

## IMPORTANT NOTICE

### FOR DISTRIBUTION ONLY TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S) AND ARE LOCATED OUTSIDE THE UNITED STATES

**IMPORTANT:** You must read the following notice before continuing. The following notice applies to the listing particulars following this page (the "**Listing Particulars**"), whether received by email, accessed from an internet page or otherwise received as a result of an electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Listing Particulars. In reading, accessing or making any other use of the Listing Particulars, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Listing Particulars, including any modifications made thereto from time to time, each time you receive any information from X5 Finance B.V. (the "**Issuer**"), X5 Retail Group N.V. (the "**Company**"), "Trade House "PEREKRIOSTOK" Joint Stock Company or "Agrotorg Limited Liability Company" (the "**Russian Guarantors**", and together with the Company, the "**Guarantors**") and each of Goldman Sachs International, UBS Limited and VTB Capital plc (together the "**Joint Lead Managers**") as a result of such access.

**RESTRICTIONS:** NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE NOTES DESCRIBED IN THE LISTING PARTICULARS IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY NOTE TO BE ISSUED HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")) AND MAY ONLY BE OFFERED AND SOLD TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S) IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

WITHIN THE UNITED KINGDOM, THE LISTING PARTICULARS ARE DIRECTED ONLY AT (A) PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "**ORDER**") OR (B) PERSONS FALLING WITHIN ARTICLE 49(2)(a) TO (d) OF THE ORDER OR (C) PERSONS TO WHOM IT MAY OTHERWISE LAWFULLY BE DISTRIBUTED IN ACCORDANCE WITH THE ORDER (TOGETHER, "**RELEVANT PERSONS**"). THE LISTING PARTICULARS MUST NOT BE ACTED ON OR RELIED ON BY PERSONS IN THE UNITED KINGDOM WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY IN THE UNITED KINGDOM TO WHICH THE LISTING PARTICULARS RELATE IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. FOR A MORE COMPLETE DESCRIPTION OF

RESTRICTIONS ON OFFERS AND SALES, SEE "*SUBSCRIPTION AND SALE*" IN THE LISTING PARTICULARS.

**Confirmation of your Representation:** In order to be eligible to view the Listing Particulars or make an investment decision with respect to the Notes described herein, (1) each prospective investor in respect of the Notes being offered outside the United States in an offshore transaction pursuant to Regulation S must be a person other than a U.S. Person and (2) each prospective investor in respect of the Notes being offered in the United Kingdom must be a Relevant Person. By accepting this e-mail and accessing, reading or making any other use of the Listing Particulars, you shall be deemed to have represented to the Issuer, the Guarantors, the Joint Lead Managers and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**") that (1) you have understood and agree to the terms set out herein, (2) you are (or the person you represent is) a person other than a U.S. Person, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Listing Particulars have been delivered by electronic transmission is not located in the United States, its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, (3) in respect of the Notes being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person, (4) you consent to delivery by electronic transmission, (5) you will not transmit the Listing Particulars (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers and the Issuer, and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase of any of the Notes.

You are reminded that the Listing Particulars have been delivered to you on the basis that you are a person into whose possession the Listing Particulars may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised, to deliver or disclose the contents of the Listing Particulars, electronically or otherwise, to any other person and in particular to any U.S. Person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

If you received the Listing Particulars by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive the Listing Particulars by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the Listing Particulars constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Listing Particulars have been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers, the Issuer, the Guarantors nor any person who controls or is a director, officer, employee or agent of the Joint Lead Managers, the Issuer, the Guarantors nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Listing Particulars distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

The distribution of the Listing Particulars in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required by the Joint Lead Managers and the Issuer to inform themselves about, and to observe, any such restrictions.



**X5 Finance B.V.**

*(a private company with limited liability incorporated in The Netherlands)*

RUB 20,000,000,000 9.25 per cent. Notes due 2020  
*irrevocably and unconditionally guaranteed by*

**X5 Retail Group N.V.**

*(incorporated in The Netherlands)*

**"Trade House "PEREKRIOSTOK" Joint Stock Company  
"Agrotorg Limited Liability Company"**

*(each incorporated in the Russian Federation)*

**Issue Price: 100 per cent.**

X5 Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated in The Netherlands (the "**Issuer**"), a wholly-owned subsidiary of X5 Retail Group N.V. (the "**Company**"), is offering an aggregate principal amount of RUB 20,000,000,000 9.25 per cent. guaranteed notes due 2020 (the "**Notes**"). Each of the Company, "Trade House "PEREKRIOSTOK" JSC and Agrotorg LLC (the "**Russian Guarantors**"), and together with the Company, the "**Guarantors**") has irrevocably and unconditionally agreed to guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes under the guarantee (the "**Guarantee**") contained in the trust deed relating to the Notes dated 18 April 2017 between the Issuer, the Guarantors and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**") (the "**Trust Deed**").

The Notes will bear interest at a rate of 9.25 per cent. per annum payable semi-annually in arrear on 18 April and 18 October in each year, commencing on 18 October 2017. Payments on the Notes (including payments by the Guarantors under the Guarantee or otherwise under the Trust Deed) will be made without deduction for or on account of taxes of The Netherlands or the Russian Federation, unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the Guarantors will, subject to certain exceptions and limitations, pay additional amounts to the holder of any Note to the extent described under "*Terms and Conditions of the Notes—Taxation*". Unless previously redeemed or cancelled as described herein under the terms and conditions of the Notes (the "**Conditions**"), the Notes will mature at their principal amount on 18 April 2020 (the "**Maturity Date**"). In the event of certain developments affecting taxation, the Issuer may redeem the Notes in whole, but not in part, at their principal amount plus accrued interest, if any. See Condition 8 (*Redemption and Purchase—Redemption for Taxation Reasons*). The Issuer may, at its option, redeem the Notes, in whole or in part, at any time, on giving not less than 30 nor more than 60 days' irrevocable notice, at a price equal to the principal amount thereof, plus the Applicable Premium (as defined in the Conditions) plus accrued and unpaid interest and Additional Amounts (as defined in the Conditions), if any, to, but excluding, the date of redemption. See Condition 8 (*Redemption and Purchase—Optional Redemption by the Issuer*). Upon the occurrence of a Change of Control (as defined in the Conditions), unless the Issuer has exercised its right to redeem all of the Notes (as described in Condition 8 (*Redemption and Purchase—Optional Redemption by the Issuer*))), each holder of the Notes (the "**Noteholder**") has the right to require that the Issuer repurchase all or any part of that Noteholder's Notes (in integral multiples of RUB 100,000; *provided* that Notes of RUB 10,000,000 or less may only be redeemed in whole and not in part) at a purchase price in cash equal to 100 per cent. of the principal amount of the Notes on the date of purchase. See Condition 8 (*Redemption and Purchase—Redemption at the Option of the Noteholders upon a Change of Control*).

This document has been approved by The Irish Stock Exchange plc (the "**Irish Stock Exchange**") as listing particulars. Application has been made to The Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange (the "**Official List**") and to trading on the Global Exchange Market of the Irish Stock Exchange (the "**Global Exchange Market**"), which is the exchange-regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of EU Directive 2004/39/EC (as amended) (the "**Markets in Financial Instruments Directive**").

This document constitutes the listing particulars (the "**Listing Particulars**") in respect of the admission of the Notes to the Official List and to trading on the Global Exchange Market.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes are being offered and sold outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

**An investment in the Notes involves a high degree of risk. Investors should carefully review the risks described herein under "Risk Factors" beginning on page 13.**

The Notes are expected to be rated "BB" by Fitch Ratings CIS Limited ("**Fitch**") and "BB" by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). Each of Fitch and S&P is established in the EEA and registered under Regulation (EC) No. 1060/2009 on credit rating agencies, as amended (the "**CRA Regulation**"). The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>). **A rating is a not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

The Notes will be issued in registered form in denominations of RUB 10,000,000 and integral multiples of RUB 100,000 in excess thereof. It is expected that delivery of the Notes will be made to investors in book-entry form through Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"), on or about 18 April 2017 (the "**Issue Date**"). The Notes will be represented on issue by a global certificate in registered form (the "**Global Certificate**"). Interests in the Global Certificate will be exchangeable for definitive note certificates (the "**Definitive Note Certificates**") only in certain limited circumstances described in "*Summary of Provisions relating to the Notes in Global Form*".

**Joint Lead Managers**

**Goldman Sachs International**

**UBS Investment Bank**

**VTB Capital**

The date of these Listing Particulars is 13 April 2017.

## IMPORTANT NOTICES

The Issuer and the Guarantors accept responsibility for the information contained in these Listing Particulars. To the best of the knowledge and belief of each of the Issuer and the Guarantors (each of which has taken all reasonable care to ensure that such is the case), the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

See "*Information Derived from Third Parties*" regarding information derived from third party sources.

These Listing Particulars do not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of these Listing Particulars and the offer or sale of Notes may be restricted by law in certain jurisdictions. No representation is made by any of the Issuer, the Guarantors or the Joint Lead Managers or the Trustee that these Listing Particulars may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantors, the Joint Lead Managers or the Trustee which is intended to permit a public offering of the Notes or the distribution of these Listing Particulars in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither these Listing Particulars nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession these Listing Particulars or any Notes may come must inform themselves about, and observe any such restrictions on the distribution of these Listing Particulars and the offering and sale of the Notes (the "**Offering**"). In particular, there are restrictions on the distribution of these Listing Particulars and the offer or sale of Notes in the United States, the United Kingdom, the Russian Federation and The Netherlands. See "*Subscription and Sale*".

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS:** the Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**") or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Each of the Joint Lead Managers is acting for the Issuer and the Guarantors and no one else in connection with the Offering and will not regard any other person (whether or not a recipient of these Listing Particulars or any other offering materials relating to the Notes) as its client in relation to the offer, sale and delivery of the Notes. None of the Joint Lead Managers shall be responsible to anyone other than the Issuer and the Guarantors for providing the protections afforded to clients of the Joint Lead Managers, or for providing

advice in relation to the Offering, the contents of these Listing Particulars or any other offering materials relating to the Notes, or any transaction, arrangement or other matter referred to in these Listing Particulars.

Neither the Joint Lead Managers nor the Trustee has made an independent verification of the information contained in these Listing Particulars and no representation or warranty, express or implied, is made by any of the Joint Lead Managers or the Trustee as to the accuracy or completeness of such information. Nothing contained in these Listing Particulars is, is to be construed as, or shall be relied on as a promise, warranty or representation, whether as to the past or future, by any of the Joint Lead Managers or the Trustee in any respect. To the fullest extent permitted by law, neither the Joint Lead Managers nor the Trustee accepts any responsibility whatsoever for the contents of these Listing Particulars. Each of the Joint Lead Managers and the Trustee accordingly disclaims all and any liability, whether arising in tort, contract or otherwise, which it might otherwise have to any Noteholder in respect of these Listing Particulars.

**The contents of these Listing Particulars are not, are not to be construed as, and shall not be relied on as legal, business or tax advice, and each investor should consult its own legal, business, tax and other advisers for any such advice that may be relevant to such investor.**

No person is or has been authorised by the Issuer, the Guarantors, the Joint Lead Managers or the Trustee to give any information or to make any representation other than as contained in these Listing Particulars or as approved for such purpose by the Issuer and the Guarantors and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantors, the Joint Lead Managers or the Trustee.

Neither these Listing Particulars nor any other information supplied in connection with the Offering (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Guarantors, any of the Joint Lead Managers or the Trustee that any recipient of these Listing Particulars or any other information supplied in connection with the Offering should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantors. Neither these Listing Particulars nor any other information supplied in connection with the Offering constitutes an offer or invitation by or on behalf of the Issuer, the Guarantors, any of the Joint Lead Managers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of these Listing Particulars nor the offer, issue, sale or delivery of the Notes shall, under any circumstances, imply that there has been no change in the affairs of the Issuer, or the Company and its subsidiaries and affiliates taken as a whole (the "**Group**") since the date hereof or that the information contained herein concerning the Issuer and/or the Group is correct as of any time subsequent to its date or that any other information supplied in connection with the Offering is correct as of any time subsequent to the date hereof.

In connection with the issue and sale of the Notes, each of the Joint Lead Managers and any of their respective affiliates acting as an investor for its own account may take up Notes and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments, and may offer or sell such securities or other

investments otherwise than in connection with the issue and sale of the Notes. Accordingly, references in these Listing Particulars to the Notes being offered, issued or sold should be read as including any offer, issue or sale of securities to the Joint Lead Managers and any of their affiliates acting in such capacity. The Joint Lead Managers do not intend to disclose the extent of any such transactions or investments otherwise than in accordance with any legal or regulatory obligation to do so.

In addition, certain of the Joint Lead Managers and their respective affiliates have performed, and may in the future perform, various financial advisory, investment banking and/or commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer, the Guarantors and/or their respective affiliates, for which they have and may receive customary fees.

The Issuer and the Guarantors reserve the right to withdraw this offering of the Notes at any time. The Issuer, the Guarantors and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full principal amount of the Notes sought by it.

### **THE NOTES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS**

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in these Listing Particulars or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

These Listing Particulars are only being distributed to and are only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (iii) persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Order or (iv) other persons to whom it may lawfully be communicated (all such persons together being referred to as "**relevant persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons (and subject to the other restrictions referred to in these Listing Particulars). Any

person who is not a relevant person should not act or rely on these Listing Particulars or any of its contents.

## **NOTICE TO INVESTORS IN THE NETHERLANDS**

The Notes (including the rights representing an interest in the Notes in global form), which are the subject of these Listing Particulars, shall not be offered or sold to individuals or legal entities in The Netherlands other than to qualified investors as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

## **NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION**

These Listing Particulars or information contained therein is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer the Notes in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. The information contained in these Listing Particulars is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law no. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Russian QIs**") and the Listing Particulars must not be distributed or circulated into the Russian Federation or made available in the Russian Federation to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

## **STABILISATION**

In connection with the offer, issue and sale of the Notes, VTB Capital plc (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Offering is made and, if begun, may cease at any time, but must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf thereof) in accordance with all applicable laws, regulations and rules.

## **FOREIGN LANGUAGE**

The language of the Listing Particulars is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.



## ENFORCEABILITY OF JUDGMENTS

The Issuer and the Company are incorporated under Dutch law, the Russian Guarantors are incorporated under the laws of the Russian Federation, and none of the Issuer, the Company or the Russian Guarantors has a presence in the United Kingdom. Most of the directors and executive officers of the Issuer, the Company and the Russian Guarantors reside outside the United Kingdom and most of the assets of such persons and all assets of the Group are located outside of the United Kingdom. Moreover, the majority of the assets of the Group and the majority of the assets of its directors and officers are located in the Russian Federation.

### **Russian Federation**

The Conditions, the Trust Deed and the Guarantee are governed by English law and provide that disputes arising from or in connection with the Notes, the Trust Deed or the Guarantee may be settled by arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA Rules**"). The place of such arbitration shall be London, England. The Russian Federation and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

The Arbitrazh Procedural Code of the Russian Federation (the "**Arbitrazh Procedural Code**") sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedural Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

The Arbitrazh Procedural Code and other Russian procedural legislation could change, and other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the LCIA Rules and the application of English law to the Conditions, the Trust Deed or the Guarantee may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies.

### **The Netherlands**

#### ***Submission to arbitration***

Pursuant to article 1074 Dutch Code of Civil Procedure (*Wetboek van Burgerlijke Rechtsvordering*) the Dutch courts will, on the application of a party to an arbitration

agreement, stay proceedings in respect of a matter which under the Conditions or the Trust Deed is to be referred to arbitration.

***Enforceability of arbitral awards in The Netherlands***

An arbitral award rendered pursuant to the arbitration clause as set forth in the Conditions and the Trust Deed shall be enforceable against the Issuer and the Company in The Netherlands subject to the provisions of the New York Convention and the relevant provisions of Book 4 Dutch Code of Civil Procedure (*Wetboek van Burgerlijke Rechtsvordering*), more in particular articles 1074-1076 and, by reference, article 985-991 Dutch Code of Civil Procedure.

## FORWARD-LOOKING STATEMENTS

Certain statements in these Listing Particulars are not historical facts and are "forward-looking statements". Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical fact. The words "**believe**", "**expect**", "**anticipate**", "**intend**", "**project**", "**estimate**", "**will**", "**may**", "**should**" and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings "*Overview of the Group*", "*Risk Factors*" and "*Business*". By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include but are not limited to the following:

- changes in political, social, legal or economic conditions in Russia;
- the Group's ability to obtain necessary regulatory approvals and licenses for the Group's business;
- the Group's ability to service its existing indebtedness;
- the Group's ability to fund future operations and capital needs through borrowings or otherwise;
- the Group's ability to successfully implement any of its business strategies;
- competition in the market place;
- inflation and interest rates;
- the Group's ability to respond to legal and regulatory developments and restrictions in relation to the retail industry;
- the Group's success in identifying other risks to its business and managing the risks of the aforementioned factors; and
- those described in the part of these Listing Particulars entitled "*Risk Factors*", which should be read in conjunction with the other cautionary statements that are included in these Listing Particulars.

This list of important factors is not exhaustive. When reading any forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Issuer and the Guarantors operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, subject to the Issuer's and the Guarantors' obligations under applicable laws and regulations, the Issuer and the Guarantors do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. The Issuer and the Guarantors do not

make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

## **PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION**

### **Financial Information**

These Listing Particulars include the following financial information: (i)

- the audited consolidated financial statements of the Group as of and for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the EU and Part 9 of Book 2 of the Dutch Civil Code, together with the independent auditor's report (which are set forth on pages F-2 through F-72); and
- the audited consolidated financial statements of the Group as of and for the year ended 31 December 2015 prepared in accordance with IFRS as adopted by the EU and Part 9 of Book 2 of the Dutch Civil Code, together with the independent auditor's report (which are set forth on pages F-73 through F-144).

The audited consolidated financial statements of the Group as of and for the year ended 31 December 2016 and 31 December 2015, prepared in accordance with IFRS as adopted by the EU and Part 9 of Book 2 of the Dutch Civil Code, are together referred to in these Listing Particulars as the "**Annual Consolidated Financial Statements**".

The Annual Consolidated Financial Statements are presented in Roubles.

### **Independent Auditors**

The audited consolidated financial statements of the Group as of and for the year ended 31 December 2015 were audited by PricewaterhouseCoopers Accountants N.V. ("**PwC**"), independent auditors, as stated in their independent auditor's report appearing on pages F-74 through F-83. The address of PwC is Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, The Netherlands.

The audited consolidated financial statements of the Group as of and for the year ended 31 December 2016 were audited by Ernst & Young Accountants LLP ("**EY**"), independent auditors, as stated in their independent auditor's report appearing on pages F-3 through F-11. The address of EY is Antonio Vivaldistraat 150, 1083 HP Amsterdam, P.O. Box 7883, 1000 AB Amsterdam, The Netherlands.

The Annual Consolidated Financial Statements, together with the respective notes thereto and independent auditor's report thereon, are included in these Listing Particulars beginning on page F-2.

### **Presentation**

Unless otherwise indicated, the Group's annual financial information has been extracted without material adjustment from the Group's Annual Consolidated Financial Statements, which are included elsewhere in these Listing Particulars. The Annual Consolidated Financial Statements include: (i) consolidated statement of financial position as of 31 December 2016 and 2015; (ii) consolidated statement of profit or loss for the years ended 31 December 2016 and 2015; (iii) consolidated statement of comprehensive income for the years ended 31 December 2016 and 2015; (iv) consolidated statement of cash flows for the years ended 31

December 2016 and 2015; (v) consolidated statement of changes in equity; and (vi) notes to consolidated financial statements.

### **Alternative Performance Measures**

These Listing Particulars contain certain non-IFRS measures, namely EBITDA, adjusted EBITDA (including adjusted EBITDA margin), net debt, net debt to EBITDA, adjusted selling, general and administrative expenses ("SG&A"), net retail sales and like-for-like ("LFL").

#### ***EBITDA***

EBITDA is a measure of the Group's operating performance based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment. The management of the Group believes that showing EBITDA provides greater detail about the Group's performance.

The Group calculates EBITDA as the pre-taxation profit after adding back any amount of depreciation and impairment of tangible assets and amortisation and impairment of intangible assets before taking into account any amount of finance costs, including, but not limited to, interest expense commission, fees, discounts, prepayment fees, impairment of restricted cash balances, premiums or charges and other finance payments, whether paid, payable or capitalised finance income, including, but not limited to less interest income and before taking into account any items treated as exceptional or extraordinary items including, without limitation, any amount in relation to foreign exchange gain or loss or gains or losses on any derivative instrument and revaluation of an asset or any share of gain or loss of associate.

The management of the Group finds this measure to be a useful tool to assist in evaluating performance because they eliminate items related to finance costs, taxes and depreciation, amortization and impairment. Furthermore, the management of the Group believes that EBITDA is commonly reported by comparable businesses and used by investors in comparing the performance of businesses without regard to depreciation, amortization and impairment, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred). EBITDA may not be comparable to similarly titled measures disclosed by other companies.

#### ***Adjusted EBITDA (including adjusted EBITDA margin)***

The Group calculates adjusted EBITDA as adjusted earnings before interest, tax, depreciation, amortisation and impairment. Adjusted EBITDA is a measure of the Group's operating performance. It is a way to evaluate performance exclusive of financing, accounting and taxation factors, and also excluding the effects of the Group's long-term incentive ("LTI") programme, share-based payments and other one-off remuneration payments expense, which do not represent an ongoing cost of doing business.

The management of the Group believes that showing adjusted EBITDA and adjusted EBITDA margin performance provides readers with a more accurate understanding of the Group's ongoing performance.

### ***Net debt***

Net debt is calculated as the sum of short-term and long-term borrowings less cash and cash equivalents.

### ***Net debt to EBITDA***

Net debt to EBITDA is a ratio calculated by dividing the Group's net debt by EBITDA for the corresponding 12-month period. This is a measurement of leverage. It is calculated as the Group's long-term and short-term borrowings, less cash and cash equivalents, divided by EBITDA. The net debt to EBITDA ratio is a commonly used indicator that helps to understand the debt burden of the Group.

### ***Adjusted selling, general and administrative expenses ("SG&A")***

The Group calculates SG&A as the sum of all direct and indirect selling expenses and all general and administrative expenses of the Group.

The Group calculates adjusted SG&A is SG&A before depreciation, amortisation and impairment costs as well as costs related to the LTI programme, share-based payments and other one-off remuneration payments. The management of the Group believes that adjusted SG&A provides additional detail to readers looking to understand the long-term SG&A costs of the business.

### ***Net retail sales***

Net retail sales show the amount of sales generated by the Group after the deduction of revenue from franchise services, wholesale operations, and other services. Because food retail is the Group's core business, net retail sales provide more clear understanding of the performance of the Group's core business activity.

### ***Like-for-like ("LFL")***

LFL comparisons of retail sales between two periods are comparisons of retail sales in the local currency (including VAT) generated by the Group's relevant stores. The stores that are included in LFL comparisons are those that have operated for at least 12 full months. Their sales are included in the LFL calculation starting from the day of the store's opening. The Group includes all stores that fit its LFL criteria in each reporting period. This is a commonly used indicator in the retail industry that helps to understand the sustainability of growth by focusing on the performance of the Group's stores that have already been operating for more than 12 months, by removing the effect of new stores opened during the period.

### **Volume Measurement**

In these Listing Particulars, all references to "**sq. m.**" are to a metric unit of the area of square which sides measure exactly one metre.

### **Currencies and Exchange Rates**

In these Listing Particulars, references to:

- **"EUR", "euro", "Euro" and "€"** are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended;
- **"U.S.\$" or "U.S. dollars"** refer to the lawful currency for the time being of the United States; and
- **"RUB", "Russian Roubles" or "Rouble"** refer to the lawful currency for the time being of the Russian Federation.

The following table shows, for the periods indicated, certain information regarding the exchange rate between the Rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR:

For the period	Roubles per U.S. dollar			
	High	Low	Average <sup>(1)</sup>	Period end
2017 (up to and including 12 April 2017) .....	60.32	55.89	58.38	56.96
2016.....	83.59	60.27	66.83	60.66
2015.....	72.88	49.18	61.32	72.88

<sup>(1)</sup> The average of the exchange rates on the last calendar day of each month for the relevant annual period, and on each calendar day for any other period.

The exchange rate between the Rouble and the U.S. dollar on 12 April 2017 was 56.96 Roubles per U.S.\$1.00.

The following table shows, for the periods indicated, certain information regarding the exchange rate between the Rouble and the Euro, based on the official exchange rate quoted by the CBR:

For the period	Roubles per Euros			
	High	Low	Average <sup>(1)</sup>	Period end
2017 (up to and including 12 April 2017) .....	65.03	59.69	62.27	60.30
2016.....	91.18	63.02	73.99	63.81
2015.....	81.15	52.91	67.43	79.70

<sup>(1)</sup> The average of the exchange rates on the last calendar day of each month for the relevant annual period, and on each calendar day for any other period.

The exchange rate between the Rouble and the Euro on 12 April 2017 was 60.30 Roubles per €1.00.

No representation is made that amounts presented in a particular currency in these Listing Particulars could have been converted into such currency at any particular rate or at all. A market exists for the conversion of Roubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the Rouble. Fluctuations in the exchange rate between the Rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of certain information in these Listing Particulars.



## **Certain Jurisdictions**

In these Listing Particulars, all references to:

- "EU" are to the European Union;
- "CIS" are to the Commonwealth of Independent States and its member states as of the date of these Listing Particulars are: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;
- "United Kingdom" are to the United Kingdom of Great Britain and Northern Ireland; and
- "U.S." and "United States" are to the United States of America.

## **References to the Russian Federation and Government**

In these Listing Particulars, references to "**Russia**" are to the Russian Federation and/or the Russian federal government as the context requires. References to the "**Government**" are to the Russian federal government.

## **Rounding**

Certain figures included in these Listing Particulars have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

## INFORMATION DERIVED FROM THIRD PARTIES

The Issuer and the Guarantors have obtained certain statistical and market information that is presented in these Listing Particulars on such topics as the retail industry, the Russian economy in general and related subjects from the following third-party sources:

- the Russian Federal Service for State Statistics ("**Rosstat**");
- the Central Bank of the Russian Federation (the "**CBR**");
- the information agency "INFOnline" ("**INFOnline**");
- Interfax (International Information Group) ("**Interfax**"); and
- Euromonitor International ("**Euromonitor**").

This third party information is presented in the following sections of these Listing Particulars: "*Overview of the Group*", "*Risk Factors*", "*Operating and Financial Review*" and "*Business*".

Neither the Issuer, any of the Guarantors or the Joint Lead Managers accepts any responsibility for the accuracy of such information, nor have the Issuer, or any of the Guarantors or the Joint Lead Managers independently verified such information. The Issuer and the Guarantors confirm that such information has been accurately reproduced and as far as they are aware and are able to ascertain from information provided or published by such third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that the Group's estimates are based on such third-party information.

The Issuer and the Guarantors have derived substantially all of the information contained in these Listing Particulars concerning its competitors from publicly available information and has accurately reproduced such information and, as far as the Issuer and the Guarantors are aware and are able to ascertain from information published by such third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Issuer and the Guarantors have relied on the accuracy of this information without independent verification. In addition, some of the information contained in this document has been derived from official data of the Russian government agencies, such as Rosstat, and the CBR. The information derived from the official data of various Russian governmental agencies has been accurately reproduced by the Issuer and the Guarantors, and as far as the Issuer and the Guarantors are aware and are able to ascertain from information published by such Russian governmental agencies, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Issuer and the Guarantors have relied on this information without independent verification. The official data published by Russian federal, regional and local government agencies is substantially less complete or researched than that of more developed countries. Official statistics, including data published by the CBR, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to Russia in these Listing Particulars must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

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## OVERVIEW OF THE GROUP

*This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with these entire Listing Particulars, including the more detailed information regarding the Group's business and the Annual Consolidated Financial Statements beginning from page F-2 of these Listing Particulars. Prospective purchasers of the Notes should also carefully consider the information set forth under the heading "Risk Factors". Certain statements in these Listing Particulars include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".*

### Overview

The Group is the leading multi-format food retailer in Russia which manages a portfolio of retail brands and stores that target all categories of customers. According to INFOnline, the Group had the largest market share of all food retailers in Russia with a market share of 8 per cent. in 2016 (by share of the Group's food retail turnover (including VAT) in the total Russian retail turnover). Based on publicly available financial statements of public retail companies in Russia, as of 31 December 2016, the Group had been expanding faster by revenue than other Russian public food retailers for five consecutive calendar quarters.

As of 31 December 2016, the Group operated a chain of 9,187 stores in 56 of 85 Russian regions. As of 31 December 2016, the selling space of the Group's stores was 4,302 thousand sq. m. In addition, the Group's revenue amounted to RUB 1,033,667 million in the year ended 31 December 2016, as compared to RUB 808,818 million in the year ended 31 December 2015. The Group's customers made 3,072 million and 2,468 million visits to the Group's stores in 2016 and 2015, respectively.

The Group operates in three major food retail segments: proximity stores (the "Pyaterochka" brand), supermarkets (the "Perekrestok" brand) and hypermarkets (the "Karusel" brand). The Group's stores are located across multiple Russian regions in seven (of the eight) Russian federal districts.

Pyaterochka is the Group's retail brand in the proximity store segment and one of leading Russian retail brands, according to INFOnline. The chain is well-attuned to the needs of Russian consumers by offering new promotions every week and a wide range of fresh goods. Pyaterochka's business generates the majority of the Group's revenue. As of 31 December 2016, there were 8,363 Pyaterochka stores in operation, which generated 75.6 per cent. of the Group's net retail sales.

Perekrestok the Group's supermarket chain that meets customer needs with a wide range of products, an attractive loyalty programme, and a private-label collection of products. As of 31 December 2016, there were 539 Perekrestok stores in operation, which generated 15.2 per cent. of the Group's net retail sales for the year ended 31 December 2016.

Karusel is the Group's hypermarket chain that offers a broad selection of food and non-food products, including household goods. Karusel primarily operates compact hypermarkets located within city limits that are easily accessible to customers. As of 31 December 2016, there were 91 Karusel stores in operation, which generated 8.1 per cent. of the Group's net retail sales for the year ended 31 December 2016.

The Company is the holding company of the Group that directly or indirectly owns the other Guarantors. A number of Group-wide functions are managed through the Company.

### **Key Strengths**

The management of the Group believes that its business model is well suited to help the Group retain and strengthen its leading position in the Russian food retail market and that the Group has the following key strengths.

#### ***Leading position in the Russian retail market***

According to INFOLine, the Group was the leading (by retail goods turnover) Russian food retailer with a market share of 8.0 per cent. in the year ended 31 December 2016. As of 31 December 2016, the Group operated stores in 56 of 85 Russian regions. Having been in the Russian food retail business for more than twenty years, the Group actively manages a portfolio of leading food retail brands and formats that target all categories of Russian customers.

#### ***Innovative, efficient and scalable IT infrastructure***

The Group is constantly looking for innovative solutions to improve the efficiency of its operations and the quality of its services. The Group's goal is to ensure that its IT solutions are relevant, address real needs and can respond to fast-changing requirements.

The Group has developed its own geomarketing information system ("**GIS**") system for the purpose of assessing the investment potential of opening new stores. GIS software enables the Group to identify the best locations for new stores in a more efficient manner. This software optimises the decision-making process (cuts it more than 50 per cent.), increases the productivity of business development units, and leads to a reduction in the number of mistakes in relation to finding locations for new stores.

In addition, the Group has implemented an electronic document interchange ("**EDI**") system to automate interactions with its suppliers. The Group's EDI is one of the most advanced in the Russian retail sector, and has significantly improved both the efficiency and the quality of the Group's work with suppliers and other parties.

The Group has also been working towards reducing barriers between the Group's business and IT. To achieve this, a pilot project called "IT Store" was launched in the first quarter of 2016. The IT Store involves moving IT department employees in stores to work as store employees in order to better understand how employees use IT systems for day-to-day tasks.

The Group uses IT solutions based on SAP and JDA software. Pyaterochka store plans and layout designs are incorporated into the JDA system and through this the Group can better plan the unique store designs and product locations for Pyaterochka.

#### ***Diversified multi-format operational model***

The Group has three major retail formats (Pyaterochka, Perekrestok and Karusel), supported by a corporate centre, which does not have the status of a separate business unit (the "**Corporate Centre**"). Each of the retail formats is largely autonomous, running many of its own operations, including marketing, category management, logistics, distribution and expansion operations.

The Corporate Centre is responsible for providing organisational support and strategic leadership across the Group. In 2016, the Group completed a reorganisation of the Corporate Centre and strengthened its role as a 'management company', whilst decentralising many business functions to the three major retail formats.

The Corporate Centre focuses on strategy, strategic marketing, a centralised commercial function, M&A, partnerships, legal, IT, talent management, finance, government relations, investor relations and corporate communications. Other functions include providing a platform to exchange best practices between the three retail formats and acting as an incubator to test new projects.

This approach enables the Group to maximise value by tailoring each retail format's value proposition to the consumer needs of the dynamic and diverse Russian food retail market. In addition, it allows achieving cost efficiencies and synergies among retail formats in terms of logistics that are supported jointly between the Group's supermarket and hypermarket retail formats. The Group's business model aims to build effective and profitable businesses in each of the Group's business segments.

***Industry leading growth profile, strong financial performance and prudent debt management***

Based on publicly available financial statements of public retail companies in Russia, as of 31 December 2016, the Group had been expanding faster by revenue than other Russian public food retailers for five consecutive calendar quarters. For the year ended 31 December 2016, the Group's revenues and gross profit increased by 27.8 per cent. and 26.0 per cent., respectively. For the year ended 31 December 2015, the Group's revenues and gross profit increased by 27.6 per cent. and 28.0 per cent., respectively. As of 31 December 2016, the Group's ratio of net debt to EBITDA and adjusted EBITDA margin was equal to 1.81 and 7.7 per cent., respectively, as compared to 2.45 and 7.3 per cent., respectively as of 31 December 2015. For the year ended 31 December 2016, the Group's LFL growth of sales, traffic and basket was 7.7 per cent., 2.5 per cent. and 5.0 per cent., respectively, as compared to 13.7 per cent., 2.3 per cent. and 11.2 per cent. for the year ended 31 December 2015.

The Group's financial results have enabled it to expand further. In particular, as of 31 December 2016, the Group operated a chain of 9,187 stores (in 56 of 85 Russian regions) with a selling space of 4,302 thousand sq. m., as compared to 7,020 stores with a selling space of 3,333 thousand sq. m. as of 31 December 2015. In addition, it operated 35 distribution centres in various Russian regions with a total area of 922 thousand sq. m. as of 31 December 2016. Expansion of the Group by number of stores and selling space provides for an opportunity to cover purchasing power of wider customer base.

***Strong management team with effective motivation system***

The Group has a diverse and highly experienced management team with a wide range of skills. Its governance model is in line with the best market practice, and functions well to deliver business growth. The management of the Group operates as a strong, independent team, combining a variety of skills and backgrounds in retail, strategy, finance and governance. The Supervisory Board of the Company provides the management with valuable guidance and support as they execute the Group's growth strategy.

The Group believes that a strong team with proper motivation systems in place is one of the keys to the Group's long-term success. The Group implements a variety of bonus and incentive programmes at different levels of the business, from cashiers and warehouse workers up to senior management, aimed at aligning the motivation of its team with those of the Group's rapidly-developing business. The Supervisory Board, with the support of the Nomination and Remuneration Committee, regularly reviews the short-term and long-term incentive systems in place in order to ensure that the Group's management is motivated to deliver strong and sustainable results.

### ***Ability and readiness to adapt to a changing and challenging market environment***

The Group has proven its ability to adapt to and prosper through economic downturns, leveraging its scale, efficiency and flexibility to grow profitably.

Russia's economic situation affects the Russian consumer's buying habits. According to the management of the Group, consumer trends in the Russian retail market in 2015 included: (i) customers actively searching for attractive promotions and comparing prices; (ii) customers purchasing less expensive goods; (iii) a decrease in consumption and the average customer basket; (iv) customers looking for more attractive prices in stores of different retail formats and chains; (v) a decrease in large purchases. In order to adapt to consumer trends described above, in 2015, the Group's response measures included the following:

- *Assortment matrix:* (i) ensuring adequate representation of value products in assortment matrix; and (ii) expanding assortment matrix with the focus on locally produced goods and further increasing direct import.
- *Price strategy:* (i) monitoring the competitor's prices and customer perception of the Group's retail formats' prices in order to maintain market position; (ii) further developing direct import; (iii) selective control of inflation for certain categories of goods in order to maintain customer price perception; and (iv) comparing the prices of key value indicators ("KVI") (determined by the Group) to the prices of its main competitors.
- *Supplier relations:* (i) active promotions supported by suppliers; (ii) increasing the share of local goods, particularly in the category of less expensive goods; and (iii) faster payment to suppliers in exchange for lower prices for goods purchased by the Group.

The management of the Group believes that the following key trends will drive Russia's food retail market in the next few years: (i) changing demographics (i.e. growth of the 60 year+ age population and a decrease of the 20-29 year age population); (ii) low income of the population (i.e. increased price sensitivity and rational spending and growth of "cherry pickers"); (iii) growing competition (i.e. retail space saturation and the development of "value" formats (e.g. hard discounters, dollar stores)); and (iv) the spread of new technologies (i.e., growth of online shopping and price transparency and an increase in big data analysis).

The Group's response measures, in 2016, included the following:

- *with respect to changing demographics:* (i) continued the expansion of its proximity segment (through Pyaterochka, representing 75.6 per cent. of the Group's net retail sales for the year ended 31 December 2016); (ii) implementation of discounts for pensioners; and (iii) focusing on mothers with children;
- *with respect to the population's declining income:* (i) constantly adapting the Group's value proposition to its customer needs; and (ii) further developing and personalising its promotional campaigns;
- *with respect to growing competition:* (i) further expanding, providing an effective value proposition for customers in both large cities and small towns in new regions; (ii) developing and implementing the new regional supermarket model (see "*—Main retail Formats—Perekrestok—Expansion and developing regional supermarket model*"); and (iii) using the Group's GIS system to find optimal locations; and
- *with respect to the spread of new technologies:* (i) implementing an online retail initiative within the Perekrestok chain (for further details see "*—Main Retail Formats—Perekrestok—Perekrestok on-line*"); and (ii) implementing more advanced analytical techniques in order to develop personalised promotions for the Perekrestok chain as well as loyalty programmes across all retail formats.

## **Strategy**

Over the past few years, the Group has been focused on a large-scale reorganisation of its operations aimed at providing more autonomy to its retail formats and reinforcing its multi-format strategy. The Group's strategy allows each of its retail formats to respond to the needs of its customers by adjusting and improving its value propositions on a continuous basis. This combination of focus and speed is underpinned by a drive to achieve greater efficiency and sustainable growth in the Group's operations.

As of the date of these Listing Particulars, the Group's strategy is to achieve a larger market share by revenue by the end of 2020.

In order to implement its overall strategic goals, the Group is focused on five strategic priorities.

### ***Further development of multi-format operating model***

The Group focuses on acting as a 'hub' for food retail expertise that holds, generates and adapts value propositions offered by retail chains to their customers, further developing the Corporate Centre as a platform for the management of the retail chains while targeting the largest and most profitable segments of the Russian food retail market.

The Corporate Centre provides overall guidance and leadership, and each of the retail formats strives to be the best in its respective segment. This is expected to enable the Group to maximise benefits of scale while improving efficiency across the retail formats by giving them the necessary flexibility, decision-making power, and responsibility to achieve the goals set by the management of the Group.



### ***Constant adaptation of value propositions***

The Group focuses on developing distinct value propositions for each retail format, adapting to evolving market conditions and customer demands, taking a holistic approach from comprehensive product range and category reviews to store refurbishments.

Each of the Group's major retail formats has a unique approach tailored to the particular shopping habits of different Russian consumers. Through continuous monitoring and adaptation of their value propositions, each of the retail formats seeks to capture the maximum share of customer purchases and to expand its market share in its respective segment. The Group's implementation of advanced IT systems enables it to analyse and gain deeper insight into market trends and to tailor the Group's assortment matrix, promotions, and new offerings to the shopping habits of its consumers.

The Group also adapts to its customers' needs by introducing day-to-day improvements in Pyaterochka stores, piloting a regional supermarket model for Perekrestok and further developing the loyalty programmes of Karusel and Perekrestok. The Group is also piloting online supermarket project (currently supporting Perekrestok's core customer base in Moscow) (for further details see "*—Main Retail Formats—Perekrestok—Perekrestok on-line*").

### ***Intelligent growth and expansion***

The Group focuses on organic growth, store refurbishments, improving the efficiency of new store openings, and expanding partnerships. It also engages in tactical regional M&A as a way to rapidly enter new regions, quickly reach a critical mass of customers and strengthen market positions in existing locations.

The full implementation of the Group's in-house GIS system streamlines its decision-making process for new store openings. In order to sustain its market leadership position, the Group uses advanced analytical techniques to select new store locations and has built strong in-house capabilities in respect of the land acquisition and construction processes.

### ***Excellence in operational execution***

The Group focuses on in-store execution, optimising distribution centre logistics and transportation, and improving shelf availability.

The Group continues to focus on in-store operations, improving its lease conditions, strengthening its transport and logistics infrastructure, and enhancing its partnerships with suppliers. It also improves its logistics operations by opening new state-of-the-art distribution centres while closing down the old distribution centres that no longer meet the Group's new efficiency criteria.

### ***Strong leadership team***

The Group focuses on the maintenance of the right mix of skills to execute its goals in a tough operating environment and to motivate its leaders towards long-term value creation.

The Group has effective systems in place to retain and motivate staff, both short-term and long-term. In the future, the Group expects to increasingly use internal promotions to fill key posts.

## ***Goals up to 2020***

According to the "Strategy of the Group up to 2020" approved by the Supervisory Board of the Company on 23 June 2016, the Group plans to focus on (i) increasing revenue at a faster rate than its competitors, whilst also maintaining margins; (ii) materially increasing the size of its business within 3–4 years by revenue; (iii) achieving a larger market share by revenue by the end of 2020; (iv) organic expansion; (iv) supporting a self-regulation strategy by adapting to changing legal requirements; (v) further streamlining logistical and operating expenses; and (vi) reducing shrinkage (i.e. loss of inventory be due to, among others, shelf life expiration and shoplifting).

## **Credit Ratings**

The Company is currently rated by three rating agencies: Moody's Investors Service, Ltd. ("**Moody's**"), Fitch and S&P. The Company's ratings as of the date of these Listing Particulars are as follows: "Ba2" with positive outlook from Moody's, "BB" with stable outlook from Fitch and "BB" with stable outlook from S&P.

The Notes are expected to be rated "BB" by Fitch and "BB" by S&P.

Each of Moody's, Fitch and S&P is established in the EEA and is registered under the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Company could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The prospective investors should analyse the significance of each rating independently from any other rating.

## OVERVIEW OF THE OFFERING

*The following overview of the Offering is derived from, and should be read in conjunction with, the full text of the Conditions, the Trust Deed and the Agency Agreement, which shall prevail to the extent of any inconsistency with this overview. Capitalised terms used but not otherwise defined herein have the respective meanings given to such terms in the relevant Conditions.*

<b>Issuer:</b>	X5 Finance B.V.
<b>Guarantors:</b>	X5 Retail Group N.V., "Trade House "PEREKRIOSTOK" Joint Stock Company, "Agrotorg Limited Liability Company".
<b>Joint Lead Managers</b>	Goldman Sachs International, UBS Limited and VTB Capital plc
<b>Notes Offered:</b>	RUB 20,000,000,000 aggregate principal amount of 9.25 per cent. Notes due 2020 (the " <b>Notes</b> ").
<b>Issue Price:</b>	100 per cent. of the principal amount of the Notes.
<b>Maturity Date:</b>	18 April 2020.
<b>Form and Denominations:</b>	The Notes will be issued in registered form in denominations of RUB 10,000,000 and integral multiples of RUB 100,000 in excess thereof. The Notes will be represented on issue by the Global Certificate in registered form, without interest coupons, and will be registered in the name of a nominee of a common depositary for Euroclear and Clearstream. Interests in the Global Certificate will be exchangeable for Definitive Note Certificates only in certain limited circumstances outlined in the Global Certificate. See " <i>Summary of Provisions Relating to the Notes in Global Form</i> ".
<b>Interest:</b>	The Notes will bear interest from, and including, the Issue Date at the rate of 9.25 per cent. per annum, payable semi-annually in arrear on 18 April and 18 October in each year, commencing on 18 October 2017.
<b>Ranking of the Notes and the Guarantee:</b>	The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5 ( <i>Covenants—Limitation on Liens</i> )) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> among themselves. The Guarantee constitutes direct, unsubordinated and (subject to Condition 5 ( <i>Covenants—Limitation on Liens</i> )) unsecured obligations of each of the relevant Guarantors. The Notes and the Guarantee rank in right of payment at least <i>pari passu</i> with all of the Issuer's or the Guarantor's (as applicable) other present and future unsecured and

unsubordinated obligations, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

**Further issues:**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the outstanding Notes.

See Condition 16 (*Further Issues*).

**Change of Control:**

Upon the occurrence of a Change of Control (as defined in the Conditions, unless the Issuer has exercised its right to redeem all of the Notes as described in Condition 8 (*Redemption and Purchase—Optional Redemption by the Issuer*), each Noteholder has the right to require that the Issuer repurchase all or any part of that Noteholder's Notes (in integral multiples of RUB 100,000; provided that Notes of RUB 10,000,000 or less may only be redeemed in whole and not in part) at a purchase price in cash equal to 100 per cent. of the principal amount of the Notes on the date of purchase plus accrued and unpaid interest, if any, to, but excluding, the date of purchase.

**Optional Redemption  
Taxation Reasons:**

for The Issuer may, but is not required to, redeem the Notes at any time in whole but not in part, upon not less than 30 nor more than 60 days' irrevocable notice, at their principal amount, plus accrued and unpaid interest (if any) to the redemption date, in the event the Issuer has become or would become obligated to pay additional amounts as a result of certain changes in tax laws or their interpretation. See Condition 8 (*Redemption and Purchase—Redemption for Taxation Reasons*) and Condition 9 (*Taxation*).

**Redemption at the Option of the  
Issuer:**

The Issuer may, at its option, redeem the Notes, in whole or in part, at any time, on giving not less than 30 nor more than 60 days' irrevocable notice, at a price equal to 100 per cent. of the principal amount thereof, plus the Applicable Premium (as defined in the Conditions) plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the date of redemption. See Condition 8 (*Redemption and Purchase—Optional Redemption by the Issuer*).

**Currency Exchange Option**

Payments of principal and interest in respect of each Note will be made in Russian Roubles. However, each Noteholder has the option to make an irrevocable election, pursuant to Condition 7 (*Currency Exchange Option and Payments*), to receive a forthcoming payment of principal

or interest in U.S. dollars. In respect of any Notes for which a Noteholder has made such an irrevocable election to receive a payment in U.S. dollars, the Principal Paying Agent will, pursuant to Condition 7 (*Currency Exchange Option and Payments*), purchase the required U.S. dollars, using the Russian Rouble amount received from the Issuer pursuant to the Notes, at a purchase price calculated on the basis of the Applicable Exchange Rate (as defined in the Conditions) and transfer the purchased amount in U.S. dollars to the Noteholder's U.S. dollar account. If for any reason, the Principal Paying Agent cannot purchase U.S. dollars, the relevant payment of interest or principal will be made to the relevant Noteholder in Russian Roubles, as more fully described in Condition 7 (*Currency Exchange Option and Payments*). The transaction for the purchase of U.S. dollars with Russian Roubles executed by or on behalf of the Principal Paying Agent may include customary fees and/or spreads and/or commissions in relation to the execution of such trade. Investors shall have no recourse to the Issuer, the Guarantors, the Principal Paying Agent or any other person in the event that the amount of U.S. dollars that an investor receives in respect of a payment of principal or interest is lower than the amount of U.S. dollars that such investor could have realised itself if it had exchanged Russian Roubles in the foreign exchange market. The terms of appointment and the limitations of liability of the Principal Paying Agent with respect to the purchase and payment of the U.S. dollars amount for Russian Roubles are set forth in Condition 7 (*Currency Exchange Option and Payments*), and the Agency Agreement.

**Certain Covenants:**

The Notes will have the benefit of certain covenants that, amongst other things, limit the ability of the Issuer and the Guarantors (and their respective subsidiaries) to:

- incur additional Indebtedness;
- create or incur certain Liens;
- enter into Affiliate Transactions;
- transfer or sell assets;
- consolidate or merge with other entities; and
- change its business.

Each of these covenants is subject to significant exceptions and qualifications. See Condition 5

(Covenants).

<b>Cross Acceleration:</b>	The Notes will have the benefit of a cross acceleration clause. See Condition 11 ( <i>Events of Default—Cross-Acceleration</i> ).
<b>Substitution:</b>	The Notes also permit substitution of the Issuer and the Guarantors in certain circumstances. See Condition 13 ( <i>Meetings of Noteholders; Modification and Waiver; Substitution of the Issuer or Guarantors</i> )
<b>Governing Law:</b>	The Trust Deed, the Guarantee and the Notes, including any non-contractual obligations arising out of or in connection with the Trust Deed, the Guarantee and the Notes, will be governed by and construed in accordance with English law.
<b>Use of Proceeds:</b>	The net proceeds of the Notes will be used by the Issuer for refinancing of the Group's loans. See " <i>Use of Proceeds</i> ".
<b>Listing and Trading:</b>	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Global Exchange Market.
<b>Selling Restrictions:</b>	The Notes have not been and will not be registered under the Securities Act. The Notes are being offered and sold outside the United States by the Joint Lead Managers in accordance with Regulation S, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, there are limitations on offers and sales of Notes in certain other jurisdictions. See " <i>Subscription and Sale</i> ".
<b>Clearance and Settlement:</b>	The Notes have been accepted for clearance through Euroclear and Clearstream.
<b>Security Codes:</b>	ISIN: XS1598697412  Common Code: 159869741
<b>Trustee:</b>	BNY Mellon Corporate Trustee Services Limited
<b>Principal Paying Agent:</b>	The Bank of New York Mellon, London Branch

**Registrar:** The Bank of New York Mellon SA/NV, Luxembourg Branch

**Expected Rating of the Notes:** The Notes are expected to be rated "BB" by Fitch and "BB" by S&P. Each of Fitch and S&P is established in the EEA and registered under the CRA Regulation. The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>).

Credit ratings do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes, the Issuer or the Guarantors could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

**Risk Factors:** An investment in the Notes involves a high degree of risk. Investors should carefully review the risks described herein under "*Risk Factors*" beginning on page 13 of these Listing Particulars.

## **RISK FACTORS**

*Investment in the Notes involves a high degree of risk. Prospective investors may lose the value of their entire investment or part of it and should carefully review these Listing Particulars in its entirety. In particular, investors should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. Any of the following risks, individually or together, could adversely affect the Group's business, results of operations, financial condition and prospects, in which case the trading price of the Notes could decline and investors could lose all or part of their investment.*

*Prospective investors should note that the risks described below are not the only risks the Group faces. These are the risks the Issuer and the Guarantors currently consider to be material. There may be additional risks that the Issuer and the Guarantors currently consider to be immaterial or of which they are currently unaware, and any of these risks could have similar effects to those set forth below.*

### **Risks relating to the Group's Business and Industry**

***A deterioration in general economic conditions in Russia could have a material adverse effect on the Group's business, results of operations, financial condition and prospects***

The Group's business is significantly influenced by general economic conditions in Russia, including gross domestic product ("GDP") and unemployment rate. Generally, GDP growth in Russia has a positive effect on disposable incomes and consumer spending in the country, which, in turn, benefits the Group's customers and, consequently, the Group's business. In contrast, adverse economic conditions (such as, for instance, the global financial and economic crisis that commenced in the second half of 2008 and current challenging economic environment in Russia triggered, mostly, by imposition by the EU and the U.S. of political and economic sanctions in 2014), and the potentially resulting increases in unemployment rate, salary reductions, falling consumer confidence and economic uncertainty, tend to cause consumers to reduce their spending both by reducing the volume of their purchases and by shifting their purchasing patterns and spending towards less expensive products (including, focusing on promotions) which consequently hurts consumer demand and spending and could have an adverse effect on the Group's net sales and profitability.

Recently, the Russian Federation experienced a severe economic downturn caused by, among other factors, political and economic sanctions imposed by the EU and the U.S. following the political crisis in Ukraine (see "*Risks Relating to the Russian Federation—Political Risks—Political instability in Ukraine and other states and the imposition of various sanctions by the United States, the European Union and other countries against Russian, Ukrainian or other nations' individuals and legal entities may adversely affect the Group's operations*"), significant currency fluctuations (see "*Risks relating to the Group's Business and Industry—The Group's results of operations may be adversely affected by currency fluctuations*") and a steep decline in Russian GDP and oil prices (see "*Economic risks—Economic instability in the Russian Federation*").

Furthermore, a deterioration in general economic conditions is often accompanied by a reduction in consumer credit availability, resulting in further decreases in consumer purchasing power, which in turn could also contribute to a decline in discretionary consumer spending.



A downturn in general economic conditions in Russia, and increase in unemployment rate, accompanied by decreases in disposable incomes, discretionary consumer spending, consumer demand, and/or consumer credit availability could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The market in which the Group operates is highly competitive, and pressures from both direct and indirect competitors may have a material adverse effect on the Group's business and result in reductions in the Group's market share, margins and profitability***

Competition in the Russian retail grocery market is intense, particularly in large cities such as Moscow and St. Petersburg. As of 31 December 2016, the Group operated a total of 9,187 stores (in 56 of 85 Russian regions), of which 3,883 stores were located in the Central Federal District, 1,095 stores were located in the North-West Federal District and 4,209 stores were located in other Russian regions. The Group faces competition from a wide variety of sources, including other operators of modern retail format store chains (including chains of large format stores such as hypermarkets, and fast-growing retailers that operate stores under several formats, some of which may also use franchising schemes) and other market participants.

