of the Group.

We are responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out. 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. We have used the work of EY Moscow to perform full-scope audit procedures to obtain sufficient coverage for financial statement line items from a consolidated financial statement perspective. We executed a program of regular communication that has been designed to ensure that the audit progress and findings were discussed between us and the audit team of EY Moscow. We have visited EY Moscow during planning and execution phases, as well as held meetings with the Group's Management Board, finance and reporting, risk management, internal audit and legal representatives.

By performing the procedures mentioned above, we have been able to obtain sufficient and appropriate audit evidence of the group's financial information to provide an opinion on the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of goodwill
(see note 12 to the financial statements)

Risk	As a result of past acquisitions, the Group carries capitalized goodwill with a value of RUB 90 billion as at 31 December 2017. In accordance with the requirements of IAS 36 Impairment of Assets, management performs an impairment assessment on an annual basis. The Group identifies separate operating segments for each of its retail formats. The goodwill impairment assessment is performed at the level of the operating segments. The impairment assessment includes the assessment of the recoverable amount based on expected cash flows. These cash flows are based on current budgets and forecasts approved by the Management Board and are extrapolated for subsequent years based on consumer price index. Key assumptions used are revenue growth, projected EBITDA margin and the discount rate. We consider this to be a key audit matter as the goodwill amount is significant, the assessment requires significant judgment and there is complexity in the valuation methodologies used to determine whether the carrying value of goodwill is appropriate, which includes the assumptions used within models to support the recoverable amount of goodwill.
Audit approach	We obtained an in-depth understanding of the Group's methodology used for performing the goodwill impairment test and ensured it is in accordance with EU-IFRS. We challenged management's key assumptions used in the goodwill impairment test and compared the assumptions used with industry trends and forecasts developed by independent analysts. We tested accuracy of prior year estimates and assumptions used by management to identify potential bias. Regarding the key assumptions used and methodology applied, we involved internal valuation experts, who compared assumptions used in the model with observable market data and verified the methodology applied is compliant with EU-IFRS. We tested mathematical accuracy of the impairment testing model, reconciled internal inputs in the model with audited accounting records and ensured consistency of data used for goodwill impairment testing with other information obtained during the audit. We considered the adequacy of the disclosures to the financial statements.
Key observations	We consider the Management Board's key assumptions to be within a reasonable range of our own expectations and the related disclosures in note 12 to the financial statements to be adequate.

Impairment of stores and other non-current assets
(see notes 10,11,13 to the financial statements)

Risk	The Group operates more than 12,000 retail stores in Russia. The associated valuation of stores and other non-current assets, such as property, equipment and intangible assets, approximated RUB 303 billion as at 31 December 2017 and is 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. 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 of disposal is determined. The judgment involved focuses predominantly on the discount rate and future store performance, which is, among others, dependent on the expected revenue and the local competition. The expected revenue is determined based on strategic growth plan prepared with reference to macroeconomic forecasts. Management assesses the impairment and impairment reversal on an annual basis using an internal calculation model. Judgment is also involved in determination of the fair value of property undertaken on the basis of internal and external property valuation reports. We consider this to be a key audit matter as the total amount of other non-current assets, such as property, equipment and intangible assets, is significant. Furthermore, the assessment requires significant judgment and there is complexity in the valuation methodologies used.
Audit approach	Among other audit procedures, we assessed appropriateness 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 used in the cash flow forecast such as revenue growth and corroborated these assumptions through comparison to management's internal forecasts, external data and historical performance. We assessed accuracy of management's forecasts used in prior year to identify potential bias. We involved our internal valuation experts to evaluate the methodology, inputs and assumptions used in the model for consistency with general practice and market observable data. The audit of the model also included verification that the impairment methodology is consistently applied and that the model is mathematically accurate. We involved our internal real estate valuation experts to assess the (market) property valuations performed by the Group. We also assessed objectivity and competency of external appraisers engaged by the Group. We considered the adequacy of the disclosures to the financial statements.
Key observations	We consider the Management Board's key assumptions to be within a reasonable range of our own expectations and the related disclosures in notes 10, 11 and 13 to the financial statements to be adequate.

Recognition of vendor allowances
(see note 2.25 to the financial statements)

Risk	The Group receives various types of vendor allowances such as rebates and service fees. Rebates largely depend on volumes of products purchased and service fees are received for promotional activities that the Group undertakes with respect to certain products. These allowances represent a significant component of cost of sales and are recognized as a reduction of the inventory cost value. While the majority of the allowances are settled during the financial year, a substantial amount remains outstanding at each year-end and is recognized as part of trade receivables. We consider this to be a key audit matter because allowances are individually different, can be complex and recognition of vendor allowance income and receivables requires a certain level of judgment by management, for example, timing of delivery of the service and evidence thereof. Moreover, the allocation of the allowances to inventory cost value also has an element of judgment. The Group evaluates all required disclosures for vendor allowances and determines that they are appropriately included in the financial statements.
Audit approach	Our procedures included testing of internal controls related to occurrence, completeness and measurement of the allowances recognized in the accounting system and covered both, IT application and manual controls, including controls related to periodic reconciliations with vendors. We verified that the Group is in compliance with relevant laws and regulations in relation to these vendor allowances, including the new trade law implemented in 2017. We selected a sample of vendors and obtained direct confirmations from vendors of their settlements with the Group. We tested on a sample basis documents supporting journal entries regarding the recognition of vendor rebates and service fees. In addition, we performed margin analysis and we reviewed subsequent collections on prior period vendor allowance receivables and subsequent collections of the vendor allowances receivable in the current year. We verified that the policy for the reduction of inventory cost related to vendor allowances is appropriate and has been applied correctly.
Key observations	We did not identify material exceptions and we found the Management Board's recognition of vendor allowances to be supported by available evidence.

Depreciation of buildings
(see note 2.5 to the financial statements)

Risk	The Group's buildings category of property, plant and equipment includes own real estate objects and improvements of leased ones. During 2016 the Group split these buildings into several components, as a result of which buildings are now categorized into foundation and frame, with a depreciation period of 40-50 years, and other parts with a depreciation period of 7-8 years. During 2017 this process was completed, with all components now being separately accounted for in the accounting system of the Group. Furthermore, the Management Board continued to assess the reasonableness of the useful lives of these assets on an ongoing basis. We consider this to be a key audit matter because the carrying amount of buildings is significant and determination of appropriate components and their useful lives requires management to exercise significant judgment.
Audit approach	We analysed the composition of the Group's buildings category of property, plant and equipment and challenged the reasonableness of the depreciation of the buildings (both foundation and frame as well as other parts) as well as the useful lives assigned. We tested the correctness and completeness of the transfer of the aforementioned components into the Group's accounting system during 2017 and tested the correctness of automated depreciation charge calculations for these building components.
Key observations	We consider the Management Board's key assumptions in relation to the useful lives to be within a reasonable range of our own expectations and did not identify evidence of material misstatements in the depreciation charges for the year.