In addition, new market participants may enter the Russian market. If a new major competitor enters the retail market, competition will intensify. If the Group is unable to compete successfully with such new competitors, the Group may be unable to increase or maintain its customer base and/or market share which may lead to reduced sales and margins for the Group.

Consolidation of the retail food industry may also have a material adverse effect on the Group's business. The Russian retail grocery market is fragmented, with a large number of companies each holding a small share of the market. Mergers and acquisitions in the retail grocery market, driven by proliferation of the modern retail format and scarcity of retail space, may lead to industry consolidation. Should consolidation occur among the Group's competitors, the Group may lose its position as the leading Russian food retailer to the stronger companies emerging from such consolidation. Increased price competition against larger and financially stronger competitors or aggressive pricing strategies employed by the Group's competitors may also lead to a decrease in the Group's net sales and profitability.

The Group generally competes with other market participants on the basis of location of stores, prices, quality of products, quality of service, variety and availability of products and store condition. Some of the Group's current competitors have, and potential new entrants may have, greater financial, real estate, new store development, distribution, technical, personnel, purchasing, marketing and advertising resources, any of which could provide them with a competitive advantage. Intensified competition in the retail industry has already contributed and may continue to contribute to an increase in competition for products from suppliers, which, in certain cases, has resulted and may continue to result in reduced product availability and higher prices.

Any loss of market share by the Group could be permanent. There can be no assurance that the Group will be able to compete successfully against current competitors or future new entrants, and, accordingly, competitive pressures could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Changes in consumer preferences may have a material adverse effect on the Group's business***

The Russian retail food and non-food markets are subject to changing customer trends, preferences and demand patterns. As of 31 December 2016, the Group operated stores in 56 regions of the Russian Federation. Consumer preferences and demand patterns across markets in which the Group operates may materially differ or be subject to changes due to a range of factors outside the Group's control, including demographic, economic, cultural and other factors. In addition, consumers have tended to shop more frequently which is beneficial for proximity and supermarket segments but may have a negative impact on hypermarket segment of the Group. If the Group is unable to correctly identify customer preferences and demand patterns, or adapt to their changes in a timely manner, it could experience subsequent reductions in its customer traffic, average ticket, net sales and/or profitability, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group's sales are subject to seasonal and cyclical trends***

The Group experiences seasonal fluctuations in its operations, including a significant increase in sales during the fourth calendar quarter, particularly in November and December prior to the New Year period, generally followed by a decrease in the Group's sales in the first calendar quarter. Consequently, poor sales performance in a fourth calendar quarter could adversely affect the Group's full-year results and leave the Group with non-demanded excess stock. Also, any general events having an adverse impact on the Group's sales (such as, for example, supply disruptions (for further details see "*—The Group may experience supply disruptions if key suppliers fail to deliver their products or meet the Group's quality standards*") or adverse publicity (for further details see "*—The "Pyaterochka", "Perekrestok" and "Karusel" brand names and other intellectual property are critical to the Group's business and any substantial erosion in the value of such brand names due to product recalls, customer complaints, adverse publicity, legal action or other factors would have a material adverse effect on the Group's business, financial condition and operating results*" and "*—The sale of food products exposes the Group to the risk of product liability claims and adverse publicity*") may have additional negative effect on its business if such events take place in the fourth calendar quarter. The seasonality of market demand for various products could cause significant changes in the Group's performance throughout the year. Furthermore, increase in sales closer to the end of the year generally followed by large payments to the Group's suppliers in the first calendar quarter, which consequently may limit the Group's ability to make capital expenditures during that calendar quarter. Any inability to respond to seasonal and cyclical variations in demand could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The failure of the Group's expansion strategy could hamper its continued growth and profitability***

As part of the Group's strategy, it plans to both increase substantially the number of its stores in areas in which the Group operates, as well as to open stores in new regions in Russia. The successful implementation of the Group's expansion strategy depends on its ability to locate and acquire appropriate sites on commercially reasonable terms, open new stores in a timely manner, employ, train and retain additional store and supervisory personnel and integrate new stores into the Group's existing operations on a profitable basis. There can be no assurance that the Group will achieve its planned growth or that new stores will operate profitably.

To maintain the Group's leadership position, the Group seeks to expand at a rate that equals or exceeds that of the Group's competitors. If the Group is not able to match or exceed the growth of the Group's competitors, recognition of the Group's brand may diminish, the Group's customer base and sales may decline and the competitive advantages the Group currently enjoys because of economies of scale may be eroded. The Group's expansion plans also depend on, among other things, general economic conditions, the availability of financing, the absence of adverse changes in the regulatory environment and the cooperation of regional authorities. There can be no assurance that the Group will achieve its planned expansion targets, and if the Group is unable to do so, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Expansion through acquisitions entails certain risks, which may have a material adverse effect on the Group's financial condition and operating results***

The Group pursues growth through tactical mergers and acquisitions with retail chains in favourable locations. In particular, in 2015, the Group acquired retail chains operating under the "Rosinka", "Apelsin" and "Sberegaika" brands (with a total of 104 stores) in the Central Federal District of the Russian Federation. The pursuit of an acquisition strategy entails certain risks, including failing to identify suitable acquisition targets and/or failing to conduct appropriate due diligence on their operations and/or financial condition; overvaluing and paying consideration greater than the market value of the acquisition targets; incurring significantly higher than anticipated financing-related risks and operating expenses; failing to assimilate and integrate the operations and personnel of acquired businesses; failing to install and integrate all necessary systems and controls; losing customers; entering markets in which the Group has no or limited experience and/or where there may be limited access to requisite logistics and distribution facilities and arrangements; and experiencing disruptions to ongoing business and strains on the Group's management resources. Future acquisitions and their subsequent integration into the Group's operations would, if pursued, require significant attention from management, in particular to ensure that the acquisitions do not disrupt the Group's relationships with its suppliers. If any such risks occur, this could have a material adverse effect on the business, financial condition and operating results of the Group.

***Failure to generate or raise sufficient funding may hamper the Group's expansion strategy***

Implementation of the Group's growth strategy and current expansion commitments may require significant capital expenditure. There can be no assurance that the cashflow from the Group's operations and/or borrowings from financial institutions or funding from capital markets sources will be sufficient to fund its planned expenditure. Covenants in the Group's existing or future financing arrangements may restrict its ability to raise additional debt funding as well as its general operational flexibility. In particular, the Group's existing finance agreements contain covenants to maintain its net debt to EBITDA ratio at a certain level, which may limit its ability to raise debt funding in the future. If the Group is not successful in generating sufficient cashflow or obtaining sufficient financing to fund its planned expenditure, it may need to curtail or discontinue its expansion plans, which could have a material adverse effect on the Group's future development.

***Rapid growth and expansion may strain the Group's managerial, financial and operational resources, restricting its ability to expand its operations successfully***

The Group's businesses have been expanding rapidly and are expected to continue to do so for the foreseeable future. Management of such growth increases the operating complexity of

the Group's business and may place a significant strain on its management and financial and operational resources. Maintaining operating efficiency during such growth period requires, among other things, the continued development of financial, operational and management systems, increased marketing activities and the hiring and training of new personnel (including management personnel). The Group will also need to continue to closely coordinate its logistical, technical, accounting, finance, marketing and sales personnel. If it is unable to achieve any of these objectives, the Group's business, financial condition and operating results could be materially adversely affected.

***Failure to comply with existing or increased governmental regulations of the Group's operations, could result in closure of stores, imposition of substantial penalties, additional costs or slower growth of net sales***

The Group's operations and properties are subject to regulation by various government entities and agencies, and the Group has to comply with various laws, regulations and rules with respect to, among other things, antitrust matters, arrangements with suppliers, sales of alcohol and tobacco products, quality standards, health and safety, sanitary rules, cash desk operations, veterinary control (in relation to meat, fish, dairy, eggs, honey, pet food and etc.) and consumer protection. This includes obtaining, maintaining and renewing various permits relating to, for example, health and safety, packaging, labelling, machinery and equipment, environmental standards and distribution standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and rules and the issuance and renewal of permits and in monitoring compliance with their terms. Some of the laws and regulations are vaguely worded and contain contradictory provisions, while the implementation and enforcement of their provisions by the relevant supervisory authorities is not always consistent and is sometimes arbitrary. Compliance with the requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of the Group's operations, the imposition of penalties or the closure of the Group's stores.

The Russian retail industry is subject to a detailed framework of antitrust rules and regulations and increased scrutiny by the Federal Antimonopoly Service of the Russian Federation (the "FAS"), particularly with respect to relationships with suppliers. As a result, in recent years the FAS has prompted the Government to pass a number of antitrust regulations relating to the retail industry and initiated a number of investigations and claims against retailers in Russia. In particular, the recently adopted Federal Law No. 381-FZ "On Basic Principles of State Regulation of Trade Activity in the Russian Federation" (the "**Trade Law**") restricts the types and amounts of bonuses that may be paid by suppliers, limits the number of days during which supplier payables may remain outstanding and prohibits a store chain with more than a 25 per cent. market share of the food sales within a geographic area from expanding its trading premises in that area. Additionally, in March 2013 some of Russian food retailers and wholesalers signed a Code of Fair Trade Practices (the "**Code**"), which establishes certain rules of conduct between them and suppliers that generally differ from the existing market practices in Russia and, to some extent, limit their ability to determine the scope of contractual relationships with suppliers. Although the Group did not sign the Code, the Group generally follows its fundamental principles and rules and has largely implemented its basic principles into the Group's supply agreements. Nevertheless, suppliers may decide to challenge some practical aspects of the Group's negotiations or cooperation with them and allege that the Group engages in unfair trade practices, which may result in investigations by the authorities. See "*Regulation of food retail and real estate in*

*Russia — Regulation of Food Retail—Trade Law*" for additional information regarding these regulations.

Furthermore, regulatory authorities recently introduced additional restrictions and requirements that have impacted the Group's operations. For example, the Government in the recent past has introduced new restrictions on the storage and sale of alcohol and tobacco products, which may lead to a decrease in the Group's sale volumes of these products. There can be no assurance that the regulation of the sale and distribution of alcohol and tobacco will not become even stricter. See *"Regulation of food retail and real estate in Russia — Regulation of Food Retail "* for additional information regarding these and other regulations. Furthermore, recently the Unified State Automated Information System ("**EGAIS**"), a system designed for the state record keeping of alcohol sales, has been introduced into the retail and wholesale operations of Russian retailers. Although to date all major retailers, including the Group, have integrated EGAIS into their operational systems, a certain number of errors and defects have arisen in the process of registration of transactions with, and retail sales of, alcohol products. Such failures related to the integration of EGAIS may lead to the imposition of penalties by state authorities. While the Group is in close contact with the Federal Alcohol Regulation Service ("**Rosalckogolregulirovanie**") and its general contractor for the purposes of the integration of EGAIS into the Group's operational systems, and seeks to resolve technical and operational problems discovered during the first months of operations with EGAIS, there is no guarantee that the Group will be able to successfully integrate EGAIS or that the Group will not incur additional operating costs or losses occasioned by EGAIS failures or integration thereof.

In addition, any new regulations, legislative amendments, changes in the interpretation of existing legislation, other regulatory changes, court decisions or the imposition of additional requirements or sanctions may further restrict the Group's ability to conduct the Group's operations or to do so profitably. For example, despite the adoption of the Trade Law, discussions among market participants and regulatory and supervisory bodies regarding the necessity for additional and/or more stringent regulation continue. Certain amendments to the Trade Law (including a proposal to reduce the 25 per cent. threshold described above to 10 per cent. and a limitation on the business operations of "out-of-town" retail chains in any given constituent entity of the Russian Federation) have been proposed, while relevant committees of the Russian Parliament commenced the review and preparation of these amendments for the first hearing in the Russian Parliament, which envision certain additional restrictions. Furthermore, recently, a draft bill prohibiting discounts applicable to alcohol products has been introduced in the Russian State Duma. In addition, a draft decree of the President of the Russian Federation suggesting a ban on the sale of alcohol products packaged in glass in the cities where the 2018 FIFA World Cup will be held, has been prepared. The Group's management estimates that the implementation of any of the foregoing legislative and regulatory initiatives may materially affect the Group's margins, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. See *"Regulation of food retail and real estate in Russia — Regulation of Food Retail"* for additional information regarding the relevant regulations. Regulatory changes could also adversely affect the Group's ability to continue to obtain trade financing from the Group's suppliers, and, as a result, the Group may need to make alternative financing arrangements, which may be more expensive. Changes in the regulatory environment could also result in challenges to the Group's business model.

The Group is occasionally involved in litigation and regulatory disputes with the FAS in the ordinary course of its business. Even though the Group's management does not consider any of these disputes to be material for the Group's business, there is a risk that the outcome of ongoing or future disputes involving any company of the Group may materially adversely affect the Group in the future.

Any failure to comply with existing or new laws, regulations or rules may result in the imposition of sanctions (including civil and administrative penalties applicable to the relevant member of the Group, and criminal and administrative penalties applicable to the Group's managers), and/or the Group may be required to cease certain of the Group's business activities and/or to remedy past infringements. The occurrence of any of these events could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group is subject to anti-monopoly laws enforced by the FAS, which may result in certain limitations being imposed on the Group's activities, the violation of which may result in civil, administrative and even criminal liability***

The Federal Law No. 135-FZ "On Protection of Competition" dated 26 July 2006, which came into force on 26 October 2006, (the "**Competition Law**") generally prohibits any concerted action, agreement or coordination of business activity that results or may result in, among other things, (a) price fixing, discounts, extra charges or margins; (b) coordination of auction bids; (c) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (d) refusal to enter into contracts with buyers (customers) for reasons other than economic or technological reasons; (e) imposing unfavourable contractual terms; (f) fixing disparate prices for the same goods, for reasons other than economic or technological reasons; (g) creation of barriers to entering or exiting a market; (h) unfair competition by means of misrepresentation, disparagement or otherwise, and (i) restriction of competition in any other way. There is no established court practice on what concerted actions or coordination of business activity is and courts interpret these concepts inconsistently. As a result, there is significant uncertainty as to what actions may be viewed as violation of the Competition Law. In a number of precedents, Russian courts found concerted actions where market participants acted in a similar way within the same period of time, although, arguably, there have been legitimate economic reasons for such behaviour and the behaviour was not aimed at restriction of competition. Therefore, there is a risk that the Group can be found in violation of the Competition Law if its market behaviour, vis-a-vis its customers or suppliers is viewed as being similar to behaviour of the Group's competitors and perceived by the FAS as a purported restriction of competition. Such broad interpretations of the Competition Law may result in the FAS imposing substantial limitations on the Group's activities, may limit operational flexibility and may result in civil, administrative and even criminal liability.

Furthermore, the Group has expanded its operations through the acquisition of companies that are incorporated and operating in Russia or assets that are located in Russia, such as Karusel, Pokupochka, Paterson, Kopeika and other businesses (see "*Business—History*"). Some of these acquisitions are, or were, subject to the prior approval or subsequent notification requirements of the FAS, or its predecessor agencies. Certain portions of these requirements are vaguely worded and there can be no assurance that the Group will be able to comply fully or that the FAS will not challenge the Group's past compliance with such requirements, which could result in administrative sanctions, required divestitures or limitations on operations.

The FAS has ample powers to investigate perceived violations of the Competition Law and Trade Law, has become active in policing marketing, sales and dealings with suppliers of major participants of the Russian grocery retail industry and has previously brought charges against certain market participants alleging concerted actions in violation of the Competition Law.

If the Group's activities are found to be in violation of the Competition Law in any of the cases described above or in any other cases, the Group could be subject to penalties or ordered to change its business operations in a manner that increases costs or reduces profit margin and revenue, which can adversely affect the Group's business, financial condition and results of operations.

***Introduction of economic sanctions, import bans or imposition of, or increases in, customs duties or tariffs could have an adverse impact on the Group's business***

The Group imports a wide variety of food and non-food products. The Group also purchases relatively large volumes of imported products from distributors and suppliers in Russia. Russian authorities have from time to time imposed import bans on certain products. For example, in recent years temporary import bans were imposed on beef from Australia, pork meat from the European Union, processed pork meat products from ten meat processing plants in Brazil, dairy products from Lithuania, wines from Georgia, certain chocolate products made in Ukraine and other imported products. Most recently, as a countermeasure against sanctions imposed by European countries and the U.S. following the political crisis in Ukraine (see "*Risks Relating to the Russian Federation—Political Risks—Political instability in Ukraine and other states and the imposition of various sanctions by the United States, the European Union and other countries against Russian, Ukrainian or other nations' individuals and legal entities may adversely affect the Group's operations*"), Russian governmental authorities prohibited the import of certain goods produced in such countries, including, among others, various types of meat, fish and dairy products. Although the Group has, to some extent, switched to Russian substitutes, there is a risk that such goods may be of inferior quality or, should the sanctions or the relevant countermeasures be tightened and/or prolonged, that prices for Russian substitutes may significantly increase, in which case there is no guarantee that the Group will be able to maintain its margins (see "*Risks Relating to the Group's Business and Industry—Increases in prices charged by food and non-food producers may have a material adverse effect on the Group's profitability if the Group is unable to pass on such increases to customers*"). In addition, even though the Group neither directly imports, nor purchases from its suppliers, any such prohibited products, there is a risk that, should any company of the Group be found to engage in realisation of such products, this could result in administrative fines and/or forfeiture of such goods, which may materially adversely affect the Group's business, results of operations, financial condition and prospects.

Russian governmental authorities have also from time to time introduced new, or increased existing, customs duties and tariffs on imported products. Import bans and/or introduction of, or increases in, customs duties or tariffs may result in reduced product availability and/or higher product prices, which may in turn increase the Group's costs and adversely affect the Group's margins and net sales. Furthermore, if substitute products are not available on commercially acceptable terms or at all, the Group's product assortment will become more limited, which may result in a decrease in the Group's net sales and profitability. Introduction of import bans or imposition of, or increases in, customs duties or tariffs could have a material adverse impact on the Group's business, results of operations, financial condition and prospects. Additionally, when the ban of products are withdrawn, the prices of the

formerly banned products may significantly decrease and result in margin losses of those products that the Group has in stock which was purchased at a higher price.

***The Group may fail to fulfil the terms of its licences, permits and other authorisations and/or fail to renew them on expiry or obtain new licences, permits and other authorisations that the Group may require***

The Group is required to maintain licences, permits and other authorisations (collectively, "licences"), including licences relating to the sale and storage of alcohol. The Group is also required to obtain and renew various licences concerning, for example, health and safety, packaging, labelling, environmental standards and distribution standards. The Group's licences contain various requirements that must be complied with in order to keep such licences valid. Furthermore, the Group cannot be certain that any given licence will be deemed sufficient by the relevant governmental authorities to fully cover the Group's activities performed under such licence. Some of the licence terms are vaguely worded and may be subject to arbitrary interpretation by the authorities, while the issuance of new, and the renewal of existing, licences is often subject to a considerable discretion by the authorities. If the Group fails to meet the terms of its licences or renew them on expiry, then licences necessary for the Group's operations may be suspended or terminated or may expire, leading to the temporary or potentially permanent closing of the Group's stores covered by the relevant licences, temporary or potentially permanent suspension of construction activities or other adverse consequences. In addition, an inability to obtain new licences that the Group may require may adversely impact the Group's expansion plans.

Furthermore, the authorities may introduce new requirements relating to the maintenance and renewal of licences. For example, new regulatory requirements may be introduced in relation to the sale and/or storage of alcohol, as a result of which the Group may need to make investments in store renovations in order to comply with the new requirements.

Any or all of these factors may adversely affect the Group's ability to maintain, renew or obtain necessary licences. If the Group is unable to maintain, renew or obtain them, or is only able to do so on unfavourable terms, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group depends on its ability to acquire or lease appropriate real estate on commercially acceptable terms, to protect the Group's real property rights and to build new stores on newly acquired or leased sites***

The Group's ability to compete depends in part on the Group's ability to open new stores in advantageous locations, which, in turn, is heavily dependent on identifying and purchasing or leasing land plots and/or premises that are suitable for the Group's needs on commercially reasonable terms. The market for property in metropolitan areas in Russia is highly competitive, primarily due to the limited availability of suitable land plots and premises. The Group faces competition not only from other retail industry participants but also from a variety of other industries, including, for example, non-food retailers. Competition for, and therefore the cost of, suitable land plots and premises have increased significantly over the past few years. If the Group fails to identify and secure a sufficient number of land plots and/or premises for any reason, including competition from third parties seeking similar land plots and premises, the Group's anticipated growth will be adversely affected.



Even after the Group locates and procures rights to suitable land plots and premises, the Group is required to obtain approvals from various regional or municipal authorities in order to arrange utility services and road access (if needed), undertake construction and to secure the Group's rights to operate stores or to refit or refurbish stores. Obtaining such necessary approvals may require extensive documentation and be time-consuming. The Group may be unable to accurately predict how long it will take to obtain such approvals due to inconsistent and often vague regulatory requirements and a highly formalistic approach to issuing such approvals often adopted by regional authorities, amongst other factors. Consequently, there can be no assurance that the Group will successfully identify and purchase or lease suitable land plots and/or premises on acceptable terms or at all, and its failure to do so would have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Failure to renew store leases on acceptable terms or at all as they expire may have a material adverse effect on the Group's business, financial condition and operating results***

As of 31 December 2016, the Group leased from third parties the majority of the land plots and/or buildings/premises where its stores and distribution centres were located. There can be no assurance that the Group will continue to be able to renew its store leases on acceptable terms, or at all, as they expire. If the Group is unable to renew the leases for its store locations as they expire, or lease other favourable locations on acceptable terms, or if the Group's existing leases are terminated for any reason (including in connection with a landlord's loss of its ownership rights to such sites), or if their terms are revised to the Group's detriment, such failures could have a material adverse effect on the Group's business, financial condition and operating results.

***Construction, expansion and renovation projects for the Group's stores may be delayed or cancelled, and the Group may not be able to complete construction of the Group's new stores on time to meet the requirements of the Group's expansion plan***

As a part of its expansion strategy, the Group regularly opens new stores and distribution centres and from time to time expands and/or renovates its existing facilities. In the Russian Federation, construction approval procedures are complicated, and construction permits are prone to challenge or withdrawal, while construction and environmental rules often contain requirements that are difficult to comply with fully in practice. Therefore, obtaining a construction permit for a new store or an expansion or renovation permit for an existing store may be time consuming and involve regulatory challenges. Even if the Group acquires the necessary permits and other approvals, the construction of new stores and/or the expansion or renovation of the Group's existing stores may be delayed or cancelled, which could adversely affect the Group's ability to achieve the Group's planned growth with respect to the Group's store operations.

In addition, in the markets in which the Group currently operates and in the Group's target markets, there is a shortage of skilled contractors able to build new stores or carry out the expansion or renovation of the Group's existing stores on time, on budget and in compliance with applicable health and safety and other regulations and the Group's internal requirements. As a result, the Group may not be able to meet its target expansion plans and/or the Group's construction or renovation costs may exceed its budget. Moreover, recently, the Moscow government has decided to recommence the campaign for the demolition of certain old residential units initiated in 1999. Since certain part of the Group's stores is located or in-built in such residential units or in the adjacent areas, the pursuit of such campaign may materially

affect both the operations of the Group's existing stores and the Group's ability to open new stores in such areas. As a result, the Group may incur unanticipated losses or experience business interruptions in certain locations, which in turn could disrupt the Group's ability to effectively expand and/or conduct the Group's business.

Furthermore, if the Group fails to comply with applicable regulations, such failure could lead to the imposition of sanctions, including civil and administrative penalties on the relevant member of the Group, and criminal and administrative penalties on the Group's managers. The imposition of any such penalties or sanctions could give rise to negative publicity and press speculation about the Group's actions, which could have a material adverse effect on the Group's reputation and disrupt the Group's ability to effectively expand and/or conduct the Group's business.

Furthermore, the Group may also need to arrange for the provision of utility services and to develop other infrastructure (such as road access) with respect to new land plots, which can result in additional costs and delays. Site development costs are typically calculated based on a land plot's technical conditions, which the Group is able to obtain from the relevant governmental authorities only after the Group acquires the land plot. As a result, it is difficult to calculate site development costs until the land plot is purchased. If the Group is unable to construct new stores or expand or renovate the Group's existing stores as a result of the foregoing reasons or otherwise, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Disposal of the Group's real estate for a price below the original purchase price or investment costs may have a negative impact on the Group's business***

As of 31 December 2016, the Group owned land plots for 4 of 35 distribution centres. The Group plans to acquire land and build premises for a number of new stores and distribution centres each year in the next few years, and potentially thereafter. The market value of these land plots and properties may decrease for various reasons, including: (i) changes in the competitive environment; (ii) changes in the attractiveness of real property as an investment asset either in Russia as a whole or in certain regional markets in which the Group's real property is located, due to changes in country-related or region-related risks; and (iii) fluctuations in demand for commercial real property. As a result of any unfavourable changes in the real property market, the market value of the Group's real property may decrease. The disposal of real property that has decreased in value for a price lower than the original purchase price or investment costs would result in a loss to the Group, which could have a material adverse effect on the Group's business.

In addition, a lack of reliable information about the real estate market in Russia makes it difficult to estimate the value of the real estate owned by the Group. Public information and research concerning the real estate market in Russia is generally not as reliable or comprehensive as similar data on the real estate market in more developed countries due to the fact that reported purchase prices may not be reliable, information regarding site development costs for comparable land plots may be unreliable or missing. As a result, absent sufficient and reliable information relating to Russian real estate and transactions therewith, real estate valuations conducted ahead of plot acquisitions may prove to be less accurate. This lack of information makes it difficult to assess the market value of real estate in Russia and requires the Group to make estimates as to the fair value of the Group's real estate. Due to their subjective nature, these estimates may not accurately reflect the market value of the

Group's real estate, which may result in disposals of the Group's real estate at a price which is lower than its real market value.

***Successful challenges to the Group's ownership interests or lease rights in land and property or delays or cancellation of the Group's construction projects could have a material adverse effect on the Group's business, financial condition and operating results***

The Group's business includes the acquisition of ownership or lease interests in land plots and buildings/premises with a view to their further development or re-development. In addition, the Group owns or leases buildings/premises in which its businesses are located. Russian land and property legislation is complicated and often ambiguous and/or contradictory at the federal and regional levels. In particular, it is not always clear which state bodies are authorised to enter into land leases with respect to particular land plots, construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that are impossible to comply with fully in practice. As a result, the Group's ownership of and/or lease rights to land and buildings/premises may be challenged by government authorities or third parties, and its construction projects may be delayed or cancelled.

Under Russian law, transactions involving real estate may be challenged on many grounds, including where the seller or assignor of rights to real estate acting fraudulently or otherwise did not have the right to dispose of such real estate, breach of internal corporate approval requirements by a counterparty and failure to register the transfer of title in the unified state register. As a result, defects in transactions with respect to real estate may lead to the invalidation of such transactions with respect to the particular real estate, which may affect the Group's title or lease rights to such real estate.

Further, under Russian law, certain encumbrances over real estate (including leases of less than one year and free of charge use agreements) do not need to be registered in the unified state register in order to encumber validly the property. There is, therefore, a risk that third parties may successfully register or claim the existence of encumbrances (of which the Group had no prior knowledge) over real estate owned or leased by the Group at any point in time. Losses of title or lease rights to the Group's land or properties may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The anticipated adoption of IFRS 16 "Leases" may significantly impact the Group's reported financial results and financial position***

Changes to the leases accounting standard under IFRS 16 which will come into effect on 1 January 2019 eliminate nearly all off balance sheet accounting for lessees. The new standard will affect most of the commonly used metrics such as asset turnover, EBITDA, operating profit, net income, operating cash flows and others. These changes may affect loan covenants calculations and potentially other aspects for a lessee which could lead to balance sheet growth and decrease of capital ratios. The cost of implementation and compliance with these new lease standards are hard to predict, however they may be significant for the lessees. Implementation of and compliance with these accounting lease standards by the Group could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Increases in prices charged by food and non-food producers may have a material adverse effect on the Group's profitability if the Group is unable to pass on such increases to customers***

In recent years, the cost of basic agricultural commodities has decreased globally, including in the Russian Federation. However, should prices for agricultural commodities increase in the future, there can be no assurance that the Group will be able to successfully contain the growth of such prices. If prices at which the Group purchases products from its suppliers increase, the Group may need to pass on all or a large portion of these additional costs to its customers to be able to maintain the Group's margins. However, the Group may be unable to increase the selling price of products in the Group's stores to fully or partially offset the price increases by the Group's suppliers (some of which have considerable negotiating power), particularly if the Group's main competitors choose not to implement such price increases. As competition in the Russian retail market becomes increasingly intense, unilateral price increases may lead to declines in sales, loss of customer purchasing frequency, loss of market share and other adverse consequences, and, accordingly, the Group may be significantly constrained in its pricing policy by the actions of the Group's direct and indirect competitors. Any deterioration of economic conditions in Russia may further complicate the operations of retailers in Russia and increase competition among them if a significant reduction in the disposable income and purchasing power of the population occurs. As a result, the Group may be forced to reduce the selling price for products in the Group's stores in order to maintain the Group's market share, which may significantly reduce the Group's profitability.

In addition, the Group may be unable to increase the Group's prices to match price increases of the Group's suppliers due to regulatory reasons. For example, historically, federal and regional authorities imposed regulatory constraints on the ability of sellers of food to increase their prices to limit food price inflation against the backdrop of the global economic crisis in 2008. Furthermore, under certain circumstances the Government is entitled to set maximum retail prices on certain types of goods of prime necessity for a certain period. See "*Regulation of food retail and real estate in Russia — Regulation of Food Retail—Trade Law*" for additional information. There can be no assurance that federal or regional authorities would not attempt to re-introduce, or initiate new, measures limiting the ability of sellers of food to increase prices on products they sell or regulating their margins. If any such measures are implemented, or if the Group is otherwise unable to effect price increases for products the Group sells, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Reduction in supplier payments could affect the Group's financial condition and operating results***

As per standard international practice in modern grocery retailing, the Group is able to obtain discounts and bonuses from suppliers. The Group's commercial margin in the year ended 31 December 2016 was relatively stable as compared to the prior year. Given that the Trade Law limits fees (including service and other auxiliary fees) payable by food and alcohol suppliers to retail chains at five per cent. of the aggregate value of supplied goods and prohibits any supplier payments to the retail chains which are not permitted by the Trade Law, the Group may not be able to maintain the same level of its commercial margin which includes supplier discounts, bonuses and service fees in the future due to, for example, further regulatory restriction on supplier payments or changes in the Group's relationships with suppliers as a result of new competitors entering the retail and wholesale industry, industry consolidation or for other reasons. In addition, payment terms (in particular, deferral) that are set for each type

of product affect the Group's working capital requirements. If the Group is unable to maintain a level of supplier discounts, bonuses and/or service fees equal to or greater than the Group's competitors, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group may experience supply disruptions if key suppliers fail to deliver their products or meet the Group's quality standards***

The Group depends on the ability of the Group's suppliers to provide the Group with a wide variety of food and non-food products that meet the Group's quality standards on specified delivery schedules. For all of the Group's product categories, the Group has few alternative suppliers that are readily available, particularly for all main group categories of goods (associated goods, groceries, beverages, fruits and vegetables, dairy and eggs, meat and fish). Furthermore, some of the Group's suppliers may have limited capacities for the production and delivery of their products. From time to time, the Group experiences disruptions in the supply of products due to disruptions in the production processes of the Group's suppliers. While no material disruptions to supplies of major product categories have occurred in recent years, there can be no assurance that material disruptions will not occur in the future. To mitigate this risk the Group actively develops direct import and pickup initiatives. In addition, further sanctions or introduction of import bans by governmental authorities may limit the availability of products from suppliers (see "*—Introduction of import bans or imposition of, or increases in, customs duties or tariffs could have an adverse impact on the Group's business*" for additional information). Furthermore, in the event of supply disruptions, available alternative or substitute products may be of lower quality. Difficulties encountered with suppliers may result in disruptions in the Group's operations, loss of profitability and damage to the Group's reputation, and in such instances the Group's business, results of operations, financial condition and prospects could be materially adversely affected.

***The Group's results of operations may be adversely affected by currency fluctuations***

Following commencement of the crisis relating to the situation in Ukraine and Crimea and subsequent sanctions imposed by the European Union and the United States (see "*—Risks Relating to the Russian Federation—Political risks—Political instability in Ukraine and other states and the imposition of various sanctions by the United States, the European Union and other countries against Russian, Ukrainian or other nations' individuals and legal entities may adversely affect the Group's operations*"), the Rouble depreciated significantly against a number of currencies, including the U.S. dollar, from RUB 32.73 per U.S.\$ 1.00 as of 31 December 2013 to RUB 67.79 per U.S.\$ 1.00 as of 18 December 2014. The Rouble predominantly continued to depreciate throughout 2015 which resulted in the exchange rate reaching a record maximum of RUB 83.59 per U.S.\$ 1.00 on 22 January 2016. While the Rouble has shown some subsequent recovery, it is likely to remain volatile and vulnerable to economic downturns in the near future. As of 12 April 2017, the exchange rate between the U.S. dollar and the Rouble and the Euro and the Rouble was 56.96 Roubles per one U.S. dollar and 60.30 Roubles per one Euro, according to the CBR. This depreciation was primarily attributed to worsening macroeconomic trends in the Russian economy, turbulence from recent geopolitical events in the region and general pressure on currencies as a result of the liquidity constraints in the Russian banking sector and negative oil price movements.

The Group sells imported food and non-food products as well as purchases various imported equipment. A substantial proportion of the Group's products is purchased in Russia from

subsidiaries of large international producers or suppliers that import their products in Russia or is imported by the Group. In the event of a further Rouble depreciation, the cost of the Group's imported products and equipment as well as certain rental payments may increase and the Group may be unable to pass all or some of product cost increases to the Group's customers without negatively affecting the Group's sales and profitability. While the Group may be able to partially substitute locally-made products for imports, this substitution may adversely affect the Group's sales growth rate. Consequently, further depreciation of the Rouble against foreign currencies may lead to an increase in the Group's expenses in Rouble terms and/or slow the Group's sales growth, and thus negatively affect the Group's results of operations.

***The "Pyaterochka", "Perekrestok" and "Karusel" brand names and other intellectual property are critical to the Group's business and any substantial erosion in the value of such brand names due to product recalls, customer complaints, adverse publicity, legal action or other factors would have a material adverse effect on the Group's business, financial condition and operating results***

As the Group's success depends to a significant extent upon brand recognition and the goodwill associated with it, the Pyaterochka, Perekrestok and Karusel brand names and trademarks are key assets of the Group's business. Maintaining the reputation of the Group's brand names and trademarks is critical to the Group's success. Substantial erosion in the value of the Group's brand names due to product recalls, customer complaints, adverse publicity, dilution, legal action or other factors could have a material adverse effect on the Group's business, financial condition and operating results. There can be no assurance that the Group's strategy and its implementation will maintain the value of these brands. See also "—*The sale of food products exposes the Group to the risk of product liability claims and adverse publicity*".

Russia generally offers a lower level of intellectual property rights protection and enforcement than countries in Europe and North America. The Group believes it has taken appropriate steps to protect its trademarks and other intellectual property rights but cannot be certain that such steps will be sufficient or that third parties will not infringe or challenge such rights. If the Group is unable to protect such intellectual rights against infringement, it could have a material adverse effect on its business, financial conditions and operating results. Delays in the registration of trademarks and defects in agreements pursuant to which trademarks were assigned to the Group may also increase the risk of infringement of the Group's intellectual rights and have a material adverse effect on the Group's business, financial condition and operating results. Furthermore, the Group may be unable to prevent third parties from registering and/or using similar trademarks for classes of the International Classification of Goods and Services other than classes for which the Group has registered its rights. Such third party goods or services bearing trademarks similar to the Group's intellectual property may be of inferior quality, which may adversely affect customer perceptions of the Group, which could have a material adverse effect on the Group's brand, business, results of operations, financial condition and prospects.

***Disruptions to the Group's logistics system, including as a result of poor infrastructure conditions, adverse climate, natural disasters or acts of terrorism, could materially adversely affect the Group's business***

Delivery of products to the Group's stores is dependent on the Group's logistics system, including transportation services provided by third parties and the operation of distribution

centres. If the Group's logistics system were to experience a sustained disruption due to, among other things, poor infrastructure condition, inclement weather, natural disasters or terrorist attacks, the Group could face difficulties transporting, processing or distributing products to the Group's stores or doing so at a reasonable cost. Such disruption could result in a depletion of the Group's inventories and an inability to offer the Group's customers the Group's full product assortment, which in turn could lead to losses of the Group's customer base and market share. The risk of disruptions to the Group's logistics system is further exacerbated in remote locations due to long delivery distances, less developed infrastructure and the harsh climate of many of these areas. Disruptions to the Group's logistics system could also result in higher operating costs and delays, and, if alternative arrangements are not available at a reasonable cost or at all, such disruptions could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The sale of food products exposes the Group to the risk of product liability claims and adverse publicity***

The packaging, marketing, distribution and sale of food products presents an inherent risk of contamination or deterioration, which could potentially lead to product liability, product recall and resultant adverse publicity. Such products may contain contaminants that could, in certain cases, cause illness, injury or death to consumers. Even an inadvertent shipment of contaminated products may lead to an increased risk of exposure to product liability claims. There can be no assurance that product liability claims will not be asserted against the Group in the future or that it will not be obligated to undertake significant product recalls, which risk is increased in case of the Group's own private-label products. If a material product liability claim is successful, the Group's insurance may not be adequate to cover all liabilities it may incur, and the Group may not be able to continue to maintain such insurance, or obtain comparable insurance at a reasonable cost, if at all. If the Group does not have adequate insurance or contractual indemnification available, product liability claims relating to defective products could have a material adverse effect on the Group's ability to market successfully its products and on its business, financial condition and operating results.

Even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding any assertion that the products the Group sells (and particularly the Group's private-label products) have caused illness, injury or death could have a material adverse effect on the Group's reputation with existing and potential customers. Maintaining the reputation of the Group's brand name is critical to the Group's success, which depends to a significant extent upon brand recognition and the goodwill associated with it. Adverse publicity could result in a loss of customer trust in the Group's brand and ultimately to the loss of the Group's market share, which could in turn lead to a decline in the Group's net sales and profitability. Furthermore, negative publicity relating to the Group's suppliers, such as for example assertions of harmful environmental practices or inhumane working conditions, could also have an adverse effect on the Group's brand name and/or reputation.

The Group is also subject to a regulatory oversight and regular health and safety inspections conducted by the Federal Service of Consumer Protection ("**Rospotrebnadzor**") in the ordinary course of the Group's business. Such inspections, should the Group be found to be in violation of the applicable laws and regulations, may result in mandates to remediate the relevant violations, administrative fines and/or suspension of business operations of the relevant company of the Group for up to 90 days. Any violations discovered in the course of such inspections may also generate negative publicity, which could have a material adverse effect on the Group's brand name and/or reputation. In the past, certain of the Group's stores

were subject to suspension of operations of up to 90 days; however this did not have any material adverse effect on the Group's business. Although to date, the inspections of Rospotrebnadzor have not materially affected the Group's business, results of operations, financial condition and prospects, there may be no assurance that this will not occur in the future. Therefore, if a product liability claim is made against the Group (even if such claim is unsuccessful) and/or adverse publicity relating to the Group's brand is generated in Russia or in other countries, whether as a result of the actions of a third party (such as a supplier) or stemming from an action of a regulator, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group may not be able to maintain the share of revenue from sales of the Group's private-label products in the Group's total net sales, which may lead to lower gross margins and thus have a material adverse effect on the Group's business, results of operations, financial condition and prospects***

In the years ended 31 December 2015 and 2016, sales of the Group's private-label products represented 14.1 per cent. and 14.2 per cent. of the Group's retail turnover, respectively, and the Group plans to further increase the proportion of net sales that the Group generates from sales of private-label products. The Group's private-label products are generally priced lower than comparable brand-name products at the Group's stores. However, because the suppliers do not incur marketing and advertising expenses on private-label products and because the Group orders them in bulk, the Group is able to purchase private-label products at significantly lower prices than similar branded products. Should the Group be unable to attract a sufficient number of customers to purchase the Group's private-label products, the Group may have to scale back the number of such products in the Group's stores, which, in turn, may lead to lower gross margins. This could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group has engaged and may continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than could be obtained in arm's-length transactions***

The Group has engaged in transactions with related parties and may continue to do so. While the Group has historically conducted transactions with related parties on terms that the Group's management believes to be arm's-length, and the Group intends to continue to do so in the future, conflicts of interest may arise between such related parties and the Group, potentially resulting in the conclusion of transactions on terms not determined by market forces. Conflicts of interest that may materially and adversely affect the Group's business, financial condition and operating results could deter prospective investors from investing in the Group which could adversely impact the Group and/or the value of the Notes.

Any related party transactions which are carried on a non arm's-length basis may expose the Group to business and financial risks such as increased competition from related parties, transfer pricing adjustments of VAT and profits tax liabilities and potential taxable benefits for the recipients of low-rate interest of intra-group loans, which could have a material adverse effect on the Group's business, financial condition and operating results.

***The Group may not be successful in implementing its proposed corporate reorganisation***

In order to enhance its organisational structure, the Group may contemplate corporate reorganisation in future (see "*Business—Organisational Structure of the Group—*



*Reorganisation*"). This reorganisation may involve, among others, the merger, acquisition and/or liquidation of certain companies of the Group.

Under Russian law, a company which is subject to a reorganisation is required to notify the Russian tax authorities that it has approved such reorganisation within three business days of the relevant general shareholders'/participants' meeting and publish twice a notification on reorganisation. The completion of mergers or other forms of reorganisation and liquidation is subject to state registration and the completion of other formalities and procedures. In addition, the creditors of a company which is subject to a reorganisation and whose demands have arisen prior to the first publication of the notification described above are entitled, not later than 30 days from the date when the last notification was published, to demand in court the acceleration of the obligations of such company and, if such acceleration is not possible, to demand termination of the relevant agreement and seek damages resulting from such termination. A creditor will not have the right to demand the acceleration of such obligations or termination of the relevant contract if it has been provided with sufficient security within 30 days of its demand. If the Group starts implementing its corporate reorganisation plan, the relevant companies of the Group may incur additional costs to satisfy such creditors' demands or to provide sufficient security, which may have an adverse effect on the Group's results of operations and financial condition or the value of the Notes.

Furthermore, a company undergoing reorganisation or liquidation may also be subject to tax audits on such basis. This could result in additional tax liabilities being imposed on the relevant companies of the Group, which may have an adverse effect on the Group's results of operations and financial condition or the value of the Notes.

As of the date of these Listing Particulars, no steps with respect to such corporate reorganisation of the Group had been taken. However, if the management of the Group decides to pursue its reorganisation plan, there is a risk that the Group will be unsuccessful in implementing the proposed corporate reorganisation and, therefore, it may not prove possible to achieve or fully realise the expected levels of cost savings and efficiency in whole or in part.

***The Group is exposed to certain risks in connection with the substantial use of cash in the Group's operations***

Due to the nature of the retail business and the current state of development of the Russian banking sector, the Group processes a large volume of cash transactions in the Group's operations. Therefore, the Group is exposed to the risk of petty theft, robbery, negligence or mistakes, which, if substantial in the aggregate, could have an adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group is dependent on credit and debit card payment processing service providers***

Purchases made using credit or debit cards account for a large proportion of the Group's sales. The Group relies on third party service providers for processing such payments, and the Group pays a fee for this service which is typically calculated as percentage from the Group's turnover for such types of transactions. If such service providers experience disruptions, system failures or other events which render them unable to process bank card payments, sales at the Group's stores could be materially adversely affected. Disruptions affecting other financial institutions or intermediaries that process the Group's customers' credit or debit card

transactions (such as, for example, a customer's credit card issuing bank) could also have a negative impact on the Group's business.

In addition, Russian authorities previously announced plans intended to reduce the volume of operations settled in cash in the Russian Federation, with a view to combat money laundering and tax evasion. Although Russian authorities have recently claimed that they do not intend to implement any regulatory measures to reduce the volume of cash operations, there can be no assurance that such measures will not be implemented in the future. Such plans, if implemented, may result in a substantial increase in the proportion of credit or debit card transactions in the Group's total transaction volume, which may further increase the Group's dependency on bank card payment processing service providers. Furthermore, such plans, if implemented, may also result in an increase in the Group's bank card payment processing costs. Any such risks discussed above, if materialised, could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***The interests of the Group's shareholders may conflict with those of the Noteholders***

As of the date of these Listing Particulars, based on the information available to the Company, approximately 47.86 per cent. of the Company's outstanding voting ordinary shares are indirectly owned by CTF Holdings Limited (a company which is part of the Alfa Group), which is in its turn controlled by three individuals, Mr. Fridman, Mr. Khan and Mr. Kuzmichev. See "Shareholders" for more information on the Company's shareholding structure. As a result, the Alfa Group has substantial influence over the Group and the ability to elect a substantial part of the Company's directors and substantially influence the appointment of the management, issuance of additional shares and approval of certain actions requiring the approval of a majority of the Company's shareholders. For example, the Alfa Group could cause the Group to pursue acquisitions and other transactions or provide a loan or make large dividend payments or other distributions or payments to shareholders that are designed to benefit shareholders, even though such transactions may involve increased risk for the Noteholders. Accordingly, the interests of shareholders may conflict with the interests of the Noteholders, and shareholders may require the Group to take actions that may adversely affect the Group's business, results of operations, financial condition and prospects and the value of the Notes.

In addition, the Group's management believes that some of the major shareholders of the Group may have interests in other businesses. The interests of these shareholders could conflict with those of the Noteholders, which could materially adversely affect the value of the Notes.

Furthermore, a disagreement among shareholders could prevent key strategic decisions from being made in a timely manner. In the event shareholders are unable to continue to work well together and with other shareholders and with directors and management, the Group's business, results of operations, financial condition and prospects could be materially adversely affected.

***The Group's insurance policies may be insufficient to cover losses arising as a result of business interruption, damage to its property or third-party liabilities***

The Group's insurance policies cover the majority of its store operations at all of its business segments. However, there can be no assurance that such insurance policies will be sufficient to cover any losses arising out of a business interruption or damage to the Group's property as

a result of fire, explosion, flood or other circumstances. While the Group has relatively broad third-party liability insurance coverage, which satisfies the requirements of the Russian law, there can be no guarantee that, if the Group suffers material losses, particularly if such losses occur simultaneously at a number of stores, or incurs a significant liability, the Group's insurance policies will be sufficient to cover such losses or liability or that the Group will be indemnified by its insurers in a timely manner. If the Group's insurance policies are insufficient to cover such losses or liability arising as a result of business interruption, damage to its property or third-party liabilities or otherwise, this may materially and adversely affect the Group's business, financial condition and operating results.

***The Group's success depends on key members of senior management and its ability to attract, train and retain qualified and experienced employees***

The Group's future success and growth depend in part on the continued service, efforts and skills of key members of the Group's senior management. Key members of the management team supervise the Group's development and cover day-to-day management of its operations. While the Group has entered into employment contracts with such persons, the retention of their services cannot be guaranteed. For example, under Russian law, the Group's senior management may resign by giving one month's and, in some cases, two weeks' notice. The Group maintains key life insurance on its executive officers. The Group is not insured against damage that may be incurred in case of loss or dismissal of its key specialists or managers. The loss of these personnel or the inability to attract and retain suitably qualified personnel could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's success also depends on its ability to attract, train and retain highly qualified management, technical and other personnel. However, due to a deficit of qualified professionals in the Group's business and intense competition in Russia for personnel with relevant expertise, particularly skilled managers, accounting personnel, real estate development specialists, lawyers and information technology personnel, the Group may suffer from a lack of qualified personnel, and may not be able to recruit personnel with appropriate qualifications at a reasonable cost or at all. The Group provides certain training programmes for its personnel, but there can be no assurance that employees will not be hired by competitors and that the Group will not lose the benefit of its investment in such training. If the Group is unable to attract and retain experienced, capable and reliable personnel, especially senior and middle management with appropriate professional qualifications, or fails to recruit skilled professional and technical staff in line with the Group's growth, the Group may need to increase expenditure on recruiting, salaries, training and incentives and may otherwise adversely affect the Group's business, financial results, results of operations and prospects.

***Employee misconduct is difficult to determine and detect and could harm the Group's reputation and business***

The Group faces the risk of loss that may arise out of its employees' lack of knowledge or wilful, negligent or involuntary violations of laws, rules and regulations or other misconduct. Misconduct by employees is a recurring risk in the Group's industry and it could involve, among other things, the improper use or disclosure of confidential information (including trade secrets), or embezzlement or fraud, any of which could result in regulatory sanctions or fines imposed on as well as serious reputational or financial harm suffered by, the Group. Misconduct by employees may result in unknown and unmanaged risks and losses. It is not

always possible to guard against employee misconduct and ensure full compliance with the Group's risk management and information policies, and the precautions the Group takes to detect such activity may not always be effective. The direct and indirect costs of employee misconduct can be substantial and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group is exposed to a number of operational risks due to the nature of the Group's business***

The nature of the Group's business exposes the Group to a number of operational risks, which are the risks of losses resulting from inadequate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their position, technical failures, settlement errors, and misuse of the Group's property. These risks include but are not limited to shoplifting, robbery, employee theft or fraud, mismanagement, unauthorised actions by employees in violation of the applicable legislation, customer fraud, third party service providers theft or fraud, inability to locate adequate maintenance and support service providers or failure of such third parties to provide their services in a satisfactory manner, accidents at the Group's stores, road construction works in locations adjacent to the Group's stores complicating traffic and/or impeding entry in the Group's trading or warehouse premises, acts of terrorism and operational errors.

In addition, while the Group currently has in place detailed and extensive policies and procedures for managing compliance with the applicable laws, rules and regulations in a wide variety of areas, including antitrust/competition law, antibribery and anticorruption regulations, health and safety, environmental, sales of alcohol and tobacco, sanitary rules and consumer protection, no assurance can be provided that the Group's employees will not take action in breach of these policies and procedures. In particular, due to the nature of the Group's business, the Group is subject to a detailed framework of antitrust rules and regulations and increased scrutiny by the FAS. Consequently, if the Group's employee actions result in a violation of antitrust rules or regulations, the Group may become subject to investigations or claims by FAS or claims by other parties.

The Group's risk management policies and procedures may fail to identify and/or prevent or mitigate these or other operational risks that the Group faces. Such risks, if materialised, could result in damage to the Group's property, machinery, equipment or inventories, disruptions to the Group's operations, liability claims from third parties, administrative penalties or fines, or damage to the Group's brand name and reputation, which in turn could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***Systems failures and delays could harm the Group's business***

The Group manages its inventory and logistical operations through a variety of electronic media, including an intranet, networked personal computers, internet, cloud technologies and automated inventory management systems. These Group's operations are heavily dependent on the integrity of the electronic and systems and information technology ("IT") supporting them. The Group uses its own as well as third-party developed IT systems in its business activities. A disruption (even minor or short-term) to the functionality of the Group's IT systems (which may occur for a reason outside the Group's control), or delays in increasing the capacity of the IT systems, as well as failure to successfully integrate various IT platforms within the Group, as may be required to implement the Group's strategy, could have a

material adverse effect on the business, financial condition, results of operations and prospects of the Group.

The Group's systems and operations are vulnerable to damage or interruption from human error, data inconsistency, natural disasters, power loss, computer viruses, intentional acts of vandalism, breach of security and similar events. Although the Group has in place contingency plans to deal with such events, there can be no assurance that the Group's systems will not suffer failures or delays in the future causing significant losses to its business. Equipment breakdowns may result in significant productivity losses and potentially full inoperability of the stores trading software for an unspecified time. Significant systems failures and delays could cause unanticipated disruptions in service, decreased customer service and customer satisfaction and harm to the Group's reputation, which could result in loss of customers, increased operating expenses and financial losses.

In addition, the Group's ability to operate the Group's business depends on the Group's ability to protect the IT systems that the Group operates from the intrusion of third parties who may attempt to enter the Group's systems through the internet or otherwise. The Group relies on the internet for information sharing among the Group's stores, distribution centres and offices. The internet generally, and individual websites in particular, have experienced a number of disruptions and slowdowns, some of which have been caused by organised attacks or security breakdowns. Third parties may attempt to gain access to the Group's systems, and the Group cannot be certain that the Group will be able to protect the Group's systems from such attacks. Were the Group to experience a significant security breakdown or other disruption to the Group's IT systems, sensitive information, including commercial, financial and product information, could be compromised and the Group's operations could be disrupted, which could harm the Group's relationship with the Group's suppliers or customers. In addition, disgruntled employees may cause similar damage to, or take similar actions with respect to, the Group's information technology systems to which they have authorised or unauthorised access. If such an attack occurs or damage is inflicted, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group is subject to the risk of claims, lawsuits and other proceedings***

The Group is exposed to a variety of potential litigation and statutory compliance risks. These risks include, among others, litigation concerning contracts it has entered into with landlords and suppliers, personal injuries and health and safety, taxes, antitrust and environmental matters, property and Government regulation. The outcome of inspections, investigations, legal proceedings and other contingencies cannot be predicted, and the Group may be subject to fines, penalties and other damages if found liable. The Group has in the past been subject to a certain number of inspections and investigations (both scheduled and unscheduled) relating to applicable regulations, which have resulted in fines and penalties, and the Group may be subject to similar inspections and investigations in the future. Inspections, investigations and legal proceedings may adversely impact the Group's reputation with customers, suppliers, landlords, employees, the general public and other market participants.

In addition, in the ordinary course of its business, the Group has been and may in the future be subject to various disputes with state and regional authorities, including FAS, Rospotrebnadzor and tax authorities. While the Group was generally successful in defending against or settling those claims in the past, there can be no assurance that new claims will not be brought in the future the outcome of which may not be foreseen. In addition, participation

in any such lawsuit may result in additional costs incurred by the Group. Any inspection, investigation, or legal or other proceeding could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

### **Risks relating to the Russian Federation**

Substantially all of the Group's revenues are derived from the Russian Federation. There are certain risks associated with an investment in Russia.

***Emerging markets, such as the Russian Federation, may be subject to greater risks than more developed markets, including significant economic, political, social, legal and legislative risks***

Investors in emerging markets, such as the Russian Federation, should be aware that these markets may be subject to greater risk than more developed markets including, in some cases, significant economic, political, social, legal and legislative risks. Investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly. Moreover, financial turmoil in any large developing country may tend to adversely affect prices in equity and debt markets of other developing countries as investors move their money to more stable and developed markets. Thus, even if the Russian economy remains relatively stable, financial turmoil in other emerging market countries could have an adverse effect on the Russian economy.

Global financial or economic crises tend to adversely affect prices in capital markets of emerging market economies, such as Russia, more so than in more developed markets, resulting in investors shifting their money away from the emerging market to the more stable and developed markets. Throughout 2015, 2016 and the beginning of 2017, European markets generally remained relatively unstable and highly susceptible to financial and political events, including the slowdown of China's economy, the future exit of the United Kingdom from the EU following the UK referendum and the results of the U.S. presidential elections. Should these or any similar events lead to a significant worsening of the global macroeconomic situation and/or impact commodity prices and global trade flows, Russia's overall economic and financial position in the short and medium term could also be negatively affected.

The above factors generally expose Russian capital markets to higher volatility as opposed to European markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during periods in which such problems or perceptions exist, businesses that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn, making it difficult for these businesses to conduct their operations (in particular, if their working capital becomes insufficient) and/or to implement their strategies (for example, if projects are suspended or cancelled as a result of a lack of funding to finance capital expenditure). Accordingly, investors should exercise particular care in evaluating the risks involved and must decide whether, in light of those risks, their investment is appropriate. Potential investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

## **Political risks**

***Deterioration of political and governmental stability in the Russian Federation or government policies targeted at specific individuals or companies could have an adverse effect on the Group's business as well as investments in Russia more generally***

Since 1991, the Russian Federation has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system had been vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations of the 1990s, as well as to unrest by some social and ethnic groups.

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial authorities; this impacted negatively upon the business and investment climate in the Russian Federation. Over the past two decades the course of political, economic, regulatory and other reforms has, in some respects, been uneven and the composition of the Government has, at times, been unstable.

Vladimir Putin, the President of the Russian Federation, is generally credited with having increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment. On 4 December 2011, the State Duma elections were held and, on 4 March 2012, presidential elections were held in the Russian Federation. Following the State Duma elections, controversy concerning voting results led to unprecedented organised protests in several Russian cities, including protests in the Russian capital. However, the discontent generally declined in 2013-2016 and the first quarter of 2017 resulting, among other things, in weakening of internal tensions and a shift in Vladimir Putin's credibility rating, in the light of which the results of the latest State Duma elections held on 18 September 2016 did not cause any political turbulence.

While the Russian political system and the relationship between the Russian President, the Russian administration and the State Duma currently appear to be stable, future political instability could result in deterioration in the overall economic situation, including any decline in standards of living, as well as from the results of the most recent or future elections of the State Duma and the Russian President. Shifts in government policy and regulation in the Russian Federation may be less predictable than in many Western democracies and could disrupt, slow down or reverse political, economic, regulatory and other reforms. Any significant change in, or suspension of, the Government's programme of reform in Russia, major policy shifts or lack of consensus between the Russian President, the Russian administration, the State Duma and powerful economic groups could lead to a deterioration in Russia's investment climate that, in turn, might limit the ability of the Group to obtain financing in the international capital markets or otherwise have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the value of the Notes.

***Political, social and military conflicts, acts of terrorism or natural disasters could have an adverse effect on the global or Russian financial markets and economy***

The Russian Federation is a federation of 85 political units, which include republics, territories, regions, cities of federal significance, an autonomous region and autonomous

districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the Government is, in many instances, unclear and sometimes remains contested. In the past, lack of consensus between the federal government and regional or local authorities resulted in the enactment of conflicting legislation at various levels and led to political instability. In particular, in the past, laws were enacted in the areas of privatisation, securities, corporate legislation, regulation of land use and licensing. Some of these laws and the governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have, in the past, been challenged in Russian courts and such challenges may occur in the future. This lack of consensus creates uncertainties in the operating environment in the Russian Federation, which could hinder the Group's long-term planning efforts and may prevent the Group from effectively and efficiently carrying out its business strategy.

Military conflicts and international terrorist activity and natural disasters have historically had a significant effect on international finance and commodity markets. Thus, the conflict in the Russian region of Chechnya in the late 1990s and into the 2000s brought normal economic activity within Chechnya to a halt for a period of time and adversely affected the economic and political situation in neighbouring regions. Violence and attacks relating to conflicts in the North Caucasus also spread to other parts of Russia and resulted in terrorist attacks in Moscow. Suicide bombings were carried out in two Moscow metro stations on 29 March 2010 and at the Moscow Domodedovo airport on 24 January 2011 and resulted in 76 fatalities in the aggregate. Further, suicide bombings were carried out in December 2013 in the Volgograd-1 train station and later in a public trolleybus in the city of Volgograd in the Southern Federal District of Russia resulting in 34 fatalities in the aggregate. Most recently, Russia entered the Syrian conflict in September 2015 to assist the Syrian government in retaking territory from various opposition groups. In March 2016, Russia declared a partial withdrawal of troops from Syria. Any future military conflicts, acts of terrorism or natural disasters could have an adverse effect on Russia's political stability, as well as the international financial and commodities markets and the global economy.

Historically, natural disasters have adversely affected the global and Russian economy and financial market. For example, in July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer drought and record high temperatures, resulted in a decline in the Russian harvest, and accordingly an increase in demand for imported grain, reported to be Russia's largest import demand for over ten years. The costs associated with controlling and reducing the fires, addressing environmental concerns and repairing the damage caused by the fires and other natural disasters may have had an adverse effect on the Russian economy. The risks associated with these or similar events could materially and adversely affect the investment environment and overall consumer confidence in Russia, which, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the value of the Notes.

***Political instability in Ukraine and other states and the imposition of various sanctions by the United States, the European Union and other countries against Russian, Ukrainian or other nations' individuals and legal entities may adversely affect the Group's operations***

The political instability and armed conflict in Ukraine, heightened levels of tension between Russia and other states, the imposition by the United States, the European Union and other countries of sanctions and other restrictive measures, and the imposition by Russia of sanctions, including import and travel restrictions, has had in the past, and may continue to



have in the future, an adverse effect on the Russian economy and demand for services and commodities.

The United States, the European Union and a number of other jurisdictions and authorities have imposed sanctions on a number of Russian officials and individuals, former Ukrainian officials, and several Russian companies, banks (including Sberbank, VTB Bank, Gazprombank, Vnesheconombank and Rosselkhozbank) and businessmen, with the consequence that entities and individuals in the United States and the European Union either cannot do business with them or cannot provide funds or economic resources to them. In addition, in certain cases, assets of the sanctions targets in the relevant sanctioning jurisdictions are subject to seizure and the individuals are subject to visa bans. In addition, the United States and the European Union have applied "sectoral" sanctions, whose principal consequences are that several leading Russian banks have been restricted from accessing Western capital markets. Such factors have affected Russian trade volumes and could adversely affect the Group's ability to obtain financing on favourable terms and to deal with certain persons and entities in Russia or in other countries.

The economic sanctions described above have adversely affected the Russian economy and Russia's financial markets, increased the cost of capital and capital outflows, and worsened the investment climate in Russia. In the course of 2014 and 2015, each of S&P, Moody's and Fitch downgraded the Russian sovereign rating and most recently S&P lowered Russia's long-term foreign currency sovereign bond rating to "BB+" with negative outlook. In January 2015, Moody's confirmed its sovereign rating for the Russian Federation to "Ba1" with negative outlook in April 2016 and Fitch downgraded Russia's long-term foreign and local currency rating to "BBB-" with negative outlook in January 2015, resulting in two out of three ratings of the big three rating agencies falling below investment grade. As one of the factors affecting these downgrades the rating agencies mentioned the continuous effect of the US and EU sanctions. Although, in September - October 2016 and February 2017, S&P, Fitch and Moody's revised the outlook on Russia's sovereign credit rating from "negative" to "stable", there is no guarantee that Russia's sovereign credit ratings will not be subject to subsequent negative rating actions by the relevant rating agencies.

A significant escalation in Eastern Ukraine or elsewhere in the world would be likely to cause substantial economic disruption to the countries involved. This could also result in the imposition of a sanctions regime that would seek to isolate Russia or other countries in which the Group operates from the world economy. Even without such an escalation, there may well be a further strengthening and broadening of sanctions. If Russia were barred from using the international SWIFT payment system, ordinary banking services in Russia and cross-border trade would be disrupted.

None of the proceeds of the issue of the Notes will be used to fund activities or persons that are subject to sanctions introduced by the U.S. and the EU. While to date, the imposed sanctions have had no negative direct impact on the Group's business and financial position, and, as of the date of these Listing Particulars, no individual or entity within the Group has been designated as subject to either U.S. or EU sanctions, an introduction of sanctions targeting the Group, or individuals holding positions in the Group or controlling the Group, the grocery retail sector or a broader segment of the Russian economy could interfere with the Group's operations and could have a material adverse effect on the Group's ability to conduct business with its customers, suppliers, agents and other third parties, including the Trustee, as well as the Group's ability to service its payments under its debt obligations (including the Notes).

***Deterioration of Russia's relations with other countries could have an adverse effect on the Group's business, financial condition and results of operations and the value of the Notes***

Potential military conflicts with other countries and the risks associated with these events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on the Group's business, financial condition, results of operations and the value of the Notes. Over the past several years, Russia has been involved in military conflict with other countries some of which are current and potential future markets for the Group's business. For example, a military conflict in August 2008 between the Russian Federation and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. In the beginning of 2014, the Russian Federation's support of a referendum on the status of Crimea, an autonomous parliamentary republic within Ukraine, resulted both in a significant decline in the price of Russian securities and a devaluation of the Rouble. It has also resulted in the deterioration of Russia's relations with other members of the international community, including members of the EU, United States and CIS countries. The emergence of new or escalation of existing tensions between the Russian Federation and other countries, imposition by the United States, the European Union and other countries of sanctions and other restrictive measures, and the imposition by Russia of sanctions, including import and travel restrictions, have had in the past, and may continue to have in the future, a material adverse effect on economies in the region, including the Russian economy, which, in turn, could adversely affect the Group's business, financial condition and results of operations and may lead to reduced liquidity, trading volatility and have a negative effect on the Group's ability to access capital, or access capital on terms reasonably acceptable to it, in the international capital markets.

**Economic risks**

***Economic instability in the Russian Federation***

Since the dissolution of the Soviet Union, the Russian Federation has experienced and/or is currently experiencing:

- volatility and/or significant declines in GDP;
- high levels of inflation or hyperinflation;
- increases in, or high, interest rates;
- an unstable currency and instability in the local currency market;
- high state debt relative to gross domestic product;
- lack of reforms in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;

- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- tax evasion;
- the "black" and "grey" market economies;
- budget deficits;
- capital flight;
- corruption and the penetration of organised crime into the economy;
- sudden price declines in the natural resource sector;
- dependence of the economy on exports of commodities;
- significant declines and volatility in the stock market;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population; and
- outdated and deteriorating physical infrastructure.

The Russian economy has been subject to abrupt downturns in the past. While the situation globally has to a certain extent stabilised since the global financial and economic crisis, the Russian economy began to experience a new slowdown in 2013. GDP growth fell from 3.5 percent in 2012 to 1.3 percent in 2013 and amounted to 0.7 percent in 2014 and contracted by 2.8 percent in 2015 and by 0.2 percent in 2016, according to Rosstat. The conditions and outlook for the Russian economy deteriorated significantly during 2014 as a result of the sharp decline in oil prices and continued to worsen in 2015 following further depression in oil prices and the imposition of economic sanctions by the United States and the EU. In 2014, the net capital outflows increased to U.S.\$ 151.5 billion, according to the CBR. Net capital outflows amounted to U.S.\$ 57.5 billion in 2015 and U.S.\$ 15.4 billion in 2016, according to the CBR. In December 2016, the CBR forecasted that with an average price of U.S.\$ 40 per barrel of Urals oil in 2017, Russia's GDP will increase by 0.5 up to 1.0 percent and net capital outflow in Russia will amount to U.S.\$ 13 billion in 2017 as compared to U.S.\$ 18 billion in 2016.

In addition, as Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 and have since experienced high levels of volatility, including significant decreases in 2014, 2015 and 2016. An additional cause for concern regarding the stability of the Russian economy has been associated with the advent of intensive shale oil and gas exploration in the U.S. and elsewhere around the world, which is claimed by some experts to undermine Russia's leading positions in export of these resources.

There can be no assurance that a future economic slowdown or further credit ratings downgrades resulting from the situation in Ukraine and Crimea or from sanctions imposed by

the European Union, the United States or other countries (see "*Risks Relating to the Russian Federation - Political risks - Political instability in Ukraine and other states and the imposition of various sanctions by the United States, the European Union and other countries against Russian, Ukrainian or other nations' individuals and legal entities may adversely affect the Group's operations*"), will not have a negative effect on investors' confidence in the Russian Federation's markets or economy or the ability of Russian entities to raise capital in the international capital markets, any of which, in turn, could have a material adverse effect on the Russian Federation's economy and/or the Group's business, results of operations, financial condition and prospects and the value of the Notes.

***Instability of global financial markets could affect the Russian economy***

Russia's economy was adversely affected by the global financial and economic crisis and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. In particular, the disruptions in the global financial markets have had a severe impact on the liquidity of Russian entities, the availability of credit and the terms and cost of domestic and external funding for Russian entities, which has forced a number of the Group's competitors out of the market. This could adversely influence the level of customer demand for various goods and services, including those provided by the Group. These developments, as well as adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or a decline in oil, gas or other commodities prices could slow or disrupt the Russian economy and adversely affect the Group's business, financial condition, results of operations, future prospects and the value of the Notes. Although, as of the date of these Listing Particulars, such developments have had a limited impact on the Group's business, there can be no assurance that these events will not affect the Group in the future.

***The Russian banking system remains underdeveloped with a limited number of creditworthy Russian banks, and another banking crisis could place severe liquidity constraints on the Group's business***

Russia's banking and other financial systems are not well developed or regulated. There are currently a limited number of creditworthy Russian banks. Although the CBR has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. In recent years, the Russian banking sector has been in gradual consolidation process which started in 2014. As result of the consolidation of the Russian banking sector Russia's larger banks have been acquiring smaller banks and have increased their market share. Moreover, banks with stronger credit profiles have merged with distressed banks. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet internationally accepted norms. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to the current worldwide credit market downturn and economic slowdown. In light of the consolidation the CBR has revoked banking licences from a substantial number of Russian banks. The CBR's orders on revocation of the said licences state that the banks were in breach of banking laws and regulations and were found to have false statements in the reports. For example, the revocation of Master Bank's banking licence (Master Bank was a major Moscow-based bank and the 41st largest bank in Russia as of 1 October 2013 by deposits according to Interfax rating) and subsequent numerous revocations of licences of banks, including Bank Russian Credit in July 2015 and Vnesheprombank in January 2016, raised some concerns about the stability of the Russian banking system and the ability of the State

Deposit Insurance Agency to service any further pay-outs to insured depositors should any similar bank collapses occur in the near future. It also adversely affected liquidity on the domestic market.

Liquidity constraints which emerged in the Russian banking sector in 2013 continued in 2014 and the first half of 2015. Liquidity shortage was aggravated by the restricted access for many Russian banks to international capital markets as a result of sanctions imposed on Russian entities and persons by the USA, the EU and a number of other in relation to the events in Ukraine. The second half of 2014 was marked by the continuous depreciation of the Rouble against foreign currencies, especially Euro and U.S. dollar, with the most acute stage of depreciation falling on December 2014. In order to strengthen the Rouble, the CBR increased the key interest rate from 10.5 percent to 17.0 percent in December 2014, which resulted in substantial short-term volatility and liquidity shortages on domestic financial and interbank markets. Consequently, funding costs have increased throughout the entire Russian financial system and have put substantial strain on Russian banks' ability to manage interest rate risks, raise financing and prudently allocate available liquidity. The resulting higher interest rates have also negatively affected the banking sector's profitability, as well as led to a deterioration in the creditworthiness of Russian consumers and corporates. Although the CBR proceeded to gradually reduce its key interest rate to 11 percent throughout the first half of 2015 and further lowered the key interest rate to 10.5 percent in June 2016 and to 9.75 percent in March 2017, there can be no assurance that increases will not occur in the future.

At the date of these Listing Particulars, the Group had borrowings from a number of major Russian banks, including private and state-owned financial institutions some of which are subject to sanctions (such as, for example, Sberbank). There is a risk that Russian banks could be unable to issue loans in amounts necessary for borrowers, or the cost of borrowing could increase significantly for borrowers. The prohibitions imposed on Russian banks by international sanctions following the political conflict with Ukraine (see "*Risks Relating to the Russian Federation—Political Risks—Political instability in Ukraine and other states and the imposition of various sanctions by the United States, the European Union and other countries against Russian, Ukrainian or other nations' individuals and legal entities may adversely affect the Group's operations*") could lead to a shortage of U.S. dollars or Euros in the Russian markets, which may affect a borrower's performance under contracts with settlement occurring in U.S. dollars or Euros. In addition, the revocation of the licenses or insolvency of any major banks in which the Group maintains its accounts and uses for settlement operations could result in losses for the Group. Because the Group relies substantially on financing from financial institutions, any funding shortages or other banking disruptions experienced by the Group's major bank partners could have a material adverse effect on its ability to execute planned developments or to obtain the financing required for the Group's operations. Any of these circumstances could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***There continues to be a lack of reliable official data in Russia, which makes business planning inherently uncertain and may impair the ability of Russian companies to plan effective strategies***

Official statistics and other data published by Russian federal, regional and local governments, federal agencies and the CBR are in certain respects less complete or reliable than those of some of the more developed market economies of North America and Europe. Official statistics may also be produced on different bases than those used in Western countries. Due to the unavailability of alternative reliable sources of country-specific data,

Russian companies have to rely on such official statistical data in their business planning. As a result, some assumptions made by Russian companies in their business plans may prove to be incorrect. The lack of accurate statistical data for use in business planning may contribute to the overall volatility of the Russian economy and may adversely affect the profitability of many of the Group and/or its counterparties, which would have a material adverse effect on the Group's business, financial position, results of operations and prospects, as well as the value of the Notes.

In preparing these Listing Particulars, the Group has relied on and referred to information from various third-party sources and its own internal estimates. The Group has not independently verified such information and, therefore, any discussion of matters relating to Russia in these Listing Particulars is subject to uncertainty due to concerns about the completeness or reliability of available official and public information. Should any such information reasonably relied on by the Group be proved wrong, misleading, outdated or otherwise inaccurate, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

***Introduction of currency restrictions may limit the Group's ability to execute its strategy or operate its business or could otherwise adversely affect the Russian capital markets***

Despite recent liberalisation, there can be no assurance that Russia's currency regulation and control regime will not impose new restrictions or prohibitions. Restrictions or prohibitions on hard currency payments and operations could limit the Group's ability to invest in its capital improvement programmes, pursue attractive acquisition opportunities or purchase goods from international suppliers. In addition, such restrictions or prohibitions may limit an investor's ability to repatriate earnings from securities of Russian issuers, including the Group, or otherwise have a negative impact on the Russian capital markets. The consequences of any new restrictions or prohibitions could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

***The return of heavy and sustained inflation in Russia may adversely affect the Group's results of operations***

The Russian economy has recently experienced relatively high rates of inflation. According to Rosstat, the inflation rate was 11.4 percent in 2014, 12.9 percent in 2015 and 5.4 percent in 2016. Many of the Group's costs, including salaries, are sensitive to rises in the general price level in Russia. As a result, high rates of inflation could increase the Group's costs, and there can be no assurance that the Group will be able to maintain or increase its revenues commensurately in order to offset such increases. Moreover, any return to high and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and an erosion of consumer confidence. Any one of these events could lead to decreased demand for the Group's products and services and result in a material adverse effect on the Group's business, financial condition, results of operations and prospects.

## **Social risks**

### ***Social instability could lead to labour conflicts and social tensions and unrest and, as a result, increased support for renewed centralised authority***

The past failures of the Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Moreover, deteriorating economic conditions and turmoil in the financial markets in Russia, such as the recent global economic downturn, may result in high unemployment, the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. Labour and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralised authority; re-nationalisation of privatised property, or expropriation of or restrictions on foreign involvement in the economy of Russia. Any of these could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict the Group's operations and lead to a loss of revenue, and could otherwise have a material adverse effect on the Group's business, results of operations and financial position and prospects and the value of the Notes.

### ***Crime and corruption could adversely affect the value of investments***

Organised criminal activity in Russia has reportedly increased significantly since the dissolution of the Soviet Union in 1991. In addition, the Russian and international press have reported high levels of official corruption in Russia and other CIS countries, including the bribery of officials for the purpose of initiating investigations by state agencies, obtaining licences or other permissions or in order to obtain the right to supply goods or services to state agencies. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment.

The proliferation of organised or other crime, corruption and other illegal activities that disrupt the Group's ability to conduct its business effectively, or any claims that it has been involved in corruption, or illegal activities (even if false) that generate negative publicity, could have an adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

## **Legal Risks**

### ***Risks related to the Russian legal system and legislative weaknesses***

The Russian Federation continues to develop a legal framework that would be adequate for a proper functioning of a market economy. The recent nature of much of the Russian legislation and regulation and the rapid evolution of the Russian legal system place the enforceability of certain laws and regulations in doubt, resulting in ambiguities and inconsistencies in their application. The following aspects of Russia's legal system, many of which do not exist in countries with more developed legal systems, create uncertainty with respect to many of the legal and business decisions that the Group's management makes:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Russian Federal Constitution, the Civil Code of the Russian Federation (the "**Civil Code**") and other federal laws and by decrees, orders, regulations and resolutions issued by the President, the Government and federal ministries which are, in turn, complemented by regional and local rules and regulations. There have been, and continue to be, inconsistencies between such laws, presidential decrees, state resolutions and ministerial orders, and between local, regional and federal legislation and regulations;
- decrees, resolutions and regulations may be adopted by state authorities and agencies in the absence of a sufficiently clear constitutional or legislative basis and with a high degree of discretion;
- substantial gaps in the regulatory structure may be created by delay in or the absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and judicial decisions have limited value as precedents;
- the Russian Federation has a judiciary with limited experience in interpreting and applying market-oriented legislation that is vulnerable to economic and political influence; and
- the Russian Federation has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor would be able to obtain effective redress in a Russian court.

The independence of the judicial system and its immunity from economic, political and other influences in the Russian Federation remains questionable. The court system is, to a certain extent, understaffed and underfunded. Judges and courts in the Russian Federation are generally inexperienced and unsophisticated in business and corporate law. In addition, most court decisions are not readily available to the public. The enforcement of court judgments can, in practice, be very difficult in the Russian Federation.

All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. In addition, court claims are often used to further political aims and court judgments are not always enforced or followed by law enforcement agencies.

These weaknesses of the Russian legal system create a considerable uncertainty in legal and operating environment for Russian banks and banking groups, including the Group, as compared to banks in developed countries. In such environment, it is more difficult for the Group, as well as for the other Russian banks and banking groups, to comply with existing and future laws and regulations and the terms and conditions of its licenses and permits, the violation of which may result in the imposition of fines or penalties or more severe sanctions. These weaknesses also affect the Group's costs of compliance and the costs of doing business generally and create an unfavourable environment for quick and efficient resolution of disputes with other parties. If any of these events materializes in respect of the Group, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the value of the Notes.



### ***Russia's property law is subject to uncertainty and inconsistency***

The legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real estate to the same extent as is common in some of the more developed market economies of North America and Europe. Land use and title systems rely on complex traditional ownership systems. As a result, the title of land that the Group might invest in may be unclear or in doubt. Moreover, the validity of the Group's right to title or use of its properties may be successfully challenged or invalidated due to technical violations or defects in title. Such instability creates uncertainties in the operating environment in the emerging market nations, which could hinder the Group's long-term planning efforts and may prevent the Group from carrying out its business strategy effectively and efficiently. If the real property owned or leased by the Group is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, the Group may lose the right to use such real property, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

### ***The accession of the Russian Federation to the World Trade Organisation may lead to changes in the business and legal environment in Russia***

The Russian Federation officially became a member of the World Trade Organisation ("WTO") on 22 August 2012. The accession may lead to significant changes in Russian legislation including, among others, the regulation of foreign investments in Russian companies and competition laws, as well as changes in the taxation system and customs regulations in Russia. In addition, implementation of the WTO rules may result in an increase in competition in the markets where the Group operates. Although during 2012-2015 Russia adopted certain changes to its legislation related to its accession to the WTO (for example, regulation of intellectual property), it is unclear yet if and when all necessary legislative changes related to the accession will take place. If further new legislation is implemented in Russia as a result of its accession to the WTO, such legislation could have a material adverse effect on the Group's business, results of operations, financial condition or the value of the Notes.

### ***Unlawful or arbitrary government actions***

State authorities have a high degree of discretion in Russia and at times exercise such discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes they illegally go beyond the limits of their discretion. There is a risk that state authorities may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in documentation of financing activities, accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such financing activities, share issues and registrations and/or to void transactions. Unlawful or arbitrary state action, if directed at the Group, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the value of the Notes.

### ***Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of the Group's assets***

Although the Government has enacted legislation to protect property against expropriation and nationalisation and to provide fair compensation to be paid if such events were to occur,

there can be no certainty that such protections would be enforced. This uncertainty is the result of several factors, including the lack of state budgetary resources, an independent judicial system and sufficient mechanisms to enforce judgments. The concept of property rights is not well developed in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if in the future the Government decides to nationalise or expropriate some or all of the Group's assets. The expropriation or nationalisation of any of the Group's assets without fair compensation may have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the value of the Notes.

***Shareholder liability under Russian law could cause the Company to be liable for the obligations of its subsidiaries***

The Civil Code, Russian Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December 1995, as amended (the "**Joint Stock Companies Law**"), and Russian Federal Law No. 14-FZ "On Limited Liability Companies" dated 8 February 1998, as amended (the "**LLC Law**"), provide that shareholders in a Russian joint stock company or participants in a Russian limited liability company generally are not liable for that company's obligations and bear only the risk of loss of their investment. Additional shareholder liability may arise, however, if one person (the "**Effective Parent**") can give binding instructions to another person (the "**Effective Subsidiary**") or approves the transaction entered into by the Effective Subsidiary, subject to certain exceptions set out in the Civil Code. The Effective Parent bears joint and several liability for transactions concluded by the Effective Subsidiary in carrying out business decisions if:

- the decision-making capability is provided for in the charter of the Effective Subsidiary or in a contract between the companies; and
- the Effective Parent gives binding directions to the Effective Subsidiary or approves the transaction entered into by the Effective Subsidiary.

In addition, the Effective Parent bears secondary liability for the obligations of an Effective Subsidiary that becomes insolvent or bankrupt due to the Effective Parent's faulty actions or inactions and whose assets are insufficient to meet the creditors' claims. In these instances, the other shareholders of the Effective Subsidiary may claim compensation for the Effective Subsidiary's losses from the Effective Parent that causes the Effective Subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses.

Accordingly, subject to the conditions described above, the Company could be liable for the debts of its subsidiaries, which could adversely affect the Group's business, results of operations, financial condition and prospects and the value of the Notes.

In addition, some of the Group's Russian subsidiaries do not comply with formal requirements of Russian law that provide that a shareholder of a wholly-owned subsidiary cannot itself be a wholly-owned company. In such circumstances, competent authorities could request that the existing breaches are rectified and, in case these are repeated or remain unrectified, bring a claim seeking liquidation of the company on the basis of gross or repeated breaches of law. If the Group's ownership structure were challenged and the challenge was

successful, the Group would be forced to restructure its existing shareholding structure. Any such challenge or restructuring, if successful, could lead to additional costs and affect the relevant companies' operations, which could adversely affect the Group's business, results of operations, financial condition and prospects and the value of the Notes.

***The implementation of certain amendments to the Russian Civil Code may create an uncertain environment for business activities and investments***

The Russian parliament has recently implemented widespread amendments to the Civil Code, many of which became effective in 2014 - 2017. These amendments modify existing laws governing, among other things, the regulation of legal entities, certain types of transactions, security arrangements and property rights. As of the date of these Listing Particulars, the potential interpretation of these amendments by state authorities (including the courts), along with their impact on the Group's activities and corporate governance, are not entirely clear.

**Risks Relating to Taxation**

***Evolution of Dutch and international fiscal and taxation policy and Action Plan on Base Erosion and Profit Shifting***

Fiscal and taxation policy and practice is constantly evolving and at present the pace of evolution has been accelerated due to a number of developments which include, but are not limited to, the Organisation for Economic Co-operation and Development ("OECD"), the Base Erosion and Profit Shifting project ("BEPS") instigating changes to Dutch domestic tax laws and Dutch tax treaty negotiations.

In July 2013 the OECD published its Action Plan on BEPS, which proposed fifteen actions intended to counter international tax base erosion and profit shifting. The focus of one of the action points (Action 6) is the prevention of treaty abuse by developing model treaty provisions to prevent the granting of treaty benefits in inappropriate circumstances. It is not clear whether, when and to what extent particular jurisdictions (such as the Russian Federation and The Netherlands) will decide to adopt such recommendations. The implementation of the recommendations could potentially result in certain tax benefits being denied to, or other adverse (tax) consequences in The Netherlands for, Dutch legal entities engaged in group financing activities (including the Issuer) in the future.

The OECD Action Plan advocates the need for a swift implementation of any measures which are finally decided upon and suggests that Actions 6, among others, could be implemented by way of multilateral instrument, rather than by way of negotiation and amendment of individual tax treaties. The implementation of Action 6 might, depending on its scope, result in the Issuer being denied the benefit of the Russian-Netherlands double tax treaty. In either case, this could have a material adverse effect on the Issuer's business, tax and financial position.

Since 1 January 2014 Dutch tax law specifically requires certain Dutch resident companies (including the Issuer) to disclose certain information regarding their substance in The Netherlands to the Ministry of Finance in their yearly corporate income tax returns. The companies to which such requirements apply are referred to as "group financing companies". A Dutch resident company is regarded as a group financing company if it is primarily (i.e. 70% or more) engaged in activities of financing, leasing, and/or licensing (directly or indirectly) within a group of Dutch or non-Dutch companies to which it belongs. If certain

minimum (substance) requirements are not met the Ministry of Finance may exchange this information with foreign jurisdictions to comply with international agreements (including The Netherlands-Russian double tax treaty) on the mutual assistance and support for the collection of taxes.

Increasingly many of the countries with which The Netherlands is negotiating or renegotiating a tax treaty (including Russia), insist on anti-abuse clauses, especially in the articles that deal with withholding taxes. Under such provisions the entitlement to advantages of the treaty may be subject to a "qualifying persons test", a "base erosion test" (together known as the "Limitation of Benefits") and/or a "bona fide business purposes test". The Dutch government has stated that in negotiating or renegotiating tax treaties they will no longer resist anti-abuse clauses in the Dutch tax treaties and are willing to consider new Limitation of Benefits type provisions. Additional tax exposures could have a material adverse effect on the Group's business, results of operations and financial condition, the Issuer's ability to service its payment obligations under the Notes or the trading price of the Notes.

### **Risks Relating to the Russian Taxation System**

*The Russian taxation system is continually evolving and is subject to frequent changes, which could have an adverse effect on the Group*

A significant part of the Group's assets and operations is located in Russia and, therefore, weaknesses in the Russian tax system could adversely affect the Group. The Russian subsidiaries of the Group are subject to a broad range of taxes and charges imposed at the federal, regional and local levels, including, but not limited to, corporate income tax, value added tax ("VAT"), property tax and payroll-related security contributions.

The Tax Code of the Russian Federation (the "**Russian Tax Code**") has been in force for a short period relative to tax laws and regulations in more developed market economies. Moreover, provisions of the Russian tax law applicable to financial instruments (including securities) may be subject to more rapid and unpredictable changes than similar tax laws in jurisdictions with more developed financial markets or more developed taxation systems. The implementation of Russian tax laws and regulations is often unclear or inconsistent.

Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continual changes in the tax legislation, which sometimes occur on short notice and apply retrospectively. The interpretation and application of existing laws and regulations by various authorities is often unclear, unstable or non-existent. Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed or interpreted in the future in a manner adverse to the stability and predictability of the Russian tax system. The possibility exists that Russia may impose arbitrary or onerous taxes, levies, fines and penalties in the future, which could adversely affect the Group's business.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax laws and regulations may exist both among and within government bodies at federal, regional and local levels, increasing the amount of uncertainty and tax risks and leading to the inconsistent

enforcement of these laws and regulations. Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws and regulations differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. Private clarifications to specific taxpayers' queries in respect of particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities. There can be no assurance, therefore, that the representatives of the local Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Russian Ministry of Finance. Moreover, there can be no assurance that the Russian legislation and regulations will not be altered, in whole or in part, or that the Russian tax authorities and/or Russian courts or other regulatory authorities will not interpret these rules and regulations in such a way that the arrangements described in these Listing Particulars may be subject to different tax treatment than the treatment described in these Listing Particulars, whether retroactively or otherwise, or would be adversely affected in some other way.

In practice, taxpayers often have to resort to court proceedings to defend their position against the Russian tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Despite the Government having taken steps to reduce the overall tax burden in recent years in line with its objectives, the possibility exists that the Russian Federation would impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Issuer's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. These uncertainties could possibly expose the Group to significant fines and penalties and potentially severe enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden, and could have a material adverse effect on the Group's business, results of operations and financial condition, the Issuer's ability to service its payment obligations under the Notes or the trading price of the Notes.

Tax returns, together with related documentation, are subject to review and investigation by a number of Russian authorities, which are empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax returns, together with the related documentation, remain subject to inspection by the Russian tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a particular year has been reviewed by the Russian tax authorities does not prevent further review and investigation by the Russian tax authorities of any tax returns and other documentation relating to that year during the three-year limitation period. In particular, a repeated tax audit may be conducted (i) by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, (ii) in connection with the reorganisation/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable to the revenue. Therefore, previous tax audits may not preclude subsequent claims relating to the audited period.

Additionally, the Russian Tax Code provides for possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer has actively obstructed the performance of the tax audit and such obstruction has become an insurmountable obstacle for

the tax audit. As the terms "obstructed" and "insurmountable obstacles" are not specifically defined in Russian tax law or any other parts of Russian law, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year limitation period. Therefore, the statute of limitations is not entirely effective with respect to liability for tax offences in Russia. An extended tax audit, if it is concluded that the Group had significant tax underpayments relating to previous tax periods, may have a material adverse effect on the Group's business, results of operations and financial condition, the Issuer's ability to service its payment obligations under the Notes or the trading price of the Notes. Tax audits may also impose additional administrative burden on the Group by diverting the attention of its management and financial personnel and requiring resources for defending the Group's tax-filing position, including for any tax litigation.

In its Decision No. 138-O of 25 July 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for its interpretation and application. Similarly, this concept is not defined in the Russian tax legislation or other branches of Russian legislation. Nevertheless, in practice, this concept has been used by the Russian tax authorities in order to deny, for instance, the taxpayer's right to rely on the letter of the tax law. Based on available practice, the Russian tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

In October 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued ruling No. 53 ("**Ruling No. 53**"), which introduced a concept of an "unjustified tax benefit" defined mainly by reference to specific examples of such tax benefits (for example, tax benefits obtained as a result of a transaction that has no reasonable business purpose) which may lead to disallowance of their application. Based on the available court practice relating to Ruling No. 53, it is apparent that the Russian tax authorities have been actively seeking to apply this concept when challenging tax positions taken by taxpayers. Although the explicit intention of Ruling No. 53 was to combat tax law abuses, based on the available judicial interpretations relating to Ruling No. 53, the Russian tax authorities have started to apply this concept in a broader sense than may have been intended by the Supreme Arbitrazh Court. Importantly, the Group is aware of cases where this concept has been applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties. In many cases where this concept has been applied, the courts have ruled in favour of taxpayers, although recent trends demonstrate the tendency for the courts to support the position of tax authorities.

The Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws currently in effect are not well developed as far as taxation of foreign companies in Russia or operations of Russian companies abroad are concerned. The Russian Tax Code contains a concept of permanent establishment in Russia as a means for taxing foreign legal entities which carry out regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. However, the practical application of the concept of a permanent establishment under Russian law is not well developed, and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may be at a risk of being treated as having a permanent establishment in Russia. It is possible that, with the evolution of these rules or changes in the approach of the Russian tax authorities and/or

courts to their interpretation and application, the Group might become subject to additional taxation in Russia.

In addition, the Russian Tax Code contains the "controlled foreign companies" rules (the "**Russian CFC Rules**"), the concept of tax residency for legal entities and the beneficial ownership concept, which came into force on 1 January 2015. Under the Russian CFC Rules, in certain circumstances, undistributed profits of foreign companies and non-corporate structures (e.g., trusts, funds or partnerships) domiciled in foreign jurisdictions, which are ultimately owned and/or controlled by Russian tax residents (legal entities or individuals) will be subject to taxation in Russia. The Russian CFC Rules are being further developed. Certain provisions of the Russian CFC Rules are still ambiguous and may be subject to arbitrary interpretation by the Russian tax authorities.

Under the concept of tax residency for legal entities, a foreign legal entity may be recognized as a Russian tax resident if such entity is in fact managed from Russia. When an entity is recognized as a Russian tax resident, it is obligated to register with the Russian tax authorities, calculate and pay Russian tax on its worldwide income and comply with other tax-related rules established for Russian entities. The new rules set principal and secondary criteria for determining the place of management (among other things, the place where the company's executive body operates). However, there is some uncertainty as to how these criteria will be applied by the Russian tax authorities in practice.

A beneficial ownership concept, which is, to some extent, in line with the concept developed by the OECD, has also been added to the Russian Tax Code. In particular, based on this concept the treaty relief should be available to foreign legal entities provided they have the actual right to receive income (i.e., they qualify as a "beneficial owner of income"). A beneficial owner is defined as a person holding directly, through its direct and/or indirect participation in other organisations or otherwise, the right to own, use or dispose of income, or the person on whose behalf another person is authorized to use and/or dispose of such income. When determining the beneficial owner, the functions of a foreign person that is claiming the application of reduced tax rates under an applicable double tax treaty and the risks that such person takes should be analysed. The benefits of a double tax treaty will not apply if a foreign person claiming such benefits has limited powers to dispose of the relevant income, fulfils intermediary functions without performing any other duties or taking any risks and paying such income (partially or in full) directly or indirectly to another person who would not be entitled to the same benefits had it received the income in question directly from Russia. Starting 1 January 2017, a non-resident income recipient is obliged to provide a tax agent with confirmation that it is the beneficial owner of the income. However, the Russian Tax Code provides for no clear guidelines as to the form and contents of such confirmation.

Introduction of the above new rules and concepts is likely to impose additional administrative burden on the Group. No assurance can currently be given as to how the above concepts will be applied in practice, their potential interpretation by the Russian tax authorities and the possible impact (including additional tax liability, if any) on the Group. Therefore, it cannot be excluded that the Group might be subject to additional tax liabilities because of these changes being introduced and applied to transactions carried out by the Group, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Issuer's ability to service its payment obligations under the Notes or the trading price of the Notes.

On 1 July 2015, the Convention on Mutual Administrative Assistance in Tax Matters developed by the Council of Europe and the OECD came into effect for Russia. On 12 May 2016, the Russian Federation signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (thereby joining the Standard for Automatic Exchange of Financial Account Information (Common Reporting Standard)) which starting from 2018 enables the Russian tax authorities, provided the required conditions are met, to automatically obtain certain information for tax purposes from foreign countries, including certain offshore jurisdictions.

In November 2016, the OECD published the draft Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "**Draft Multilateral Convention**"). The Draft Multilateral Convention is expected to implement a series of tax treaty measures to update international tax rules and lessen the opportunity for tax avoidance by multinational enterprises. In particular, the Draft Multilateral Convention sets forth certain provisions with respect to tax treaty abuse and other matters. It is not yet clear how the Russian Federation will implement the Draft Multilateral Convention and what impact it may have with respect to taxation of payments under the Guarantee made by the Russian Guarantors.

Each of the foregoing factors creates tax risks in Russia that may be substantially more significant than those typically found in countries with more developed tax systems. These tax risks impose additional burdens and costs on the Group's operations, including management resources. Although the Group undertakes measures aimed at minimising tax risks and strives to comply with Russian tax laws and regulations, there can be no assurance that the Group would not be required to make substantially larger tax payments in the future and that certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden. These risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations or financial condition, the Issuer's ability to service its payment obligations under the Notes or the trading price of the Notes.

Furthermore, Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue-raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise. Additional tax exposures could have a material adverse effect on the Group's business, results of operations and financial condition, the Issuer's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Russian transfer pricing rules may adversely affect the Group's business, financial condition and results of operations***

The Russian transfer pricing legislation allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to "controlled" transactions. The list of "controlled" transactions under the transfer pricing legislation includes transactions performed with related parties and certain types of cross-border transactions. This legislation shifts the burden of proving market prices from the Russian tax authorities to the taxpayer. Although this legislation has been modelled on the basis of the



transfer pricing principles developed by the OECD, there are some peculiarities as to how the OECD transfer pricing principles are reflected in the Russian rules. Special transfer pricing rules continue to apply to transactions with securities and derivatives.

Accordingly, due to uncertainties in the interpretation of Russian transfer pricing legislation and the absence of court practice, no assurance can be given that the Russian tax authorities will not challenge the Group's prices and make adjustments which could adversely affect the Group's tax position. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's business, results of operations and financial condition, the Issuer's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Payments under the Guarantee may be subject to Russian withholding tax or Russian personal income tax, as applicable***

Payments under the Guarantee to be made by the Russian Guarantors to the Noteholders might be characterised as Russian source income that would be subject to the Russian withholding tax at a rate of 20 per cent for the Non-Resident Noteholder–Legal Entity or 30 per cent for the Non-Resident Noteholder–Individual, unless the Russian withholding tax is reduced or eliminated, based on the applicable double tax treaty, or the Russian tax exemption relating to such payments is applied. However, obtaining advance relief or a refund of the tax withheld by the Non-Resident Noteholder–Individual may be extremely difficult. See "*Taxation—The Russian Federation*".

If payments under the Guarantee become subject to Russian withholding tax, the Russian Guarantors will be obliged (subject to certain conditions) to pay additional amounts so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such tax withholding or deduction had been required. See Condition 9 (*Taxation*).

Recently, the Russian tax legislation has been amended to explicitly permit settlement of a taxpayer's obligations by other parties. Under the previous tax regime, the absence of such provision was perceived as being one of the key obstacles for the enforceability of gross-up provisions in Russia. Notwithstanding this recent change to the legislation, there is still a risk that gross-up for withholding tax may not take place and that the payments made by the Russian Guarantors under the Guarantee will be reduced by the amount of the Russian income tax withheld by the Russian Guarantors at the rate of 20 per cent (in the case of applicability of the rate established for Non-Resident Noteholders–Legal Entities) or at a rate of 30 per cent (in the case of applicability of the rate established for Non-Resident Noteholders–Individuals), or such other rate as may be in force at the time of payment.

If the tax is not withheld by the Russian Guarantors at source, the Non-Resident Noteholder–Individuals may be required to pay personal income tax as part of their personal income tax returns, which would not be indemnified by the Issuer and/or the Russian Guarantors.

***Tax might be withheld on proceeds received from a source within Russia upon disposals of the Notes reducing their value***

Generally, there should be no Russian withholding tax on gains from sale or other disposition of the Notes imposed on Non-Resident Noteholder–Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the Notes (i.e., debt obligations) where proceeds from sale or

other disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity, which is caused by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Notes. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on the Notes paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having a registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

Where proceeds from the sale or other disposal of the Notes are deemed to be received from a source within Russia by a Non-Resident Noteholder–Individual, a Russian personal income tax at a tax rate of 30 per cent will apply to the gross amount of sales or other disposal proceeds realized upon such sale or other disposal of the Notes less duly documented cost deductions (including the acquisition cost of the Notes and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes), provided that the documentation supporting cost deductions is available in a timely manner to the tax agent that is obliged to calculate and withhold Russian personal income tax. Although such tax may be reduced or eliminated based on provisions of an applicable double tax treaty subject to timely compliance by that Noteholder with the treaty clearance formalities, in practice a Non-Resident Noteholder–Individual may not be able to obtain the advance treaty relief in relation to sales or disposal proceeds received from a source within Russia, while obtaining a refund of taxes withheld can be extremely difficult, if not impossible.

Further, even though the Russian Tax Code requires only a Russian professional asset manager or broker or another person (including an economically autonomous subdivision of a foreign company in Russia or an individual entrepreneur located in Russia) acting under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement to withhold the tax from payment to an individual associated with disposition of securities, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax.

The imposition or possibility of imposition of Russian withholding tax, as applicable, under such circumstances could adversely affect the value of the Notes. See "*Taxation—The Russian Federation*".

### **Risks Related to the Notes**

***Russian Roubles are not fully convertible outside of Russia and are subject to a limited market for conversion within Russia, which may adversely affect the value and liquidity of the Notes***

The Rouble is not fully convertible outside of Russia. There can be no assurance that the CBR will not reintroduce exchange controls and, should it decide to do so, the value of the Rouble relative to the dollar or the euro could be adversely affected and this could impede or prevent Noteholders from converting Rouble payments into foreign currencies, either of

which may adversely affect the value and liquidity of the Notes, which are denominated and payable in Russian Roubles.

A market exists within Russia for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. Russia's official international reserves in foreign currencies were U.S.\$330.5 billion as of 1 March 2017. Although Russia's current international reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not deteriorate in the future due to the lack of foreign currency funding available in the global markets. Lack of growth of the Russian currency market and limited liquidity for the convertibility of Roubles may adversely affect the value of the Notes.

Currency exchange rates can be volatile and unpredictable. The effective yield realised by an investor whose currency of investment or account is a currency other than the Rouble will be adversely affected by the depreciation of the Rouble against the investor's currency of investment or account. Depreciation of the Rouble against the dollar or euro may affect the market value of the Notes and could result in an investor realising a loss on the Notes even if the Notes are timely paid in full.

***There are risks associated with the newness of debt instruments that are both denominated and settled in Roubles and the inexperience of both Euroclear and Clearstream and the Russian and international banking systems in dealing with them***

The Notes are denominated and settled in Roubles (subject as set out in Condition 7 (*Currency Exchange Option and Payments*)). Offerings of debt instruments that are both denominated and settled in Roubles are a relatively new phenomenon in the international capital markets. This, coupled with the relative inexperience of both Euroclear and Clearstream and the Russian and international banking systems in dealing with Rouble payments and Rouble accounts, could lead to unforeseen difficulties, which may have an adverse effect on the liquidity, marketability or trading price of the Notes.

In particular, debt instruments that are both denominated and settled in Roubles only became accepted by Euroclear and Clearstream in early 2007 and only a relatively small number of Rouble-denominated debt instruments are now settled through these clearing systems. Due to the relative lack of experience of Euroclear and Clearstream with settling, clearing and trading debt instruments that are both denominated and settled in Roubles, there can be no assurance that such clearing, settlement and trading procedures will progress smoothly or in a way which is comparable to procedures carried out with respect to instruments denominated in more conventionally settled currencies, such as U.S. dollars or Euros.

Russian law previously prohibited or otherwise severely restricted the transfer and holding of Roubles offshore and their repatriation onshore. Although these restrictions have now been lifted for non-residents (save for restrictions that apply to the regime of residents' accounts held outside of Russia), there is still no specific tested framework under Russian law for transferring or holding Roubles in offshore Rouble accounts. As with much recent Russian legislation, there is extremely limited or non-existent regulatory or court practice in interpreting these regulations. If restrictions or prohibitions were placed on the transfer and holding of Roubles offshore or if such legislation was reinterpreted by the Russian regulators or courts to the effect that restrictions were still deemed to apply to the transfer and holding of Roubles offshore, this would severely hinder Noteholders' ability to receive payments of

principal or interest in Roubles under the relevant Notes or proceeds from the sale of such Notes.

Payments of principal and interest under the Notes will be made in Roubles (subject as set out in Condition 7 (*Currency Exchange Option and Payments*)) and proceeds from the sale of such Notes will also be made in Roubles. All payments of Roubles to, from, or between Rouble accounts located outside Russia will be made via onshore correspondent accounts within the Russian banking system. The Russian banking system is less developed than many of its Western counterparts and at present has little experience in dealing with payments relating to Eurobonds or similar international debt instruments. Consequently there is a risk that payments of both principal and interest under the RUB Notes and proceeds from the sale of RUB Notes, which need to pass through the Russian banking system, will be subject to delays and disruptions that may not exist in more mature banking markets.

Noteholders will be required to open and maintain a Rouble-denominated bank account. The administrative difficulties associated with opening Rouble accounts outside Russia are significant. Non-resident Noteholders may also encounter considerable procedural difficulties with opening Rouble accounts onshore in Russia. There can therefore be no guarantee that Noteholders will be able to open and maintain a Rouble bank account successfully either offshore or in Russia or transfer Rouble payments made under the Notes out of Euroclear or Clearstream.

***There are risks associated with the option in the Terms and Conditions of the Notes for Noteholders to elect to receive a forthcoming payment of principal or interest on the Notes in U.S. dollars***

Payments of principal and interest in respect of each Note will be paid in Russian Roubles. However, each Noteholder has the option to make an irrevocable election, pursuant to Condition 7 (*Currency Exchange Option and Payments*), to receive a forthcoming payment of principal or interest in U.S. dollars. In respect of any Notes for which a Noteholder has made such an irrevocable election to receive a payment in U.S. dollars, the Principal Paying Agent will, pursuant to Condition 7 (*Currency Exchange Option and Payments*), purchase the required U.S. dollars, using the Russian Rouble amount received from the Issuer pursuant to the Notes, at a purchase price calculated on the basis of the Applicable Exchange Rate (as defined in the Conditions) and transfer the purchased amount in U.S. dollars to the Noteholder's U.S. dollar account. If for any reason, the Principal Paying Agent cannot purchase U.S. dollars, the relevant payment of interest or principal will be made to the relevant Noteholder in Russian Roubles, as more fully described in Condition 7 (*Currency Exchange Option and Payments*).

The Applicable Exchange Rate that the Principal Paying Agent has agreed to exchange Russian Roubles into U.S. dollars shall be the internal foreign exchange conversion rate for settlement on the relevant Interest Payment Date which the Principal Paying Agent acting in a commercially reasonable manner uses to convert Russian Roubles into U.S. dollars at the request of its other customers. The transaction for the purchase of U.S. dollars with Russian Roubles executed by or on behalf of the Principal Paying Agent may include customary fees and/or commissions in relation to the execution of such trade.

No assurance can be given that the amount of U.S. dollars received by an investor who elects to receive a payment of principal or interest in respect of the Notes in U.S. dollars will be equal to the amount of U.S. dollars that the investor could have realised in the foreign

exchange market if the interest or principal payment made on the investor's Notes were instead paid directly to the investor in Russian Roubles and the investor had converted the Russian Roubles into U.S. dollars. Investors shall have no recourse to the Issuer, the Guarantors, the Principal Paying Agent or any other person in the event that the amount of U.S. dollars that an investor receives in respect of a payment of principal or interest is lower than the amount of U.S. dollars that such investor could have realised itself if it had exchanged Russian Roubles in the foreign exchange market. In addition, even if Noteholders make an irrevocable election to receive a payment on the Notes in U.S. dollars, if the Principal Paying Agent cannot, for any reason, purchase U.S. dollars with the Roubles that have been paid by the Issuer in accordance with the Notes in respect of any payment of principal or interest, Noteholders will receive Roubles in respect of such payment of principal or interest.

***The Issuer's ability to fulfil its obligations under the Notes will depend upon the receipt of intercompany loan repayments from other members of the Group***

The Issuer is a wholly-owned subsidiary of the Company and will on-loan the net proceeds from the issuance of the Notes to other Group members, which they will use for refinancing of the Group's loans (see "Use of Proceeds"). The Issuer is a newly incorporated company established as a financing vehicle and does not conduct any operational activity. The Issuer would, therefore, in the absence of other funding sources, have to rely on the Company or other members of the Group providing sufficient funds to meet such obligations. Accordingly, the Issuer's ability to make payments under the Notes depends on the receipt of intercompany loan repayments and other payments from the Company or its subsidiaries.

***The Group will have the ability to incur more debt and this could increase the risks described above***

The Group may decide to incur additional debt in the future (where not restricted by negative pledge or limitation on indebtedness covenants), including secured debt that will be effectively senior to the Notes as to the value of the assets constituting collateral for such secured debt. While the Notes contain certain limitations on the Group's ability to incur additional debt, nonetheless it is permitted to incur such debt. If new debt, in particular secured debt, is added to the Group's current debt levels, the magnitude of the related risks described above could increase, and the foregoing factors could have an adverse effect on the ability of the Issuer or the Guarantors to pay amounts due in respect of the Notes.

***Secured indebtedness of the Guarantors would rank senior to the Guarantee***

Any secured indebtedness of the Guarantors would be effectively senior to its obligations under the Guarantee, since the Guarantee and the Notes that they guarantee are unsecured. As a result, any default on the Notes that were to trigger an event of default under any of the Guarantors' secured indebtedness, would give holders of such secured indebtedness priority over the claims of Noteholders under the Guarantee.

***The Notes will be structurally subordinated to subsidiary debt, secured creditors and other liabilities***

With the exception of the Guarantors, the Group's subsidiaries have no obligation in respect of any amounts due under the Guarantee and neither the Issuer, the Trustee nor holders of Notes will have any direct or indirect claim on such non-Guarantor subsidiaries' cash flows or assets other than through the Company's shareholding in such entities. In most circumstances,

the Issuer's ability to make payments under the Notes are effectively subordinated to any liabilities of the Group's non-Guarantor subsidiaries. In the event of a bankruptcy, liquidation or reorganisation of a non-Guarantor subsidiary, holders of that subsidiary's indebtedness and trade and other creditors of that subsidiary will have a claim to the assets of that subsidiary that is senior to the Company's interest in those assets as a shareholder, except to the extent that the Company is recognised as a creditor through intercompany claims or loans. Accordingly, the Notes are effectively subordinated to this debt. Moreover, the Issuer's ability to make payments under the Notes are effectively subordinated to the secured liabilities of the Guarantors. As of 31 December 2016, the Guarantors had no outstanding borrowings secured by pledge.

***The Noteholders or the Trustee may face difficulties enforcing their rights under the Guarantee or the Notes***

Most of the Group's subsidiaries (including, the Russian Guarantors) are incorporated outside of the United States and the United Kingdom, primarily in Russia. The enforceability of the Guarantee issued in connection with the Notes may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies. See "*Enforceability of Judgements*".

***The claims of Noteholders or the Trustee may be limited in the event that the Issuer or the Guarantors are declared bankrupt***

Dutch and Russian bankruptcy laws often differ from bankruptcy laws of England and the United States, and are subject to varying interpretations. It is difficult to predict how claims of the Noteholders or the Trustee against the Issuer or the Guarantors would be resolved in the event of bankruptcy. In the event of bankruptcy, the Issuer's or the Guarantors' obligations to the Noteholders or the Trustee could be subordinated to the following obligations:

- workplace injury obligations;
- severance pay and employment related obligations;
- secured creditors;
- tax and other payment obligations to the government; and
- liabilities arising from the liquidation of the estate.

In the event of the insolvency of the Issuer or the Guarantors, Dutch and Russian bankruptcy laws may adversely affect the Issuer's or the Guarantors' ability to make payments to the Noteholders or the Trustee.

***Redemption prior to maturity***

The Issuer may redeem all outstanding Notes in accordance with the Conditions in the event that the Issuer or one or more Guarantors has or will become obligated to pay any Additional Amounts (as defined in the Conditions) as a result of certain changes in tax laws or their interpretation and such obligation cannot be avoided by the Issuer or the Guarantors taking reasonable measures available to them. On any such redemption, Noteholders will receive the principal amount of the Notes that they hold, together with accrued and unpaid interest, if

any, on those Notes to, but excluding, the date fixed for redemption. In addition the Conditions provide that the Notes are redeemable at the Issuer's option in certain other circumstances and accordingly the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. It may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate than the interest rate on the Notes. See Condition 8 (*Redemption and Purchase*).

***The Issuer may not be able to finance a change of control offer required by the Conditions***

Upon the occurrence of a Change of Control (as defined in the Conditions), unless the Issuer has exercised its right to redeem all of the Notes as described in Condition 8 (*Redemption and Purchase—Optional Redemption by the Issuer*), each Noteholder has the right to require that the Issuer repurchase all or any part of that Noteholder's Notes (in integral multiples of RUB 100,000; *provided* that Notes of RUB 10,000,000 or less may only be redeemed in whole and not in part) at a purchase price in cash equal to 100 per cent. of the principal amount of the Notes on the date of purchase plus accrued and unpaid interest, if any, to, but excluding, the date of purchase.

If any such Change of Control were to occur, there can be no assurance that the Issuer would have sufficient funds available at the time to pay the price of the outstanding Notes or that restrictions in agreements governing other indebtedness would not restrict or prohibit such repurchases. The change of control may cause the acceleration of other indebtedness that may be senior to the Notes or rank equally with the Notes. In any case, the Issuer expects that it would require third party financing to make a change of control offer. There can be no assurance that the Issuer would be able to obtain this financing.

***Modification, waivers and substitution***

The Trust Deed and the Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, certain provisions of the Notes or the Trust Deed or (ii) any modification of the Notes or of the Trust Deed which is not materially prejudicial to the interests of the Noteholders or which is of a formal, minor or technical nature or to correct a manifest or proven error. The Conditions also provide for the substitution of another entity in place of the Issuer or any of the Guarantors without the consent of the Noteholders (subject to certain conditions as referred to therein). See Condition 13 (*Meetings of the Noteholders; Modification and Waiver; Substitution of the Issuer or Guarantors*).

***As the Global Certificate is held by or on behalf of Euroclear and Clearstream, investors will have to rely on their procedures for transfers, payments and communications with the Issuer and/or the Guarantors***

The Notes will initially only be issued in global certificated form, and held through the clearing systems. Interests in the Global Certificate will trade in book-entry form only through the clearing systems, and notes in definitive registered form, or Definitive Note Certificates, will be issued in exchange for book-entry interests only in very limited

circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The common depositary, or its nominee, for the clearing systems will be the sole registered holder of the Global Certificate representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the Global Certificate representing the Notes will be made to the Principal Paying Agent, who will make payments to the clearing systems. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the Global Certificate representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for the clearing systems, none of the Issuer, the Guarantors, the Joint Lead Managers, the Trustee or the Agents will have any responsibility or liability for the records relating to, or payment of interest, principal or other amounts to the owners of the book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of the clearing systems, and if you are not a participant in the clearing systems, on the procedures of the participant through which you hold your interest, to receive any payments and exercise any other rights and obligations of a holder of Notes under the Conditions or the Trust Deed.

Unlike the Noteholders themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from the relevant clearing system. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Trust Deed, unless Definitive Note Certificates are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

### ***There is no public market for the Notes***

There is no existing market for the Notes, and there can be no assurance regarding the future development of a market for the Notes. Application has been made to the Irish Stock Exchange for admission of the Notes to the Official List and to trading on the Global Exchange Market. However, an active trading market in the Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Issuer's and the Group's financial condition, performance and prospects, as well as recommendations of securities analysts. Disruptions recently experienced in the global capital markets have led to reduced liquidity and increased credit risk premiums and have therefore resulted in a reduction in investment in securities globally.

If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.



### ***The Notes may be delisted in the future***

Application has been made to the Irish Stock Exchange for the Notes to be listed on the Official List and admitted to trading on the Global Exchange Market. The Notes may subsequently be delisted despite the best efforts of the Issuer to maintain such listing and, although no assurance is made as to the liquidity of the Notes as a result of listing, any delisting of the Notes may have a material effect on a Noteholder's ability to resell the Notes on the secondary market.

### ***The market price of the Notes may be volatile***

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in our operating results and those of our competitors, adverse business developments, changes to the regulatory environment in which we operate, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to our operating results, financial condition or prospects.

### ***Financial turmoil in emerging markets could cause the price of the Notes to suffer***

The market price of the Notes will be influenced by economic and market conditions in the countries of residence of the Issuer and the Guarantors and, to a varying degree, economic and market conditions in other emerging markets generally. Financial turmoil in emerging markets in 1997-1998 as well as in 2008-2009 adversely affected market prices in the world's securities markets for companies that operate in developing economies. Even if the economies of the countries in which the Group has its main operations remain relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes. Since 2009, many global securities markets have experienced extreme price and volume fluctuations, particularly those in developing economies. Continuation or intensification of financial or economic turmoil could materially adversely affect the market price of the Notes.

### ***Changes in law may adversely affect the rights of Noteholders***

Changes in law after the date hereof may affect the rights of Noteholders as well as the market value of the Notes. The Conditions are based on English law in effect as of the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, which may have an adverse effect on an investment in the Notes.

### ***Minimum denomination***

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of RUB 10,000,000 (or its equivalent) that are not integral multiples of RUB 10,000,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Note Certificate in respect of such holding (should Definitive Note

Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

***Credit rating***

The Notes are expected to be rated "BB" by Fitch and "BB" by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

***Interest rate risks***

Investment in the Notes, which are fixed rate, involves the risk that the subsequent changes in market interest rates may adversely affect the value of the Notes.

## **USE OF PROCEEDS**

The net proceeds from the Offering, after payment of fees, commissions and expenses, will be approximately RUB 19.9 billion. The Issuer intends to use the net proceeds of the Offering for refinancing of the Group's loans.

## CAPITALISATION

The following table sets forth the Group's capitalisation as of 31 December 2016 which is calculated as the sum of short-term and long-term borrowings and total equity of the Group.

Prospective investors should read this table in conjunction with "*Selected Consolidated Financial and Operating Information*", "*Operating and Financial Review*" and the Annual Consolidated Financial Statements.

	<b>As of</b> <b>31 December 2016</b>
	<i>(in millions of RUB)</i>
<b>Borrowings</b>	
Current <sup>(1)</sup> .....	45,220
Non-current <sup>(2)</sup> .....	112,205
<b>Total borrowings</b> .....	<b>157,425</b>
<b>Equity attributable to equity holders of the Company</b>	
Share capital .....	2,458
Share premium .....	46,251
Retained earnings .....	78,261
Share-based payment reserve .....	70
<b>Total equity</b> .....	<b>127,040</b>
<b>TOTAL CAPITALISATION</b> .....	<b>284,465</b>

<sup>(1)</sup> Current borrowings consist of the Rouble-denominated bonds and bilateral loans due within 12 months.

<sup>(2)</sup> Non-current borrowings include Rouble-denominated bonds and bilateral loans maturing in 2018-2019.

## Recent Developments

In February 2017, the Company provided suretyship for liabilities of "Trade House "PEREKRIOSTOK" Joint Stock Company in the amount of RUB 45,400 million.

In March 2017, the Group made drawdown out of Alfa-Bank long-term credit line with fixed interest rate in the total amount of RUB 2 billion.

Save as disclosed above, there has been no material change in the Group's capitalisation since 31 December 2016.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information should be read in conjunction with "Operating and Financial Review", and the Annual Consolidated Financial Statements included in these Listing Particulars beginning on page F-2. For a description of the Annual Consolidated Financial Statements, see "Presentation of Financial and Other Information".

The tables below show the selected consolidated financial information and operating information for the years ended 31 December 2016 and 2015. It has been derived from the Annual Consolidated Financial Statements.

### Consolidated Statement of Profit or Loss

	As of 31 December	
	2016	2015
	<i>(in millions of RUB)</i>	
Revenue .....	1,033,667	808,818
Cost of sales .....	(783,682)	(610,428)
<b>Gross profit</b> .....	<b>249,985</b>	<b>198,390</b>
Selling, general and administrative expenses .....	(211,314)	(170,065)
Lease/sublease and other income .....	6,960	6,124
<b>Operating profit</b> .....	<b>45,631</b>	<b>34,449</b>
Finance costs .....	(17,372)	(17,131)
Finance income .....	54	594
Net foreign exchange gain .....	340	18
<b>Profit before tax</b> .....	<b>28,653</b>	<b>17,930</b>
Income tax expense .....	(6,362)	(3,756)
<b>Profit for the period</b> .....	<b>22,291</b>	<b>14,174</b>
<b>Profit for the period attributable to:</b>		
Equity holders of the parent .....	22,291	14,174
<b>Basic earnings per share for profit attributable to the equity holders of the parent</b> (expressed in RUB per share) .....	<b>328.37</b>	<b>208.82</b>
<b>Diluted earnings per share for profit attributable to the equity holders of the parent</b> (expressed in RUB per share) .....	<b>328.36</b>	<b>208.82</b>

### Consolidated Statement of Financial Position

	As of 31 December	
	2016	2015
	<i>(in millions of RUB)</i>	
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment .....	232,316	189,000
Investment property .....	4,590	4,828
Goodwill .....	80,369	75,313
Other intangible assets .....	16,380	15,101
Other non-current assets .....	4,448	3,751
Deferred tax assets .....	5,306	5,417
<b>Total non-current assets</b> .....	<b>343,409</b>	<b>293,410</b>

	As of 31 December	
	2016	2015
	(in millions of RUB)	
<b>Current assets</b>		
Inventories .....	73,801	57,887
Indemnification asset .....	182	1,261
Trade, other accounts receivable and prepayments .....	28,027	25,008
Current income tax receivable .....	954	1,729
VAT and other taxes receivable .....	8,922	13,862
Cash and cash equivalents .....	18,190	8,958
<b>Total current assets .....</b>	<b>130,076</b>	<b>108,705</b>
<b>TOTAL ASSETS .....</b>	<b>473,485</b>	<b>402,115</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital .....	2,458	2,458
Share premium .....	46,251	46,253
Retained earnings .....	78,261	55,970
Share-based payment reserve .....	70	37
<b>TOTAL EQUITY .....</b>	<b>127,040</b>	<b>104,718</b>
<b>Non-current liabilities</b>		
Long-term borrowings .....	110,865	101,545
Deferred tax liabilities .....	6,505	4,961
Long-term deferred revenue .....	8	11
Other non-current liabilities .....	1,697	—
<b>Total non-current liabilities .....</b>	<b>119,075</b>	<b>106,517</b>
<b>Current liabilities</b>		
Trade and other payables .....	131,180	103,773
Short-term borrowings .....	45,168	42,670
Interest accrued .....	1,177	1,390
Short-term deferred revenue .....	282	243
Current income tax payable .....	821	1,684
Provisions and other liabilities .....	48,742	41,120
<b>Total current liabilities .....</b>	<b>227,370</b>	<b>190,880</b>
<b>TOTAL LIABILITIES .....</b>	<b>346,445</b>	<b>297,397</b>
<b>TOTAL EQUITY AND LIABILITIES .....</b>	<b>473,485</b>	<b>402,115</b>

The segment information (in millions of Roubles) for the years ended 31 December 2016 and 2015 and reconciliation of EBITDA to profit for the period is set out below.

Year ended 31 December 2016	Pyaterochka	Perekrestok	Karusel	Other segments	Corporate	Total
<b>Revenue .....</b>	<b>779,448</b>	<b>157,004</b>	<b>84,649</b>	<b>12,566</b>	<b>—</b>	<b>1,033,667</b>
<b>EBITDA .....</b>	<b>64,441</b>	<b>11,935</b>	<b>4,322</b>	<b>(195)</b>	<b>(4,236)</b>	<b>76,267</b>
Depreciation, amortisation and impairment .....						(30,636)
<b>Operating profit .....</b>						<b>45,631</b>
Finance cost, net .....						(17,318)

Net foreign exchange result .....						340
<b>Profit before income tax .....</b>						<b>28,653</b>
Income tax expense.....						(6,362)
<b>Profit for the year .....</b>						<b>22,291</b>
Capital expenditure .....	62,971	11,881	5,213	501	112	80,678
<b>31 December 2016</b>						
Inventories .....	52,022	12,050	8,951	778	—	73,801

<b>Year ended 31 December 2015</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other segments</b>	<b>Corporate</b>	<b>Total</b>
<b>Revenue .....</b>	<b>587,280</b>	<b>131,332</b>	<b>77,778</b>	<b>12,428</b>	<b>—</b>	<b>808,818</b>
<b>EBITDA .....</b>	<b>45,844</b>	<b>10,323</b>	<b>3,602</b>	<b>431</b>	<b>(4,967)</b>	<b>55,233</b>
Depreciation, amortisation and impairment.....						(20,784)
<b>Operating profit .....</b>						<b>34,449</b>
Finance cost, net .....						(16,537)
Net foreign exchange result .....						18
<b>Profit before income tax .....</b>						<b>17,930</b>
Income tax expense.....						(3,756)
<b>Profit for the year .....</b>						<b>14,174</b>
Capital expenditure .....	50,658	13,657	6,305	347	95	71,062
<b>31 December 2015 .....</b>						
Inventories .....	42,069	8,443	6,641	734	—	57,887

Information in relation to the Group's adjusted EBITDA and adjusted EBITDA margin for the years ended 31 December 2016 and 2015 is set out below.

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
EBITDA ( <i>in RUB millions</i> ) .....	76,267	55,233
<i>Adjustments:</i>		
LTI, share-based payments and other one-off remuneration payments expense ( <i>in RUB millions</i> ).....	2,826	3,729
SSC (social security contribution) attributable to accrued LTI, share-based payments and other one-off remuneration payments expense ( <i>in RUB millions</i> ) .....	426	451
<b>Adjusted EBITDA (<i>in RUB millions</i>) .....</b>	<b>79,519</b>	<b>59,413</b>
Revenue ( <i>in RUB millions</i> ) .....	1,033,667	808,818
Adjusted EBITDA ( <i>in RUB millions</i> ) .....	79,519	59,413
<b>Adjusted EBITDA margin (<i>in percentage, %</i>) .....</b>	<b>7.7</b>	<b>7.3</b>

Information in relation to the Group's adjusted SG&A for the years ended 31 December 2016 and 2015 is set out below.

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
Selling, general and administrative expenses (SG&A) ( <i>in RUB millions</i> ) .....	211,314	170,065
<i>Adjustments:</i>		

LTI, share-based payments and other one-off remuneration payments expense ( <i>in RUB millions</i> ).....	(2,826)	(3,729)
SSC (social security contribution) attributable to accrued LTI, share-based payments and other one-off remuneration payments expense ( <i>in RUB millions</i> ) .....	(426)	(451)
Depreciation, amortisation and impairment .....	(30,636)	(20,784)
<b>Adjusted SG&amp;A (<i>in RUB millions</i>) .....</b>	<b><u>177,426</u></b>	<b><u>145,101</u></b>
Revenue ( <i>in RUB millions</i> ) .....	1,033,667	808,818
Adjusted SG&A ( <i>in RUB millions</i> ).....	177,426	145,101
<b>Adjusted SG&amp;A expenses as % of revenue (<i>in percentage, %</i>).....</b>	<b><u>17.2</u></b>	<b><u>17.9</u></b>

Information in relation to the Group's net debt for the years ended 31 December 2016 and 2015 is set out below.

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in RUB millions)</i>	
Cash and cash equivalents .....	18,190	8,958
Short-term borrowings .....	(45,168)	(42,670)
Long-term borrowings .....	(110,865)	(101,545)
<b>Net debt.....</b>	<b><u>(137,843)</u></b>	<b><u>(135,257)</u></b>



## OPERATING AND FINANCIAL REVIEW

*The following discussion and analysis of the Group's results of operations and financial condition should be read in conjunction with the Annual Consolidated Financial Statements. Prospective investors should read the following discussion together with the whole of these Listing Particulars, including "Risk Factors", "Presentation of Financial and Other Information", "Selected Consolidated Financial and Operating Information" and should not rely solely on the information set out in this section. This section contains forward-looking statements that involve risks and uncertainties. The Group's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements".*

### Overview

The Group is the leading multi-format food retailer in Russia which manages a portfolio of retail brands and stores that target all categories of customers. According to INFOnline, the Group had the largest market share of all food retailers in Russia with a market share of 8 per cent. in 2016 (by share of the Group's food retail turnover (including VAT) in the total Russian retail turnover). Based on publicly available financial statements of public retail companies in Russia, as of 31 December 2016, the Group had been expanding faster by revenue than other Russian public food retailers for five consecutive calendar quarters.

As of 31 December 2016, the Group operated a chain of 9,187 stores in 56 of 85 Russian regions. As of 31 December 2016, the selling space of the Group's stores was 4,302 thousand sq. m. In addition, the Group's revenue amounted to RUB 1,033,667 million in the year ended 31 December 2016, as compared to RUB 808,818 million in the year ended 31 December 2015. The Group's customers made 3,072 million and 2,468 million visits to the Group's stores in 2016 and 2015, respectively.

For the years ended 31 December 2016 and 2015, the Group's EBITDA amounted to RUB 76,267 million and RUB 55,233 million, respectively. As of 31 December 2016, the Group had RUB 473,485 million in total assets and RUB 127,040 million in total equity, compared to RUB 402,115 million and RUB 104,718 million, respectively, as of 31 December 2015.

The Group operates in three major food retail segments: proximity stores (the "Pyaterochka" brand), supermarkets (the "Perekrestok" brand) and hypermarkets (the "Karusel" brand). The Group's stores are located across multiple Russian regions in seven (of the eight) Russian federal districts.

Pyaterochka is the Group's retail brand in the proximity store segment and one of leading Russian retail brands, according to INFOnline. The chain is well-attuned to the needs of Russian consumers by offering new promotions every week and a wide range of fresh goods. Pyaterochka's business generates the majority of the Group's revenue. As of 31 December 2016, there were 8,363 Pyaterochka stores in operation, which generated 75.6 per cent. of the Group's net retail sales.

Perekrestok the Group's supermarket chain that meets customer needs with a wide range of products, an attractive loyalty programme, and a private-label collection of products. As of 31 December 2016, there were 539 Perekrestok stores in operation, which generated 15.2 per cent. of the Group's net retail sales for the year ended 31 December 2016.

Karusel is the Group's hypermarket chain that offers a broad selection of food and non-food products, including household goods. Karusel primarily operates compact hypermarkets located within city limits that are easily accessible to customers. As of 31 December 2016, there were 91 Karusel stores in operation, which generated 8.1 per cent. of the Group's net retail sales for the year ended 31 December 2016.

The Company is the holding company of the Group that directly or indirectly owns the other Guarantors. A number of Group-wide functions are managed through the Company.

### **Significant Factors Affecting the Results of Operations**

The Group's management believes that the following factors significantly affected the Group's results of operations during the period under review and may continue to affect its results of operations in the future.

#### ***Population and Demand***

Against the backdrop of population growth in Russia in general (5,343 people in 2016 and 32,723 people in 2015), population of some regions of the Group's presence has decreased. In particular, population decrease in the Central Federal District of the Russian Federation amounted to 69,961 people in 2016 and 68,475 people in 2015; in the North-West Federal District – 10,077 people in 2016 and 11,635 people in 2015; in the Povolzhsky Federal District – 21,260 people in 2016 and 17,034 people in 2015. The decrease of population might negatively affect the consumption index which in turn may have an adverse effect on the operational results of Russian retailers. (*Source: Rosstat*).

Further, shifts in dietary and consumption trends, both in the Russian Federation generally and in the Group's regions of presence in particular, have affected and are likely to continue to affect the Group's results of operations. The populations of emerging economies, including the Russian Federation, increasingly demand protein-rich foods such as red meat, poultry and dairy products. Global meat consumption is expected to grow by an annual average of 1.4 per cent., resulting in additional global consumption of 51 million tonnes by 2024 and per capita consumption of 32 kg in emerging economies in 2025. Per capita consumption of dairy products in emerging economies is set to expand by 21 per cent. and will be heavily oriented towards fresh dairy products over processed dairy products in 2025. Per capita consumption of fish and vegetable oil in emerging economies is estimated to be 24.3 kg and 23.5 kg, respectively, in 2025. (*Source: OECD-FAO Agricultural Outlook 2016; Overview of the OECD-FAO Agricultural Outlook 2016*).

In addition, the decrease in consumption of non-food products may affect the Group's results of operations. For the periods under review, the proportion of non-food products in overall consumption of goods and services in the Russian Federation decreased from 37.13 per cent. in 2015 to 36.51 per cent. in 2016. However, the consumption of certain types of non-food products (such as, for example, liquid cleaning agents and laundry detergent) increased in 2015 and 2016. (*Source: the Unified Interdepartmental Statistical Information System of the Russian Federation, [www.fedstat.ru](http://www.fedstat.ru)*). Any movements in consumption of non-food products, positive or negative, may have a consequential effect on the Group's sales of these types of products and affect the results of operations of the Group.

## Economic Conditions

Substantially all of the Group's operations are based in, and substantially all of the Group's revenues are derived from, Russia. As a result, Russian macroeconomic trends, including the overall growth in the economy, significantly influence the Group's performance. The tables below summarise certain key macroeconomic indicators relating to the Russian economy for the respective quarters of the years and for the years ended 31 December 2016 and 2015.

	2016				2015			
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter
GDP Growth ( <i>in percentages</i> ) .	(1.2)	(0.6)	(0.4)	1.3	(2.8)	(4.5)	(3.7)	(3.8)
CPI (consumer price index) <sup>(1)</sup> ( <i>in percentages</i> ) .....	8.4	7.4	6.8	5.8	16.2	15.8	15.7	14.5
CPI Food ( <i>in percentages</i> ) .....	6.9	5.7	6.3	5.2	22.3	20.3	18.0	15.9
Real Wage Growth ( <i>in percentages</i> ).....	(0.6)	0.3	1.2	1.8	(9.0)	(8.5)	(9.5)	(9.8)

Sources: Rosstat.

<sup>(1)</sup> Calculated as average monthly CPI for respective period.

	For the year ended 31 December	
	2016	2015
Real GDP growth/(decline) ( <i>in percentages</i> ).....	(0.2)	(2.8)
CPI <sup>(1)</sup> ( <i>in percentages</i> ) .....	7.1	15.6
Real wage growth/(decline) ( <i>in percentages</i> ) .....	0.7	(9.0)
Average USD/RUB exchange rate appreciation/(devaluation) .....	(8,2)	(37.1)

Sources: Rosstat, CBR

<sup>(1)</sup> Calculated as average monthly CPI for respective period.

In 2015, the Rouble depreciated substantially against all major currencies, including the U.S. dollar (from RUB 56.26 per U.S.\$ 1.00 as of 31 December 2014 to RUB 72.88 per U.S.\$ 1.00 as of 31 December 2015 (or by 29.6 per cent.)). In 2016, the Rouble strengthened reaching the exchange rate of RUB 60.66 per U.S.\$ 1.00 as of 31 December 2016 which represented 16.8 per cent. appreciation as compared to 31 December 2015.

The volatility of exchange rates and adverse changes in the general level of Russian economic growth may result in a decline in levels of discretionary spending. The depreciation of the Rouble is likely to result in the increase of prices for the imported goods and affect the purchasing power of some of the Group's customers which may have a consequential effect on the Group's results of operations.

## Acquisitions and Disposals

During the periods under review the Group has completed the following acquisitions and disposals.

### Acquisitions in 2016

In 2016, the Group acquired several small retail chains in Russian regions, each of which, taken individually, did not have material effect on the Group's results of operations. From the date of their acquisition and up to and including 31 December 2016, the acquired businesses contributed RUB 11,509 million to the Group's revenue. Details of assets and liabilities of acquired businesses and the related goodwill are set out below:

	<b>Provisional fair values at the acquisition date</b>
	<i>(in RUB millions)</i>
Property, plant and equipment .....	965
Other intangible assets .....	322
Deferred tax assets .....	627
Trade and other accounts receivable .....	1
Deferred tax liabilities .....	(18)
<b>Net assets acquired .....</b>	<b>1,897</b>
Goodwill .....	4,802
<b>Purchase consideration .....</b>	<b>6,699</b>
<b>Net cash outflow arising from the acquisition .....</b>	<b>6,654</b>

### Acquisitions in 2015

In 2015, the Group acquired several retail chains in Russian regions, including SPAR Retail CJSC, Soseddushka Retail Chain, Region Product LLC and Region-Product LLC.

As of 31 December 2015, the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2016, the Group completed the purchase price allocation, which resulted in the following changes in fair values at the acquisition date:

	<b>Provisional fair values at the acquisition date for the year ended 31 December 2016</b>	<b>Finalised fair values at the acquisition date</b>	<b>Effect of change in purchase price allocation on the consolidated statement of financial position as of 31 December 2015</b>
		<i>(in RUB millions)</i>	
Property, plant and equipment .....	3,681	3,681	—
Other intangible assets .....	1,181	1,181	—
Other non-current assets .....	67	67	—
Deferred tax assets .....	550	570	20
Inventories .....	651	609	(42)
Indemnification asset .....	1,607	1,607	—
Trade, other accounts receivable and prepayments..	437	321	(116)
VAT and other taxes receivable .....	16	40	24
Cash and cash equivalents .....	59	59	—
Long-term borrowings .....	(2,727)	(2,727)	—
Deferred tax liabilities .....	(169)	(245)	(76)

Trade accounts payable.....	(2,527)	(2,527)	—
Short-term borrowings.....	(2,696)	(2,696)	—
Interest accrued.....	(52)	(52)	—
Current income tax payable.....	(933)	(933)	—
Provisions and other liabilities.....	(2,703)	(2,767)	(64)
<b>Net assets acquired .....</b>	<b>(3,558)</b>	<b>(3,812)</b>	<b>(254)</b>
Goodwill .....	9,506	9,760	254
<b>Purchase consideration.....</b>	<b>5,948</b>	<b>5,948</b>	<b>—</b>
<b>Net cash outflow arising from the acquisition .....</b>	<b>5,884</b>	<b>5,884</b>	<b>—</b>

For further details, see Note 7 of the Annual Consolidated Financial Statements.

### ***Operating Expenses***

The Group calculates operating expenses as the sum of the cost of sales and selling, general and administrative expenses. For the year ended 31 December 2016, the Group's total operating expenses increased and amounted to RUB 994,996 million, as compared to RUB 780,493 million for the year ended 31 December 2015. The following table sets out the principal components of the Group's operating expenses, for the years ended 31 December 2016 and 2015.

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in RUB millions)</i>	
Cost of goods sold <sup>(1)</sup> .....	751,763	583,970
Staff costs .....	92,947	78,343
Operating lease expenses .....	51,202	39,773
Depreciation, amortisation .....	26,927	17,952
Impairment of non-current assets.....	3,709	2,832
Other store costs .....	17,773	15,795
Utilities .....	20,445	16,086
Other.....	30,230	25,742
<b>Total.....</b>	<b>994,996</b>	<b>780,493</b>

(1) Cost of goods sold are included in cost of sales (see "—Results of Operations for the Years Ended 31 December 2016 and 2015—Cost of sales").

For the year ended 31 December 2016, the individual components of total operating expenses increased as compared to the total operating expenses for the year ended 31 December 2015, which was predominantly driven by the RUB 167,793 million, or 28.7 per cent., increase in cost of goods sold which was primarily driven by the expansion of the Group's business.

### **Results of Operations for the Years Ended 31 December 2016 and 2015**

The following table sets out the Group's selected income statement data for the years ended 31 December 2016 and 2015.

	For the year ended 31 December	
	2016	2015
	<i>(in RUB millions)</i>	
Revenue .....	1,033,667	808,818
Cost of sales .....	(783,682)	(610,428)
<b>Gross profit</b> .....	<b>249,985</b>	<b>198,390</b>
Selling, general and administrative expenses .....	(211,314)	(170,065)
Lease/sublease and other income .....	6,960	6,124
<b>Operating profit</b> .....	<b>45,631</b>	<b>34,449</b>
Finance costs .....	(17,372)	(17,131)
Finance income .....	54	594
Net foreign exchange gain .....	340	18
<b>Profit before tax</b> .....	<b>28,653</b>	<b>17,930</b>
Income tax expense .....	(6,362)	(3,756)
<b>Profit for the period</b> .....	<b>22,291</b>	<b>14,174</b>
<b>Profit for the period attributable to:</b>		
Equity holders of the parent .....	22,291	14,174
<b>Basic earnings per share for profit attributable to the equity holders of the Company</b> (expressed in RUB per share) .....	328.37	208.82
<b>Diluted earnings per share for profit attributable to the equity holders of the Company</b> (expressed in RUB per share) .....	328.36	208.82

## Revenue

The Group's revenue consists of revenue from sale of goods, revenue from franchise services and revenue from other services. The approach to recognition of revenue by the Group depends on the source and type of the relevant revenue components. 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's revenue increased by RUB 224,849 million, or 27.8 per cent., for the year ended 31 December 2016 to RUB 1,033,667 million from RUB 808,818 million for the year ended 31 December 2015. The following table sets out the components of the Group's revenue for the years ended 31 December 2016 and 2015.

	For the year ended 31 December	
	2016	2015
	<i>(in RUB millions)</i>	
Revenue from sale of goods .....	1,033,320	808,497
Revenue from franchise services .....	34	35
Revenue from other services .....	313	286
<b>Total revenue</b> .....	<b>1,033,667</b>	<b>808,818</b>

The increase in the Group's revenue for the year ended 31 December 2016, compared to the year ended 31 December 2015, was primarily due to the RUB 224,823 million, or 27.8 per cent., increase in revenue from sale of goods which was largely attributable to an increase in LFL sales and an increase in sales as a result of expansion of the Group's selling space.

### ***Cost of sales***

The Group's cost of sales includes the cost of goods sold and other costs incurred in bringing the inventories to the location and condition ready for sale, i.e., the Group's 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's cost of sales increased by RUB 173,254 million, or 28.4 per cent., for the year ended 31 December 2016 to RUB 783,682 million from RUB 610,428 million for the year ended 31 December 2015. This increase was mainly driven by RUB 167,793 million, or 28.7 per cent., increase in the cost of goods sold which was primarily attributable to the opening of new stores and a consequential increase in sales volumes and transportation and storage costs.

### ***Gross profit***

The Group's gross profit increased by RUB 51,595 million, or 26.0 per cent., to RUB 249,985 million for the year ended 31 December 2016 from RUB 198,390 million for the year ended 31 December 2015. This increase was primarily attributable to an increase in the Group's revenue (in particular, from Pyaterochka) and a general growth of the Group's business.

### ***Selling, general and administrative expenses***

The Group's selling expenses consist of salaries and wages of stores employees, store expenses, lease costs 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 and third party services. Selling, general and administrative expenses are recognised on an accrual basis as incurred.

The Group's selling, general and administrative expenses increased by RUB 41,249 million, or 24.3 per cent., for the year ended 31 December 2016 to RUB 211,314 million from RUB 170,065 million for the year ended 31 December 2015. This increase was primarily driven by (i) an increase in wages and salaries as a result of the increase in the Group's headcount following the expansion of the Group's store base, (ii) an increase in operating lease expenses due to the increase in leased area, and (iii) an increase in depreciation and amortisation resulting from the change in the structure of property, plant and equipment due to the growing share of leased stores and the effect from the Group's refurbishment programme which has increased the share of equipment with faster depreciation.

The Group's selling, general and administrative expenses for the years ended 31 December 2016 and 2015 amounted to 20.4 per cent. and 21.0 per cent. of the Group's revenue, respectively. In addition to improving operational efficiency, in 2016 the Group optimised its operating lease expenses by renegotiating the terms of Rouble-denominated leases and reducing the share of U.S. dollar-denominated leases which allowed to keep the ratio of the Group's operating lease expenses to the Group's revenue stable despite opening of new stores

and the related increase in the leased space (both in absolute figures and as a share of leased space in the Group's real estate portfolio).

#### *Adjusted selling, general and administrative (SG&A) expenses*

The Group's adjusted selling, general and administrative (SG&A) expenses are as follows:

	For the year ended 31 December		Change year-on-year
	2016	2015	
	<i>(in RUB millions)</i>		<i>%</i>
Staff costs .....	(77,534)	(63,052)	23.0
% of revenue.....	7.5	7.8	
Lease expenses.....	(47,020)	(36,365)	29.3
% of revenue.....	4.5	4.5	
Utilities .....	(19,590)	(15,449)	26.8
% of revenue.....	1.9	1.9	
Other store costs .....	(14,112)	(12,766)	10.5
% of revenue.....	1.4	1.6	
Third-party services .....	(8,181)	(7,879)	3.8
% of revenue.....	0.8	1.0	
Other expenses.....	(10,989)	(9,590)	14.6
% of revenue.....	1.1	1.2	
<b>Adjusted SG&amp;A .....</b>	<b>(177,426)</b>	<b>(145,101)</b>	<b>22.3</b>
% of revenue.....	17.2	17.9	

For the year ended 31 December 2016, adjusted SG&A expenses as a percentage of the Group's revenue decreased to 17.2 per cent. from 17.9 per cent., for the year ended 31 December 2015, primarily due to the positive impact of ongoing projects to improve operational efficiency and as a result of operating leverage.

For the year ended 31 December 2016, staff costs as a percentage of the Group's revenue decreased to 7.5 per cent. from 7.8 per cent., for the year ended 31 December 2015, mainly due to the positive operating leverage effect.

For the year ended 31 December 2016, lease expenses as a percentage of the Group's revenue changed immaterially, as compared to the levels of the year ended 31 December 2015. 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 almost entirely offset by improvements in lease terms with real estate owners and by higher operating leverage.

For the year ended 31 December 2016, utilities expenses as a percentage of the Group's revenue changed immaterially, as compared to the levels of the year ended 31 December 2015.

For the year ended 31 December 2016, other store costs as a percentage of the Group's revenue decreased to 1.4 per cent. from 1.6 per cent., for the year ended 31 December 2015. This was driven by projects to optimise in-store processes and a reduction in security costs.



For the year ended 31 December 2016, third-party service expenses as a percentage of the Group's revenue decreased to 0.8 per cent. from 1.0 per cent., for the year ended 31 December 2015, due to decreased expenses for marketing services and consulting services.

For the year ended 31 December 2016, other expenses as a percentage of the Group's revenue decreased to 1.1 per cent. from 1.2 per cent, for the year ended 31 December 2015, primarily due to higher provisions accrued in the second quarter of 2015.

### ***Lease/sublease and other income***

The Group leases part of its store space to companies selling supplementary goods and offering services to customers. These arrangements are recognised as operating leases the majority of which are short term (less than one year).

The Group's lease/sublease and other income remained relatively stable for the years ended 31 December 2016 and 2015 and amounted to RUB 6,960 million and RUB 6,124 million, respectively.

The Group's rental income from operating leases recognised in the Group's consolidated statement of profit or loss for the years ended 31 December 2016 and 2015 amounted to RUB 6,142 million and RUB 5,519 million, respectively. The Group's contingent rents (being variable lease payments) recognised in the Group's consolidated statement of profit or loss for the years ended 31 December 2016 and 2015 amounted to RUB 170 million and RUB 142 million.

The Group's future projected lease payments receivable under non-cancellable operating leases are as follows:

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in RUB millions)</i>	
Not later than 1 year .....	2,325	2,166
Later than 1 year and no later than 5 years .....	1,474	970
Later than 5 years .....	615	427
<b>Total.....</b>	<b>4,414</b>	<b>3,563</b>

The Group's future projected lease payments receivable under non-cancellable operating subleases are as follows:

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in RUB millions)</i>	
Not later than 1 year .....	676	624
Later than 1 year and no later than 5 years .....	127	117
Later than 5 years .....	61	88
<b>Total.....</b>	<b>864</b>	<b>829</b>

### ***Operating profit***

The Group's operating profit increased by RUB 11,182 million, or 32.5 per cent., to RUB 45,631 million for the year ended 31 December 2016 from RUB 34,449 million for the year ended 31 December 2015. This increase was primarily attributable to a general growth of the Group's business.

### ***Finance costs***

The Group's finance costs comprise interest expense on the Group's borrowings and other finance costs. The Group's finance costs remained relatively stable for the year ended 31 December 2016 amounting to RUB 17,372 million as compared to RUB 17,131 million for the year ended 31 December 2015.

### ***Finance income***

The Group's finance income comprises interest income on the Group's deposits. The Group's finance income decreased by RUB 540 million, or 11 times, to RUB 54 million for the year ended 31 December 2016 from RUB 594 million for the year ended 31 December 2015 as a result of the withdrawal of deposits by the Group.

### ***Net foreign exchange gain***

The Group made a net foreign exchange gain of RUB 340 million and RUB 18 million for the years ended 31 December 2016 and 2015. The increase in the net foreign exchange gain for the year ended 31 December 2016 resulted from the strengthening of Rouble in 2016 (*– Significant Factors Affecting the Results of Operations – Economic Conditions*).

### ***Profit before tax***

The Group's profit before tax increased by RUB 10,723 million, or 59.8 per cent., to RUB 28,653 million for the year ended 31 December 2016 from RUB 17,930 million for the year ended 31 December 2015 which was largely attributable to the increase in the Group's operating profit while finance costs remained mostly stable.

### ***Income tax expense***

The Group's income tax expense increased by RUB 2,606 million, or 69.4 per cent., to RUB 6,362 million for the year ended 31 December 2016 as compared to the year ended 31 December 2015. This increase was primarily caused by the increase in the Group's profit before tax for the year (See "*– Profit before tax*"). In 2016, the Group's effective tax rate increased to 22.2 per cent. from 20.9 per cent. in 2015 when it was affected by a one-off tax reserve release. The Russian statutory income tax rate for both periods was 20.0 per cent. The difference between the Group's effective and statutory tax rates is primarily attributable to the impact of the Group's non-deductible expenses.

The components of the Group's income tax expense for the periods indicated are reconciled in the table below.

	For the year ended 31 December	
	2016	2015
	<i>(in RUB millions)</i>	
Current income tax charge .....	4,154	4,214
Deferred income tax charge/(benefit) .....	2,208	(458)
<b>Income tax charge for the year</b> .....	<b>6,362</b>	<b>3,756</b>

The theoretical and effective tax rates are reconciled as follows:

	For the year ended 31 December	
	2016	2015
	<i>(in RUB millions)</i>	
Profit before taxation .....	28,653	17,930
Theoretical tax at the effective statutory rates* .....	5,731	3,586
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of income taxable at rates different from standard statutory rates .....	(1,512)	(1,206)
Expenses on inventory shrinkage .....	2,082	1,479
Unrecognised tax loss carry forwards for the year .....	181	465
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 .....	(312)	(454)
Other non-deductible expense/(non-taxable income).....	192	(114)
<b>Income tax charge for the year</b> .....	<b>6,362</b>	<b>3,756</b>

\* Profit before taxation on Russian operations is assessed based on the statutory rate of 20%.

### ***Profit and comprehensive income for the year***

For the reasons discussed above, the Group's profit for the year ended 31 December 2016 increased by RUB 8,117 million, or 57.3 per cent., to RUB 22,291 million from RUB 14,174 million for the year ended 31 December 2015.

The Group did not incur other comprehensive income, net of tax, for the year ended 31 December 2016 while for the year ended 31 December 2015 the Group's other comprehensive income, net of tax, amounted to RUB 7 million. Accordingly, the Group's total comprehensive income, net of tax, for the years ended 31 December 2016 and 2015 amounted to RUB 22,291 million and RUB 14,181 million, respectively.

### **Liquidity and Capital Resources**

The Group's liquidity needs arise primarily from the need to finance (i) its day-to-day operations; (ii) the implementation of the Group's strategy (including, any mergers, asset acquisitions or upgrades and business expansions envisaged thereby); and (iii) servicing the Group's existing debt. During the periods under review, the Group funded its liquidity needs predominantly with net cash flows from operating activities and short- and long-term borrowings.

## ***Cash flows***

The following table sets out the Group's summary cash flow information for the years ended 31 December 2016 and 2015.

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in RUB millions)</i>	
Net cash from operating activities .....	74,915	35,487
Net cash used in investing activities .....	(77,279)	(59,645)
Net cash generated from financing activities .....	11,641	7,498
Effect of exchange rate changes on cash and cash equivalents .....	(45)	(5)
Net increase /(decrease) in cash and cash equivalents .....	9,232	(16,665)

### ***Net cash from operating activities***

The Group's net cash from operating activities are defined as the Group's net cash generated from operations after giving effect to interest paid, income received and income tax paid. The Group's net cash generated from operations are determined as net cash from operating activities after giving effect to the changes in working capital.

#### ***Net cash from operating activities before changes in working capital***

The Group's net cash from operating activities before changes in working capital increased by RUB 19,067 million, or 33.6 per cent., to RUB 75,745 million for the year ended 31 December 2016 from RUB 56,678 million for the year ended 31 December 2015 which was largely attributable to the increase in the Group's profit before tax (See "– Profit before tax" above) and RUB 9,852 million, or 47.4 per cent., increase in depreciation, amortisation and impairment of property, plant and equipment, investment property and intangible assets which was principally the result of a change in the structure of property, plant and equipment due to the growing share of leased area and the effect from the refurbishment programme which has increased the share of equipment with faster depreciation.

The breakdown of the Group's net cash from operating activities before changes in working capital for the periods under review is set out in the table below:

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in RUB millions)</i>	
<b>Profit before tax</b> .....	<b>28,653</b>	<b>17,930</b>
Adjustments for:		
Depreciation, amortisation and impairment of property, plant and equipment, investment property and intangible assets .....	30,636	20,784
Loss on disposal of property, plant and equipment, investment property and intangible assets .....	47	77
Finance costs, net .....	17,318	16,537
Impairment of trade, other accounts receivable and prepayments .....	247	1,260
Share-based compensation expense .....	48	18

Net foreign exchange gain .....	(340)	(18)
Other non-cash items .....	(864)	90
<b>Net cash from operating activities before changes in working capital .....</b>	<b><u>75,745</u></b>	<b><u>56,678</u></b>

#### *Net cash flows generated from operations*

The Group's net cash flows generated from operations increased by RUB 40,529 million, or 73.3 per cent., to RUB 95,801 million for the year ended 31 December 2016 from RUB 55,272 million for the year ended 31 December 2015, which was largely attributable to the increase in the Group's net cash from operating activities before changes in working capital (See "- Net cash from operating activities before changes in working capital" above) and a RUB 18,132 million, or 194.2 per cent., increase in trade payable. The increase in working capital was mostly attributable to an increase in accounts payable due to strong business expansion, as well as a decrease in accounts receivable due to new contract terms with suppliers as a result of the "back-to-front margin" project reducing bonuses paid by suppliers to the Group in accordance the amended Trade Law, and to changes in other liabilities, including for new trucks purchased in the fourth quarter of 2016.

The breakdown of the Group's net cash flows generated from operations for the periods under review is set out in the table below:

	For the year ended 31 December	
	2016	2015
	<i>(in RUB millions)</i>	
<b>Net cash from operating activities before changes in working capital .....</b>	<b>75,745</b>	<b>56,678</b>
Decrease/(increase) in trade, other accounts receivable and prepayments .....	350	(6,228)
Increase in inventories .....	(15,914)	(10,152)
Increase in trade payable .....	27,471	9,339
Increase in other accounts payable .....	8,149	5,635
<b>Net cash flows generated from operations .....</b>	<b><u>95,801</u></b>	<b><u>55,272</u></b>

#### *Net cash from operating activities*

The Group's net cash flows from operating activities increased by RUB 39,428 million, or 111.1 per cent., to RUB 74,915 million for the year ended 31 December 2016 from RUB 35,487 million for the year ended 31 December 2015, which was generally in line with the increase in the Group's net cash flows generated from operations.

The breakdown of the Group's net cash flows from operating activities for the periods indicated is set out in the table below:

	For the year ended 31 December	
	2016	2015
	<i>(in RUB millions)</i>	
<b>Net cash flows generated from operations .....</b>	<b>95,801</b>	<b>55,272</b>
Interest paid .....	(17,236)	(15,924)

Interest received .....	40	387
Income tax paid .....	(3,690)	(4,248)
<b>Net cash flows from operating activities .....</b>	<b>74,915</b>	<b>35,487</b>

### ***Net cash used in investing activities***

The Group's net cash flows used in investing activities increased by RUB 17,634 million, or 29.6 per cent., to RUB 77,279 million for the year ended 31 December 2016 from RUB 59,645 million for the year ended 31 December 2015, which was primarily attributable to RUB 17,089 million, or 33.1 per cent., increase in purchase of property, plant and equipment for the year ended 31 December 2016 in connection with the opening of new stores and the refurbishment programme.

The breakdown of the Group's net cash flows used in investing activities for the periods indicated is set out in the table below:

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in RUB millions)</i>	
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment .....	(68,694)	(51,605)
Acquisition of businesses, net of cash acquired .....	(6,658)	(5,884)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets .....	589	288
Purchase of other intangible assets .....	(2,516)	(2,685)
Proceeds from disposal of available-for-sale investments .....	—	210
Proceeds from associate .....	—	31
<b>Net cash flows used in investing activities .....</b>	<b>(77,279)</b>	<b>(59,645)</b>

### ***Net cash generated from financing activities***

The Group's net cash flows generated from financing activities amounted to RUB 11,641 million for the year ended 31 December 2016, as compared to RUB 7,498 million for the year ended 31 December 2015. This reflected proceeds from loans in the amount of RUB 131,563 million and repayment of loans in the amount of RUB 119,922 million in 2016.

### ***Borrowings***

As of 31 December 2016 and 2015, the Group's borrowings comprised Rouble-denominated bonds and bilateral loans. The following tables set out the Group's current and non-current borrowings as of the dates indicated.

	Final maturity year*	As of 31 December			
		Fair value		Carrying value	
		2016	2015	2016	2015
		(in RUB millions)			
<b>Current</b>					
RUB Bonds X5 Finance LLC series 04.....	—	—	7,992	—	8,000

RUB Bonds X5 Finance LLC series BO-02 ..	—	—	4,950	—	4,997
RUB Bonds X5 Finance LLC series BO-03 ..	—	—	4,914	—	4,999
RUB Bonds X5 Finance LLC series BO-06 ..	2017	5,045	—	4,993	—
RUB Bilateral Loans .....	2017	40,175	24,674	40,175	24,674
<b>Total current borrowings .....</b>		<b>45,220</b>	<b>42,530</b>	<b>45,168</b>	<b>42,670</b>
<b>Non-current</b>					
RUB Bonds X5 Finance LLC series BO-04 ...	2019	5,219	5,000	4,993	4,991
RUB Bonds X5 Finance LLC series BO-05 ...	2018	5,089	—	4,995	—
RUB Bonds X5 Finance LLC series BO-07 ...	2019	5,008	—	4,991	—
RUB Bonds X5 Finance LLC series 001P-01 .....	2019	14,970	—	14,997	—
RUB Bilateral Loans .....	2019	81,919	98,018	80,889	96,554
<b>Total non-current borrowings .....</b>		<b>112,205</b>	<b>103,018</b>	<b>110,865</b>	<b>101,545</b>
<b>Total borrowings .....</b>		<b>157,425</b>	<b>145,548</b>	<b>156,033</b>	<b>144,215</b>

\* In case of the Group's Bonds – the next put option ("oferta") date.

The weighted average effective interest rate on the Group's total borrowings for 2016 was 11.30 per cent. per annum, compared to 12.67 per cent. per annum for 2015.

#### *Bilateral loans*

The Group has open credit limits under facility agreements with Sberbank, Alfa-Bank and certain other Russian and foreign banks. As of 31 December 2016 and 2015, the Group had available credit limits with banks in the amount of RUB 280,808 million and RUB 140,176 million, respectively.

In February 2016, the Group made several drawdowns under the facility agreement with Sberbank in the aggregate amount of RUB 8.9 billion.

In June and August 2016, the Group made several drawdowns under the facility agreement with Alfa-Bank in the aggregate amount of RUB 27.2 billion.

In December 2016, the Group made several drawdowns under the facility agreement with Sberbank in the aggregate amount of RUB 45.4 billion.

The proceeds of all bilateral loans described above were used for general corporate purposes, including refinancing of the Group's loans.

The bilateral facility agreements to which the Group is a party require the Group to comply with certain financial covenants, including the maximum ratio of net debt to EBITDA of 4.00. However, in case of any acquisitions made by the Group, the maximum ratio of net debt to EBITDA shall not exceed 4.25 during the first two quarters following an acquisition. As of 31 December 2016, the Group's ratio of net debt to EBITDA was equal to 1.81, as compared to 2.45 as of 31 December 2015.

#### *Rouble-denominated bonds*

In 2016, the Group issued the following Rouble-denominated exchange-traded bonds:

- RUB 5 billion 10.90 per cent. per annum bonds (series BO-05) with a put-option exercisable in 2.5 years from the date of issuance, issued in March 2016;
- RUB 5 billion 10.50 per cent. per annum bonds (series BO-06) with a put-option exercisable in 1.5 years from the date of issuance, issued in May 2016;
- RUB 5 billion 9.75 per cent. per annum bonds (series BO-07) with a put-option exercisable in 2.5 years from the date of issuance, issued in August 2016; and
- RUB 15 billion 9.45 per cent. per annum bonds (series 001P-01) with a put-option exercisable in 3 years from the date of issuance issued in September 2016.

## Segment Reporting

The Group presents segment reporting in the following breakdown (as set out in Note 5 to the Annual Consolidated Financial Statements): (1) Pyaterochka; (2) Perekrestok; (3) Karusel; (4) other segments; and (5) Corporate Centre.

The Group assesses the performance of the operating segments based on a measure of sales and EBITDA. Other information provided to the Management Board is measured in a manner consistent with that in the Annual Consolidated Financial Statements.

The segment information for the years ended 31 December 2016 and 2015 and reconciliation of EBITDA to profit for the period is set out below.

<b>Year ended 31 December 2016</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other segments</b>	<b>Corporate Centre</b>	<b>Total</b>
<b>Revenue</b> .....	<b>779,448</b>	<b>157,004</b>	<b>84,649</b>	<b>12,566</b>	<b>—</b>	<b>1,033,667</b>
<b>EBITDA</b> .....	<b>64,441</b>	<b>11,935</b>	<b>4,322</b>	<b>(195)</b>	<b>(4,236)</b>	<b>76,267</b>
Depreciation, amortisation and impairment .....						(30,636)
<b>Operating profit</b> .....						<b>45,631</b>
Finance cost, net .....						(17,318)
Net foreign exchange result .....						340
<b>Profit before income tax</b> .....						<b>28,653</b>
Income tax expense .....						(6,362)
<b>Profit for the year</b> .....						<b>22,291</b>
Capital expenditure .....	62,971	11,881	5,213	501	112	80,678
<b>31 December 2016</b>						
Inventories .....	52,022	12,050	8,951	778	—	73,801
<b>Year ended 31 December 2015</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other segments</b>	<b>Corporate Centre</b>	<b>Total</b>
<b>Revenue</b> .....	<b>587,280</b>	<b>131,332</b>	<b>77,778</b>	<b>12,428</b>	<b>—</b>	<b>808,818</b>
<b>EBITDA</b> .....	<b>45,844</b>	<b>10,323</b>	<b>3,602</b>	<b>431</b>	<b>(4,967)</b>	<b>55,233</b>
Depreciation, amortisation and impairment .....						(20,784)
<b>Operating profit</b> .....						<b>34,449</b>
Finance cost, net .....						(16,537)
Net foreign exchange result .....						18



<b>Profit before income tax</b> .....						<b>17,930</b>
Income tax expense .....						(3,756)
<b>Profit for the year</b> .....						<b>14,174</b>
Capital expenditure .....	50,658	13,657	6,305	347	95	71,062
<b>31 December 2015</b>						
Inventories .....	42,069	8,443	6,641	734	—	57,887

## Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are evaluated on an ongoing basis and are based on management's experience and other factors including expectations of future events that are believed to be reasonable in particular circumstances. The Group's management also makes certain judgements, apart from those involving estimations, in the course of applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the Group's 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 assesses goodwill for impairment at least annually. The recoverable amount of a cash-generating unit is determined based on the higher of fair value less costs of disposal or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 12 to the Annual Consolidated Financial Statements.

***Identifying a business combination.*** The Group enters into transactions to acquire integrated set of assets and operations of retail stores. The Group determines whether such transactions represent a business combination or assets acquisitions. The Group treats such transactions as business combinations when the integrated set of activities and assets acquired is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to the Group. In making this judgment the Group considers whether it acquired inputs and processes applied to the inputs that have ability to create output. All acquisitions of assets and operations of retail stores occurred in 2016 and 2015 were treated by the Group as business combinations.

***Provisional fair values of net assets of acquired businesses.*** During the periods under review the Group made several acquisitions 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, market approach is used, i.e. benchmarking against available prices in an active market. Estimates of other assets and liabilities are consistent with the Group policies with regard to the Group's subsidiaries.

***Property, plant and equipment and investment property.*** The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment and investment property. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets. The Group's management increases the depreciation charge where useful lives are less than previously estimated lives or it writes-off or writes-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 and investment property may be impaired. The Group applies assets impairment testing. 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 2016, the Group recognised a net impairment loss on the property, plant and equipment in the amount of RUB 3,132 million as compared to a net impairment loss on the property, plant and equipment in the amount of RUB 2,266 million for the year ended 31 December 2015. For the year ended 31 December 2016, the Group recognised a net impairment loss on the investment property in the amount of RUB 257 million as compared to a net impairment gain on the investment property in the amount of RUB 2 million for the year ended 31 December 2015.

***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. The Group periodically assesses whether there is any indication that lease rights may be impaired. The Group applies assets impairment testing. 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 2016, the Group recognised a net impairment loss in the amount of RUB 66 million as compared to a net impairment loss in the amount of RUB 530 million for the year ended 31 December 2015.

***Inventories of goods for resale provisions.*** The Group provides for estimated inventory reduction on the basis of historical reduction 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 assesses whether there are any signs of slow moving inventory where the expected time to sell exceeds the deadlines established by the Group.

***Provision for impairment of trade and other receivables.*** The Group determines an allowance for doubtful accounts receivable at the end of the reporting period. In estimating an allowance for uncollectible accounts receivable the Group takes into account the historical collectability of the outstanding accounts receivable balances as amended by the judgement of management.

***Brand and private-labels.*** The Group's 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. The Group periodically assesses whether there is any indication that brand and private labels may be impaired. The Group performs assets impairment testing. 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 Group's consolidated statement of profit or loss. For the year ended 31 December 2016, the Group recognised an impairment loss in the amount of RUB 68 million as compared to an impairment loss in the amount of RUB 38 million for the year ended 31 December 2015.

## **Disclosures about Financial Risks**

Financial risk management is a part of the Group's integrated risk management and internal control framework. The primary objectives of the Group's financial risk management are to establish risk limits and manage exposure to risks within these limits.

Financial risk management is carried out by the Group's Corporate Finance Department. The Corporate Finance Department monitors and measures financial risks and undertakes steps to limit their influence on the Group's performance.

### ***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 of 31 December 2016, the Group had trade accounts payable denominated in foreign currency in the amount of RUB 2,409 million as compared to RUB 1,731 million as of 31 December 2015. As of 31 December 2016, the Group did not have any other significant assets and liabilities denominated in foreign currency and the exposure for the Group was estimated as not significant.

#### *Interest rates risk*

As of 31 December 2016, the Group had no significant floating interest-bearing assets and liabilities, the Group's income, expenses and operating cash inflows and outflows were substantially independent of changes in market interest rates.

### ***Credit risk***

Financial assets, which are potentially subject to credit risk, consisted principally of cash and cash equivalents held in banks, trade and other receivables. Due to the nature of its main activities (retail sales to individual customers) the Group had no significant concentration of credit risk. Cash was placed in financial institutions which were considered at the time of deposit to have minimal risk of default. The Group has policies in place to ensure that credit sales of products and services are made to wholesale customers only with an appropriate credit history. Although collection of receivables could be influenced by economic factors, the Group's management believes that, during the periods under review, there was 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 were continually monitored and no individual exposure was considered significant.

### ***Liquidity risk***

The Group defines the liquidity risk as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by the Group's 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 structure of the Group's credit portfolio diversified, continue improving 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 Group's credit portfolio as at 31 December 2016 had following maturity schedule breakdown: 29 per cent. in 2017, 33 per cent. – 2018 and 38 per cent. in 2019.

The following table sets out an analysis of the contractual undiscounted cash flows payable under financial liabilities as of the reporting date at spot foreign exchange rates:

	<b>Year ended 31 December 2016</b>	
	<b>During 1 year</b>	<b>In 1 to 3 years</b>
	<i>(in RUB millions)</i>	
Borrowings .....	58,621	123,058
Trade payables .....	131,180	—
Other finance liabilities.....	39,744	1,472
<b>Total .....</b>	<b>229,545</b>	<b>124,530</b>

	<b>Year ended 31 December 2015</b>	
	<b>During 1 year</b>	<b>In 1 to 3 years</b>
	<i>(in RUB millions)</i>	
Borrowings .....	58,041	114,225
Trade payables .....	103,773	—
Other finance liabilities.....	29,451	—
<b>Total .....</b>	<b>191,265</b>	<b>114,225</b>

The Group's Management regularly monitors the Group's operating cash flows and available credit lines to ensure that these are adequate to meet the Group's outstanding debt and funding needs, including its expansion programs. Part of the short term liquidity risk is seasonal, with the highest peak in first quarter and strong cash generation in the fourth quarter, therefore the Group negotiates the maturity of credit lines to fall in the fourth quarter, when the future cash flow allows for the repayment of debts.

As of 31 December 2016, the Group's breakdown of capital expenditure was as follows: 52 per cent. accounted for new stores openings, 9 per cent. accounted for logistics, 24 per cent. accounted for refurbishments of stores and 15 per cent, accounted for IT, maintenance and other.

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, as necessary. The Group manages liquidity requirements by using both short-term and long-term projections and maintaining the availability of funding. Based on the review of the current liquidity position, the Group's management considers that the available credit lines and expected cash flows are sufficient to finance the Group's current operations.

## **BUSINESS**

### **Overview**

The Group is the leading multi-format food retailer in Russia which manages a portfolio of retail brands and stores that target all categories of customers. According to INFOLine, the Group had the largest market share of all food retailers in Russia with a market share of 8 per cent. in 2016 (by share of the Group's food retail turnover (including VAT) in the total Russian retail turnover). Based on publicly available financial statements of public retail companies in Russia, as of 31 December 2016, the Group had been expanding faster by revenue than other Russian public food retailers for five consecutive calendar quarters.

As of 31 December 2016, the Group operated a chain of 9,187 stores in 56 of 85 Russian regions. As of 31 December 2016, the selling space of the Group's stores was 4,302 thousand sq. m. In addition, the Group's revenue amounted to RUB 1,033,667 million in the year ended 31 December 2016, as compared to RUB 808,818 million in the year ended 31 December 2015. The Group's customers made 3,072 million and 2,468 million visits to the Group's stores in 2016 and 2015, respectively.

The Group operates in three major food retail segments: proximity stores (the "Pyaterochka" brand), supermarkets (the "Perekrestok" brand) and hypermarkets (the "Karusel" brand). The Group's stores are located across multiple Russian regions in seven (of the eight) Russian federal districts.

Pyaterochka is the Group's retail brand in the proximity store segment and one of leading Russian retail brands, according to INFOLine. The chain is well-attuned to the needs of Russian consumers by offering new promotions every week and a wide range of fresh goods. Pyaterochka's business generates the majority of the Group's revenue. As of 31 December 2016, there were 8,363 Pyaterochka stores in operation, which generated 75.6 per cent. of the Group's net retail sales.

Perekrestok the Group's supermarket chain that meets customer needs with a wide range of products, an attractive loyalty programme, and a private-label collection of products. As of 31 December 2016, there were 539 Perekrestok stores in operation, which generated 15.2 per cent. of the Group's net retail sales for the year ended 31 December 2016.

Karusel is the Group's hypermarket chain that offers a broad selection of food and non-food products, including household goods. Karusel primarily operates compact hypermarkets located within city limits that are easily accessible to customers. As of 31 December 2016, there were 91 Karusel stores in operation, which generated 8.1 per cent. of the Group's net retail sales for the year ended 31 December 2016.

The Company is the holding company of the Group that directly or indirectly owns the other Guarantors. A number of Group-wide functions are managed through the Company.

### **History**

The Group's current business is a result of the merger of the businesses of Pyaterochka Holding N.V. (that operated the "Pyaterochka" brand) and Perekrestok Holding Limited (that operated the "Perekrestok" brand) that was completed on 18 May 2006.

### ***History of the Perekrestok Holdings Limited***

Perekrestok's business was founded by the Alfa Group and Alexander Kosiyanenko in 1995 with the opening of its first supermarket in Moscow. In 1998, Perekrestok was the first Russian food retailer to open its own distribution centre, located in Moscow. In 2002, Perekrestok launched its hypermarket format (by opening the Group's first compact hypermarket) and opened its first store outside of Moscow.

From 2002 to 2005, the total number of Perekrestok supermarkets and compact hypermarkets grew more than two and a half times from 45 stores to 120 stores. In addition, Perekrestok doubled the capacity of its Moscow distribution centres and launched a line of ready meal products that still remain popular among Perekrestok customers.

### ***History of Pyaterochka Holding N.V.***

Pyaterochka's business was founded by Andrei Rogachev and Alexander Girda in 1999 with the opening of its first store in St. Petersburg. During 1999 Pyaterochka opened 16 additional stores.

The stores became popular with St. Petersburg's lower and middle income population. In 2001, Pyaterochka opened its first store in Moscow. In 2004, Pyaterochka set up its franchising operations in Kazakhstan and Ukraine, thus becoming the first Russian grocery retail chain to expand abroad.

In 2005, the Pyaterochka completed its IPO on the London Stock Exchange (through the issue of global depository receipts ("**GDRs**")) that resulted in a free float of 32.07 per cent. In addition, Pyaterochka acquired 18 stores of the Kopeika retail chain in St. Petersburg for U.S.\$60.8 million and rebranded those stores into Pyaterochka stores. In the same year, Pyaterochka acquired a franchise network in Yekaterinburg, including 21 stores, a warehouse, a regional head office and a training centre for U.S.\$14.5 million. In 2006, the franchise network was sold to third parties for a nominal value and during that process three stores in the franchise network were closed. Through the opening of new stores and acquisitions of small chains, Pyaterochka operated 326 stores by the end of 2005.

In 2006, Pyaterochka acquired LLC Tsentraznitsy Torgovli, the largest franchisee of the Kopeika retail chain in the Moscow area with 25 stores, for U.S.\$90.0 million. This acquisition increased the number of Pyaterochka stores in Moscow by 14 stores, in the Moscow region by 9 stores and in the city of Vladimir by 2 stores. As of 18 May 2006, Pyaterochka owned 377 discount stores in Moscow, St. Petersburg and Yekaterinburg.

### ***Merger of Pyaterochka Holding N.V. and Perekrestok Holdings Limited***

The merger of the businesses of Pyaterochka Holding N.V. (that operated the "Pyaterochka" brand) and Perekrestok Holding Limited (that operated the "Perekrestok" brand) was completed on 18 May 2006. That merger was legally structured as an acquisition by Pyaterochka Holding N.V. of Perekrestok Holdings Limited. However, as shareholders and other related parties of Perekrestok Holdings Limited obtained control over 56 per cent. of the shares of Pyaterochka Holding N.V., the transaction was accounted for as a reverse acquisition of Pyaterochka Holding N.V. by Perekrestok Holdings Limited. As a result of the merger, the name of Pyaterochka Holding N.V. was changed to X5 Retail Group N.V.

### ***History of the Group after the merger***

In October 2006, the Group acquired 100 per cent. of the Mercado Group, which operated 17 supermarkets in Moscow. This acquisition added 14,000 sq. m. to the Group's selling space and also included an office of 17,000 sq. m. in the centre of Moscow (which is currently the Group's headquarters). The total consideration amounted to U.S.\$200.4 million.

In April 2007, the Group entered into an agreement with its Chelyabinsk franchisee to set up a joint venture that consolidated all of Pyaterochka's stores in Yekaterinburg and Chelyabinsk, consisting of 40 stores with approximately 14,000 sq. m. of selling space as of April 2007. The Group's initial stake in the joint venture was 51 per cent., and the agreement provided for a two-stage buy-out by the Group of the remaining 49 per cent. over the next two years. In June 2008, the Group acquired an additional 24 per cent. stake in the joint venture for U.S.\$11 million. The buy-out of the joint venture by the Group was completed by the acquisition of the remaining 25 per cent. in June 2009 for U.S.\$18 million. Further to this transaction, the Group had acquired full control of the leading discounter chain in Yekaterinburg and Chelyabinsk (the major cities of the Urals region), which recorded net retail revenue of U.S.\$272 million in 2008. By the time the acquisition was completed, the chain operated 103 Pyaterochka stores, representing approximately 37,000 sq. m. of selling space.

In December 2007, the Group completed the acquisition of 22 Korzinka stores operating in the Lipetsk region with a selling space of approximately 20,000 sq. m., for a total consideration of U.S.\$109.2 million. 15 of the acquired stores were integrated into the Group's discount store format, 6 stores were integrated into the supermarket format and 1 was integrated into the hypermarket format.

In December 2007, the Group acquired 29 discount stores (with a selling space of 12,900 sq. m.) operating under the "Strana Gerkulesia" brand located in Moscow, the Moscow region and the Tver region.

In April 2008, the Group acquired Kama Retail, Pyaterochka's franchisee, for a total consideration of approximately U.S.\$18.0 million. At the time of acquisition, Kama Retail operated 28 soft discount stores (with 9,300 square metres of selling space) in the Perm region.

In June 2008, the Group completed the acquisition of the Formata Group, the owner and operator of the Karusel hypermarket chain. As a result of the acquisition, the Group received 23 operating hypermarkets, one hypermarket that was opened in the third quarter 2008, as well as several land plots suitable for hypermarket construction.

In the third quarter of 2008, the Group signed a new franchising agreement with Retail-Express to develop a chain of small proximity stores under the "Perekrestok-Express" brand.

In December 2008, the Group signed an agreement to acquire 100 per cent. of the business and assets of Agrotorg-Rostov, Pyaterochka's franchisee in the Rostov region, for a total consideration of RUB 302 million (approximately U.S.\$10.3 million). The Group completed the integration of the acquired business in the first quarter of 2009 and launched 21 Pyaterochka stores in Rostov-on-Don and the Rostov region.

In December 2009, the Group acquired 100 per cent. of the business and assets of Paterson, one of Russia's leading supermarket chains that operated 82 stores located in Moscow, the Moscow region, St. Petersburg, Kazan and other cities of European Russia and Urals.

In 2010, the Group acquired a 100 per cent. stake in CJSC "Ostrov Invest", operated stores in Moscow and the Moscow region under the "Ostrov" brand. The Group also acquired 100 per cent. of the business and assets of "Kopeyka" retail chain, which at such time consisted of 660 stores.

In 2011, the Group acquired an 8.45 per cent. stake in the A5 Pharmacy Retail Limited, a pharmacy chain.

In 2014, the Group acquired a 100 per cent. stake in LLC "Agrotorg-Samara", a Russian retail chain which operated "Pokupochka" discounter stores in the Samara region.

In 2015, the Group acquired 27 stores owned by the "Nash" and "Gurman" retail chains in the Republic of Mari EL and the Republic of Chuvashia. In addition, it acquired 104 stores owned by the Rosinka Group in the Orel, Voronezh, Lipetsk, Kursk and Tambov regions. In 2015, the Group also acquired a 100 per cent. stake in Soseddushka Ltd., the subsidiaries of which operated the Russian "SoseDDushka" retail chain of proximity stores in the Orenburg region, and a 100 per cent. stake in SPAR Retail CJSC, a Russian retail chain which operated supermarkets in Moscow and the Vladimir region.

## **Key Strengths**

The management of the Group believes that its business model is well suited to help the Group retain and strengthen its leading position in the Russian food retail market and that the Group has the following key strengths.

### ***Leading position in the Russian retail market***

According to INFOnline, the Group was the leading (by retail goods turnover) Russian food retailer with a market share of 8.0 per cent. in the year ended 31 December 2016. As of 31 December 2016, the Group operated stores in 56 of 85 Russian regions. Having been in the Russian food retail business for more than twenty years, the Group actively manages a portfolio of leading food retail brands and formats that target all categories of Russian customers.

### ***Innovative, efficient and scalable IT infrastructure***

The Group is constantly looking for innovative solutions to improve the efficiency of its operations and the quality of its services. The Group's goal is to ensure that its IT solutions are relevant, address real needs and can respond to fast-changing requirements.

The Group has developed its own GIS system for the purpose of assessing the investment potential of opening new stores. GIS software enables the Group to identify the best locations for new stores in a more efficient manner. This software optimises the decision-making process (cuts it more than 50 per cent.), increases the productivity of business development units, and leads to a reduction in the number of mistakes in relation to finding locations for new stores.



In addition, the Group has implemented EDI system to automate interactions with its suppliers. The Group's EDI is one of the most advanced in the Russian retail sector, and has significantly improved both the efficiency and the quality of the Group's work with suppliers and other parties.

The Group has also been working towards reducing barriers between the Group's business and IT. To achieve this, a pilot project called "IT Store" was launched in the first quarter of 2016. The IT Store involves moving IT department employees in stores to work as store employees in order to better understand how employees use IT systems for day-to-day tasks.

The Group uses IT solutions based on SAP and JDA software. Pyaterochka store plans and layout designs are incorporated into the JDA system and through this the Group can better plan the unique store designs and product locations for Pyaterochka.

### ***Diversified multi-format operational model***

The Group has three major retail formats (Pyaterochka, Perekrestok and Karusel), supported by the Corporate Centre, which does not have the status of a separate business unit. Each of the retail formats is largely autonomous, running many of its own operations, including marketing, category management, logistics, distribution and expansion operations.

The Corporate Centre is responsible for providing organisational support and strategic leadership across the Group. In 2016, the Group completed a reorganisation of the Corporate Centre and strengthened its role as a 'management company', whilst decentralising many business functions to the three major retail formats.

The Corporate Centre focuses on strategy, strategic marketing, a centralised commercial function, M&A, partnerships, legal, IT, talent management, finance, government relations, investor relations and corporate communications. Other functions include providing a platform to exchange best practices between the three retail formats and acting as an incubator to test new projects.

This approach enables the Group to maximise value by tailoring each retail format's value proposition to the consumer needs of the dynamic and diverse Russian food retail market. In addition, it allows achieving cost efficiencies and synergies among retail formats in terms of logistics that are supported jointly between the Group's supermarket and hypermarket retail formats. The Group's business model aims to build effective and profitable businesses in each of the Group's business segments.

### ***Industry leading growth profile, strong financial performance and prudent debt management***

Based on publicly available financial statements of public retail companies in Russia, as of 31 December 2016, the Group had been expanding faster by revenue than other Russian public food retailers for five consecutive calendar quarters. For the year ended 31 December 2016, the Group's revenues and gross profit increased by 27.8 per cent. and 26.0 per cent., respectively. For the year ended 31 December 2015, the Group's revenues and gross profit increased by 27.6 per cent. and 28.0 per cent., respectively. As of 31 December 2016, the Group's ratio of net debt to EBITDA and adjusted EBITDA margin was equal to 1.81 and 7.7 per cent., respectively, as compared to 2.45 and 7.3 per cent., respectively as of 31 December 2015. For the year ended 31 December 2016, the Group's LFL growth of sales, traffic and

basket was 7.7 per cent., 2.5 per cent. and 5.0 per cent., respectively, as compared to 13.7 per cent., 2.3 per cent. and 11.2 per cent. for the year ended 31 December 2015.

The Group's financial results have enabled it to expand further. In particular, as of 31 December 2016, the Group operated a chain of 9,187 stores (in 56 of 85 Russian regions) with a selling space of 4,302 thousand sq. m., as compared to 7,020 stores with a selling space of 3,333 thousand sq. m. as of 31 December 2015. In addition, it operated 35 distribution centres in various Russian regions with a total area of 922 thousand sq. m. as of 31 December 2016. Expansion of the Group by number of stores and selling space provides for an opportunity to cover purchasing power of wider customer base.

### ***Strong management team with effective motivation system***

The Group has a diverse and highly experienced management team with a wide range of skills. Its governance model is in line with the best market practice, and functions well to deliver business growth. The management of the Group operates as a strong, independent team, combining a variety of skills and backgrounds in retail, strategy, finance and governance. The Supervisory Board of the Company provides the management with valuable guidance and support as they execute the Group's growth strategy.

The Group believes that a strong team with proper motivation systems in place is one of the keys to the Group's long-term success. The Group implements a variety of bonus and incentive programmes at different levels of the business, from cashiers and warehouse workers up to senior management, aimed at aligning the motivation of its team with those of the Group's rapidly-developing business. The Supervisory Board, with the support of the Nomination and Remuneration Committee, regularly reviews the short-term and long-term incentive systems in place in order to ensure that the Group's management is motivated to deliver strong and sustainable results.

### ***Ability and readiness to adapt to a changing and challenging market environment***

The Group has proven its ability to adapt to and prosper through economic downturns, leveraging its scale, efficiency and flexibility to grow profitably.

Russia's economic situation affects the Russian consumer's buying habits. According to the management of the Group, consumer trends in the Russian retail market in 2015 included: (i) customers actively searching for attractive promotions and comparing prices; (ii) customers purchasing less expensive goods; (iii) a decrease in consumption and the average customer basket; (iv) customers looking for more attractive prices in stores of different retail formats and chains; (v) a decrease in large purchases. In order to adapt to consumer trends described above, in 2015, the Group's response measures included the following:

- *Assortment matrix:* (i) ensuring adequate representation of value products in assortment matrix; and (ii) expanding assortment matrix with the focus on locally produced goods and further increasing direct import.
- *Price strategy:* (i) monitoring the competitor's prices and customer perception of the Group's retail formats' prices in order to maintain market position; (ii) further developing direct import; (iii) selective control of inflation for certain categories of

goods in order to maintain customer price perception; and (iv) comparing the prices of KVI's (determined by the Group) to the prices of its main competitors.

- *Supplier relations*: (i) active promotions supported by suppliers; (ii) increasing the share of local goods, particularly in the category of less expensive goods; and (iii) faster payment to suppliers in exchange for lower prices for goods purchased by the Group.

The management of the Group believes that the following key trends will drive Russia's food retail market in the next few years: (i) changing demographics (i.e. growth of the 60 year+ age population and a decrease of the 20-29 year age population); (ii) low income of the population (i.e. increased price sensitivity and rational spending and growth of "cherry pickers"); (iii) growing competition (i.e. retail space saturation and the development of "value" formats (e.g. hard discounters, dollar stores)); and (iv) the spread of new technologies (i.e., growth of online shopping and price transparency and an increase in big data analysis).

The Group's response measures, in 2016, included the following:

- *with respect to changing demographics*: (i) continued the expansion of its proximity segment (through Pyaterochka, representing 75.6 per cent. of the Group's net retail sales for the year ended 31 December 2016); (ii) implementation of discounts for pensioners; and (iii) focusing on mothers with children;
- *with respect to the population's declining income*: (i) constantly adapting the Group's value proposition to its customer needs; and (ii) further developing and personalising its promotional campaigns;
- *with respect to growing competition*: (i) further expanding, providing an effective value proposition for customers in both large cities and small towns in new regions; (ii) developing and implementing the new regional supermarket model (see "*Main retail Formats—Perekrestok—Expansion and developing regional supermarket model*"); and (iii) using the Group's GIS system to find optimal locations; and
- *with respect to the spread of new technologies*: (i) implementing an online retail initiative within the Perekrestok chain (for further details see "*Main Retail Formats—Perekrestok—Perekrestok on-line*"); and (ii) implementing more advanced analytical techniques in order to develop personalised promotions for the Perekrestok chain as well as loyalty programmes across all retail formats.

## Strategy

Over the past few years, the Group has been focused on a large-scale reorganisation of its operations aimed at providing more autonomy to its retail formats and reinforcing its multi-format strategy. The Group's strategy allows each of its retail formats to respond to the needs of its customers by adjusting and improving its value propositions on a continuous basis. This combination of focus and speed is underpinned by a drive to achieve greater efficiency and sustainable growth in the Group's operations.

As of the date of these Listing Particulars, the Group's strategy is to achieve a larger market share by revenue by the end of 2020.

In order to implement its overall strategic goals, the Group is focused on five strategic priorities.

#### ***Further development of multi-format operating model***

The Group focuses on acting as a 'hub' for food retail expertise that holds, generates and adapts value propositions offered by retail chains to their customers, further developing the Corporate Centre as a platform for the management of the retail chains while targeting the largest and most profitable segments of the Russian food retail market.

The Corporate Centre provides overall guidance and leadership, and each of the retail formats strives to be the best in its respective segment. This is expected to enable the Group to maximise benefits of scale while improving efficiency across the retail formats by giving them the necessary flexibility, decision-making power, and responsibility to achieve the goals set by the management of the Group.

#### ***Constant adaptation of value propositions***

The Group focuses on developing distinct value propositions for each retail format, adapting to evolving market conditions and customer demands, taking a holistic approach from comprehensive product range and category reviews to store refurbishments.

Each of the Group's major retail formats has a unique approach tailored to the particular shopping habits of different Russian consumers. Through continuous monitoring and adaptation of their value propositions, each of the retail formats seeks to capture the maximum share of customer purchases and to expand its market share in its respective segment. The Group's implementation of advanced IT systems enables it to analyse and gain deeper insight into market trends and to tailor the Group's assortment matrix, promotions, and new offerings to the shopping habits of its consumers.

The Group also adapts to its customers' needs by introducing day-to-day improvements in Pyaterochka stores, piloting a regional supermarket model for Perekrestok and further developing the loyalty programmes of Karusel and Perekrestok. The Group is also piloting online supermarket project (currently supporting Perekrestok's core customer base in Moscow) (for further details see "*—Main Retail Formats—Perekrestok—Perekrestok on-line*").

#### ***Intelligent growth and expansion***

The Group focuses on organic growth, store refurbishments, improving the efficiency of new store openings, and expanding partnerships. It also engages in tactical regional M&A as a way to rapidly enter new regions, quickly reach a critical mass of customers and strengthen market positions in existing locations.

The full implementation of the Group's in-house GIS system streamlines its decision-making process for new store openings. In order to sustain its market leadership position, the Group uses advanced analytical techniques to select new store locations and has built strong in-house capabilities in respect of the land acquisition and construction processes.

### ***Excellence in operational execution***

The Group focuses on in-store execution, optimising distribution centre logistics and transportation, and improving shelf availability.

The Group continues to focus on in-store operations, improving its lease conditions, strengthening its transport and logistics infrastructure, and enhancing its partnerships with suppliers. It also improves its logistics operations by opening new state-of-the-art distribution centres while closing down the old distribution centres that no longer meet the Group's new efficiency criteria.

### ***Strong leadership team***

The Group focuses on the maintenance of the right mix of skills to execute its goals in a tough operating environment and to motivate its leaders towards long-term value creation.

The Group has effective systems in place to retain and motivate staff, both short-term and long-term. In the future, the Group expects to increasingly use internal promotions to fill key posts.

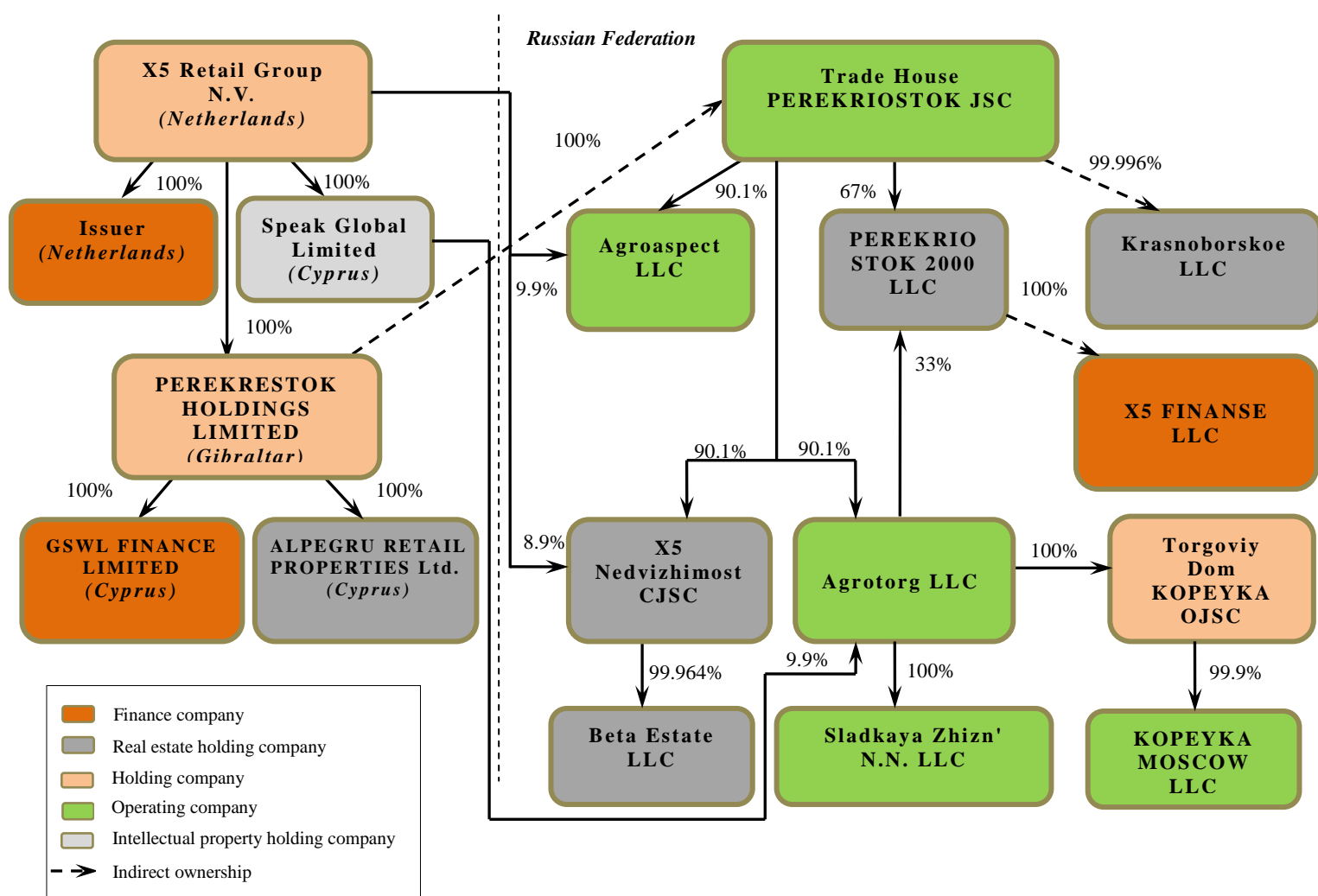
### ***Goals up to 2020***

According to the "Strategy of the Group up to 2020" approved by the Supervisory Board of the Company on 23 June 2016, the Group plans to focus on (i) increasing revenue at a faster rate than its competitors, whilst also maintaining margins; (ii) materially increasing the size of its business within 3–4 years by revenue; (iii) achieving a larger market share by revenue by the end of 2020; (iv) organic expansion; (iv) supporting a self-regulation strategy by adapting to changing legal requirements; (v) further streamlining logistical and operating expenses; and (vi) reducing shrinkage (i.e. loss of inventory be due to, among others, shelf life expiration and shoplifting).

### **Organisational Structure of the Group**

As of the date of these Listing Particulars, the Group consisted of 128 companies, 112 of which were incorporated in Russia and 16 were incorporated in other jurisdictions.

The following chart sets forth the Group's simplified organisational structure (including the Company and its principal subsidiaries) as of the date of these Listing Particulars.



Some of the Group's principal subsidiaries indicated in the chart above have their own operating subsidiaries that are also part of the Group. The Company is the holding company of the Group that directly or indirectly owns the other Guarantors. A number of Group-wide functions are managed through the Company.

### ***Intra-group reorganisation***

In order to enhance its organisational structure, the Group may undertake certain intra-group reorganisation steps. These may include dissolution of certain non-operational Group companies and corporate reorganisations of other companies with the goal of optimising the corporate and business governance processes.

### **Main Retail Formats**

#### ***General***

The Group is a multi-format retailer which manages a portfolio of retail brands that target all categories of Russian customers ("Pyaterochka", "Perekrestok" and "Karusel"). These brands have unique value propositions appealing to a wide range of customers with different budgets.

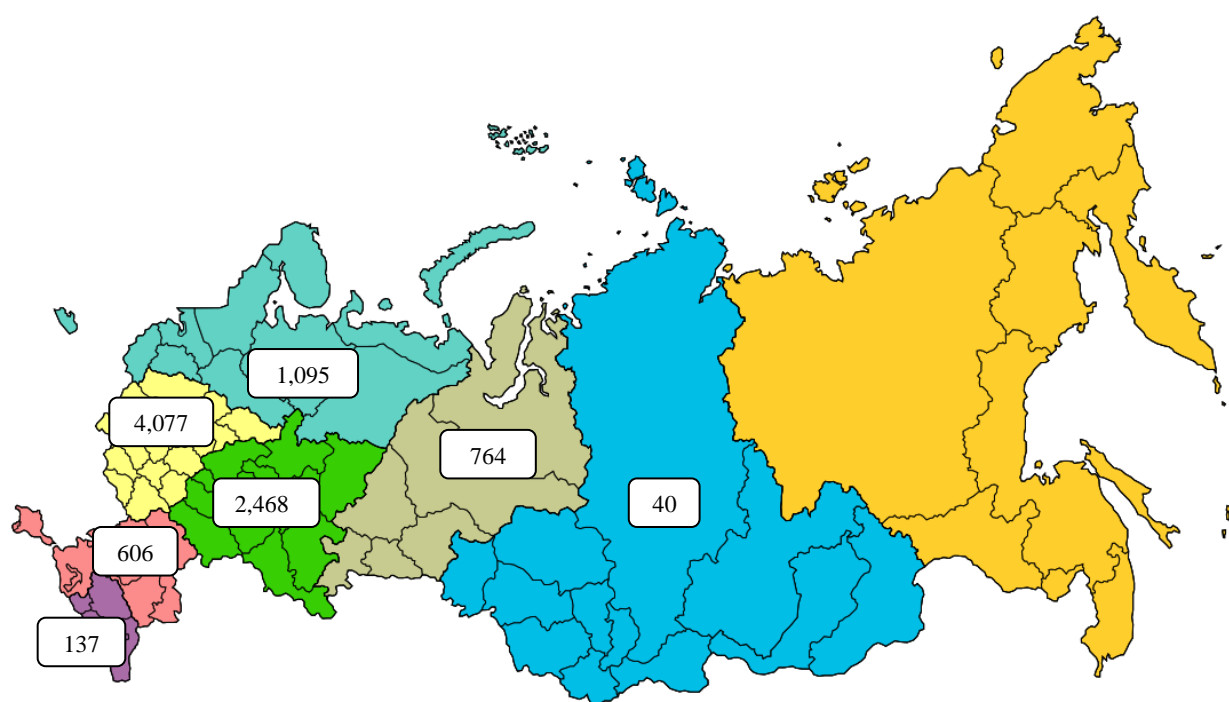
As of 31 December 2016, the Group operated a chain of 9,187 stores in 56 of 85 Russian regions. As of 31 December 2016, the Group's selling space was 4,302 million sq. m. For the

year ended 31 December 2016, the Group had total revenue of RUB 1,033,667 million and its customers made over 3 billion visits to the Group's stores.

### *Geographic footprint*

The Group's geographic expansion aims to strengthen presence in regions where the Group is already represented, and to enter new regions or localities that are underserved by federal players offering modern food retail formats.

The Group's stores are located in seven of the eight Russian federal districts. The following diagram represents the total number of the Group's stores in each of Russian federal districts where the Group operates as of 31 December 2016:



The following table represents the number of the Group's stores categorised by retail format in seven Russian federal districts as of 31 December 2016 and 2015:

Federal district	Pyaterochka	Perekrestok	Karusel	Convenience stores	Total
<b>2016</b>					
Central .....	3,512	336	35	194	4,077
Volga .....	2,348	95	25	—	2,468
North Western.....	1,028	50	17	—	1,095
Ural .....	730	26	8	—	764
Southern.....	577	24	5	—	606
North-Caucasus.....	128	8	1	—	137
Siberian.....	40	—	—	—	40
<b>Total .....</b>	<b>8,363</b>	<b>539</b>	<b>91</b>	<b>194</b>	<b>9,187</b>

<b>2015</b>					
Central .....	2,740	301	34	187	3,262
Volga .....	1,733	90	25	—	1,848
North Western.....	781	47	17	—	845
Ural .....	527	16	8	—	551
Southern.....	391	22	5	—	418
North-Caucasus.....	93	2	1	—	96
Siberian.....	—	—	—	—	—
<b>Total.....</b>	<b>6,265</b>	<b>478</b>	<b>90</b>	<b>—</b>	<b>7,020</b>

The following table represents the number of the Group's newly opened stores categorised by retail format in seven Russian federal districts as of 31 December 2016 and 2015:

	<b>Central</b>	<b>Volga</b>	<b>North Western</b>	<b>Ural</b>	<b>Southern</b>	<b>North- Caucasus</b>	<b>Siberian</b>
<b>2016</b>							
Pyaterochka .....	772	615	247	203	186	35	40
Perekrestok .....	35	5	3	10	2	6	—
Karusel.....	1	—	—	—	—	—	—
<b>Total.....</b>	<b>808</b>	<b>620</b>	<b>250</b>	<b>213</b>	<b>188</b>	<b>41</b>	<b>40</b>
<b>2015</b>							
Pyaterochka .....	575	470	116	142	141	32	—
Perekrestok .....	53	9	8	2	1	2	—
Karusel.....	3	1	1	2	—	1	—
<b>Total.....</b>	<b>631</b>	<b>480</b>	<b>125</b>	<b>146</b>	<b>142</b>	<b>35</b>	<b>—</b>

The following table represents the Group's net retail sales in seven Russian federal districts for the years ended 31 December 2016 and 2015:

<b>Federal district</b>	<b>2016</b>	<b>2015</b>
	<i>(in percentages)</i>	
Central .....	57.0	58.3
Volga .....	17.4	16.6
North Western.....	15.3	16.2
Ural .....	5.6	5
Southern.....	3.9	3.4
North-Caucasus.....	0.7	0.5
Siberian.....	0.1	0
<b>Total.....</b>	<b>100</b>	<b>100</b>

### ***Pyaterochka***

According to INFOLine, as of 31 December 2016, the proximity stores sector was the biggest segment in the Russian food retail market and the segment with the highest growth potential.



Pyaterochka is the Group's retail chain of conveniently located proximity stores that are situated primarily in residential areas, close to shoppers' homes and selling goods at reasonable prices. Pyaterochka is one of leading national retail brands and was one of the first modern grocery retail chains to open in Russia, when it was launched in St. Petersburg in 1999. Pyaterochka meets the needs of the Russian consumers looking for a high-quality local shopping experience with a wide range of fresh foods, weekly promotions, reasonable prices and convenient store locations. An average Pyaterochka store has 4,000 price list units ("PLUs") and selling space of 398 sq. m.

### *Operating results*

For the past two years, Pyaterochka has expanded its operations. As of 31 December 2016, Pyaterochka had 8,363 stores across European Russia and Western Siberia (entered the region in the fourth quarter of 2016), as compared to 6,265 stores as of 31 December 2015. In addition, its selling space increased to 3,329 thousand sq. m. as of 31 December 2016 from 2,422 thousand sq. m. as of 31 December 2015. The net retail sales of Pyaterochka increased to RUB 775,580 million for the year ended 31 December 2016 from RUB 585,402 million for the year ended 31 December 2015. For the year ended 31 December 2016, Pyaterochka stores accounted for 75.6 per cent. of the Group's net retail sales. Pyaterochka is the Group's key growth engine due to its customer value proposition, which is especially sustainable in crisis times. Pyaterochka improved its net promoter score (measures the loyalty that exists between a provider and a consumer) ("NPS") from 31.7 in the third quarter of 2016 to 34.4 in the fourth quarter of 2016<sup>1</sup>.

### *Expansion*

To identify the best possible locations for new stores, Pyaterochka uses the 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 up the decision-making process, and helps to achieve Pyaterochka's target of rapid and intelligent growth.

With the goal of broadening Pyaterochka's potential audience by providing a wider range of goods and services, Pyaterochka is focused on finding optimal sublease partners and formats. With a focus on creating long-term win-win situations and synergies that generate additional traffic for both lessor and lessee, Pyaterochka provides lessees with areas suitable for shops located within shops, checkout areas, and separate entrance locations, if needed.

### *Refurbishment of stores*

Pyaterochka is in the process of finishing its store refurbishment programme that was launched in 2013 and has consisted of (i) updating store facades and equipment; and (ii) improving in-store navigation and lighting, as well as shelf arrangement in order to optimise trade areas. The refurbishment programme was designed to increase sales in existing stores, whilst minimising interruptions to their operations, to generally quick payback periods. The following was achieved a result of the refurbishment programme: (i) increase in LFL sales due to increased customer traffic and average basket; (ii) return of mass market customers; (iii) expansion of target audience; and (iv) increase in recognition and improved

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<sup>1</sup> In the first half of 2016, common methodology of NPS estimation for all retail formats was introduced therefore the data in these Listing Particulars with respect to NPS of each of the Group's retail format is provided for the third and the fourth quarters of 2016.

perception of the "Pyaterochka" brand. As of 31 December 2016, 94 per cent. of Pyaterochka stores have been operating under the new format (including both refurbished stores and newly opened stores).

In 2016, Pyaterochka refurbished 1,185 stores, as compared to 1,411 stores in 2015. In addition, the share of stores operating under the new format (including new stores) reached 94 per cent. as of 31 December 2016, as compared to 70 per cent. as of 31 December 2015. Also, refurbished stores saw the average LFL sales grow by approximately 14 to 15 per cent. for the year ended 31 December 2016.

For the year ended 31 December 2016, Pyaterochka's LFL growth of sales, traffic and basket was 9.1 per cent., 3.0 per cent. and 5.9 per cent., respectively.

With close to 100 per cent. of Pyaterochka stores operating under the new concept, its focus has begun to shift towards the day-to-day improvement of store operations.

### *Strategy overview*

In the future, in order to maximise both customer visits and average spend, Pyaterochka plans to: (i) continue applying its value proposition and enhancing it through implementation of new initiatives; (ii) support rapid and sustainable growth with development in new regions (Siberia); (iii) further adapt its assortment matrix by introducing new categories of goods and entry-price PLUs; (iv) implement a loyalty programme and launch customised promotions; and (v) further improve its NPS.

In addition, in order to improve efficiency and reduce costs, it plans to: (i) significantly increase the share of its private-label product sales; (ii) increase the share of direct import; (iii) further improve operating expenditure and purchasing terms.

### ***Perekrestok***

Perekrestok was one of the first modern supermarkets launched in Russia, and according to INFOline, is Russia's No. 1 supermarket chain by food retail turnover (including VAT) in total food retail turnover of supermarket segment in Russia. Perekrestok aims to refine its value proposition, with a focus on its fresh products selection supported by the right complementary products mix to provide high quality products and services. Perekrestok's supermarkets have historically been located in the largest cities across the European part of Russia, but the Group plans to expand further through its regional supermarket model, which was piloted in 2016. Perekrestok stores offer an assortment matrix of between 10,000 to 15,000 PLUs. As of 31 December 2016, average selling space of a Perekrestok store was 1,018 sq. m.

### *Operating results*

As of 31 December 2016, Perekrestok had 539 stores, as compared to 478 stores as of 31 December 2015. In addition, its selling space increased to 548 thousand sq. m. as of 31 December 2016 from 484 thousand sq. m. as of 31 December 2015. The net retail sales of Perekrestok increased to RUB 155,404 million for the year ended 31 December 2016, from RUB 130,144 million for the year ended 31 December 2015. This marks a significant success for a supermarket chain targeting Russia's middle class given the severe economic challenges Russia has experienced recently. For the year ended 31 December 2016, Perekrestok stores

generated 15.2 per cent. of the Group's net retail sales. Perekrestok improved its NPS from 9.9 in the third quarter of 2016 to 15.2 in the fourth quarter of 2016.

For the year ended 31 December 2016, Perekrestok's LFL growth of sales, traffic and basket was 6.4 per cent., 2.4 per cent. and 3.9 per cent., respectively.

#### *Expansion and developing regional supermarket model*

Whilst the current economic environment presents challenges for the classic supermarket model, Perekrestok continues to adapt its value proposition in order to help its core customers to fulfil their shopping needs. While Perekrestok continues to focus on larger cities, it also plans to further expand in cities with populations of less than one million.

Under the regional supermarket model that Perekrestok is piloting, the stores offer a wider assortment matrix of low-price and mid-price products while the selection in the premium price segment is reduced. Perekrestok aims to implement this model as part of its expansion into new geographical areas and the smaller cities in Russia.

Perekrestok has also adopted the Group's in-house GIS software (initially developed by Pyaterochka) for the selection of sites for new Perekrestok stores. This software increases the speed of the decision-making process and helps to improve the success rates of new openings.

#### *Private-label and loyalty programme*

In 2015, Perekrestok introduced a new private-label strategy that is expected to gradually replace the Group's cross-format private-label brands with Perekrestok-specific brands. Perekrestok offers cross-category private-labels products in the low-price (the "Prosto" label) and the mid-price (the "Market Perekrestok" label) categories. Perekrestok has launched several niche private-label products: "Bonte" (confectionary), "Novy Okean" (seafood) and "Chef Perekrestok" (cookery).

Perekrestok has recently updated its loyalty programme and introduced customised promotion programmes that automatically offer discounts to loyal customers on goods that they buy regularly. Perekrestok's loyalty programme development plan includes the following steps: (i) developing personalised offerings and promotions; (ii) introducing a comprehensive customer relationship management ("CRM") system; (iii) developing new communication channels; (iv) developing partnerships with other companies; (v) increasing the number of customers that hold Perekrestok cards; (vi) utilising promotions to support the ramp-up of stores; and (vii) increasing the share in sales of the loyalty card holders.

By the end of 2016, the Perekrestok Club had 3.6 million active cardholders (who visit Perekrestok at least once in every three months), as compared to 3.1 million at the beginning of 2016.

#### *Perekrestok on-line*

Perekrestok's core audience includes active internet users, who are driving the rapid growth of e-commerce across many segments of the retail industry in Russia. The Group aims to leverage Perekrestok's well-known brand name as it pilots modern online supermarket model. Perekrestok's business model is based on a careful study of successful international online supermarket businesses and is adapted to the Russian market.

At the moment, Perekrestok online is being launched as a pilot project to retain the loyalty of Moscow customers, which are particularly important to the Group. The results of this pilot project may determine whether or not Perekrestok decides to expand its online offering into new regions.

### *Refurbishment of stores*

Perekrestok has continued to implement its store refurbishment programme, originally launched in 2014 in order to introduce a completely new and more modern format for Perekrestok. Achieving a critical mass of stores operating under the new concept is one of the keys to changing the perception of the "Perekrestok" brand. Perekrestok's ultimate goal is to bring the entire store base in line with the new customer value proposition.

The programme includes the installation of state-of-the-art equipment and updates to interior and exterior store designs. The new concept improves the efficiency of store layouts and the lighting of stores, giving customers more space and light for a better shopping experience. Zoning and locations of promotional offers are also taken into account under the refurbishment programme.

In 2016, Perekrestok refurbished 62 stores, as compared to 51 stores in 2015. In addition, the share of stores operating under the new format (including new stores) reached 52 per cent. as of 31 December 2016, as compared to 31 per cent. as of 31 December 2015. Refurbished stores saw their LFL sales grow on average by approximately 14 to 16 per cent. for the year ended 31 December 2016.

### *Strategy overview*

In the future, in order to fine-tune its value proposition and adapt to its customers' needs Perekrestok plans to: (i) maintain the pace of its organic growth and refurbishments; (ii) confirm and implement its regional model; (iii) further develop its product range; (iv) enhance its loyalty programme and implement personalised promotions; (v) develop its online supermarket; and (vi) improve its NPS.

In addition, in order to improve efficiency and reduce costs Perekrestok plans to: (i) increase the share of its sales of private-label products; (ii) increase the share of direct import; (iii) improve further how it manages its logistics (such as with respect to forecasting and stock replenishment system); (iv) to further improve operating expenditure and purchasing terms.

### *Karusel*

According to INFOline, hypermarkets were the third largest segment in the Russian food retail market in 2016. Karusel is the Group's national hypermarket brand and one of the largest hypermarkets chains currently operating in the Russian market. The Group had been developing hypermarket under the "Perekrestok" brand until the Group's acquisition of Karusel in 2008. Karusel hypermarkets offer customers convenient one-stop shopping at fair prices in a city location with a wide range of the quality food and the non-food products. This format is focused on expanding its product offering, improving the shopping experience of its customers and using weekly catalogues and loyalty programmes to increase sales. Karusel stores offer an assortment matrix up to 20,000 to 15,000 PLUs, with an average selling space of 4,272 sq. m.

### *Operating results*

As of 31 December 2016, Karusel had 91 stores, as compared to 90 stores as of 31 December 2015. In addition, its selling space decreased to 387 thousand sq. m. as of 31 December 2016 from 390.1 thousand sq. m. as of 31 December 2015. The net retail sales of Karusel increased to RUB 83,558 million for the year ended 31 December 2016, from RUB 77,443 million for the year ended 31 December 2015. For the year ended 31 December 2016, Karusel stores accounted for 8.1 per cent. of the Group's net retail sales. Karusel improved its NPS from 18.4 in the third quarter of 2016 to 26.4 in the fourth quarter of 2016. For the year ended 31 December 2016, Karusel's LFL growth of sales and basket was 0.7 per cent. and 1.9 per cent., respectively, and LFL reduction of traffic was 1.1 per cent. In 2016, Karusel refurbished 7 stores, as compared to 5 stores in 2015.

### *New commercial model*

In 2016, Karusel started developing a new approach to the Group's hypermarket business. Having identified the most successful best practices from its "Model Hypermarket" pilot project (focused on operating improvements and a better shopping experience), Karusel plans to integrate these into a new operational model. The new operational model will focus on compact city hypermarkets and, if initial results are positive, Karusel will implement it across existing and new Karusel stores. Pilot tests of the new commercial model have included changing Karusel's assortment matrix, rezoning, updating store navigation routes, a new approach to merchandising, modified pricing instruments and new trading equipment.

Karusel's short-term improvement plan to optimise existing hypermarket operations has led to positive changes in terms of availability and quality of products, which was quickly recognised by the customers. In addition, Karusel optimised its store portfolio by closing three underperforming hypermarkets during 2016, further reducing lease expenses and other costs.

### *Own production*

The share of Karusel's own production in sales reached 13.4 per cent. in the fourth quarter of 2016. Karusel aims to increase the share of its own production, and it will remain a key element of the new operating model that Karusel plans to roll out.

### *Private-label and loyalty programme*

Private-label products are an efficient way to diversify a product range, including diversification of prices. The largest private-label brand of Karusel is "Year-Round" label that was launched in 2015. In the fourth quarter of 2016, the share of this brand increased to 3.2 per cent. of Karusel's net retail sales from 1.0 per cent. in the fourth quarter of 2015. As of 31 December 2016, Karusel's hypermarkets had approximately 700 "Year-Round" private-label PLUs. In October 2016, Karusel also introduced the "Ampersand" brand aimed to compete with well-known brands in the mid-price segment.

Karusel's loyalty programme was re-launched in 2015 and 46 per cent. of net retail sales for the year ended 31 December 2016 consisted of purchases through which customers accrued loyalty programme benefits, as compared to 37 per cent. for the year ended 31 December 2015. The new programme implements advanced analytical techniques in order to develop

personalised offerings and promotions for customers, and will enable to implement the special promotions for cardholders only.

### *Strategy overview*

In the future, Karusel plans to: (i) increase sales density (i.e. share of revenues per sq. m); (ii) adapt further its assortment matrix and optimise pricing; (iii) enhance its loyalty programme and implement personalised promotions; (iv) increase the share that private-label product sales represent amongst its sales; (v) update its operating model for hypermarket with the best practices taken from the "Model Hypermarket" pilot project; (vi) improve logistics; and (vii) reduce rental costs and shrinkage (i.e. loss of inventory be due to, among others, shelf life expiration and shoplifting).

### **Real Estate**

As of 31 December 2016, the Group operated 9,187 stores in Russia, most of which were leased from third parties. As a percentage of the Group's total real estate portfolio, leased space accounted for 68 per cent. as of 31 December 2016, as compared to 61 per cent as of 31 December 2015.

With respect to leased stores, the Group's current policy is to have lease terms of five to ten years, with a pre-agreed indexation formula for the rental rate. Normally, lease rates are (almost all of them are in Roubles) not subject to re-negotiation, except in limited circumstances, for example, material changes in economic conditions such a decrease in the turnover of a particular store. The management of the Group believes that it has a good reputation as a tenant and that this has helped it to negotiate favourable lease terms and renew its leases on their expiry.

To create long-term win-win situations and synergies that generate additional traffic for both sides, the Group often (where space permits) sublets some store space to third parties operating small retail stores or booths, such as to mobile telephone service providers, pharmacies or sellers of baby goods, flowers or cookery products.

To support the construction of new distribution centres and stores, the Group has built up a land bank, by acquiring leasehold rights to sites where construction of new distribution centres and stores is planned or has started to develop. As of 31 December 2016, the Group had rights to 14 land sites designated for construction and on 12 of those sites construction was already underway.

### **Products**

All of the Group's formats have clear rules and guidelines to ensure that all products consistently meet the standards of quality and safety. The Group has established a quality control system that covers all of the Group's operations, from the supply of products to the Group to the sale of products at its stores.

As Russia's largest food retailer, the Group seeks to improve its safety and quality procedures across all retail formats on an ongoing basis. As part of this, it implements recommendations on best practices from the leading inspection, verification, testing and certification companies.

The Group also works closely with governmental authorities at the federal level to draft documents including food standards, legislative proposals, regulations and consumer rights protection proposals.

In the year ended 31 December 2016, food products comprised 85.3 per cent. of Pyaterochka, Perekrestok and Karusel formats' product range by net retail sales.

The Group views the development of its private-label product business as significant for its continuing success. Private-label products are an efficient way to diversify product ranges and the prices of different products offered. For the year ended 31 December 2016, sales of the Group's private-label goods generated for 14.2 per cent. of the Group's revenue.

## **Pricing**

The Group's pricing strategy varies amongst its retail formats. The Group positions itself as a value-focused retailer that is competitive on price. The Group's pricing strategy is aimed at both attracting new customers and retaining existing clients.

Each retail format manages its own pricing strategy by adapting to the latest customer trends to maximise the number of customer visits and customer purchases. Each retail format compares the prices of its KVIs (determined by the Group) representing approximately 150 stock keeping units that are frequently purchased in the Group's stores, to the prices of its main competitors in the area and aims to match such prices.

The Group's stores in each area sell products at prices determined for that relevant area. As the Group constantly monitors prices at its competitors' stores and the local open markets, it is able to change its prices rapidly to adjust to changing market conditions, including changing prices at a given store if a sale event is underway at a local competitor's store.

In order to increase client loyalty, improve brand perception and increase sales during seasonal fluctuations, the Group's retail chains hold different promotions and campaigns, the terms of which are agreed with suppliers.

## **Marketing**

The objective of the Group's marketing and advertising activities is to attract and retain customers, to improve brand awareness, to build customer trust in the quality of the Group's products and to promote the Group's private-label goods.

For the year ended 31 December 2016, the Group's annual marketing and advertising expenses amounted to approximately 0.5 per cent. of its total revenue.

The Group's campaigns include regular promotions, occasional coupon promotions, direct marketing, TV advertising, outdoor advertising, social media marketing, point-of-sales materials and targeted promotions for loyal customers.

The Group's advertising focuses on competitive prices and high quality products. Contact details of the Group's own quality control bodies, as well as those of the municipal customer protection agencies, are prominently displayed in all of the Group's stores.

The management of the Group believes that the Group's marketing and advertising efforts have helped make its retail brands become some of the most recognisable among retailers in Russia.

## **Suppliers**

As the largest grocery retailer in Russia, the Group is one of the most significant clients to many suppliers, including multinational fast moving consumer goods ("**FMCG**") companies. The management of the Group believes that due to the growth of the Group's business, its purchasing power has increased, which in turn allows the Group to negotiate favourable supply terms. The Group pays its suppliers within the time limits prescribed by current Russian legislation (which is also a negotiating strength).

Using these negotiating strengths as leverage with its suppliers, the Group is planning to consolidate its position by securing further price discounts and other favourable terms in accordance with the Trade Law and other regulatory acts adopted in the Russian Federation.

With approximately 5,000 active suppliers to the Group as of 31 December 2016, the Group's supplier base remains diversified. About 80 per cent. of the Group's product range is produced in Russia (including by multinational companies with operations in Russia), which the management of the Group believes enables easier logistics and lower transportation and handling costs.

## **Retail Operations Infrastructure**

The Group's logistics and transportation capabilities are important to the Group's expansion. The Group's logistics operations have recently become more comprehensive. In particular, the Group further developed direct import hubs (i.e. facilities that the Group builds in order to control import of goods (including their transportation from foreign countries) as part of its strategy to increase the share of direct import. In addition, the Group further developed cross-docking facilities in remote regions (that do not have enough stores to require a full distribution centre ("**DC**")) in order to reduce transportation costs of goods delivered to local stores. The Group has continued to increase its own transport fleet in order to keep pace with the Group's opening of new stores and expansion into new regions. In the year ended 31 December 2016, the Group purchased 976 trucks, bringing the Group's total fleet to 2,318 trucks as of 31 December 2016.

## **Logistics**

The Group's logistics operations are set up to provide an optimal service to each of Group's retail formats. Pyaterochka operates its own logistics, while Perekrestok and Karusel share infrastructure designed to serve larger stores.

As of 31 December 2016, the Group operated 35 DCs with a total floor space of 922 thousand sq. m., providing sufficient coverage for the Group's expanding operations. In 2016, the Group opened seven new DCs with a total floor space of 212 thousand sq. m., and closed seven DCs as part of its ongoing programme to optimise DC operations.

The Group's DCs are located in five of the eight federal districts of Russia. The following table represents the number of the Group's DCs and their space by Russian federal district as of 31 December 2016 and 2015:



As of 31 December				
Federal district	2016		2015	
	Distribution centres	Space (thousand sq.m.)	Distribution centres	Space (thousand sq.m.)
Central .....	14	483	15	423
North Western.....	5	131	6	117
Volga .....	7	143	6	127
Ural .....	6	88	6	65
Southern.....	3	77	2	41
<b>Total.....</b>	<b>35</b>	<b>922</b>	<b>35</b>	<b>773</b>

The Group's logistics strategy aims to provide each of the Group's retail formats with customised services that meet their specific business needs. The Group's logistics strategy focuses on:

- *Efficiency.* The Group consistently raises the efficiency criteria for its logistics operations by closing down those operations that are no longer able to meet expectations. It also expands the vertical integration of its logistics operations in order to include full-scale import hubs and cross-docking stations when there is an opportunity to reduce costs on a sustainable basis.
- *Quality and reliability.* Logistics operations must support the Group's ability to meet consumer needs, helping to ensure the quality and availability of goods on the Group's shelves.
- *Supporting expansion and regional operations.* The Group is building out its logistics infrastructure to support its continued expansion (including into new regions), to ensure it can deliver its value proposition to customers in different regions and also to adapt to particular regional needs.
- *Centralisation.* Increased centralisation helps to optimise deliveries and in-store product ranges.

Share of products supplied into the Group's stores through DCs other than directly from suppliers ("**centralisation level**") were as follows: 88 per cent. for the year ended 31 December 2016, as compared to 85 per cent., 78 per cent., 78 per cent., 75 per cent., 76 per cent. and 70 per cent., for the years ended 31 December 2015, 2014, 2013, 2012, 2011 and 2010. The Group-owned DCs are instrumental in maximising product traffic centralisation and optimising deliveries and in-store product ranging.

At the Corporate Centre level, the Group sets and monitors standards for DC operations, helps to share best practices and technologies across the Group's retail formats, and assists with planning investments into new DC infrastructure given the Group's ambitious expansion plans.

The Group's DCs run an automated warehouse management system ("**WMS**") featuring voice recognition and weighing technology to ensure efficient monitoring of traffic and storage of goods and to optimise the Group's shipping operations.

#### *Pyaterochka*

In 2016, Pyaterochka opened three DCs and closed two that did not meet the Group's efficiency standards. As of 31 December 2016, Pyaterochka operated 23 DCs. With Pyaterochka's rapid expansion, the Group is building out a comprehensive and sophisticated logistics infrastructure to support the chain's operations.

Since 2015, Pyaterochka has been implementing lean management, or "lean logistics" principles, by seeking to involve every employee in efforts to identify areas for improvement and to develop solutions. In 2016, it deployed teams of employees at DCs that undertook a systematic review of inefficiencies and losses, and developed solutions aimed at simplifying operations, improving working conditions, reducing costs and increasing the service life of warehouse equipment.

Pyaterochka is also implementing an "ongoing improvements" project across its entire logistics chain that entails: (i) analysis of its transport and logistics infrastructure to minimise costs whilst continuing to meet demand; (ii) optimisation of its supply chain; (iii) developing integrated business planning; and (iv) optimising logistics personnel management with a focus on employing people who can develop and implement ideas to improve operations and efficiencies.

In the future, Pyaterochka's priorities include the continued development of its comprehensive logistics infrastructure, the expansion of its cross-docking stations, and a focus on optimisation and efficiency, whilst maintaining reliability.

#### *Perekrestok and Karusel*

As of 31 December 2016, Perekrestok and Karusel operated 12 DCs. In 2016, they opened four DCs and closed five that did not meet efficiency standards.

In 2016, Perekrestok and Karusel focused on inventory management by: (a) optimising store supplies by developing an automated system for re-ordering of goods to be supplied to a Group's store taking into account sales of those goods in a particular store; (b) increasing the share of automated ordering (that helps to release shelf space during busy seasons); (c) increasing the turnover of inventory; (d) increasing purchasing accuracy; (e) implementing automated ordering across all product categories in all regions; (f) developing demand forecasting to improve the accuracy of automated ordering; (g) further integration of JDA software across the supply chain; and (e) the development and training of personnel.

Also, Perekrestok and Karusel focused on improvements to DCs by: (a) improving the quality and efficiency of DC packaging (though establishing unified standards, using electronic forklifts with in-built scales and automated pallet optimisation); (b) adapting remuneration policies (increasing the bonus part of salaries to improve focus on the quality of service, packaging and adherence to business plans); (c) launching employee evaluation and development systems; (d) piloting a warehouse irrigation system; and (e) increasing the scope of multi-temperature storage zones at DCs and in transport.

In the future, Perekrestok and Karusel plan to continue expanding the reach of their DC network.

### ***Transport***

The Group's in-house transport fleet is capable of handling approximately 60 per cent. to 70 per cent. of its transportation needs. With a fleet of 2,318 trucks in operation as of 31 December 2016, the Group has established transport operations capable of supporting its retail formats as they expand across the Russian Federation.

The Group's transport strategy focuses on ensuring reliable, timely and efficient supplies to stores. The key pillars of the Group's focus on transport are:

- *Efficiency.* The Group is constantly seeking ways to reduce transportation costs from the purchase of new vehicles to effective route management and driver incentives.
- *Quality and reliability.* The Group implements monitoring systems across its fleet to ensure food is properly stored while transport arrives at stores on time.
- *Supporting expansion and regional operations.* During expansion into new regions the Group utilises its own fleet for all transport needs due to a lack of third parties with the necessary vehicles to support the Group's expansion.

The Group uses modern transport management systems in order to maintain a real-time view of the location, condition and storage temperatures of its transport vehicles across its entire fleet. GPS/GLONASS systems enable store employees to monitor the movement of shipments from DCs, helping them to plan for arrivals and be alerted to delays.

In 2016, the Group purchased 976 new trucks. These new vehicles have mileage monitoring, GPS and refrigeration unit monitoring systems to maintain a detailed view of all transport operations. These systems help reducing diversions from routes. In addition, the Group opened 16 cross-docking stations, with a focus on regions that do not have enough stores to require a full DC, in order to ensure smooth and reliable logistics and improve the Group's ability to cooperate with the local suppliers. 3 of 16 new cross-docking stations were cross-docking "plus" stations with the capacity to package goods.

While the Group also relies on the third-party shippers for some of its transport needs, in 2016 it launched GoCargo, a proprietary solution for booking cargo transportation services online. Through the new service, shipping orders can be placed and distributed among registered private carriers based on the cargo's location and the delivery address. In the future, the Group aims to implement GoCargo to all retail formats and to expand its use for third-party shipping orders.

### **Competition**

According to Euromonitor, as of 31 December 2016, Russia was the 8<sup>th</sup> largest grocery market globally. The Group's management believes that Russian domestic market has strong potential for medium-term growth, and the Group's multi-format model puts it in a position to participate in the majority of that growth. According to Euromonitor and INFOnline, market consolidation is expected to be a source of significant growth for the Russian food retail

market. According to INFOnline, the market share of modern retailers amongst the total food retail market grew to 69 per cent, in 2016 from 65 per cent. in 2015.

The following table represents market shares of the top ten Russian food retailers in 2016 and 2015 (by share of the food retail turnover (including VAT) in the total Russian retail turnover):

Name	2016	2015
X5 Retail Group.....	8.0%	6.3%
Magnit <sup>(1)</sup> .....	7.4%	6.8%
Auchan.....	2.9%	2.8%
Dixy .....	2.4%	2.2%
Lenta .....	2.1%	1.8%
Metro .....	1.6%	1.6%
SPS Holding .....	1.2%	0.7%
O'key.....	1.2%	1.2%
Monetka.....	0.6%	0.6%
Globus.....	0.6%	0.5%
Total.....	28.0%	24.5%

Source: INFOnline

<sup>(1)</sup> Magnit retail sales exclude Magnit Cosmetic store sales.

The market share of the top-ten Russian food retailers grew to 28.0 per cent. in 2016, from 24.5 per cent. in 2015, primarily due to faster growth of their businesses relative to smaller and traditional retailers.

The management of the Group regards the following four major retailers as its direct competitors in Russia: Magnit, Auchan, Dixy and Lenta.

Magnit, the retail brand operated by JSC Tander, has the largest store portfolio of any retailer in Russia. According to information available on its website, as of 31 December 2016, Magnit operated 14,059 retail stores (10,521 proximity stores, 237 hypermarkets, 194 family stores, and 3,107 drogerie stores (i.e. selling health, beauty and household related products)) in 2,494 cities, towns, and villages in 7 out of 8 Russian federal districts. The Magnit retail-store network was supported logistically by 35 DCs and over 5,713 trucks as of 31 December 2016. In addition, based on financial information of Magnit available on its website, in the year ended 31 December 2016, Magnit's growth of selling space and revenue was 14.8 per cent. and 13.1 per cent., respectively. In the year ended 31 December 2016, Magnit's LFL sales decreased by 0.3 per cent. and, as of 31 December 2016, Magnit's net debt to EBITDA ratio was 1.0.

Auchan is a global hypermarket retailer headquartered in France. It opened its first store in Russia in 2002. According to information on its website as of 29 December 2016, Auchan had a total of 301 stores in Russia: 102 of which were hypermarkets, 187 were supermarkets and 12 were proximity stores.

Dixy is a multiformat retailer that opened its first store in Moscow in 1999. According to information on its website, as of 31 December 2016, Dixy operated 2,802 stores: 2,646 of which were Dixy proximity stores, 116 were Viktoria supermarkets and 40 were Megamart

and Minimart compact hypermarkets. In addition, based on financial information of Dixy available on its website, in the year ended 31 December 2016, Dixy's growth of selling space, LFL sales and revenue was 4.9 per cent., 4.4 per cent. and 14.3 per cent, respectively. In the year ended 31 December 2016, Dixy's net debt to EBITDA ratio was 3.0.

Lenta is a hypermarket retail chain in Russia that was originated in St. Petersburg in 1993. According to information on its website as of 31 December 2016, Lenta operated 240 stores (191 hypermarkets and 49 supermarkets) with the selling space of 1,146 thousand sq. m. In addition, based on financial information of Lenta available on its website, in the year ended 31 December 2016, Lenta's growth of selling space, LFL sales and revenue was 29.9 per cent., 3.9 per cent. and 21.2 per cent, respectively. In the year ended 31 December 2016, Lenta's net debt to EBITDA ratio was 2.8.

### **Information technology**

Advanced analytical and information technologies are key to the Group's operations and to meeting customer demand.

The Group's IT strategy, approved by the Supervisory Board in 2015, seeks to ensure that the retail formats use new technologies to improve the quality and efficiency of their operations, and that the Group's decision-making uses IT to help the Group to manage its growth and operations intelligently. The IT strategy of the Group focuses on:

- *Accelerating decision-making.* By using IT systems to effectively gather, manage and analyse data, the Group is able to optimise business processes like choosing locations for new stores.
- *Better understanding the customers.* Data and analytical techniques are key elements in understanding customer behaviour and adapting the Group's value proposition to meet their needs.
- *Store management.* The Group aims to improve store management, shelf availability and efficiency, through automated data collection, analysis, and forecasting systems.

In 2016, the Group implemented two projects aimed at improving the Group's customer-centric operations, enabling it to better analyse customers and their behaviour, as well as to develop more effective and individualised loyalty programmes. The Group also focused on leveraging technology to strengthen its forecasting, supply chain management, product range management, pricing, promotions, and business planning systems. These systems enable the Group to better and more efficiently manage its business by analysing historical data and customer behaviour to better meet customer demand.

The Group's corporate data warehouse recently moved to the SAP HANA platform, which provides close to real time sales reporting, enable the Group to quickly collect and analyse store-by-store receipts and performance data, with up to two years' worth of historical data. Daily reporting is accelerated by the new capabilities of the HANA platform.

The Group's EDI system is one of the most advanced in the retail sector and has significantly improved both the efficiency and quality of the Group's interactions with suppliers and other parties. The Group is in the process of implementing approximately 20 different EDI projects.

In 2016, electronic document traffic increased by 40.3 per cent., and all lease, transport, non-commercial procurement and intercompany transactions were moved to the Group's EDI platform. Another area of focus continues to be the Group's "IT store" project that involves moving IT department employees in stores to work as store employees in order to better understand how employees use IT systems for day-to-day tasks.

## IP rights and key trademarks

Under Russian law the right to use a trademark is acquired upon the trademark's registration with the Russian Federal Service for Intellectual Property ("**Rospatent**").

The Group's main trademarks are listed and detailed below.

### *Trademarks of the "Pyaterochka" brand*

#### Trademark image

##### Used in new stores



##### Used in stores that are subject to rebranding



#### Trademark details

Owner: Agrotorg LLC

Registration No.: 554730

Date of state registration: 15 October 2015 (priority from 5 September 2013)

Effective until: 5 September 2023

Owner: Agrotorg LLC

Registration No.: 268528

Date of state registration: 12 May 2004 (priority from 15 October 2002)

Effective until: 15 October 2022

### *Trademarks of the "Perekrestok" brand*

#### Trademark image

##### Used in new stores



##### Used in stores that are subject to rebranding



#### Trademark details

Owner: "Trade House "PEREKRIOSTOK" Joint Stock Company

Registration No.: 553596

Date of state registration: 2 October 2015 (priority from 5 June 2014)

Effective until: 5 June 2024

Owner: "Trade House "PEREKRIOSTOK" Joint Stock Company

Registration No.: 148334

Date of state registration: 16 December 1996 (priority from 5 October 1995)

Effective until: 5 October 2025

**ПЕРЕКРЕСТОК**

Owner: "Trade House "PEREKRIOSTOK" Joint Stock Company

Registration No.: 456316

Date of state registration: 14 March 2012 (priority from 7 October 2010)

Effective until: 7 October 2020

### **Trademarks of the "Karusel" brand**

#### Trademark image



#### Trademark details

Owner: Speak Global Limited

Registration No.: 383403

Date of state registration: 14 July 2009 (priority from 24 May 2006)

Effective until: 24 May 2026

### **Other trademarks**

#### Trademark image



#### Trademark details

Owner: X5 Retail Group LLC

Registration No.: 362574

Date of state registration: 21 October 2008 (priority from 27 November 2016)

Effective until: 27 November 2016 (is in the process of extension of the effective term)



Owner: X5 Retail Group LLC

Registration No.: 364248

Date of state registration: 7 November 2008 (priority from 9 June 2006)

Effective until: 9 June 2026

### **Insurance**

The Group's insurance policies cover business interruption, real estate, inventory, equipment, goods in store and warehouse, civil liability and vehicles (including 'OSAGO', the mandatory drivers' third-party liability insurance required by Russian law). Most of the Group's insurance policies (up to 99 per cent.) are currently issued by insurance companies of Alfa Group, a leading Russian insurance company, which is part of Alfa Group, the Group's largest shareholder (see "Shareholders"). Moreover, the Group maintains directors and officers insurance.

### **Employees**

The average number of employees in the Group (including those working for the Group on the basis of outsourcing arrangements) for the years ended 31 December 2016 and 2015 was 196,126 and 167,483, respectively.

To the best knowledge of the management of the Group, none of the Group's employees belongs to trade unions, labour or workers' syndicates and there are no collective bargaining agreements between any of the companies of the Group and their employees.

### **Legal proceedings and investigations**

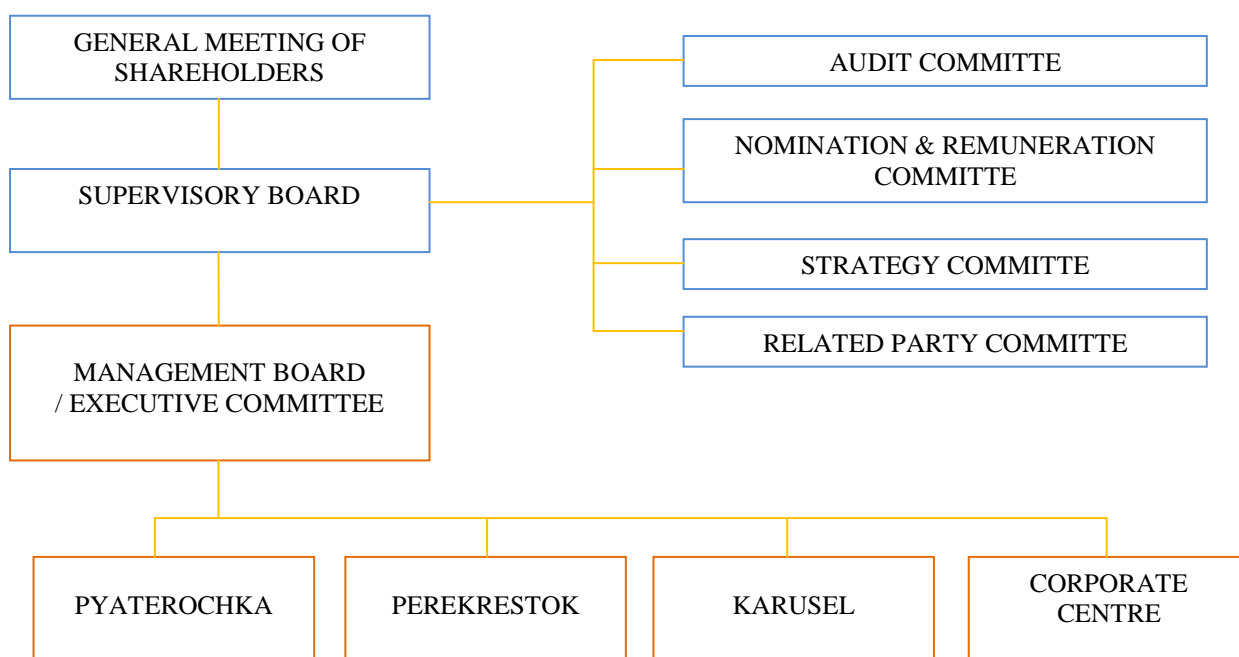
The Group has not been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the management of the Group is aware) which may have or have had in the past twelve months from the date of these Listing Particulars a significant effect on the Group's financial position.

## MANAGEMENT

As a public company under Dutch law and with global depositary receipts listed on the London Stock Exchange, the Company is subject to the Dutch Corporate Governance Code (the "**Corporate Governance Code**").

The Company 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 of their responsibilities.

The diagram below represents the governance structure of the Company as of the date of these Listing Particulars:



### Management Board and Executive Committee

The Management Board is responsible for the overall management of the Group. It is accountable for the Company's pursuit and achievement of corporate goals, objectives, 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.

The Group's Executive Committee 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 level in the Group. The Executive Committee does not have the status of a separate governance unit. It is more of an advisory 'body' with no actual executive authority. However, the Executive Committee supports the Management Board in managing the general affairs of the Group and its day-to-day operations, ensuring that the Group 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 the Group.



As of the date of these Listing Particulars, the Management Board consists of two members that are listed in the table below:

<b>Name</b>	<b>Year of birth</b>	<b>Year of first appointment</b>	<b>End of current term of appointment</b>
Igor Shekhterman.....	1970	2015	2019
Frank Lhoëst.....	1962	2007	2019

**Igor Shekhterman** is the Chief Executive Officer, Chairman and a member of the Management Board. Mr. Shekhterman has served on the Supervisory Board since 2013. Previously, he was the Managing Partner and chief executive officer at RosExpert (which he co-founded in 1996) and subsequently developed into the Russian partner of Korn/Ferry International. Mr. Shekhterman started his career as a finance manager at the Russian branch of Beoluna, the Japanese jewellery producer. He holds a degree in Economics from the Kaliningrad Technical Institute and degrees in Business Administration from the Institute d'Administration des Entreprises (France) and the Danish Management School.

**Frank Lhoëst** is the corporate secretary and a member of the Management Board. Mr. Lhoëst joined the Group 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, Mr. Lhoëst established Intertrust's Intellectual Property Group in The Netherlands. He graduated from the Leiden University with a degree in Law.

As of the date of these Listing Particulars, the Executive Committee consists of 13 members that are listed in the table below:

<b>Name</b>	<b>Year of birth</b>
Igor Shekhterman.....	1970
Frank Lhoëst.....	1962
Dmitry Gimmelberg.....	1971
Olga Naumova.....	1972
Vladimir Sorokin.....	1971
Maksym Gatsuts.....	1969
Anton Mironenkov.....	1976
Olga Kruzhkova.....	1969
Fabricio Granja.....	1976
Stanislav Naumov.....	1972
Elena Konnova.....	1971
Dmitry Agureev.....	1970
Ekaterina Lobacheva.....	1982

**Dmitry Gimmelberg** is the Chief Financial Officer. Prior to joining the Group, Mr. Gimmelberg served as a Deputy Chief Executive Officer for strategic development at Locomotive Technologies (part of TransMashHolding Group). From 2012 to 2015, he held senior roles within the Basic Element Group operating company. In these positions he oversaw a number of strategic transformations at operating companies, established

management and financial reporting systems, and led a project management office. Between 2008 and 2011, Mr. Gimmelberg held management positions at Invest AG, a Russia and CIS focused investment advisory business. Prior to that, in 2002-2006, he worked for Ritzio Entertainment, where he was a member of the board of directors and vice president for finance, legal affairs, international development and property. Before that, Mr. Gimmelberg worked as finance director for Russian Standard Vodka. Mr. Gimmelberg graduated with honors from the Saint-Petersburg State Polytechnic University and holds an MBA from the Maastricht School of Management.

**Olga Naumova** is the General Director of the Pyaterochka retail chain. Ms. Naumova joined the Group in May 2013. She has over 20 years of management experience at senior executive level with leading Russian and international companies, including Rimera, Severstal and IBS. During this time, Ms. Naumova has managed very large teams in both Russian and international environments and has a track record of success in business integration and restructuring. She graduated from the Social Science faculty of the Moscow State University.

**Vladimir Sorokin** is the General Director of the Perekrestok retail chain. Mr. Sorokin joined the Group in January 2013 as deputy purchasing director, and in June 2013 he became the director of category management for Pyaterochka. He has approximately 20 years of experience in the retail, FMCG and insurance industries and has held senior management positions at Alfa Strahovanie LLC, SunInterbrew and Gillette, where he has led both strategy development and business transformation projects. Mr. Sorokin 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 with a specialisation in finance and credit.

**Maksym Gatsuts** is the General Director of the Karusel retail chain. With 20 years of management experience at various multinational industry leaders, he has the expertise in food retail. From 2002, he worked for the METRO Group, as store manager, district manager, operations director at METRO Cash & Carry Ukraine and customer management director at METRO Cash & Carry Portugal. From 2012, he served as operations director and a member of the management board at METRO Cash & Carry Russia. Mr. Gatsuts graduated from the Moscow Aviation Institute and holds an MBA from INSEAD.

**Anton Mironenkov** is the Director of Strategy. He joined the Group 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. In February 2014, Mr. Mironenkov was appointed as general director of the Express proximity store format. From 2005 to 2006, Mr. Mironenkov managed various projects in 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 transferring to the vice president position at Troika Dialog Asset Management in 2005. Mr. Mironenkov graduated with honors from the Moscow State University with a degree in Economics.

**Olga Kruzhkova** is the Organisational Development Director. Ms. Kruzhkova joined the Group in October 2015. She has a track record in implementing organisational change, improving governance, developing internal communications, and managing HR projects. Before joining the Group, Mrs. Kruzhkova 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, she was a senior partner and deputy chief executive officer at

AXES Management. In 1999–2005, Mrs. Kruzhkova held various positions at ECOPSY Consulting, starting from an associate position and working her way up to head of the executive coaching practice. Mrs. Kruzhkova graduated from the Moscow State University with a degree in psychology.

**Fabricio Granja** is the Chief Information Officer. He joined the Group in October 2016. He has a track record in the field of IT. Before joining the Group, he worked as vice president for IT & projects at Eldorado LLC, and was in charge of the company's IT strategy. Mr. Granja held management positions at a number of Russian and international IT consulting firms, including Ciber, ABPL Altamiro Borges Planejamento & Logistica, and FQS, focusing on projects for major companies. He graduated from the Federal University of São Carlos (São Paulo, Brazil) with a Master's Degree in IT.

**Stanislav Naumov** is the Government Relations Director. Before joining the Group (in March 2015), he held several high-level positions in civil service. From 1992 to 2010, he worked as the head of the public relations center in the Administration of the City of Magnitogorsk, as an assistant chief of the State Tax Service of Russia, as an assistant deputy of the chairman of the Government, as the director of economic analysis and prospective planning of the Russian Ministry of the Industry and Energy, as the deputy minister of the Russian Ministry of the Industry and Trade. From 2010 to 2012, Mr. Naumov was a vice president for government and public relations Skolkovo Foundation. Since December 2010, he has been appointed and acts as president of the Russian Association of Public Relations (RPRA). From 2013, Mr. Naumov is the chairman of the board of directors of CROS - Public Relations & Public Affairs Company, and is also the executive director of the Eurasian Center for Integration Studies and Communications. Mr. Naumov graduated from the Faculty of Philosophy of the Ural State University specialising in political science. He received his PhD title and an executive MBA from the Moscow School of Management, Skolkovo.

**Elena Konnova** is the Corporate Communication Director. Ms. Konnova joined the Group in January 2015. She has 15 years of experience in handling public relations with some of Russia's largest companies. Before joining the Group, Elena worked for Volga Group, Gazpromneft, NIS (Naftna Industrija Srbije), Ilim Group, (Russian pulp and paper holding). Prior to that, she worked for more than 10 years as a journalist for the Russian business press, including at Kommersant and Expert. Mrs. Konnova graduated from St. Petersburg State University with a degree in sociology and economics.

**Dmitry Agureev** is the Head of Corporate Security. Mr. Agureev has approximately 23 years of experience working in government and corporate security including leading Russian and international companies. He started his career in Intelligence Service of Russian Federation. Prior to joining the Group, Mr. Agureev was the security director for Volvo Group Russia, Ukraine and Belarus and also held security positions at Gazprom and Transneft. Education: Mr. Agureev holds degrees from the Moscow Suvorov Military School, Serpukhov military command-engineering college of Nuclear-missile Forces and Russian Academy of Intelligence Service as well as Volvo MBA.

**Ekaterina Lobacheva** is the General Counsel. She joined the Group in October 2016 as the Head of the Corporate Law and the Group's Corporate Structure Department. She has over 15 years of successful managerial and practical experience in the field of law. Before joining the Group, Ms. Lobacheva worked for over five years at Evraz Holding, where she implemented a number of large-scale projects in the legal support of business. During her term at Evraz Holding, Ms. Lobacheva held numerous positions, including director of corporate and

property relations, vice president, legal, law and corporate law director. Ms. Lobacheva worked at MDM Bank as the corporate secretary from 2007 to 2011. She began her professional career in the legal field in 1999, working in several private and government entities before joining MDM Bank. Ms. Lobacheva graduated from the Russian Academy of State Service with a degree in Law in 2005, and received an additional degree in Finance and Credit from the Plekhanov Russian University of Economics in 2011.

## Supervisory Board

The Supervisory Board is responsible for advising and supervising the Management Board and the general course of affairs of the Group and its businesses. 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 members of the Supervisory Board. As of the date of these Listing Particulars, the Supervisory Board consists of eight members that are listed in the table below:

Name	Year of birth	Year of first appointment	End of current term of appointment
Stephan DuCharme (Chairman) <sup>(1)</sup>	1964	2015	2019
Mikhail Fridman <sup>(2)</sup>	1964	2006	2017
Christian Couvreur	1950	2010	2018
Pawel Musial <sup>(2)</sup>	1968	2013	2017
Geoff King	1965	2015	2019
Peter Demchenkov	1973	2015	2019
Mikhail Kuchment	1973	2015	2019
Andrei Elinson	1979	2016	2020

<sup>(1)</sup> Stephan DuCharme previously served on the Supervisory Board from 2008–2012.

<sup>(2)</sup> Mikhail Fridman and Pawel Musial are eligible for reappointment at the 2017 Annual General Meeting of Shareholders.

**Stephan DuCharme** is the chairman of the Supervisory Board and the chairman of the Nomination and Remuneration Committee. Mr. DuCharme, a dual U.S./German citizen, served as chief executive officer and the chairman of the Management Board from July 2012 until November 2015, after having previously served on the Supervisory Board since 2008. Previously, 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. He 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**, one of the original founders of Alfa Group Consortium, is the chairman of the supervisory board of Alfa Group Consortium, one of Russia's largest privately owned financial-industrial conglomerates. Mr. Fridman is also a member of the supervisory board of VimpelCom Ltd., a member of the board of directors of Alfa-Bank, and a member of the board of directors at ABH Holdings. Mr. Fridman 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.

**Christian Couvreur** is the chairman of the Strategy Committee. Mr. Couvreur, a French citizen, formerly held several leadership positions at Group Casino, including the position of chief executive officer 1997 until 2003, as well as at CFAO (now part of PPR) with CFAO-Congo and La Ruche Meridionale. More recently, he acted as a retail consultant in several Asian countries, including Thailand, Vietnam, Indonesia, and the Philippines. Mr. Couvreur holds a Master's degree in Economic Sciences from the University of Paris and an MBA from the French business school H.E.C.

**Pawel Musial**, a Polish citizen, is chairman of Profi Rom Food, one of the largest supermarket chains in Romania, following position as chief executive officer of the chain from 2010 until 2015. From 2008 to 2009, he was chairman of the Ukrainian supermarket chain EKO market. From 2006 to 2007, Mr. Musial was chief commercial officer and member of the Management Board of the Company, having previously been general director and chief operating officer of the Perekrestok chain since 2004. Prior to joining Perekrestok, he held senior management positions in the food retail industry in Poland, including five years with Tesco Polska, with his last position as regional director. Mr. Musial graduated from the Warsaw University of Life Sciences (SGGW) with an engineer degree in nutrition technology.

**Geoff King** is the 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 chief financial officer for Tesco Ireland, Tesco International, and Tesco Poland. More recently he was the group chief financial officer of Maxis Communications Berhad, a major telecoms operator in Malaysia and India.

**Peter Demchenkov** is CEO of ALIDI, a leading provider of distribution and logistics services in Russia. From 2004 to 2005 he was development director at the investment bank CIT Finance, and from 1997 to 2004 he worked in Procter & Gamble's business development department for Eastern Europe. Mr. Demchenkov graduated from the St. Petersburg Polytechnical University with a degree in Technical Cybernetics.

**Michael Kuchment** is the co-founder and vice president of Hoff, one of the leading home furnishing retailers in Russia. He is also the chairman of the supervisory board of Sovcombank, one of the leading Russian consumer banks. From 2008 until 2015, Mr. Kuchment 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, he worked as the commercial director at M.Video. Mr. Kuchment graduated from the Moscow Institute of Physics and Technology a physics researcher, and holds an Executive MBA from the Skolkovo Moscow School of Management.

**Andrei Elinson** is the director of asset management at CTF Holdings, where he has worked since December 2015. Currently, Mr. Elinson is a member of the board of directors of ABH Holdings S.A., a member of the board of directors of Alfa-Bank, and a member of the board of directors of AlfaStrakhovanie Group. Prior to joining CTF, Mr. Elinson was deputy chief executive officer of Basic Element, where he worked from August 2007, with responsibility for managing companies in the aviation, construction, automotive, financial and other industries. From 1997 to 2007, Mr. Elinson worked at Deloitte CIS, and later became a

Partner in 2005. Mr. Elinson graduated with honours from the Accounting & Auditing faculty of the Russian State Finance Academy. Mr. Elinson is a US Certified Public Accountant and a US Certified Fraud Examiner. He holds a Certificate in Company Direction (UK).

### **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 the 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 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.

#### ***Audit Committee***

The Audit Committee assists the Supervisory Board in overseeing the integrity of the Group's financial statements, its system of internal business controls and risk management, its financing and finance-related strategies, its tax planning, its 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.

#### ***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 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.

#### ***Related Party Committee***

The Related Party Committee advises the Supervisory Board on handling and deciding on reported (potential) conflicts of interest and any other related party transactions that are contemplated between the Group, 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.

#### ***Strategy Committee***

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

## Remuneration

The Group key management personnel consists of members of the Supervisory Board, Management Board and certain other members of the Executive Committee, having authority and responsibility for planning, directing and controlling the activities of the Group as a whole. The total direct compensation for members of the Executive Committee (including the members of the Management Board) consists of a base salary, a performance related short-term incentive and a performance related long-term incentive; members of the Supervisory Board receive an annual base compensation in cash and share-based payments.

## Restricted Stock Unit Plan

Members of the Supervisory Board are entitled to annual awards of restricted stock units ("RSUs") under the Company's restricted stock unit plan ("**RSU Plan**") approved at the Annual General Meeting of Shareholders in 2010. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders.

During the year ended 31 December 2016, a total number of 115,981 RSUs were awarded under tranches 6 and 7 of the RSU Plan, of which 47,438 RSUs awarded under tranche 6 will vest in 2018 and 68,543 RSUs awarded under tranche 7 will vest in 2019. In 2016, 25,843 RSUs awarded in 2014 under tranche 4 vested. Upon vesting these RSUs were converted into GDRs registered in the participant's name, and kept in custody during a two-year lock-in period during which the GDRs cannot be traded.

In total, during the year ended 31 December 2016, the Group recognised an expense related to the RSU Plan in the amount of RUB 48 million, as compared to RUB 18 million in the year ended 31 December 2015. As of 31 December 2016, the equity component was RUB 70 million, as compared to RUB 37 million in the year ended 31 December 2015. 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 were as follows:

	As of 31 December 2016		As of 31 December 2015	
	Number of conditional rights	Weighted average fair value, RUB	Number of conditional rights	Weighted average fair value, RUB
Outstanding at the beginning of the period .....	123,123	765.23	235,425	659.61
Granted during the period .....	68,543	1,272.00	47,438	1,033.57
Vested during the period .....	(25,843)	577.63	(58,713)	606.52
Waived of previously vested .....	18,168	890.28	—	—
Forfeited during the period .....	(28,527)	785.35	(101,027)	737.34
<b>Outstanding at the end of the period .....</b>	<b>155,464</b>	<b>1,030.77</b>	<b>123,123</b>	<b>765.23</b>

## SHAREHOLDERS

As of 31 December 2016, the Company had 190,000,000 authorised ordinary shares of which 67,884,340 ordinary shares were outstanding and 8,878 ordinary shares were held as treasury stock. The nominal par value of each ordinary share is EUR 1.

No dividends were paid or declared during the years ended 31 December 2016, 2015 and 2014.

The Company's shares are listed on the London Stock Exchange in the form of global depository receipts ("**GDRs**") (LSE ticker: FIVE). Each GDR represents an interest of 0.25 of one ordinary share.

The table below sets forth the shareholding structure of the Company as of 31 December 2016:

Shareholders	Shareholding <sup>(1)</sup>	% of share capital
Luxaro Retail Holdings S.a.r.l. <sup>(2)</sup> .....	32,495,620.75	47.86
Intertrust Trustees Ltd (Axon Trust) .....	7,762,584.25	11.43
Igor Shekhterman.....	1,846.00	0.00
Stephan DuCharme .....	27,741.00	0.04
Frank Lhoëst .....	5,000.00	0.01
Christian Couvreur .....	4,012.75	0.01
Pawel Musial .....	615.25	0.00
Geoff King .....	982.50	0.00
Treasury shares .....	8,878.00	0.01
Other shareholders with less than 3 per cent. ....	27,585,937.50	40.63
<b>Total</b> .....	<b>67,893,218</b>	<b>100</b>

(1) In number of ordinary shares, which are held in the form of GDRs, each GDR representing 25 per cent. of an ordinary share (hence the broken numbers of ordinary shares for some shareholders).

(2) CTF Holdings Ltd (company of Alfa Group) owns 47.86 per cent. of total issued shares in the Company, indirectly through Luxaro Retail Holding S.a.r.l. CTF Holdings Ltd is wholly owned by three individuals: Mr. Fridman, Mr. Khan and Mr. Kuzmichev. None of these three persons individually controls and/or owns 50 per cent. or more in CTF Holdings Ltd.

Save as disclosed above, there are no other persons who could exercise control over the Company and no person has any right or option to acquire ordinary shares, GDRs or any other securities of the Company.



## 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 significant transactions or had significant balances outstanding as of 31 December 2016 and 2015, respectively, are provided below.

The following transactions were carried out by the Group with related parties as of 31 December 2016 and 2015, respectively:

	<u>Relationship</u>	<u>2016</u>	<u>2015</u>
		<i>(in RUB millions)</i>	
<b>CTF Holdings Ltd.</b>	Entity with significant influence over the Company (ultimate parent company before 31 December 2016)		
Management services received .....		90	65
<b>Other</b>	Under control by the entity with significant influence over the Company (under common control before 31 December 2016)		
Purchases from related parties .....		1,517	1,190
Insurance expenses .....		223	161
Other operating expenses .....		2	155
Bonuses from related parties .....		226	301
<b>Other</b>	Other		
Other operating expenses .....		42	52

The consolidated financial statements include the following balances with the related parties as of 31 December 2016 and 2015, respectively:

	<u>Relationship</u>	<u>2016</u>	<u>2015</u>
		<i>(in RUB millions)</i>	
<b>Other</b>	Under control by the entity with significant influence over the Company (under common control before 31 December 2016)		
Trade accounts payable .....		278	236
Other accounts payable .....		3	4
Trade accounts receivable .....		29	38
Other receivables and prepayments from related parties .....		11	7
<b>Other</b>	Other		
Other accounts payable .....		12	9
Other accounts receivable .....		—	3

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's-length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. For the years ended 31 December 2016 and 2015, there have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2016 and 2015, the Group has not recorded any impairment of receivables relating to amounts owed by related parties.

## THE ISSUER

The Issuer was incorporated in The Netherlands as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) on 9 March 2017 and was registered with the commercial register in The Netherlands on 10 March 2017. The Issuer's registered number is 68272014. The registered office of the Issuer is Parkstraat 20, 2514 JK 's-Gravenhage, and its telephone number is +31857730085.

The Issuer operates under the laws of The Netherlands, including (but not limited to) the Dutch Civil Code (*Burgerlijk Wetboek*) and the Financial Markets Supervision Act (*Wet op het financieel toezicht*).

### Business

The principal objects of the Issuer are set forth in its articles of association (*statuten*) and include:

- to acquire, conduct the management of, administer, hold, operate, encumber and dispose of operating assets and other assets;
- to take up loans and to grant loans and to enter into any kind of financial transactions, including but not limited to issue bonds, promissory notes or other securities;
- to trade currencies, securities and assets and to enter in to any kind of derivative and hedging transactions;
- to grant guarantees and to bind the company and encumber the assets of the company as security for obligations of third parties;
- to participate in, to conduct the management of and to finance other companies and business enterprises, of any nature whatsoever;
- to render services and give other support to legal persons and companies, with which the company forms a group,

together with all activities which are incidental to or which may be conducive to any of the foregoing.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance (i) to prepay the Group's indebtedness or (ii) for general business purposes of the Group.

Since its incorporation the Issuer has not engaged in material activities. The Issuer has no employees.

The rights of the Company as a shareholder of the Issuer are contained in the articles of association of the Issuer and the Issuer will be managed in accordance with those articles and with the provisions of the laws of The Netherlands.

## **Management Board**

The member of the Issuer's management board is Frank Lhoëst (since 2017). The business address of Mr. Lhoëst is Parkstraat 20, 2514 JK 's-Gravenhage, The Netherlands.

To the best of the knowledge and belief of the Issuer, there are no potential or existing conflicts of interests between any of the duties of the member of the management board of the Issuer and their private interests and/or duties.

Save as disclosed herein, there has been no material adverse change in the financial position or prospects of the Issuer since the date of its incorporation. The Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

## **Financial Statements**

Since the date of its incorporation, no financial statements of the Issuer have been prepared as of the date of the Listing Particulars. In the future, the Issuer's financial information will be consolidated into the Group's consolidated financial statements.

## THE GUARANTORS

The Notes are fully and unconditionally and jointly and severally guaranteed by the Guarantors (subject to and in accordance with the Guarantee). The Group's Annual Consolidated Financial Statements include both the Guarantors and non-guarantor companies. The Issuer and each Russian Guarantor is a wholly owned, directly or indirectly, subsidiary of the Company.

As of and for the year ended 31 December 2016:

- the EBITDA of the Guarantors calculated on an aggregate basis was RUB 79,046 million, or approximately 104 per cent. of the consolidated EBITDA of the Group;
- the EBITDA of the companies in the Group that are not acting as Guarantors calculated on an aggregate basis was negative RUB 2,779 million, or approximately negative 4 per cent. of the consolidated EBITDA of the Group;
- the net assets of the Guarantors calculated on an aggregate basis were RUB 101,984 million, or approximately 80 per cent. of the consolidated net assets of the Group; and
- the net assets of the companies in the Group that are not acting as Guarantors calculated on an aggregate basis were RUB 25,056 million, or approximately 20 per cent. of the consolidated net assets of the Group.

The Company accounted for negative RUB 206 million, or 0 per cent. of the consolidated EBITDA of the Group for the year ended 31 December 2016, and had net assets of RUB 23,195 million, or 18 per cent. of the consolidated net assets of the Group as of 31 December 2016.

"Trade House "PEREKRIOSTOK" Joint Stock Company ("**TH Perekriostok**") accounted for RUB 106,560 million, or 140 per cent. of the consolidated EBITDA of the Group for the year ended 31 December 2016, and had net assets of negative RUB 48,525 million, or negative 38 per cent. of the consolidated net assets of the Group as of 31 December 2016. There are no risks specific to, or encumbrances on the assets of, TH Perekriostok that could materially affect its ability to meet its obligations under the Guarantee.

"Agrotorg Limited Liability Company" ("**Agrotorg**") accounted for negative RUB 27,308 million, or negative 36 per cent. of the consolidated EBITDA of the Group for the year ended 31 December 2016, and had net assets of RUB 127,314 million, or 100 per cent. of the consolidated net assets of the Group as of 31 December 2016. There are no risks specific to, or encumbrances on the assets of, Agrotorg that could materially affect its ability to meet its obligations under the Guarantee.

Copies of the constitutional documents of the Guarantors are available for inspection in physical format at the offices of the Principal Paying Agent in London and the registered office of the Issuer during usual business hours on any weekday (Saturdays and public holidays excepted) for so long as the Notes are listed on the Irish Stock Exchange.

The Company, is the holding company of the Group and each of its operational subsidiaries, and is dependent on the activities, financial performance and prospects of all the operational subsidiaries of the Group. The subsidiaries of the Company enter into various intra-group

transactions in the ordinary course of their businesses, and, on this basis, are therefore interdependent with the other companies within the Group. There are no specific measures which would restrict the control exercised by the Company over its subsidiaries other than those specifically provided by applicable law.

## **X5 Retail Group N.V. (the Company)**

### ***Incorporation and Status***

The Company was incorporated on 13 August 1975 and was registered in The Netherlands on 5 September 1975. The Company is currently trading as a public limited liability company (*naamloze vennootschap*). Its registered number is 33143036, and its registered office is at Parkstraat 20, 2514 JK 's-Gravenhage. The telephone number of the Company registered office is +31857730085.

### ***Objects***

The principal objects of the Company are set forth in its articles of association (*statuten*) and include:

- to incorporate, to participate in any way whatsoever, to manage, to supervise, to operate and to promote enterprises, businesses and companies;
- to finance businesses and companies;
- to supply advice and to render services to enterprises and companies with which the company forms a group and to third parties;
- to borrow, to lend and to raise funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness as well as to enter into agreement in connection with the aforementioned;
- to render guarantees, to bind the company and to pledge its assets for obligations of the companies and enterprises with which it forms a group and on behalf of third parties;
- to obtain, alienate, manage and exploit registered property and items of property in general;
- to trade and invest in currencies, securities and items of property in general;
- to develop and trade patent, trade marks, licenses, know-how and other industrial property rights;
- to perform any and all activity of industrial, financial or commercial nature,

as well as everything pertaining the foregoing, relating thereto or conducive thereto, all in the widest sense of the word

### ***Share Capital***

The issued and paid-up capital of the Company is EUR 67,893,218.

## ***Organisational Structure***

The Company is the holding company of the Group.

## ***Management***

The Company is managed by the Supervisory Board and the Management Board.

The members of the Supervisory Board are set out in the table below:

<b>Name</b>	<b>Current position</b>	<b>Since</b>
Stephan DuCharme (Chairman).....	Member	2015
Mikhail Fridman .....	Member	2006
Christian Couvreur.....	Member	2010
Pawel Musial .....	Member	2013
Geoff King .....	Member	2015
Peter Demchenkov.....	Member	2015
Mikhail Kuchment.....	Member	2015
Andrei Elinson .....	Member	2016

The business address of the members of the Supervisory Board is Parkstraat 20, 2514 JK 's-Gravenhage, The Netherlands,

The members of the Management Board are set out in the table below:

<b>Name</b>	<b>Current position</b>	<b>Since</b>
Igor Shekhterman.....	Member	2015
Frank Lhoëst .....	Member	2007

The members of the management board are ultimately responsible for the actions and decisions of the Executive Committee (see "*Management—Management Board and Executive Committee*") and the overall management of the Company

The business address of the members of the Management Board is Parkstraat 20, 2514 JK 's-Gravenhage, The Netherlands.

There has been no material adverse change in the prospects of the Company since the date of the Group's last audited consolidated financial statements dated 31 December 2016.

## **Trade House "PEREKRIOSTOK" Joint Stock Company (TH Perekriostok)**

### ***Incorporation and Status***

TH Perekriostok was founded on 17 July 2002 as a closed joint stock company under the laws of the Russian Federation. The registered office of TH Perekriostok is 28/4 Srednyaya Kalitnikovskaya St., Moscow, 109029, Russian Federation and its telephone number is +7(495)668-8888. The main state registration number of TH Perekriostok is 1027700034493.

### ***Objects***

The principal objects of TH Perekriostok, as set out in its charter, are grocery retail and wholesale operations, storage and warehousing, real estate construction and cargo handling.

### ***Share Capital***

The share capital of TH Perekriostok is RUB 83,818,000,000 divided into 95,792 shares with the nominal value of RUB 875,000 each.

### ***Organisational Structure***

TH Perekriostok is indirectly fully owned by the Company. TH Perekriostok has a number of subsidiaries which are Russian holding companies and companies operating in grocery retail and other markets.

### ***Management***

TH Perekriostok is managed by its shareholders, LLC "X5 Holding" and LLC "X5 Management", and the chief executive officer, Vladimir L. Sorokin. The shareholders are entitled to approve amendments to the charter of TH Perekriostok, vote for reorganisation or liquidation of TH Perekriostok, approve and receive dividends, increase or decrease the charter capital of TH Perekriostok, appoint auditors and adopt other corporate resolutions and decisions envisaged by the charter of TH Perekriostok and Russian law. The chief executive officer is responsible for the day-to-day management of TH Perekriostok.

To the best of the knowledge and belief of each of the Company and the Russian Guarantors, there are no potential or existing conflicts of interests between any of the duties of LLC "X5 Holding" and LLC "X5 Management" as the shareholders of TH Perekriostok, duties of Vladimir L. Sorokin as the chief executive officer of TH Perekriostok, and their private interests and/or duties.

There has been no material adverse change in the prospects of TH Perekriostok since the date of the Group's last audited consolidated financial statements dated 31 December 2016.

### **Agrotorg Limited Liability Company (Agrotorg)**

#### ***Incorporation and Status***

Agrotorg was founded on 10 December 2002 as a limited liability company under the laws of the Russian Federation. The registered office of Agrotorg is 90/92 Nevsky Avenue, 191025 Saint-Petersburg, Russian Federation and its telephone number is +7(495)668-8888. The main state registration number of Agrotorg is 1027809237796.

### ***Objects***

The principal objects of Agrotorg, as set out in its charter, are grocery retail and wholesale operations, marketing services, real estate construction and agricultural production.

### ***Share Capital***

The share capital of Agrotorg is RUB 20,148,437,876.



### ***Organisational Structure***

Agrotorg is indirectly fully owned by the Company. Agrotorg has a number of subsidiaries which are Russian holding companies and companies operating in grocery retail and other markets.

### ***Management***

Agrotorg is managed by its participants, TH Perekriostok and Speak Global Limited, and the chief executive officer, Olga V. Naumova. The participants are entitled to approve amendments to the charter of Agrotorg, vote for reorganisation or liquidation of Agrotorg, approve and receive dividends, increase or decrease the charter capital of Agrotorg, appoint auditors and adopt other corporate resolutions and decisions envisaged by the charter of Agrotorg and Russian law. The chief executive officer is responsible for the day-to-day management of Agrotorg.

To the best of the knowledge and belief of each of the Company and the Russian Guarantors, there are no potential or existing conflicts of interests between any of the duties of TH Perekriostok and Speak Global Limited as the participants of Agrotorg, duties of Olga V. Naumova as the chief executive officer of Agrotorg, and their private interests and/or duties.

There has been no material adverse change in the prospects of Agrotorg since the date of the Group's last audited consolidated financial statements dated 31 December 2016.

## REGULATION OF FOOD RETAIL AND REAL ESTATE IN RUSSIA

*Set out below is a summary of material information concerning the regulation of the Group's business. This description does not purport to be a complete description of all applicable laws and regulations and should not be read as such.*

### **Regulation of Food Retail**

The food retail industry in Russia is regulated by general legislation and specialised legislation that includes legislation covering quality standards, health and safety, sanitary rules and consumer protection. A number of permits and consents, including those relating to health and safety and fire protection, are required in order to open a new store. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and rules and the issuance and renewal of permits and in monitoring compliance with the terms thereof. Compliance with the requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of some of the Group's operations.

### ***State and Local Bodies Involved***

In addition to the state bodies and their subdivisions having authority over general matters, there are a number of state bodies regulating and supervising the food retail industry. The key state bodies are:

- The Ministry of Industry and Trade, which, among other things, is the principal federal body authorised to develop the governmental policy for, and the regulatory regime of, trade.
- Rospotrebnadzor which is the principal federal body authorized to monitor compliance with sanitary and epidemiological laws and regulations and to exercise control over consumer rights protection.
- FAS, which is the principal federal body authorized to monitor compliance with the antitrust legislation, the Trade Law and the legislation regulating advertising activities in the Russian Federation.
- The Ministry of Civil Defence Affairs, Emergencies and Liquidation of Consequences of Natural Disasters (the "**Emergency Ministry**"), which, among other things, supervises fire inspection authorities in charge of fire safety regulations.
- Rosalckogolregulirovanie, which is the principal federal body authorized to develop the regulatory regime of, and issue licences for, the production of, and operations with (including storage and wholesale), ethanol, alcohol and ethanol-containing products in Russia and which monitors compliance with the Federal Law No. 171-FZ "On State Regulation of Production of, and Operations with, Ethanol, Alcohol and Ethanol Containing Products and Restriction of Alcohol Products Consumption" dated 22 November 1995, as amended (the "**Law on Alcoholic Products**").
- The Federal Customs Service, which, among other things, is the federal service authorized to monitor compliance with Russian custom and import of goods rules.
- Local authorities, which control compliance by the companies operating in their respective regions with various local rules, including those relating to waste

management, and issue licences for the retail operations with ethanol, alcohol and ethanol-containing products in Russia.

### ***Applicable Legislation***

The key pieces of Russian legislation regulating the food retail market are set out below.

- The Trade Law, which entered into force on 1 February 2010, establishes a general legal framework for regulation of, with certain exceptions, trade and retail activity carried out in the Russian Federation. It contains certain requirements regarding the trading activities in Russia, including antitrust provisions and regulation of supply contracts with respect to food products, introduces a system of trade registers in which all business organisations engaging in trade activities (except manufacturers) within a particular region are recorded and splits regulatory authority between federal, regional and municipal bodies responsible for regulation of trading activities.
- Law No. 2300-1 "On Protection of Consumers' Rights" dated 7 February 1992, as amended (the "**Law on Consumer Protection**"), establishes a general legal framework for regulation of the relationship between retailers, manufacturers and service providers, on the one hand, and customers, on the other hand, in the course of the sale of goods, performance of works or rendering of services. It establishes the rights of customers to purchase goods of proper quality and to receive information on goods and their manufacturers. The Law on Consumer Protection provides for liability for violation of consumer rights. The Law on Consumer Protection also invalidates any term in a consumer contract purporting to limit the rights granted pursuant to this law. Violation of the Law on Consumer Protection may result in civil and administrative sanctions for non-complying companies and/or their managers.
- Federal Law No. 29-FZ "On Quality and Safety of Food Products" dated 2 January 2000, as amended (the "**Law on Quality and Safety**"), establishes a general framework for ensuring the quality and safety of food products. It sets out general requirements for the packaging, storage, transportation and sale of food products as well as the destruction of poor-quality and unsafe food products. Violation of the Law on Quality and Safety may result in civil and administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers.
- Federal Law No. 52-FZ "On Sanitary and Epidemiological Welfare of the Population" dated 30 March 1999, as amended (the "**Law on Sanitary and Epidemiological Welfare**"), requires food products to meet certain sanitary standards. According to this law, food products that do not conform to the established sanitary standards and represent a danger to customers must be withdrawn immediately from production and sale. The Law on Sanitary and Epidemiological Welfare also establishes the framework for supervision by the authorized state bodies over compliance by legal entities with sanitary and epidemiological regulations. Violation of the Law on Sanitary and Epidemiological Welfare may result in civil and administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers.
- Federal Law No. 184-FZ "On Technical Regulation" dated 27 December 2002, as amended (the "**Law on Technical Regulation**"), establishes the legal framework for enactment on the federal level of state standards related to use, storage, transportation,

sale and utilization of goods and services and compliance with such standards, including certification procedures. Violation of the Law on Technical Regulation may result in civil and administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers.

- The Law on Alcoholic Products establishes a general legal framework and requirements for the production of, and operations with (including storage and sale), ethanol, alcohol and ethanol-containing products in Russia. According to the Law on Alcoholic Products, licenses are required for activities in connection with production of, and operations with, ethanol, alcohol and ethanol-containing products, including a license for the retail sale of alcoholic beverages. Violation of the Law on Alcoholic Products may result in administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers. In addition to the Law on Alcoholic Products, constituent entities are permitted to enact additional more (but not less) restrictive laws on retail sale of alcoholic beverages.
- Federal Law No. 15-FZ "On Protection of Citizens' Health from the Impact of Tobacco Smoke and the Consequences of Tobacco Consumption" dated 23 February 2013, as amended (the "**Anti-Smoking Law**") establishes a general legal framework and restrictions on consumption, sale, storage and advertisement of tobacco and tobacco products.
- Federal Law No. 38-FZ "On Advertising" dated 13 March 2006, as amended (the "**Law on Advertising**") establishes a general legal framework and restrictions on advertising activities in the Russian Federation. The Law on Advertising prohibits, among other things, the false advertising and advertising of certain products and services (*e.g.*, tobacco and tobacco products).
- Federal Law No. 69-FZ "On Fire Safety" dated 21 December 1994, as amended (the "**Law on Fire Safety**"), establishes a general legal framework of measures to secure fire safety in Russia. The Law on Fire Safety establishes obligations of legal entities with respect to securing fire safety and provides for the general powers of state authorities to conduct inspections and check compliance by organizations with fire safety regulations.
- Federal Law No. 89-FZ "On Production and Consumption Waste" dated 24 June 1998, as amended (the "**Law on Waste**"), sets general rules for handling waste resulting from business operations of legal entities. Violation of the Law on Waste may result in administrative sanctions for non-complying companies and/or their managers.

### ***Licensing***

Generally, trade operations in the grocery industry are not subject to licensing in Russia. However, production of, and operations with (including storage and wholesale), ethanol, alcohol and ethanol-containing products in the Russian Federation is subject to licensing by Rosalckogolregulirovanie and, in respect of the retail sales of ethanol, alcohol and ethanol-containing products, the regional and local authorities, which can suspend the relevant license for a period of up to six months in certain circumstances, including operations with alcohol products in violation of the Law on Alcoholic Products. Such licenses may be prematurely revoked by a court order for a number of grounds, such as, for instance, operations with alcohol products without labels or with fake labels, or submission of inaccurate reporting data

relating to the amount of operations with alcohol products. Currently, almost all of the Group's stores have licenses for retail sale of alcoholic beverages.

### ***Regulation of Storage and Sales of Alcohol and Tobacco Products***

Recent amendments to the Law on Alcoholic Products introduced additional restrictions and requirements regarding the production, storage and sale of alcoholic beverages with a purpose of reducing consumption of alcohol in the Russian Federation. The restrictions include federal bans on sale of alcoholic beverages in Russia (i) between 11.00 p.m. and 8.00 a.m. and (ii) in kindergartens, schools, universities, other educational institutions, hospitals, public institutions, sport and military facilities and other establishments and territories adjacent thereto as well as within the public transport system and at certain other locations. Constituent entities of the Russian Federation may introduce further restrictions regarding authorised hours and terms of sale of alcoholic beverages and even completely prohibit retail sales of alcohol in the relevant constituent entity. For example, in Saint-Petersburg the ban is in effect between 10.00 p.m. and 11.00 a.m.

Most recently, it has been suggested that the regulation of the operations with alcohol should be further tightened. Thus, a draft bill prohibiting free distribution of alcohol products and any type of discounts applicable to such products has been introduced in the Russian State Duma. This draft bill is aimed at reducing both the alcohol consumption and the promotion thereof in Russia. For the year ended 31 December 2016, the sales of discount alcohol products amounted to 30 per cent. of the Group's gross sales of alcohol products. Furthermore, a draft decree of the President of the Russian Federation suggesting a ban on the sale of alcohol products packaged in glass in the cities where the 2018 FIFA World Cup will be held, has been prepared with a view to enhancing security during the international football championship.

The Anti-Smoking Law aimed at reducing tobacco consumption in the Russian Federation entered into force in February 2013. Among other things, the Anti-Smoking Law prohibits smoking in many public areas, introduces restrictions on the sale of tobacco products, and sets a minimum price for cigarettes. In addition, the Anti-Smoking Law sets forth restrictions on sale and storage of tobacco products, which include a prohibition on sale of tobacco products (i) outside regular store premises (subject to certain limited exceptions) and (ii) in kindergartens, schools, universities, other educational institutions, hospitals, public institutions, sport and military facilities and other establishments and territories adjacent thereto as well as within the public transport system and at certain other locations. Furthermore, the Anti-Smoking Law introduces comprehensive prohibitions on advertisement, promotion and sponsorship of tobacco products and restricts the display of tobacco products in store premises.

### ***Trade Law***

The Trade Law applies to grocery trade and retail activity carried out in the Russian Federation. The Trade Law does not apply to activities that are specifically regulated by separate regimes such as cross-border trade (whether import or export); activities in connection with the sale of goods to end customers on retail markets; trade at commodity exchanges; and trade in securities, real estate and production assets, including electric and heat power and other energy resources.

The Trade Law contains a set of general restrictions applying to all supplies of food products. For example, the Trade Law stipulates that agreements for the supply of food products must

not provide for any type of fees to purchasers other than those permitted by the Trade Law. The Trade Law provides only for the fees (including service and other auxiliary fees) that are linked to the amount of the supplied products, and which may not exceed 5 per cent. of the price of the supplied food products and cannot be charged on goods of prime necessity. Furthermore, the Trade Law provides that agreements for the supply of food products must not regulate promotional activities carried out by traders. Promotional activities of any kind (advertising, marketing, merchandising) may only be documented in a separate services agreement between the supplier and the retail chain. In addition, the purchase of food products under supply agreements may not be made subject to conclusion of such services agreements. The Trade Law prohibits any provision in the food supply agreements restricting assignments to third parties or any sanctions essentially having the same effect. Also, the Trade Law contains provisions that limit the number of days during which the Group must effect payment for goods received from its suppliers. For example, food products with a "best before" date of fewer than 10 days must be paid for within 8 business days following receipt from the supplier; food products with a "best before" date of between 10 and 30 days must be paid for within 25 calendar days following receipt from the supplier; and alcohol, tobacco and food products with longer shelf lives must be paid for within 40 calendar days following receipt from the supplier.

The Trade Law also sets out specific rules applicable to agreements for the supply of food products by retail chains. In this context, a retail chain means more than one retail outlet managed or franchised by the same entity or group. The Trade Law prohibits retail chains and their suppliers from (i) discriminatory actions; (ii) creating barriers to entry or exit in respect of a given market; (iii) violation of any applicable pricing rules; (iv) entering into commissions-based contracts or other agreements containing commission fees elements for the purposes of sale of goods; (v) imposing on counterparties certain unfavourable conditions mainly related to pricing and exclusivity. Moreover, the Trade Law contains specific provisions restricting retail chains from (i) charging suppliers for the right to supply goods to a newly opened or existing store within a chain or changing the assortment of supplied goods, and (ii) requiring suppliers to reimburse costs unrelated to supply agreements or associated with loss/damage of goods incurred following the transfer of rights thereto to the retail chain.

In addition, a retail chain with more than 25 per cent. market share in the aggregate value of food retail sales within the boundaries of a certain geographic area (including the constituent entity of the Russian Federation, the municipal units and urban counties) for the immediately preceding financial year is prohibited from opening or acquiring additional trading premises in the relevant area.

Under the Trade Law, the Government is entitled to set maximum retail prices on certain types of goods of prime necessity for a maximum period of 90 calendar days if the increase in prices of these products amounted to 30 per cent. or more during a period of 30 consecutive calendar days within the boundaries of one or several constituent entities of the Russian Federation. The list of these food products and the formula for determining maximum retail prices are set by the Government. Such list contains 24 items, including, among others, bread, milk, eggs, meat, sugar and salt.

Despite the adoption of the Trade Law, discussions among the retailers, wholesalers, suppliers, and regulatory and supervisory bodies about the necessity of additional sector-specific trade industry regulation continue. In particular, the FAS has been emphasising that although market shares of the federal retailers typically fall short of market dominance, their market position is significantly stronger than that of their suppliers, which in FAS's view may

result in questionable business practices and vertical dependencies within distribution chains. Therefore, it has been proposed to lower the 25 per cent. market threshold which prohibits the opening or acquiring more retail space to 10 per cent. and introduce a limitation on the business operations of "out-of-town" retail chains in any given constituent entity of the Russian Federation. Although, as of the date of these Listing Particulars, the relevant amendments have received mostly negative review opinions from the competent governmental authorities and have not been considered by the Russian State Duma in the first reading, there remains a risk that the relevant changes may be adopted by the Russian State Duma.

### ***Code of Fair Trade Practices***

In March 2013, major Russian food retailers and wholesalers adopted a Code of Fair Trade Practices prepared by the Russian Retail Companies Association and agreed to refer to this Code in their agreements. The Code establishes certain rules of conduct between food retailers/wholesalers and suppliers, mainly concerning communication between the parties, documentation, acceptance of goods, marketing and promotion, disputes, penalties, compensation of losses and negotiations. These rules generally differ from the existing standard market practices in Russia and, to some extent, limit the ability of food traders to determine the scope of their contractual relationships with suppliers. Although the Group is not party to the Code, the Group generally follows its fundamental principles and rules and has largely implemented its basic principles into the Group's supply agreements and the Group's internal code of business relations.

### **Regulation of Competition**

#### ***Dominant position in the market***

The Competition Law determines a dominant position pursuant to certain criteria, including, among other things, where a company or a group of persons has a market share in a particular commodity market in excess of 50 per cent., unless the FAS specifically establishes that the relevant company does not have a dominant position. However, even if a company has a market share of less than 50 per cent. in a particular commodity market, the FAS may still specifically determine that the company has a dominant position in certain cases. The Competition Law assumes that a company has a dominant position if it has a substantial influence on the circulation of goods in a particular commodity market; may force other participants from such market; or may restrict the access of other companies to such market. The Competition Law also provides for the principle based on "collective" dominance, which applies to a number of markets characterized by an absence of substitute goods and fixed demand for goods. In such markets, any one of three or fewer entities with a total market share of more than 50 per cent., or any one of five or fewer entities with a total market share of more than 70 per cent. (if the shares of these entities are bigger than the shares of other participants in this market and in no event is the share of each such entity less than 8 per cent.), will be deemed to be in a dominant position to the extent that, for a period of at least one year or for the period of existence of the relevant market, the market shares of the respective entities do not change in any significant respect; the access of new competitors to this market is impeded; and the relevant commodity cannot be substituted by other commodities, a price increase for such commodity does not condition the relevant decrease in demand for such commodity and information about prices, sale and purchase of such commodity in the relevant market is publicly available.

As a general rule, a company may not be deemed to be in a dominant position if its market share is less than 35 per cent., but this rule does not apply if the company is holding a collective dominant position (as described above) or if any specific federal law establishes that dominance may still be recognized where the market share of a certain company is less than 35 per cent. Subject to certain exceptions, a company may not be deemed to be in a dominant position if its sole shareholder or all shareholders are individuals and the sales proceeds of such company for the last calendar year do not exceed RUB 400 million.

Russian law prohibits companies having a dominant position from, among other things, entering into agreements which have the effect of price fixing or which otherwise have the effect of limiting competition, artificially limiting the supply of goods, maintaining high or low monopolistic prices and refusing without justification to sell goods to third parties, setting different prices for the same goods. Companies in a dominant position may also become subject to additional antimonopoly restrictions imposed by the FAS.

### ***Merger and joint venture control***

The FAS also exercises state control over competition by reviewing merger and acquisition transactions. Relevant persons must obtain prior antimonopoly clearance from the FAS for an acquisition of: more than 25 per cent. of the voting shares in a Russian joint stock company (or a one-third interest in a Russian limited liability company) and any subsequent increase of that stake to more than 50 per cent. or more than 75 per cent. of the voting shares (or a one-half and two-thirds interest in a Russian limited liability company); subject to certain exceptions, an acquisition of fixed production assets or goodwill of a company located in Russia in an amount exceeding 20 per cent. of the aggregate balance sheet value of all fixed production assets and goodwill of the company; the right to control the business activities of another Russian company or perform the functions of its executive body; or an acquisition of more than 50 per cent. of voting shares (or a 50 per cent. interest) in a company registered outside Russia, which delivered goods to the Russian territory in the amount exceeding RUB 1 billion within the preceding year, or any other right to control its business activities or perform the functions of its executive body. Certain other transactions are also subject to a prior antimonopoly clearance from the FAS.

Any of the above acquisition transactions would require prior approval by the FAS if, based on the latest balance sheet: the aggregate asset value of a purchaser (and its group) together with the target (and its group) exceeds RUB 7 billion; or the total revenues of such persons for the preceding calendar year exceed RUB 10 billion and, in each case, the total asset value of the target (and its group) exceeds RUB 400 million. Mergers and acquisitions within the same group are exempt from pre-transactional clearance by the FAS, subject to compliance with specified reporting requirements.

According to the amendments to the Competition Law introduced by Federal Law No. 275-FZ dated 5 October 2015, joint venture agreements between competitors are subject to prior antimonopoly clearance if the aggregate asset value of the parties to the agreement (or their group), based on the latest balance sheet, exceeds RUB 7 billion, or if the total revenues of the parties to the transaction (or their group) for the preceding calendar year exceed RUB 10 billion.



## **Regulation of Intellectual Property**

### ***State Bodies Involved***

The Federal Intellectual Property Service ("**Rospatent**") is the federal body which is authorized to register intellectual property rights, including trademarks, and the transfer of intellectual property rights pursuant to, among others, licensing agreements for the use of a trademark or agreements for the transfer of the right to a trademark as well as franchising agreements.

### ***Regulation of Trademarks***

The Civil Code (Part 4) is the main law concerning intellectual property applicable to the Group in connection with its trademark rights. According to Part 4 of the Civil Code, protection of rights to a trademark in Russia is subject to state registration with the Rospatent. Upon the registration of a trademark in the state register for trademarks, the Rospatent issues a certificate of registration of the trademark, which is valid for 10 years from the date on which the application for registration was filed. This term may be extended for an unlimited number of times, each time for another 10 years, upon an application by the owner of the trademark filed with the Rospatent during the last year of the validity of the certificate. The certificate of registration of a trademark is issued with respect to certain classes of goods or services of the International Classification of Goods and Services, which means that the trademark is not protected if it is used for other types of goods or services that are not covered by the certificate of registration.

A registered owner of a trademark may assign its right to the trademark or grant a temporary right to use a trademark to another entity under an agreement. The transfer of intellectual property rights pursuant to agreements for the assignment of a trademark, pledges, franchising (commercial concession) and licensing agreements granting a temporary right to use a trademark is subject to registration with the Rospatent. If such registration is not obtained, such transfer of rights shall not be deemed to have occurred.

## **Regulation of Real Estate**

The key pieces of Russian legislation relating to land and other real estate are set out below. This description, however, does not purport to be a complete description of all applicable laws and should not be read as such.

### ***State Bodies Involved***

In addition to the state bodies and their subdivisions having authority over general matters such as taxation, there are a number of state bodies regulating real estate in Russia. The key state bodies are:

- The Federal Service for State Registration, Cadastre and Cartography (the "**Rosreestr**"), which, *inter alia*, maintains the Unified State Register of Immovable Property (the "**Register of Immovable Property**"), a state register of the titles to real estate and of the transactions with respect to registered real estate.
- The Ministry of Construction and Housing and Utilities Russian Federation, which is responsible, *inter alia*, for state regulation of construction and housing.

### ***Applicable Legislation***

Russian legislation regulating the ownership and leasehold rights to real estate and real estate construction includes the following:

- Civil Code;
- Russian Land Code No. 136-FZ dated 25 October 2001, as amended (the "**Land Code**");
- Town Planning Code No. 190-FZ dated 29 December 2004, as amended (the "**Town Planning Code**");
- Federal Law No. 218-FZ "On State Registration of Real Estate" dated 13 July 2015, as amended (the "**New Law on State Registration of Real Estate**");
- Federal Law No. 101-FZ "On Operations with Agricultural Land" dated 24 July 2002, as amended;
- Federal Law No. 172-FZ "On Transfer of Land Plots from One Category to Another" dated 21 December 2004, as amended; and
- certain other federal and regional laws and regulations.

### ***Regulation of Land Use***

At present, most of the land in Russia is owned by the state (i.e., the federal, regional or municipal governments); however, the proportion of privately owned land plots, as well as buildings and other real estate located on land plots leased from the state, is increasing, particularly in urban areas, due to the expansion of private enterprises in Russia and a less restrictive regulatory regime with respect to private ownership of land and other real estate in the country.

Rosreestr records details of land plots and other types of immovable property in the Register of Immovable Property, which includes, among other, parameters of land plots, their measurements and boundaries, category and permitted use. As a general rule, a landowner must register a land plot in the Register of Immovable Property and obtain a state cadastre number for a land plot as conditions to selling, leasing or otherwise transferring interests in that plot. As described below, Rosreestr maintains a combined register for the state cadastre numbers and maps, registration of rights, transactions and encumbrances and other information relating to the real estate.

All land is categorized as having a particular designated purpose, for example, agricultural land, land for use by industrial enterprises, power companies and communication companies, land for military purposes, forestry land and reserved land (i.e., land which is owned by the state but which can be transferred to any of the other categories). Land must be used in accordance with its categorized purpose. Under the Land Code, subject to certain limitations, land plots owned by the state or the municipalities may be sold or leased to Russian and foreign persons or legal entities. However, certain land plots owned by the state may not be sold or leased to the private sector and are referred to as being "withdrawn from commerce" (for example, natural reserves and land used for military purposes are typically withdrawn from commerce). Other land plots may be restricted in that they may not be privately owned, but they may be leased to the private sector (for example, lands at which transportation,

hyrotechnical or aerospace infrastructure is located). However, in March 2014, a draft federal law prepared by the Ministry of Economic Development of the Russian Federation and aimed primarily at simplifying the existing land use rules was submitted to the Russian State Duma, which was adopted in the first reading in December 2014 and is currently being considered by the Russian State Duma in the second reading. If the draft is adopted, the land categories will be abolished, and all land plots (save for the most valuable agricultural land) will be divided into certain functional zones.

Under Russian law, it is possible that the person or entity holding the ownership rights to a building or other real estate asset may not be the same person or entity holding the ownership rights to the land plot on which the building or other real estate asset is constructed. In these circumstances, the owner of that building, as a general rule, has a right of use over the relevant portion of that plot of land occupied by the building and needed for its use or, in some cases, the owner of the building or other real estate asset can use the relevant portion of the land plot under the lease agreement with the owner of such land plot. Moreover, in certain cases, an owner of a building or plot of land may require that the owner of an adjoining plot of land grant a right of limited use of the adjoining plot of land (servitude) in its favour.

### ***Regulation of Real Estate Construction***

#### *Stages of Construction*

The main stages of the building construction process typically include the following:

- obtaining land plots for construction purposes;
- preparation of project documentation and obtaining infrastructure/utilities documentation;
- procuring either state or independent review of the project documentation and obtaining a construction permit;
- construction works;
- receiving a commissioning permit; and
- registration of title to a new building in the Register of Immovable Property.

Some of these key stages are described in more detail below.

#### *Obtaining and Maintaining Rights to Land Plots*

Russian law generally allows individuals and legal entities to acquire rights to land owned by state or municipal authorities for development and construction of buildings. Pursuant to the Town Planning Code, land plots are assigned for construction in accordance with town construction plans approved by the relevant authorities.

Before construction may commence, a right to use the land must be obtained. As the majority of land suitable for construction currently remains in public ownership, certain specific procedures to obtain land use rights must be followed. The general rule established by the Land Code is that rights to public land plots must be granted at an auction only. Following this procedure, a developer may only obtain a land lease as the Land Code generally prohibits

sale of state or municipal land plots designated for construction purposes, subject to certain exceptions.

One of key exceptions from the general rule is that public lands may be leased without an auction for completing construction of an unfinished construction thereon, which exception is available only once and applies to the initial leasehold term in connection with such construction (not the renewal of the leasehold). A limited number of persons are eligible for acquiring rights to such land plot, including, amongst others, the new owner of the unfinished construction acquired at a public auction following seizure from the previous owner in connection with termination of the land plot lease agreement.

The Land Code sets forth the maximum lease term for which a land plot may be leased, based on the purpose for which the land is intended to be used (e.g., for construction and reconstruction of buildings and structures, land plots are provided under a three to ten-year lease; land plots are provided under a lease of up to 49 years to owners of buildings and structures or premises within such buildings or structures situated on the leased land plot). Where the land plot is leased from a state or municipal authority, the lessee does not have a priority right to renew the land lease and, once it expires, a new public auction is to be held. Should the developer fail to complete construction works before the land lease agreement is terminated or expires, an item under construction may be removed from its ownership by court decision and sold through public tender. The proceeds from the sale of such item will then be payable to the developer as former titleholder, except the cost of holding the public tender.

#### *Construction and Operation Permits*

Construction of a building on a land plot may only be carried out after obtaining a construction permit from the relevant regulatory authorities. The issuance of a construction permit generally requires either state or independent review of the documentation related to the building project. In order to obtain an affirmative decision of the relevant body, the project must comply with various state standards, environmental and sanitary and epidemiological laws, regulations and rules as well as fire safety and other types of safety requirements.

In addition, upon completion of construction, the relevant authority issues a commissioning permit, which confirms compliance of the new building with its project documentation.

#### *Regulation of Real Estate Sale and Lease*

The Civil Code requires that agreements for the sale or lease of buildings expressly set out the price of such sale or lease. In relation to leases, both the rights granted by the lease and the lease agreement (other than lease agreements for a term of less than one year) require registration. In relation to sales, only the transfer of ownership effected by the relevant sale (but not the sale agreement itself) requires registration.

#### *State Registration of Titles to Real Estate and of Transactions Involving Such Registered Real Estate*

Prior to 1 January 2017, Rosreestr maintained the Unified Register of Rights to Immovable Property and Transactions Therewith pursuant to Federal Law No. 122-FZ "On State Registration of Rights to Immovable Property and Transactions Therewith" dated 21 July 1997 (the "**Old Law on State Registration of Real Estate**") and State Cadastre of

Immovable Property in accordance with Federal Law No. 221-FZ dated 24 July 2007 on Cadastral Activity. On 13 July 2015, the New Law on State Registration of Real Estate was adopted. Under the New Law on State Registration of Real Estate, with effect from 1 January 2017, the Rosreestr maintains the Register of Immovable Property, which contains, *inter alia*, the information on rights and encumbrances in respect of real estate, cadastre of real estate assets and borders of zones with special terms of land use. The New Law on State Registration of Real Estate, as amended, also requires registration in the Unified State Register of Immovable Property for specified transactions involving leases of the registered real estate (including, among other things, buildings, facilities, land plots and other real estate for a term of not less than one year (with certain exceptions and assumptions) as well as certain encumbrances, for instance, servitude. A person acquires rights to the relevant real estate only upon such state registration. A failure to register a transaction which requires state registration generally results in the transaction being rendered unconcluded for the third parties or, to the extent stipulated by law, null and void.

The New Law on State Registration of Real Estate has effect from 1 January 2017, although certain provisions of the Old Law on State Registration of Real Estate will remain in force until 1 January 2020.

### ***Liability of Land Plot Owners and Leaseholders***

Owners and leaseholders of land plots and buildings are required to comply with federal, regional and municipal laws and regulations. The owner of a building will usually bear all liabilities that may arise in connection with the building, for example, any tort obligation deriving from the accidents that led to the injury. In addition, owners and leaseholders are required to use the land plot (and, if required, the building) in accordance with its designated purpose and not to cause harm to the environment. Regional and municipal laws and regulations and agreements entered into with local and municipal authorities may provide for additional financial and other obligations such as financing of local transportation and social infrastructure but these are generally one-time in nature and mainly related with construction process.

### ***Land and Real Estate Property Taxation***

#### ***Property Tax***

Obligations to pay property tax apply to all Russian entities and to non-Russian entities that carry out business in Russia through a permanent establishment and/or own real estate in Russia or have received real estate in Russia under a concession agreement. Land and natural resources, as well as certain other immovable property listed in the Tax Code (such as assets operated by state agencies responsible for defence and internal affairs, nuclear facilities, objects of cultural heritage, ships (including nuclear ships), spaceships and moveable property registered as fixed assets effective from 1 January 2013) are specifically excluded from property tax requirements. The taxable items are movable and immovable property (including the property which is delivered for temporary enjoyment or is owned by a joint venture, or placed in trust, or received under a concession agreement) included on the balance sheet of the taxpayer as fixed assets in accordance with RAS, except for the property held by mutual funds. The taxable items of foreign entities that do not carry out business in Russia through a permanent establishment are immovable property located within the territory of Russia and/or immovable property received under a concession agreement.

The general tax rate is established by the regional authorities of the Russian Federation but may not exceed 2.2 per cent. of the average annual net book value (which in many cases is much less than market value) of the relevant property calculated under RAS. Currently, the regional authorities of the most developed Russian regions have set the tax rate at the highest possible rate. In November 2013, Tax Code was amended to introduce a new tax regime for certain types of immovable property, *inter alia* commercial real estate. Maximum tax rate for commercial real estate is 2 per cent. of the cadastral value (which is very close to market value) of the relevant property in the city of Moscow and in other constituent entities of Russia. The property tax is payable on a quarterly basis.

### *Land Tax*

Obligations to pay land tax apply to individuals and entities that have ownership title, the right of permanent use or a life estate (which can be disposed of by the life tenant in his will) in land.

The land tax rates are determined by the municipal authorities within the following limits specified in the Tax Code: (i) 0.3 per cent. of the cadastral value for the agricultural, housing and gardening land, as well as land used for state defence, security and custom purposes; and (ii) 1.5 per cent. of the cadastral value for all other land, which includes land for use in the retail industry. Legal entities pay this tax on a quarterly basis.

## **Regulation of Employment and Labour**

Employment and labour matters in Russia are regulated by the Labour Code dated December 30, 2001, as amended (the "**Labour Code**"), and certain other federal and regional laws and regulations, including, among others, Russian Law No. 1032-1 dated 19 April 1991 on Employment of Population in the Russian Federation, as amended.

### *Employment Contracts*

As a general rule, employers must conclude employment contracts for an indefinite term with all employees. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts. However, employers and employees may enter into an employment contract for a fixed term in certain cases where it is not possible to establish labour relations for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by the Labour Code or other federal laws.

An employer may terminate an employment contract only on the basis of the specific grounds listed in the Labour Code, including, among others:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence confirmed by results of the employee's appraisal;
- systematic failure of the employee to fulfil his or her labour duties if he or she was the subject of disciplinary measures;
- a gross violation by the employee of labour duties;

- provision by the employee of false documents upon entering into the employment contract.

### ***Employees' rights***

The Labour Code provides an employee with certain minimum rights, including the right to a working environment which complies with health and safety requirements and the right to receive a salary on a timely basis and to participate in the management of the authorized entity. These rights may be extended by other federal laws, the company's constituent documents and local regulations, and collective and other agreements.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation (including a severance payment) and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or a disabled child under the age of 18 or other persons caring for a child under the age of 14 or a disabled child under the age of 18 who does not have a mother.

Any termination by an employer of an employment contract that is inconsistent with the Labour Code may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally-dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement as well as for claimed moral damages (which amount shall be approved by the court).

### ***Work Time***

The Labour Code sets the regular working week at 40 hours. In general, an employer must compensate an employee for any time worked beyond 40 hours per week, as well as for work on public holidays and weekends, at a higher rate. Annual paid vacation leave is generally 28 calendar days. Employees required to work non-standardized working hours are entitled to additional paid vacation of at least three calendar days.

The retirement age in the Russian Federation is generally 60 years for males and 55 years for females.

### ***Salary***

The minimum monthly salary in Russia is established by federal law from time to time. Starting from 1 July 2016, the minimum monthly salary is set at an amount of RUB 7,500 and, from 1 July 2017, will be set at an amount of RUB 7,800. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current statutory minimum monthly salary is generally considered to be less than the minimum subsistence level. Salaries of the Group's employees are generally higher than the statutory minimum and none are below such minimum.

## ***Strikes***

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements which must be met for strikes to be legal. An employer may not use an employee's participation in a legal strike as grounds for terminating an employment contract, although Russian law generally does not require employers to pay wages to striking employees for the duration of the strike. Conversely, an employee's participation in an illegal strike may provide adequate grounds for termination of his or her employment contract.



## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued) and incorporated by reference into the Global Certificate:*

The RUB 20,000,000,000 9.25 per cent. Guaranteed Notes due 2020 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith) of X5 Finance B.V. (the "**Issuer**"), a wholly-owned Subsidiary of X5 Retail Group N.V. ("**X5 Retail**" or the "**Company**", and references to the Company shall include any successor entity to X5 Retail, or any entity that becomes the ultimate parent company of the Group) (a) are constituted by and subject to, and have the benefit of, a trust deed dated 18 April 2017 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, X5 Retail, "Trade House "PEREKRIOSTOK" Joint Stock Company and "Agrotorg Limited Liability Company" (X5 Retail, "Trade House "PEREKRIOSTOK" Joint Stock Company and "Agrotorg Limited Liability Company" together the "**Guarantors**" and each a "**Guarantor**") and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee**", which expression includes all persons for the time being appointed as trustee for the holders of the Notes under the Trust Deed) and (b) are the subject of an agency agreement dated 18 April 2017 (as amended or supplemented from time to time, the "**Agency Agreement**") between, inter alios, the Issuer, the Guarantors, the Trustee and The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), and The Bank of New York Mellon SA/NV, Luxembourg Branch, in its capacity as Registrar (the "**Registrar**", which expression shall include any successor registrar appointed from time to time in connection with the Notes). The Principal Paying Agent, the Paying Agents, the Transfer Agents and the Registrar are together referred to herein as the "**Agents**" and any reference to an "**Agent**" is to any one of them.

The Guarantors will each guarantee, unconditionally and irrevocably, on a joint and several basis, to the maximum extent permitted by law, the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes (the "**Guarantee**"). The Guarantee will be contained in the Trust Deed.

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of the provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Agency Agreement) of the Principal Paying Agent and the other Paying Agents.

1. **FORM, DENOMINATION AND TITLE**

(a) **Form and denomination**

The Notes are in registered form, serially numbered, and in minimum denominations of RUB 10,000,000 and integral multiples of RUB 100,000 in excess thereof. Definitive note certificates (the "**Definitive Note Certificates**" and each a "**Definitive Note Certificate**") will be issued to each Noteholder in respect of its registered holding.

(b) **Title**

Title to the Notes will pass by transfer and registration as described in Condition 2 (*Transfers of Notes and Issue of Definitive Note Certificates*). The Noteholder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof, and no Person will be liable for so treating the Noteholder.

In these Conditions, "**Noteholder**" means the Person in whose name a Note is for the time being registered in the register of Noteholders (or, in the case of a joint holding, the first named thereof) kept by the Registrar at its Specified Office in which will be entered the names and addresses of the Noteholders and the particulars of the Notes held by them and all transfers and redemptions of the Notes (the "**Register**").

2. **TRANSFERS OF NOTES AND ISSUE OF DEFINITIVE NOTE CERTIFICATES**

(a) **Transfers**

A Note may be transferred by depositing the Definitive Note Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

(b) **Delivery of new Definitive Note Certificates**

Each new Definitive Note Certificate to be issued upon a transfer of Notes will, within five Business Days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Definitive Note Certificate, be mailed by uninsured mail at the risk of the Noteholder entitled to the Note to the address specified in the form of transfer.

Issues of Definitive Note Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

Where some but not all of the Notes in respect of which a Definitive Note Certificate is issued are to be transferred a new Definitive Note Certificate in

respect of the Notes not so transferred will, within five Business Days of receipt by the Registrar or the relevant Agent of the original Definitive Note Certificate, be mailed by uninsured mail at the risk of the Noteholder of the Notes not so transferred to the address of such Noteholder appearing on the register of Noteholders or as specified in the form of transfer. Neither the part transferred nor the balance not transferred may be less than RUB 10,000,000.

(c) **Formalities Free of Charge**

Registration of a transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent subject to (i) the Person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the Person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

(d) **Closed Periods**

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes or after all such Notes have been called for redemption.

(e) **Regulations**

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer to (i) reflect changes in legal requirements or (ii) in any other manner which is not prejudicial to the interests of Noteholders with the prior approval of the Registrar and the Trustee (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of regulations.

3. **STATUS OF THE NOTES**

The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5(b) (*Limitation on Liens*)) unsecured obligations of the Issuer. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

4. **GUARANTEE**

(a) **Status of the Guarantee**

Each of the Guarantors has agreed, in the Guarantee, unconditionally and irrevocably, to the maximum extent permitted by law, to guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. The Guarantee constitutes direct, unconditional,

unsubordinated and (subject to Condition 5(b) (*Limitation on Liens*)) unsecured obligations of each of the Guarantors which will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of each of the Guarantors, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Guarantee provided by all Guarantors will be released upon repayment in full of the Notes.

## 5. COVENANTS

### (a) Incurrence of Indebtedness

- (i) Subject to Condition 5(a)(ii), none of the Issuer, the Company or any other Guarantor shall, nor shall they permit any of their respective Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "*incur*") any Indebtedness (including Acquired Debt); *provided, however*, that the Company may incur Indebtedness (including Acquired Debt), and the Company's Subsidiaries may incur Indebtedness (including Acquired Debt), if the Group Leverage Ratio for the Group's most recently ended four full fiscal quarters for which internal financial statements on a consolidated basis are available immediately preceding the date on which such additional Indebtedness (including Acquired Debt) is incurred, would have been at least 3.75 to 1.0, determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if the additional Indebtedness (including Acquired Debt) had been incurred at the beginning of such four-quarter period.
- (ii) The foregoing paragraph (i) of this Condition 5(a) will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "**Permitted Indebtedness**"):
  - (A) the incurrence by the Company and any of its Subsidiaries of additional Indebtedness (including letters of credit) under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (A) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of the Company and its Subsidiaries thereunder) not to exceed U.S.\$200.0 million (or the U.S. Dollar Equivalent in any other currency or currencies) *plus*, in the case of any refinancing of any Indebtedness permitted under this clause (A) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses incurred in connection with such refinancing;
  - (B) the incurrence by the Company and its Subsidiaries of the Existing Indebtedness;

- (C) the incurrence by the Issuer and the Guarantors of Indebtedness represented by the Notes and the related Guarantee;
- (D) the incurrence by the Company or any of its Subsidiaries of Indebtedness represented by Finance Lease Obligations, mortgage financings, revolving financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement of property, plant or equipment used in the business of the Company or any of its Subsidiaries, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (D), not to exceed 10 per cent. of the Group's total assets at any time outstanding;
- (E) the incurrence by the Company or any of its Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, prepay, replace, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted to be incurred under Condition 5(a)(i) above or pursuant to this Condition 5(a)(ii);
- (F) the incurrence by the Company or any of its Subsidiaries of intercompany Indebtedness between or among the Company and any of its Subsidiaries, *provided, however*, that (I) if the Issuer, the Company or any other Guarantor is the obligor on such Indebtedness and the payee is not the Company or a Guarantor, such Indebtedness must be unsecured and must not rank senior to any Obligations then due with respect to the Notes (except in those jurisdictions or territories where such ranking is contrary to law, rule or regulation), in the case of the Issuer, or the relevant Guarantee, in the case of a Guarantor; and (II) (a) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Company or a Subsidiary of the Company and (b) any sale or other transfer of any such Indebtedness to a Person that is not the Company or a Subsidiary of the Company, will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company or such Subsidiary, as the case may be, that was not permitted by this clause (F);
- (G) the issuance by any of the Company's Subsidiaries to the Company or to any of its Subsidiaries of shares of preferred stock; *provided, however*, that: (a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than the Company or a Subsidiary of the Company; and (b) any sale or other transfer of any such preferred stock to a Person that is not either the Company or a Subsidiary of the Company, will be deemed, in

each case, to constitute an issuance of such preferred stock by such Subsidiary that was not permitted by this clause (G);

- (H) the incurrence by the Company or any of its Subsidiaries of Hedging Obligations in the ordinary course of business and not for speculative purposes;
- (I) the guarantee by the Issuer or any of the Guarantors of Indebtedness of the Company or a Subsidiary of the Company to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this Condition 5(a); *provided* that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes, then the Guarantee must be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed;
- (J) the incurrence by the Company or any of its Subsidiaries of Indebtedness in respect of workers' compensation claims, self-insurance obligations, bankers' acceptances, performance, appeal, bid and surety bonds in the ordinary course of business;
- (K) the incurrence by the Company or any of its Subsidiaries of Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within five Business Days;
- (L) Indebtedness of any Person outstanding on the date on which such Person becomes a Subsidiary of the Company or is merged, consolidated, or amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Company or any Subsidiary of the Company (other than Indebtedness incurred to provide all or any portion of the funds used to consummate the transaction or series of related transactions pursuant to which such Person became a Subsidiary or was otherwise acquired by the Company or a Subsidiary of the Company) or Indebtedness of the Issuer, the Company or any other Guarantor incurred in relation to any such acquisition, merger, consolidation, amalgamation or combination; *provided, however*, with respect to this clause (L), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was incurred or deemed to be incurred (x) the Company would have been able to incur at least U.S.\$1.00 of additional Indebtedness pursuant to Condition 5(a)(i) above after giving effect to the incurrence of such Indebtedness pursuant to this clause (L) calculated on a *pro forma* basis or (y) the Group Leverage Ratio of the Company would not be more than it was immediately prior to giving effect to such acquisition or other transaction on a *pro forma* basis;

- (M) obligations in respect of performance, bid and surety bonds, completion guarantees, letters of credit, *veksels* (Russian rouble-denominated short-term promissory notes) or similar obligations provided by the Company or any of its Subsidiaries in the ordinary course of business;
  - (N) Indebtedness in respect of customer deposits or advance payments received in the ordinary course of business;
  - (O) the incurrence by the Company, the Issuer or any Guarantor of Indebtedness (including any Permitted Refinancing Indebtedness in respect thereof) in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness incurred pursuant to this clause (O) and then outstanding, will not exceed 100 per cent. of the net cash proceeds received by the Company from the issuance or sale (other than to a Subsidiary) of its Capital Stock or otherwise contributed to the equity of the Company, in each case, subsequent to the Issue Date; and
  - (P) the incurrence by the Company or any Subsidiary of the Company of Indebtedness (other than and in addition to Indebtedness permitted under clauses (A) through (O) above) in an aggregate principal amount at any time outstanding, not to exceed U.S.\$200.0 million (or the U.S. Dollar Equivalent in any other currency or currencies).
- (iii) For the purposes of determining compliance with any U.S. dollar denominated restriction on the incurrence of Indebtedness where the Indebtedness incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent determined on the date of the incurrence of such Indebtedness; *provided*, however, that if any such Indebtedness denominated in a different currency is subject to a currency hedging agreement with respect to U.S. dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be as provided in such currency hedging agreement. The principal amount of any Refinancing Indebtedness incurred in the same currency as the Indebtedness being Refinanced will be the U.S. Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (A) such U.S. Dollar Equivalent was determined based on a Currency Agreement, in which case the principal amount of such Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (B) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is incurred. Notwithstanding any other provision of this covenant, the maximum amount that the Issuer, a Guarantor or a Subsidiary of the Parent may incur pursuant to this covenant shall not be deemed to be exceeded,

with respect to outstanding Indebtedness, due solely as a result of fluctuations in the exchange rates of currencies.

- (iv) For purposes of determining compliance with this Condition 5(a), in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in Conditions 5(a)(ii)(A) through 5(a)(ii)(P) above, or is entitled to be incurred pursuant to Condition 5(a)(i), the Company will be permitted to classify such item of Indebtedness on the date of its incurrence in any manner that complies with this covenant and may later reclassify any item of Indebtedness described in Condition 5(a)(i) as well as Conditions 5(a)(ii)(A) through 5(a)(ii)(P) above (*provided* that at the time of reclassification it meets the criteria in such category or categories) (other than such Indebtedness pursuant to Condition 5(a)(ii)(A) and Indebtedness outstanding under any credit facilities on the Issue Date under 5(a)(ii)(B) above, which may not be reclassified). The accrual of interest or preferred stock dividends, the accretion or amortisation of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on preferred stock in the form of additional shares of the same class of preferred stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock for purposes of this Condition 5(a); *provided*, in each such case, that the amount thereof is included in Consolidated Net Indebtedness as accrued.
- (v) The amount of any Indebtedness outstanding as of any date will be (without double counting):
  - (A) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;
  - (B) the principal amount of the Indebtedness, in the case of any other Indebtedness; and
  - (C) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of: (I) the Fair Market Value of such assets at the date of determination; and (II) the amount of such Indebtedness of the specified Person.

(b) **Limitation on Liens**

So long as any Note remains outstanding (as defined in the Trust Deed), the Company will not, and will not permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien, other than Permitted Liens, upon any of their property or assets, now owned or hereafter acquired, or on any income, revenue or profits therefrom securing Indebtedness unless, at the same time or prior thereto, all payments due under the Trust Deed and (i) the Notes or the Guarantee are secured equally and rateably with such other Indebtedness or



(ii) such other security for the Notes, as may be approved by the Trustee or an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders is provided.

(c) **Transactions with Affiliates**

The Issuer and the Guarantors shall not, and the Company shall ensure that none of its Material Subsidiaries, directly or indirectly, will, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans, unless the terms of such Affiliate Transaction are no less favourable to such entity, than those that could be obtained (at the time of such transaction or, if such transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefor) in a comparable arm's-length transaction with a Person that is not an Affiliate of such entity.

For the avoidance of doubt, this Condition 5(c) does not apply to: (i) any Affiliate Transaction between the Company and its Subsidiaries and between or among Subsidiaries of the Company; or (ii) compensation or employee benefit arrangements with any employee, officer or director of the Issuer, the Guarantors or any Subsidiary of the Company arising as a result of their employment contract; or (iii) any Affiliate Transaction or series of Affiliate Transactions not involving an aggregate value in excess of U.S.\$50.0 million (or the U.S. Dollar Equivalent in any other currency or currencies).

(d) **Asset Sales**

None of the Company, the Issuer or any other Guarantor shall and shall not permit any of their respective Subsidiaries to consummate an Asset Sale unless:

- (i) the Issuer, the Guarantors or any of their respective Subsidiaries receives consideration at the time of the Asset Sale at least equal to the Fair Market Value (measured as of the date of the definitive agreement with respect to such Asset Sale) of the assets or Equity Interests issued or sold or otherwise disposed of; and
- (ii) such Asset Sale would not have a Material Adverse Effect.

(e) **Merger or Consolidation**

- (i) None of the Issuer, the Company or any other Guarantor shall enter into any reorganisation (by way of merger, accession, division, separation, or transformation, or other bases or procedures for reorganisation contemplated or, where relevant, as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation):

- (A) with any other member or members of the Group where the Company or such other Guarantor is not the surviving entity and which would have a Material Adverse Effect; or
  - (B) involving a Person which is not a member of the Group and which would have a Material Adverse Effect.
- (ii) Neither the Issuer nor any Guarantor shall (without the approval of an Extraordinary Resolution), permit:
- (A) any of their respective Material Subsidiaries to enter into any reorganisation (whether by way of merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation); or
  - (B) any of their Material Subsidiaries incorporated in a jurisdiction other than the Russian Federation, to participate in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction),

in the case of each of (ii)(A) and (ii)(B) above involving a Person which is not a member of the Group and which would have a Material Adverse Effect.

(f) **Business Activity**

The Company will not, and will not permit any of its Subsidiaries to, engage in any business other than a Permitted Business.

(g) **Financial Information**

So long as any Notes are outstanding, the Issuer, failing whom the Guarantors, shall (i) make available on the Group's website or (ii) so long as the Notes are listed on the Irish Stock Exchange (or alternative stock exchange), make available on the official website of the Irish Stock Exchange (or such alternative stock exchange), to the extent and in the manner permitted by the rules of the Irish Stock Exchange (or such alternative stock exchange):

- (A) as soon as they become available but in any event within 120 days after the end of the Group's fiscal year beginning with the fiscal year ending 31 December 2017, copies of the Consolidated Financial Statements as at and for such fiscal year, in each case audited by the Auditors; and
- (B) within 90 days following the end of the first six months in each fiscal year of the Group beginning with the first six months ended 30 June 2017, the Consolidated Financial Statements as at, and for such six month period, in each case reviewed by the Auditors;

*provided, however,* that each set of Consolidated Financial Statements delivered by it pursuant to this Condition 5(g) is accompanied by a an audit

report, in the case of paragraph (A) above and a review report, in the case of paragraph (B) above, of the Auditors and accompanying notes and annexes.

(h) **Maintenance of Listing**

The Issuer and the Guarantors shall use reasonable efforts to maintain the listing of the Notes on the Official List of the Irish Stock Exchange for so long as any Note is outstanding; *provided* that if at any time the listing becomes impractical or unduly onerous, the Issuer and the Guarantors shall use reasonable efforts to obtain, and thereafter to maintain a quotation for, or listing of, the Notes on such other stock exchange as is commonly used for the quotation or listing of debt securities as the Issuer and Guarantors may decide.

(i) **Payment of Taxes**

The Issuer and the Guarantors shall pay or discharge, or cause to be paid or discharged, before the same shall become overdue, all Taxes levied or imposed upon the Issuer and the Guarantors, or upon their income, profits or property, provided that this covenant will not require the payment or discharge of any Tax (i) where notification has been received from a Relevant Taxing Jurisdiction that Tax in respect of a prior period is overdue, for a period of 30 days from the date of such notification, (ii) the applicability of which is being contested in good faith and by appropriate negotiations or proceedings, (iii) for a period of 30 days after such negotiations or proceedings referred to in (ii) above have resulted in a final, non-appealable (in any judicial instance) determination of liability in a definitively ascertained amount or (iv) if such non-payment or failure to discharge, together with non-payment or failure to discharge any other unpaid or undischarged Taxes, does not have in the aggregate a Material Adverse Effect, and provided further that, in the case of either (i), (ii), (iii) or (iv) above, if any Tax is paid or discharged after becoming overdue, such payment or discharge shall be deemed to remedy any breach of this Condition 5(i) with respect to such Tax.

6. **INTEREST**

(a) **Interest Accrual**

Each Note bears interest from and including 18 April 2017 (the "**Issue Date**") at the rate of 9.25 per cent. per annum (the "**Rate of Interest**") payable semi-annually in arrear on 18 April and 18 October in each year, commencing on 18 October 2017 (each, an "**Interest Payment Date**"), subject as provided in Condition 7 (*Currency Exchange Option and Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is herein called an "**Interest Period**".

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest kopeck (half a kopeck being rounded upwards).

(b) **Cessation of Interest**

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day after the Principal Paying Agent or the Trustee has received all sums due in respect of the Notes up to that day (except to the extent that there is any subsequent default in payment).

(c) **Day Count Fraction**

If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of twelve 30 day months each and, in the case of an incomplete month, the actual number of days elapsed.

The determination of the amount of interest payable under this Condition 6(c) by the Principal Paying Agent shall, in the absence of manifest error, be binding on all parties.

7. **CURRENCY EXCHANGE OPTION AND PAYMENTS**

(a) **Currency Exchange Option**

Noteholders may, no later than the fifth Business Day before the due date for any payment of interest or principal, give an irrevocable election (a "**U.S. Dollar Noteholder Election**") to the Registrar to receive such payment of interest or principal, as the case may be, in U.S. Dollars. Upon any such election in accordance with the foregoing, such interest or principal will be converted into U.S. dollars by the Principal Paying Agent pursuant to this Condition 7(a).

The Principal Paying Agent shall, on or before 10.30 a.m. (New York time) on the Business Day prior to each Interest Payment Date or the Maturity Date (each, an "**Exchange Date**"), purchase U.S. dollars (the "**U.S. Dollar Amount**") with the Exchange Amount at a purchase price calculated on the basis of the Applicable Exchange Rate for settlement on the relevant Interest Payment Date or the Maturity Date, as the case may be.

If for any reason on the Exchange Date it is not possible for the Principal Paying Agent to purchase the U.S. Dollar Amount with the Exchange Amount at the Applicable Exchange Rate, the Principal Paying Agent shall notify the Noteholders in accordance with Condition 14 (*Notices*) and the Principal Paying Agent shall make payments on the Notes in Russian Roubles into a Russian Rouble account maintained by the payee with a bank in London.

On each Interest Payment Date, the Principal Paying Agent shall give due notice to the Noteholders in accordance with Condition 14 (*Notices*) of (a) the

Exchange Amount and the U.S. Dollar Amount applicable to such Interest Payment Date, (b) the Applicable Exchange Rate at which such U.S. Dollar Amount was purchased by the Principal Paying Agent and (c) if applicable, whether such U.S. Dollars were purchased from either the Principal Paying Agent or from another leading foreign exchange bank in London or New York City.

In accordance with the Agency Agreement, any calculation or determination performed or made by the Principal Paying Agent, for the purposes of these Conditions shall be final and binding on the Issuer, the Guarantors, the Trustee, the Noteholders and the other Agents. In making any determination, the Principal Paying Agent is acting exclusively as an agent of the Issuer and the Guarantors and in accordance with the Conditions. Neither the Trustee nor the Principal Paying Agent nor any other Agent shall be responsible or liable to any person in relation to the timing, determination, calculation or application of any the Applicable Exchange Amount or the U.S. Dollar Amount. The Principal Paying Agent shall not be liable to any Noteholder, the Issuer, the Guarantors or any other person for any losses whatsoever resulting from determination, calculation, timing or application by the Principal Paying Agent of the Applicable Exchange Rate or the US Dollar Amount. The Principal Paying Agent may rely conclusively on the basis on which its internal foreign exchange conversion rate (including, for avoidance of doubt, any third party indexes forming the basis for such conversation rates) for settlement has been determined and shall not be liable for losses associated with the basis for determination of such rate.

The Principal Paying Agent is entitled to rely on, and will not be liable for any losses resulting from acting in accordance with, any notifications, instructions or U.S. Dollar Noteholder Election even if, following its acting on it, it may be found that such notification, instruction or U.S. Dollar Noteholder Election was not authentic or was defective.

The Principal Paying Agent may retain for its own account any spread on foreign exchange transactions, customarily charged by it in connection with such conversion.

The Principal Paying Agent may convert currency itself or through any office, branch or subsidiary of The Bank of New York Mellon Corporation ("**BNYM Affiliates**") and, in those cases, the Principal Paying Agent or, as the case may be, the relevant BNYM Affiliate through which currency is converted acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, sales margin, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under these conditions and the rate that the Principal Paying Agent or any BNYM Affiliate receives when buying or selling foreign currency for its own account. The Principal Paying Agent makes no representation that the exchange rate used or obtained in any currency conversion under these Conditions will be the most favourable rate that could be obtained at the time or as to the method by which that rate will be determined.

(b) **Principal**

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the Person shown in the Register at the close of business on the Record Date and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of any Paying Agent.

(c) **Interest**

Payments of interest due on an Interest Payment Date will be made to the Person shown in the Register at close of business on the Record Date.

(d) **Payments**

Each payment in respect of the Notes pursuant to Conditions 7(b) (*Principal*) and 7(c) (*Interest*) will be made by transfer to the registered account of the Noteholder.

Payment instructions (for value the due date, or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated by the Paying Agents, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the specified office of any of the Paying Agents and, in the case of interest and other amounts on the due date for payment.

For the purposes of these Conditions, a Noteholder's "registered account" means a Russian Rouble account or, in the case of Notes in respect of which a U.S. Dollar Noteholder Election has been made pursuant to Condition 7(a) (*Currency Exchange Option*), a U.S. Dollar account, in each case maintained by or on behalf of it with a bank in London, details of which appear in the Register on the Record Date.

(e) **Delay in Payment**

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a Business Day or (ii) if the Noteholder is late in surrendering its Definitive Note Certificate (if required pursuant to these Conditions).

(f) **Payments Subject to Fiscal Laws**

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or

expenses shall be charged to the Noteholders in respect of such payments save as provided in Condition 7(d) (*Payments*).

(g) **Partial Payments**

If the amount of principal or interest which is due on the Notes on any date is not paid in full, the Registrar will annotate the Register and any Definitive Note Certificates surrendered for payment with a record of the amount of principal or interest in fact paid and the date of such payment.

(h) **Agents**

The names of the initial Agents and their Specified Offices are set out below. The Issuer and each Guarantor reserves the right under and in accordance with the terms of the Agency Agreement at any time with the prior written consent of the Trustee (such consent not to be unreasonably withheld or delayed) to vary or terminate the appointment of any Agent and to appoint successor or additional Agents, *provided* that it will at all times maintain:

- (i) a Principal Paying Agent;
- (ii) an Agent (which may be the Principal Paying Agent) having a specified office in London; and
- (iii) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Agent shall promptly be given to Noteholders in accordance with Condition 14 (*Notices*).

8. **REDEMPTION AND PURCHASE**

(a) **Scheduled redemption**

Unless previously redeemed or purchased and cancelled as provided below, the Notes will be redeemed at their principal amount on the Maturity Date.

(b) **Optional Redemption by the Issuer**

At any time, the Issuer may at its option redeem the Notes, in whole or in part, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders in accordance with Condition 14 (*Notices*), at a redemption price equal to 100 per cent. of the principal amount thereof plus the Applicable Premium plus accrued and unpaid interest, and Additional Amounts (as defined in Condition 9 (*Taxation*)) (if any), to, but excluding, such redemption date.

None of the Trustee or the Agents shall be responsible for calculating or verifying the redemption price payable pursuant to this Condition 8(b) or for determining or verifying whether a Note is to be accepted for redemption under this Condition 8(b) and will not be responsible to Noteholders or any other person for any loss arising from any failure by it to do so.

The Issuer is not required to make mandatory redemption payments or sinking fund payments with respect to the Notes.

**(c) Redemption for Taxation Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders in accordance with Condition 14 (*Notices*) at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that it (or, if the Guarantee were called on for payment, one or more Guarantors) has or will become obliged to pay any Additional Amounts as a result of:

- (i) any change in, or an amendment to, or change in the official interpretation of the laws (including any regulations or rulings promulgated thereunder) of, any Relevant Taxing Jurisdiction (as defined in Condition 9 (*Taxation*)); or
- (ii) any change in or amendment to or change in the official interpretation of any official position regarding the application or interpretation of such laws or regulations or rulings (including a judgment by a court of competent jurisdiction),

in each case which change or amendment is announced or becomes effective on or after the Issue Date, and the Issuer or the Guarantors, as the case may be, cannot avoid such obligation by taking reasonable measures available to them, *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or such Guarantor) would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee an Officers' Certificate stating that the obligation to pay Additional Amounts cannot be avoided by the Issuer or the relevant Guarantor, as the case may be, taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent described above in which event it shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice referred to above, the Issuer shall be bound to redeem the Notes in accordance with this Condition 8(c).

**(d) Redemption at the Option of the Noteholders upon a Change of Control**

Upon the occurrence of a Change of Control, unless the Issuer has exercised its right to redeem all of the Notes as described under Condition 8(b) (*Optional Redemption by the Issuer*), each Noteholder shall have the right to require that the Issuer repurchase all or any part of that Noteholder's Notes (in integral multiples of RUB 100,000; *provided* that Notes of RUB 10,000,000 or



less may only be redeemed in whole and not in part) at a purchase price in cash equal to 100 per cent. of the principal amount thereof on the date of purchase plus accrued and unpaid interest, if any, to, but excluding, the date of purchase (subject to the right of Noteholders of record on the relevant Record Date to receive interest due on the relevant Interest Payment Date).

Within 30 days following any Change of Control, unless the Issuer has exercised its right to redeem all of the Notes as described under Condition 8(b) (*Optional Redemption by the Issuer*) the Issuer will notify the Noteholders (with a copy to the Trustee) in accordance with Condition 14 (*Notices*) (the "**Change of Control Offer**") stating:

- (i) that a Change of Control has occurred and that such Noteholder has the right to require the Issuer to purchase such Noteholder's Notes (in integral multiples of RUB 100,000; *provided* that Notes of RUB 10,000,000 or less may only be redeemed in whole and not in part) at a purchase price in cash equal to 100 per cent. of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, to, but excluding, the date of purchase (subject to the right of Noteholders of record on the relevant Record Date to receive interest on the relevant Interest Payment Date);
- (ii) the circumstances and relevant facts regarding such Change of Control;
- (iii) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is made); and
- (iv) the procedures determined by the Issuer, consistent with the Agency Agreement that a Noteholder must follow in order to have its Notes purchased.

The Issuer will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements of these Conditions and the Trust Deed applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

(e) **Partial Redemption**

If the Notes are to be redeemed in part only on any date in accordance with Conditions 8(b) (*Optional Redemption by the Issuer*) or 8(d) (*Redemption at the Option of the Noteholders upon a Change of Control*), each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant redemption date bears to the aggregate principal amount of outstanding Notes on such date.

(f) **Purchases**

The Issuer, the Guarantors and any of their respective Subsidiaries may at any time purchase or procure others to purchase for their account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (*provided* that such resale is in compliance with all applicable laws) or surrendered to the Registrar for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 8(g) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer or any Guarantor or any Subsidiary of the Issuer or any Guarantor, shall not entitle the Issuer, such Guarantor or any such Subsidiary to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 13(a) (*Meetings of Noteholders*).

(g) **Cancellation of Notes**

All Notes which are redeemed pursuant to this Condition 8 or repurchased and submitted to the Registrar for cancellation pursuant to Condition 8(f) (*Purchases*) will be cancelled and may not be reissued or resold. For so long as the Notes are admitted to trading on a stock exchange and the rules of such exchange so require, the Issuer shall promptly inform the stock exchange of the cancellation of any Notes under this Condition 8(g).

9. **TAXATION**

(a) **Additional Amounts**

All payments of principal and interest payable by or on behalf of the Issuer or a Guarantor under or with respect to the Notes and the Guarantee will be made free and clear of, and without withholding or deduction for or on account of Taxes imposed or levied by or on behalf of the jurisdiction of organisation of the Issuer or any Guarantor and (if different) any jurisdiction in which the Issuer or Guarantor is resident for tax purposes at the time of payment, and any political subdivision or taxing authority thereof or therein (each a "**Relevant Taxing Jurisdiction**"), unless such withholding or deduction is required by law. If any amounts are required to be withheld or deducted for or on account of Taxes imposed by a Relevant Taxing Jurisdiction from any payment of principal or interest made under or with respect to the Notes or the Guarantee, the Issuer or the relevant Guarantor, as applicable, to the fullest extent then permitted by law, will be required to pay such additional amounts ("**Additional Amounts**") as may be necessary so that the net amount received by a Noteholder (including Additional Amounts) after such withholding or deduction will not be less than the amount such Noteholder would have received if such Taxes had not been withheld or deducted; *provided, however*, that the foregoing obligation to pay Additional Amounts does not apply to:

- (i) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Noteholder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, the relevant Noteholder, if the relevant

Noteholder is an estate, trust, partnership or corporation) and the Relevant Taxing Jurisdiction (other than the mere receipt of such payment or the ownership or holding of such Note); or

- (ii) any payment of or on account of estate, inheritance, gift, sales, excise, transfer, personal property tax or similar tax, assessment or governmental charge; or
- (iii) any tax, duty, assessment, fee or other governmental charge that would not have been imposed but for the presentation of the Note by the Noteholder for payment more than 30 days after the date on which such payment on such Note became due and payable or the date on which payment thereof is duly provided for, whichever is later (except to the extent that the Noteholder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30-day period); or
- (iv) with respect to any payment of principal of or interest on such Notes or with respect to the Guarantee to any Noteholder who is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment, to the extent that (A) such withholding or deduction is required for the sole reason that the Noteholder is a fiduciary, a partnership or a Person other than the beneficial owner of such payment or (B) a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Noteholder of such Note; or
- (v) any tax, duty, assessment, fee or other governmental charge that would have been avoided if the Noteholder had made a declaration of non-residence or similar claim for exemption or reduction of the applicable deduction or withholding but fails to do so; or
- (vi) any withholding or deduction imposed as a result of the failure of the holder of the Note or beneficial owner of the Notes to comply with certification, information, documentation, reporting or other similar requirements concerning the nationality, residence or identity of such holder or beneficial owner or to make any valid and timely declaration or similar claim or satisfy any certification information or other reporting requirement, which is required or imposed by a statute, treaty, regulation or administrative practice of the Relevant Taxing Jurisdiction as a precondition to exemption from or reduction in all or part of such withholding or deduction; or
- (vii) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment in a Relevant Taxing Jurisdiction; or
- (viii) any combination of the above.

- (b) Whenever in the Trust Deed or the Conditions there is mentioned, in any context (i) the payment of principal; (ii) interest; or (iii) any other amount payable on or with respect to any of the Notes, such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

## 10. **PRESCRIPTION**

Claims in respect of principal and interest will become void unless the relevant Definitive Note Certificate is surrendered for payment as required by Condition 7 (*Currency Exchange Option and Payments*) within a period of ten years in the case of principal and five years in the case of interest from the relevant date for payment thereof.

## 11. **EVENTS OF DEFAULT**

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one quarter in aggregate principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or prefunded and/or secured to its satisfaction) shall give written notice to the Issuer and the Guarantors that the Notes are and they shall immediately become due and repayable in each case at their principal amount together with accrued interest, if any of the following events (each, an "**Event of Default**") occurs and is continuing:

### (a) **Non-Payment**

- (i) failure by the Issuer or the Guarantors to pay any principal in respect of any of the Notes when it becomes due and payable (whether at Stated Maturity, upon redemption, upon acceleration or otherwise) and such failure continues for a period of seven Business Days; or
- (ii) failure by the Issuer or the Guarantors to pay interest in respect of any of the Notes when it becomes due and payable and such failure continues for a period of seven Business Days; or

### (b) **Breach of Other Obligations**

- (i) failure by the Issuer or any Guarantor or group of Guarantors to comply with any of the agreements or covenants described above under Condition 5(e) (*Merger or Consolidation*); or
- (ii) failure by the Issuer to comply with any of the agreements or covenants described above under Condition 8(d) (*Redemption at the Option of the Noteholders Upon a Change of Control*) and such failure continues for 30 days after written notice of such failure has been given to the Issuer by the Trustee; or
- (iii) failure by the Issuer or any Guarantor to comply with any other agreement or covenant in these Conditions or the Trust Deed and such failure continues for 30 days after written notice of such failure has been given to the Issuer and the Guarantors by the Trustee; or

(c) **Cross-Acceleration**

- (i) any Indebtedness of the Issuer, the Guarantors or any of their respective Subsidiaries is not paid on the due date for payment or (as the case may be) within any originally applicable grace period; or
- (ii) any such Indebtedness becomes due and payable prior to its Stated Maturity by reason of any default, event of default or the like (howsoever described),

*provided* that the aggregate principal amount of such Indebtedness falling within (i) and/or (ii) above individually or in the aggregate equals or exceeds U.S.\$75.0 million (or the U.S. Dollar Equivalent in any other currency or currencies); or

(d) **Judgment Default**

one or more judgments or orders or arbitration awards from which no further appeal or judicial review is permissible under applicable law for the payment of an amount in excess of U.S.\$ 75.0 million (or the U.S. Dollar Equivalent in any other currency or currencies) (net of any amounts that are covered by insurance policies issued by solvent carriers), whether individually or in aggregate, is rendered or granted against the Issuer, the Company or any of its Material Subsidiaries and continue(s) unsatisfied and unstayed for a period of 60 days after the date thereof or, if later, the date therein specified for payment; or

(e) **Bankruptcy**

- (i) the Issuer, the Company, or any of the Company's Material Subsidiaries or any group of the Company's Subsidiaries that, taken together, would constitute a Material Subsidiary,
  - (A) is declared by a court of competent jurisdiction to be insolvent, bankrupt or unable to pay its debts; or
  - (B) stops, suspends, threatens to stop or suspend payment of, all or substantially all of its debts as they mature; or
  - (C) applies for or consents to or suffers the appointment of an administrator, liquidator or receiver or other similar person in respect of the Issuer, the Company (or any of the Company's Material Subsidiaries or any group of the Company's Subsidiaries that, taken together, would constitute a Material Subsidiary) or over the whole or substantially the whole of their respective undertakings, property, assets or revenues pursuant to any insolvency law (other than for a solvent liquidation of a Material Subsidiary or any group of the Company's Subsidiaries that, taken together, would constitute a Material Subsidiary); or

- (D) takes any proceedings under any law for a readjustment or deferment of its obligations or substantially all of them or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors (other than for the benefit of the Company or any of its Subsidiaries), and except, in any such case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an extraordinary or written resolution of the Noteholders; or
- (ii) an order of a court of competent jurisdiction is made or an effective resolution is passed for the winding-up or dissolution of the Issuer, the Company or any Material Subsidiary of the Company (or any group of its Subsidiaries that, taken together, would constitute a Material Subsidiary), or the Issuer, the Company or any Material Subsidiary of the Company (or any group of its Subsidiaries that, taken together, would constitute a Material Subsidiary) ceases to carry on all or substantially all of their respective businesses or operations (other than in connection with any consolidation, amalgamation or merger of any such entities with, or the sale of all or substantially all the assets of any such entities, any other company where all relevant trust deeds, deeds of guarantee and supplemental trust deeds are executed pursuant to, and to give full effect to, the rights of a Noteholder pursuant to Condition 5(d) (*Asset Sales*)) except, in any such case, (A) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution or Written Resolution (as defined in the Trust Deed) of the Noteholders or (B) for the liquidation of a Subsidiary whilst the Group is solvent; or
- (f) **Unenforceability or Invalidity:** except as permitted by these Conditions or the Guarantee, the Guarantee of a Guarantor shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect, or any such Guarantor shall deny or disaffirm in writing its obligations under the Guarantee; or
- (g) **Unlawfulness:** it is or will become unlawful for the Issuer or any Guarantor to perform or comply with any one or more of its obligations under any of the Notes, the Guarantee or the Trust Deed.

## 12. REPLACEMENT OF NOTES

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar or any Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantors may require (*provided* that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

13. **MEETINGS OF NOTEHOLDERS; MODIFICATION, AND WAIVERS; SUBSTITUTION OF THE ISSUER OR GUARANTORS**

(a) **Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee, the Issuer or a Guarantor, or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing a majority in aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented; *provided, however*, that at any meeting the business of which includes a Reserved Matter, the quorum shall be two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, not less than one-quarter of the aggregate principal amount of the outstanding Notes. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not.

(b) **Written Resolution and electronic consents**

A Written Resolution will take effect as if it were an Extraordinary Resolution if it is signed (i) by or on behalf of 75 per cent. of Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed or (ii) if such Noteholders have been given at least 21 days' notice of such resolution, by or on behalf of Persons holding not less than three-quarters of the aggregate principal amount of the outstanding Notes. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. So long as the Notes are represented by a global certificate in registered form (the "**Global Certificate**") and such Global Certificate is held on behalf of a clearing system, any Extraordinary Resolution passed by way of electronic consents received through a clearing system by or on behalf of not less than three-quarters of the aggregate principal amount of the Notes outstanding shall for all purposes be as valid and effectual as an Extraordinary Resolution passed at a meeting of such Noteholders duly convened and held in accordance with the Trust Deed.

(c) **Modification without Noteholders' consent**

The Trustee may agree, without the consent of the Noteholders, (i) to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders or (ii) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or to correct a manifest or proven error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any breach or proposed breach of the Notes or the Trust Deed (other than a breach or proposed breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby. Any such authorisation, waiver, modification or substitution shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable thereafter.

(d) **Substitution of the Issuer**

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trust Deed sets out but without the consent of the Noteholders (and subject to prior notification to, and confirmation from, any relevant Rating Agency that there is no adverse change to the credit rating granted by such Rating Agency in respect of the Notes) to the substitution of any Subsidiary of the Company in place of the Issuer, or of any previous substitute under Clause 17 of the Trust Deed, as principal debtor under the Trust Deed and the Notes. No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer, the Guarantors or the Trustee any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders, except to the extent provided in Condition 9 (*Taxation*) (or any undertaking given in addition to or substitution of it pursuant to the provisions of the Trust Deed).

(e) **Substitution of a Guarantor**

The Trust Deed contains provisions permitting, without the consent of the Noteholders (subject to prior notification to, confirmation from a relevant Rating Agency that there is no adverse change to the credit rating granted by such Rating Agency in respect of the Notes, and subject to certain other conditions in the Trust Deed), to the substitution of any other company (being, directly or indirectly, a member of the Group) in place of a Guarantor (or of any previous substituted guarantor), as a principal debtor under the Trust Deed and the Notes. No such substitution shall be effective without the consent of the relevant Guarantor (such consent not to be unreasonably withheld). No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer, a Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders, except to the extent provided in Condition 9 (*Taxation*) (or any undertaking given in addition to or substitution of it pursuant to the provisions of the Trust Deed).

(f) **Additional Guarantor**

The Trust Deed contains provisions permitting (subject to such Additional Guarantor acceding to the Trust Deed and such other conditions as set out in the Trust Deed), without the consent of the Noteholders, any Subsidiary of the Company becoming a Guarantor for the purposes of the Trust Deed and the Notes.



#### 14. **NOTICES**

All notices to the Noteholders regarding the Notes will be valid if mailed to them at their respective addresses in the Register and will be deemed to have been given on the fourth Business Day after the date of mailing.

The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to the Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders and such notice will be deemed to be given on the date of such delivery.

#### 15. **TRUSTEE**

##### (a) **Indemnification**

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Company and/or any of its Subsidiaries and any entity relating to the Company and/or any of its Subsidiaries without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries.

##### (b) **Exercise of power and discretion**

In the exercise of its powers and discretion under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Noteholders as a result of such Noteholders being connected in any way with a particular territory or taxing jurisdiction, and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or any Guarantor, any indemnification in respect of any tax consequences of any such exercise upon individual Noteholders.

##### (c) **Enforcement; Reliance**

The Trustee may at any time after the Notes become due and payable, at its discretion and without notice, institute such proceedings or take any other legal action as it thinks fit to enforce its rights under the Trust Deed and these Conditions in respect of the Notes, but it shall not be bound to do so unless:

- (i) it has been so requested in writing by the holders of not less than one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

- (ii) it has been indemnified and/or prefunded and/or secured to its satisfaction.

No Noteholder shall be entitled to proceed directly against the Issuer or any Guarantor to enforce the provisions of the Notes under the Trust Deed or these Conditions, unless the Trustee, having become bound so to proceed on behalf of the Noteholders, fails to do so within a reasonable time and such failure is continuing.

The Trustee may, in making any determination under these Conditions, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Group's auditors, pursuant to the Conditions or the Trust Deed, whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Event of Default has occurred.

The Trustee is not liable for any failure to monitor compliance by the Issuer or any of the Guarantors with the Conditions (including, without limitation, Condition 5 (*Covenants*) and Condition 11 (*Events of Default*)).

## 16. **FURTHER ISSUES**

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes ("**Further Notes**"). The Further Notes and the Notes shall be treated as a single class for all purposes of the Trust Deed, including waivers, amendments, redemptions and offers to purchase. Any Further Notes shall be constituted by a deed supplemental to the Trust Deed. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

## 17. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No Person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

## 18. **GOVERNING LAW; ARBITRATION**

### (a) **Governing law**

The Trust Deed, the Notes and the Guarantee, including any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and/or the Guarantee, are governed by English law.

(b) **Arbitration**

Any dispute arising out of or in connection with the Notes (a "**Dispute**") shall be finally and exclusively resolved by confidential arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA Rules**"), which rules are deemed to be incorporated by reference into this Condition 18(b).

- (i) The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator; and a third arbitrator, who shall serve as presiding arbitrator, shall be selected by the two party nominated arbitrators. For the avoidance of doubt, for the purpose of Article 8.1 of the LCIA Rules, the claimant(s), irrespective of number, and the respondent(s), irrespective of number, constitute two separate sides for the formation of the arbitral tribunal.
- (ii) In the event that the claimant(s) fail to nominate an arbitrator in accordance with the LCIA Rules, such arbitrator shall be nominated by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that the respondent(s) fail to nominate an arbitrator in accordance with the LCIA Rules, such arbitrator shall be nominated by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that both the claimant(s) and the respondent(s) fail to nominate the respective arbitrators in accordance with the LCIA Rules, all three arbitrators shall be nominated and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure, and such arbitrators shall then designate one amongst them as presiding arbitrator.
- (iii) The seat of arbitration shall be London, England and the language of the arbitration shall be English.
- (iv) Where Disputes arise under the Trust Deed, the Agency Agreement, the subscription agreement relating to the Notes (the "**Subscription Agreement**"), or the Notes which, in the reasonable opinion of the first arbitral tribunal to be appointed in any of the Disputes, are so closely connected that it is expedient for them to be resolved in the same proceedings, that arbitral tribunal shall have the power to order that the proceedings to resolve that Dispute shall be consolidated with those to resolve any of the other Disputes (whether or not proceedings to resolve those other Disputes have yet been instituted), provided that no date for the hearing on the merits of the Dispute in the first arbitration has been fixed. If the first arbitral tribunal so orders, the parties to each Dispute which is a subject of its order shall be treated as having consented to that Dispute being finally decided:
  - (A) by the arbitral tribunal that ordered the consolidation unless the LCIA Court decides that any member of such tribunal would not be suitable or impartial; and

- (B) in accordance with the procedure, at the seat and in the language specified in the arbitration agreement in the contract under which the arbitral tribunal that ordered the consolidation was appointed, save as otherwise agreed by all parties to the consolidated proceedings or, in the absence of such agreement, ordered by the arbitral tribunal in the consolidated proceedings.
- (v) For the avoidance of doubt, the parties to the Trust Deed, the Agency Agreement, and the Subscription Agreement are intended to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of Condition 18(b)(iv).
- (vi) The jurisdiction of the Courts under sections 45 and 69 of the Arbitration Act 1996 is excluded.

## 19. DEFINITIONS

For the purposes of these Conditions:

**"Acquired Debt"** means, with respect to any specified Person:

- (1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, such specified Person; and
- (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

**"Additional Amounts"** shall have the meaning given to such term in Condition 9 (*Taxation*).

**"Additional Guarantors"** means Persons who become guarantors pursuant to the Trust Deed.

**"Affiliate"** of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

**"Affiliate Transaction"** shall have the meaning given to such term in Condition 5(c) (*Transactions with Affiliates*).

**"Agency"** means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

**"Applicable Exchange Rate"** means the internal foreign exchange conversion rate for settlement on the relevant Interest Payment Date which the Principal Paying Agent uses to convert Russian Roubles into U.S. Dollars at the request of its other customers.

**"Applicable Premium"** means, with respect to any Note on any redemption date, the greater of:

- (a) zero; or
- (b) the excess of:
  - (i) the present value at such redemption date of (i) the redemption price of the Note at the Maturity Date, (such redemption price being 100 per cent. of principal amount) plus (ii) all required interest payments due on the Note through to the Maturity Date (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over
  - (ii) the principal amount of the Note.

**"Asset Sale"** means

- (a) the sale, lease, conveyance or other disposition of any assets or rights by the Company or any of the Company's Subsidiaries; *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Company and its Subsidiaries taken as a whole will be governed by the provisions in Condition 8(d) (*Redemption at the Option of the Noteholders upon a Change of Control*) and Condition 5(e) (*Merger or Consolidation*) and not by the provisions of Condition 5(d) (*Asset Sales*); and
- (b) the issuance of Equity Interests by any of the Company's Subsidiaries or the sale by the Company or any of the Company's Subsidiaries of Equity Interests in any of the Company's Subsidiaries.

For purposes of this definition, the term **"Asset Sale"** shall not include:

- (a) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than 10 per cent. of the Group's total assets determined in accordance with IFRS (as calculated by reference to the then latest audited consolidated IFRS financial statements of the Group);
- (b) a transfer of assets or Equity Interests between or among the Company and its Subsidiaries;
- (c) an issuance of Equity Interests by a Subsidiary of the Company to the Company or to a Subsidiary of the Company or between or among Subsidiaries of the Company;
- (d) the sale, lease or other transfer of products, inventory, trading stock, services, accounts receivable or other assets in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the

ordinary course of business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of the Company, no longer economically practicable to maintain or useful in the conduct of the business of the Company and its Subsidiaries taken as whole);

- (e) licences and sublicences by the Company or any of its Subsidiaries of software or intellectual property in the ordinary course of business;
- (f) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;
- (g) the granting of Liens not prohibited by the covenant described above under Condition 5(b) (*Limitation on Liens*);
- (h) the sale or other disposition of cash or Cash Equivalents;
- (i) any disposal of assets in exchange for other assets comparable or superior as to type, value and quality;
- (j) any disposal of any assets which are required to be sold as part of an arrangement with any competition authority in connection with an acquisition;
- (k) any disposal of assets in respect of sale and leaseback transactions;
- (l) any GDR Permitted Transaction or refinancing thereof; or
- (m) any disposal of assets contributed to any joint venture which relates to the Permitted Business of the Group on commercial terms and on an arm's length basis.

**"Auditors"** means the auditors of the consolidated financial statements of the Group from time to time.

**"Business Day"** means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Amsterdam, London, Moscow and New York City and (where surrender is required by these Conditions) in the place of the specified office of the Registrar or the relevant Paying Agent to whom the relevant Definitive Note Certificate is surrendered.

**"Capital Stock"** means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and

- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

**"Cash Equivalents"** means:

- (a) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, any government;
- (b) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition issued by a bank or trust company;
- (c) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (a) and (b) above entered into with any financial institution meeting the qualifications specified in clause (b) above;
- (d) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within one year after the date of acquisition; and
- (e) interests in any investment company or money market funds at least 95% of the assets of which consist of Cash Equivalents of the type referred to in paragraphs (a) to (d) above.

**"Change of Control"** means the occurrence of any of the following:

- (a) Alfa Group ceases to own at least 25 per cent. of the share capital of the Company; or
- (b) any Person or group of Persons (other than Alfa Group) acting in concert gains control of the Company and owns more of the share capital of the Company than Alfa Group; or
- (c) either (i) the GDRs are de-listed from the London Stock Exchange and no alternative listing on a recognised stock exchange (which, for the avoidance of doubt, includes the Moscow Stock Exchange) is obtained in respect of the GDRs or the equity share capital of the Company (or any successor entity to the Company, or any entity that becomes the ultimate parent company of the Group) or (ii) less than 25 per cent. of the GDRs are held by Persons other than Alfa Group and its Affiliates.

For the purposes of this definition:

- (i) **"acting in concert"** means acting together pursuant to an agreement or understanding (whether formal or informal);
- (ii) **"Alfa Group"** means CTF and its Subsidiaries from time to time;

(iii) "**CTF**" means CTF Holdings Limited, a company registered in Gibraltar with incorporation number 58115;

(iv) "**control**" means the ownership of the lesser of:

(A) at least 25 per cent. of the share capital of the Company; and

(B) the level of share capital of the Company which, under applicable Dutch, English or Russian law or regulation would require that Person or group of Persons acting in concert to make a mandatory offer for the entire share capital of the Company,

in each case, other than solely as a result of the entry into or enforcement of a Relevant Share Transaction which has not resulted in a disposal of the share capital of the Company (other than to the Alfa Group);

(v) to "**own**" or "**ownership**" means, in respect of any share capital of the Company, ownership (directly or indirectly) or the right to vote as it sees fit in respect of that share capital and there shall be deemed to be no loss or cessation of ownership of any share capital as a result of the entry into a Relevant Share Transaction with respect to such share capital;

(vi) "**Relevant Share Transaction**" means:

(A) a share or GDR lending transaction;

(B) a financing collateralised by shares in the Company or GDRs;  
or

(C) a share or GDR repurchase transaction,

in each case entered into with or arranged by an internationally reputable financial institution; and

(vii) "**share capital**" means issued shares in the capital of the Company (and, where applicable, shares represented by GDRs).

"**Change of Control Offer**" shall have the meaning given to such term in Condition 8(d) (*Redemption at the Option of Noteholders upon a Change of Control*).

"**Consolidated EBITDA**" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus*, without duplication:

(a) an amount equal to any extraordinary loss plus any net loss realised by such Person or any of its Subsidiaries in connection with an Asset Sale, to the extent such losses were deducted in computing such Consolidated Net Income;  
*plus*



- (b) provision for taxes based on income or profits of such Person and its Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*
- (c) the Fixed Charges of such Person and its Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; *plus*
- (d) any foreign currency translation losses (including losses related to currency remeasurements of Indebtedness) of such Person and its Subsidiaries for such period, to the extent that such losses were taken into account in computing such Consolidated Net Income; *plus*
- (e) depreciation, amortisation (including amortisation of intangibles but excluding amortisation of prepaid cash expenses that were paid in a prior period), impairment of non-current assets and other non-cash charges and expenses (excluding any such non-cash charge or expense to the extent that it represents an accrual of or reserve for cash charges or expenses in any future period or amortisation of a prepaid cash charge or expense that was paid in a prior period) of such Person and its Subsidiaries for such period to the extent that such depreciation, amortisation, impairment and other non-cash charges or expenses were deducted in computing such Consolidated Net Income; *minus*
- (f) any foreign currency translation gains (including gains related to currency remeasurements of Indebtedness) of such Person and its Subsidiaries for such period, to the extent that such gains were taken into account in computing such Consolidated Net Income; *minus*
- (g) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue and release of operating provisions in the ordinary course of business; *minus*
- (h) interest income and other finance income as defined in the Consolidated Financial Statements; *minus*
- (i) any benefit for taxes based on income or profits of such Person and its Subsidiaries for such period, to the extent that such benefit for taxes was taken into account in computing such Consolidated Net Income,

in each case, on a consolidated basis and determined in accordance with IFRS.

**"Consolidated Financial Statements"** means:

- (a) the audited consolidated financial statements for the financial year of the Group;
- (b) the reviewed condensed consolidated interim financial statements for a financial half year for the Group; and
- (c) the unaudited condensed consolidated interim financial information of the Group for (i) the three months ended 31 March and (ii) the nine months ended 30 September (if produced),

in accordance with IFRS as adopted by the European Union and Part 9 of Book 2 of the Dutch Civil Code in the case of (a) above and in accordance with IAS 34 (Interim Financial Reporting) in the case of (b) and (c) above.

**"Consolidated Net Income"** means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Subsidiaries for such period, on a consolidated basis, determined in accordance with IFRS and without any reduction in respect of preferred stock dividends.

**"Consolidated Net Indebtedness"** means at any Determination Date an amount equal to (a) (and without duplication) the aggregate outstanding principal, capital or nominal amount of Indebtedness of the Group on a consolidated basis as calculated in accordance with the then most recently published Consolidated Financial Statements of the Group prepared in accordance with IFRS, less (b) the aggregate cash and Cash Equivalents of the Group on a consolidated basis as calculated in accordance with the then most recently published Consolidated Financial Statements of the Group prepared in accordance with IFRS.

**"continuing"** means, with respect to any Event of Default, that such Event of Default has not been cured or waived.

**"Credit Facilities"** means one or more debt facilities, indentures, bonds, instruments, arrangements or commercial paper facilities, in each case, with banks or other institutional lenders or investors, together with all related documents and security in relation thereto, providing for revolving credit loans, term loans, factoring and receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, restructured, repaid, refunded, replaced or refinanced in whole or in part from time to time.

**"Currency Agreement"** means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

**"Determination Date"** means any date on which the Issuer is required to calculate the Group Leverage Ratio or Consolidated Net Indebtedness in accordance with these Conditions.

**"Equity Interests"** means Capital Stock, GDRs and all warrants, options or other rights to acquire Capital Stock or GDRs (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock or GDRs).

**"Event of Default"** shall have the meaning given to such term in Condition 11 (*Events of Default*).

**"Exchange Amount"** means, in respect of each Interest Payment Date, the amount in Russian Roubles in aggregate equivalent to the portion of such interest in respect of the Notes due on the relevant Interest Payment Date which is payable to the Noteholders (if any) which have given an irrevocable election pursuant to Condition 7(a) (*Currency Exchange Option*) to receive payment of such interest and/or principal in U.S. Dollars. The Registrar shall on the fifth Business Day prior to the Interest Payment Date, notify the Principal Paying Agent of the Exchange Amount.

**"Exchange Date"** has the meaning given to it in Condition 7(a) (*Currency Exchange Option*).

**"Existing Indebtedness"** means all Indebtedness of the Company and its Subsidiaries in existence as at the Issue Date assuming such facilities are fully drawn.

**"Fair Market Value"** means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress of either party, determined in good faith by an authorised officer of the Issuer or the Company.

**"Finance Lease Obligation"** means, at the time any determination is to be made, the amount of any lease or hire purchase obligation which would, in accordance with IFRS, be recorded as a balance sheet liability, other than (i) any liability in respect of a lease or hire purchase obligation which would, in accordance with IFRS as in effect on the Issue Date, have been treated as an operating lease or (ii) any obligation in respect of a lease relating to land entered into in the ordinary course of business.

**"Fitch"** means Fitch Ratings Limited, its affiliates and any successor to its ratings business.

**"Fixed Charges"** means, with respect to any specified Person for any period, the sum, without duplication, of:

- (a) the consolidated interest expense of such Person and its Subsidiaries for such period, whether paid or accrued, including, without limitation, amortisation of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations in respect of interest rates; *plus*
- (b) the interest component of Finance Lease Obligations accrued or scheduled to be paid or accrued during such period, other than the interest component of Finance Lease Obligations between or among the Company and any of its Subsidiaries or between or among its Subsidiaries; *plus*
- (c) the consolidated interest expense of such Person and its Subsidiaries that was capitalised during such period; *plus*
- (d) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Subsidiaries or secured by a Lien on assets of such Person or one of its Subsidiaries, whether or not such Guarantee or Lien is called upon; *plus*
- (e) the product of (i) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of the Company or to the Company or a Subsidiary of the Company, *times* (ii) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined national, state and local statutory tax rate of

such Person, expressed as a decimal, in each case, determined on a consolidated basis in accordance with IFRS.

**"Further Notes"** shall have the meaning given to such term in Condition 16 (*Further Issues*).

**"GDRs"** means the global depositary receipts representing shares of the Company;

**"GDR Permitted Transaction"** means any transaction (including a derivatives transaction) in respect of GDRs under which any Subsidiary of the Company:

- (a) enters into a forward sale of GDRs and a simultaneous equity swap;
- (b) provides GDR security;
- (c) enters into a GDR lending/borrowing transaction;
- (d) enters into a financing collateralised by GDRs; or
- (e) enters into a GDR repurchase transaction.

**"Group"** means the Company and its Subsidiaries, taken as a whole.

**"Group Leverage Ratio"** means as of any Determination Date the ratio of (x) the aggregate amount of Consolidated Net Indebtedness to (y) the aggregate amount of Consolidated EBITDA for the period (the **"EBITDA Calculation Period"**) of the two most recent consecutive semi-annual periods or, if applicable, four most recent consecutive quarterly periods (provided that published, reviewed or audited financial statements are available for such quarterly periods), ending prior to such Determination Date for which financial statements of the Group on a consolidated basis and prepared in accordance with IFRS are available. The Group Leverage Ratio shall be determined in good faith by an authorised officer of the Issuer, whose determination will be conclusive (in the absence of manifest error).

**"guarantee"** means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

**"Hedging Obligations"** means, with respect to any specified Person, the obligations of such Person under:

- (a) currency exchange, interest rate or commodity swap agreements, currency swap, interest rate or commodity cap agreements, currency exchange, interest rate or commodity collar agreements and foreign exchange contracts or futures contracts;
- (b) other agreements or arrangements designed to manage interest rates or interest rate risk; and

- (c) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange, interest rates commodity prices or equity risks.

**"IFRS"** means International Financial Reporting Standards promulgated by the International Accounting Standards Board or any successor board or agency as endorsed by the European Union as in effect from time to time.

**"Indebtedness"** means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables):

- (1) in respect of borrowed money;
- (2) evidenced by or issued in exchange for bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of banker's acceptances;
- (4) representing Finance Lease Obligations;
- (5) representing the balance deferred and unpaid of the purchase price of any property or services where the deferred payment is arranged primarily as a means of raising finance, which purchase price is due more than one year after such property is acquired or placed in service (whichever is the later) or such services are completed; or
- (6) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of borrowing.

**"Interest Payment Date"** shall have the meaning given to such term in Condition 6.1(a) (*Interest Accrual*).

**"Interest Period"** shall have the meaning given to such term in Condition 6.1(a) (*Interest Accrual*).

**"Irish Stock Exchange"** means the Irish Stock Exchange plc.

**"Issue Date"** shall have the meaning given to such term in Condition 6.1(a) (*Interest Accrual*).

**"Issuer"** means the party named as such above or any successor entity or a Subsidiary substituted in its place pursuant to Condition 13(d) (*Substitution of the Issuer*).

**"Lien"** means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the laws of any jurisdiction (which, for the avoidance of doubt, excludes any direct debit arrangement).

**"Material Adverse Effect"** means a material adverse effect on or a material adverse change in:

- (a) the financial condition, assets, business or prospects of the Group taken as a whole; and
- (b) the ability of the Issuer and the Guarantors to perform and comply with their obligations under the Notes.

**"Material Subsidiary"** means any Subsidiary which meets any of the following conditions:

- (a) each Guarantor; and
- (b) each Subsidiary of the Company whose standalone total assets or standalone revenues (to the extent included in the Consolidated Financial Statements and excluding transactions and balances within the Group) exceed 10 per cent. of the consolidated total assets or consolidated revenues of the Company, in each case as determined by reference to the IFRS delivered with respect to Condition 5(h) (*Financial Information*).

**"Maturity Date"** means 18 April 2020.

**"Moody's"** means Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors or assigns.

**"Noteholder"** shall have the meaning given to such term in Condition 1(b) (*Title*).

**"Obligations"** means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

**"Officers' Certificate"** means a certificate signed by any duly authorised signatory of the Issuer.

**"Permitted Business"** means the food retail business and any business, service or activity that is related, complementary, incidental, ancillary or similar thereto.

**"Permitted Indebtedness"** shall have the meaning given to such term in Condition 5(a)(ii) (*Incurrence of Indebtedness*).

**"Permitted Liens"** means:

- (a) Liens securing Indebtedness under Credit Facilities that are incurred under Condition 5(a)(ii)(A) (*Incurrence of Indebtedness*);
- (b) Liens to secure Hedging Obligations incurred in the ordinary course of business;
- (c) netting or set-off arrangement entered into by the Company, or any Subsidiary of the Company, in the ordinary course of business and/or business (as applicable) for the purpose of netting debit and credit balances;

- (d) Liens on property (including Capital Stock) of a Person existing at the time such Person becomes a Subsidiary of the Company or is merged with or into or consolidated with the Company or any Subsidiary of the Company; *provided* that such Liens were in existence prior to the contemplation of such Person becoming a Subsidiary of the Company or such merger or consolidation and do not extend to any assets other than those of the Person that becomes a Subsidiary of the Company or is merged with or into or consolidated with the Company or any Subsidiary of the Company;
- (e) Lien on assets or property, which is:
  - (i) existing on real property acquired by the Company or any Subsidiary of the Company; and/or
  - (ii) created by the Company or any Subsidiary of the Company on assets or property on or following the acquisition by the Company or any Subsidiary of the Company, as the case may be, of such assets or property;

*provided that* such Lien does not extend to any other assets or property (other than the proceeds of such acquired assets or property);
- (f) Lien on any real property of the Company or any Subsidiary of the Company, provided that such Lien does not extend to any other assets or property;
- (g) Liens to secure the performance of statutory obligations, letters of credit, insurance, performance bonds, surety bonds, bid bonds, appeal bonds, or other obligations of a like nature incurred in the ordinary course of business;
- (h) Lien incurred, or pledge and deposit in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;
- (i) Liens to secure Indebtedness permitted by Condition 5(a)(ii)(D) (*Incurrence of Indebtedness*) covering only the assets acquired with or financed by such Indebtedness;
- (j) Lien for ad valorem, income or property taxes or assessments and similar charges which either is not delinquent or is being contested in good faith by appropriate proceedings for which the Company or any Subsidiary of the Company, as the case may be, has set aside on its books reserves to the extent required by IFRS or Russian Accounting Standards (as applicable);
- (k) Liens existing on the Issue Date;
- (l) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with IFRS has been made therefor;

- (m) Liens imposed by law, such as carriers', warehousemen's, landlords', suppliers' and vendors' and mechanics' Liens, in each case, incurred in the ordinary course of business;
- (n) easement, right of way, restriction (including zoning restriction), reservation, permit, servitude, minor defect or irregularity in title and other similar charge or encumbrance, and any Lien arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Company or any Subsidiary of the Company and existing, arising or incurred in the ordinary course of business;
- (o) Liens created for the benefit of (or to secure) the Notes or the Guarantee;
- (p) Liens to secure any Permitted Refinancing Indebtedness permitted to be incurred under the Trust Deed; *provided, however*, that:
  - (i) the new Lien is limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and
  - (ii) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged with such Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;
- (q) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;
- (r) filing of financing statements as a precautionary measure in connection with operating leases;
- (s) (a) bankers' Lien in respect of deposit accounts, (b) statutory landlords' Lien, (c) deposit to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in subclauses (a), (b) and (c) above of this clause (x), such Lien (A) does not secure obligations constituting Indebtedness for borrowed money and (B) is incurred in the ordinary course of business), and (d) Lien arising from any judgment, decree or other order which does not constitute an Event of Default;
- (t) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;



- (u) Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
- (v) grants of software and other technology licences in the ordinary course of business;
- (w) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;
- (x) Liens in favour of the Company or any of its Subsidiaries; and
- (y) any other Lien not otherwise described in subparagraphs (a) through (y) above, provided that the aggregate amount of Indebtedness secured thereby shall not exceed 30 per cent. of the total liabilities of the Group (as determined by reference to the latest audited consolidated IFRS financial statements of the Group).

**"Permitted Refinancing Indebtedness"** means any Indebtedness of the Company or any of its Subsidiaries issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge other Indebtedness of the Company or any of its Subsidiaries (other than intercompany Indebtedness); *provided that*:

- (a) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);
- (b) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity that is (a) equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged or (b) more than 90 days after the final maturity date of the Notes;
- (c) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes on terms at least as favorable to the holders of Notes as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged; and
- (d) such Indebtedness is incurred either by the Company or by the Subsidiary of the Company that was the obligor (or a successor of the obligor) on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged and is guaranteed only by Persons who were obligors (or

successors of obligors) on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged.

**"Person"** means any individual, corporation, firm, partnership, joint venture, association, trust, unincorporated organisation or government or judicial entity or any Agency or political subdivision thereof, in each case, whether or not having a separate legal personality.

**"Rating Agencies"** means Fitch, Moody's and S&P.

**"Record Date"** means the fifteenth day before the due date for the relevant payment.

**"Refinance"** means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part. **"Refinanced"** and **"Refinancing"** shall have correlative meanings.

**"Register"** shall have the meaning given to such term in Condition 1(b) (*Title*).

**"Relevant Taxing Jurisdiction"** shall have the meaning given to such term in Condition 9 (*Taxation*).

**"Reserved Matter"** means any of the following:

- (a) reducing, or changing the maturity of the principal of any Note;
- (b) reducing the rate of or extending the time for payment of interest on any Note;
- (c) reducing any premium payable upon redemption of the Notes or changing the date on, or the circumstances under, which any Notes are subject to redemption (other than provisions relating to the purchase of Notes described in Condition 8(d) (*Redemption at the Option of the Noteholders upon a Change of Control*) and Condition 5(d) (*Asset Sales*) except that if a Change of Control has occurred, no amendment or other modification of the obligation of the Issuer to make a Change of Control Offer relating to such Change of Control shall be made without the consent of Noteholders by way of Extraordinary Resolution);
- (d) making any Note payable in money or currency other than that stated in the Notes;
- (e) modifying or changing any provision of the Trust Deed or the related definitions to affect the ranking of the Notes or the Guarantee in a manner that adversely affects the holders;
- (f) reducing the percentage of holders necessary to consent to an amendment or waiver to the Trust Deed, the Notes or the Guarantee;
- (g) waiving a default in the payment of principal of or premium or interest on any Notes (except a rescission of acceleration of the Notes by the holders thereof as provided in the Trust Deed and a waiver of the payment default that resulted from such acceleration);

- (h) impairing the rights of holders to receive payments of principal of or interest on the Notes on or after the due date therefor or to institute suit for the enforcement of any payment on the Notes;
- (i) releasing any Guarantor from any of its obligations under the Guarantee or the Trust Deed, except as permitted by these Conditions; or
- (j) making any change in this definition of "Reserved Matters" or changing the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution.

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors or assigns.

"**Stated Maturity**" means, with respect to any instalment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the first date it was incurred in compliance with the terms of the Trust Deed, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"**Subsidiary**" means, with respect to any specified Person:

- (a) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and
- (b) any partnership or limited liability company of which (i) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (ii) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"**Taxes**" means any taxes, duties, assessments or governmental charges of whatsoever nature.

"**Treasury Rate**" means, as of any redemption date, the yield to maturity as of such redemption date of the most recently issued United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the Maturity Date, except that if the period from the

redemption date to the Maturity Date is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given; *provided, however*, that if the period from the redemption date to the Maturity Date, is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

**"U.S. Dollar Amount"** has the meaning given to it in Condition 7(a) (*Currency Exchange Option*).

**"U.S. Dollar Noteholder Election"** has the meaning given to it in Condition 7(a) (*Currency Exchange Option*).

**"U.S. Dollar Equivalent"** means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under "Currency Rates" in the section of the Financial Times entitled "Currencies, Bonds & Interest Rates" or any replacement thereof.

**"Weighted Average Life to Maturity"** means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (a) the sum of the products obtained by multiplying (x) the amount of each then remaining instalment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (y) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
- (b) the then outstanding principal amount of such Indebtedness.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

*The following is a summary of the provisions to be contained in the Global Certificate which will apply to, and in some cases modify, the Conditions as they apply to the Notes evidenced by the Global Certificate.*

The Notes will be represented by a Global Certificate, which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, a common depository for Euroclear and Clearstream.

### Exchange

The Global Certificate will become exchangeable in whole, but not in part, for the Definitive Note Certificates if (i) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes in definitive form.

Whenever the Global Certificate is to be exchanged for Definitive Note Certificates, such Definitive Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required (including, without limitation, the names and addresses of the persons in whose names the Definitive Note Certificates are to be registered and the principal amount of each such person's holding), along with the surrender of the Global Certificate at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement (as defined in the Conditions) and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Certificate will contain provisions that modify the Conditions as they apply to the Notes evidenced by the Global Certificate. The following is a summary of those provisions:

### Notices

Notwithstanding Condition 14 (*Notices*), for so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), notices to holders of Notes represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System, provided that, so long as the Notes are listed and quoted on the Irish Stock Exchange, all requirements of the Irish Stock Exchange have been complied with. Any such notice shall be deemed to be given to the holders of the Notes on the day on which such notice is delivered to Euroclear, Clearstream or (as the case may be) the Alternative Clearing System.

### **Payments on business days**

In the case of all payments made in respect of the Global Certificate, "**business day**" means any day which is a day on which dealings in foreign currencies may be carried on in Amsterdam, London, Moscow and New York City.

### **Payment Record Date**

Each payment in respect of the Global Certificate will be made to the person shown as the Noteholder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business.

### **Prescription**

Claims against the Issuer and the Guarantors in respect of principal or premium (if any) and interest on the Notes while the Notes are represented by the Global Certificate will be prescribed after ten years (in the case of principal and premium) and five years (in the case of interest) from the appropriate due date.

### **Meetings**

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of holders of the Notes and, at any such meeting, as having one vote in respect of each RUB 100,000 in principal amount of Notes for which the Global Certificate may be exchanged.

### **Trustee's Powers**

In considering the interests of Noteholders while the Global Certificate is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holder of the Global Certificate.

### **Exercise at the Option of Noteholders Upon a Change of Control**

On the occurrence of a Change of Control, the provisions of the Agency Agreement apply to the rights of the registered holder of the Notes, and the form of Change of Control Offer Notice shall be as set out the Agency Agreement.

### **Information Concerning Euroclear and Clearstream**

All book-entry interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. The Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be discontinued or changed at any time. None of the Issuer, the Guarantors or the Joint Lead Managers are responsible for those operations or procedures.

Euroclear and Clearstream hold securities for participant organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry charges in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear and/or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited.

### **Initial Settlement**

Initial settlement for the Notes will be made in Russian Roubles. The book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional eurobonds in registered form. The book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

### **Secondary Market Trading**

The book-entry interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

## SUBSCRIPTION AND SALE

Each of Goldman Sachs International, UBS Limited and VTB Capital plc (together, the "**Joint Lead Managers**") has entered into a subscription agreement with the Issuer and the Guarantors dated 13 April 2017 with respect to the Notes (the "**Subscription Agreement**"). Subject to certain conditions, each Joint Lead Manager has jointly and severally agreed to subscribe and pay for the Notes.

The purchase price for the Notes will be the issue price of 100 per cent. of the principal amount of the Notes, less certain commissions and fees. The Subscription Agreement entitles the Joint Lead Managers to terminate the issue of the Notes in certain circumstances prior to payment to the Issuer. Each of the Issuer and the Guarantors have given certain representations and warranties to the Joint Lead Managers in the Subscription Agreement, and the Issuer and the Guarantors have agreed to indemnify the Joint Lead Managers on a joint and several basis against certain liabilities in connection with the offer and sale of the Notes.

### United States

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes are being offered and sold outside the United States by the Joint Lead Managers in accordance with Regulation S, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has severally, but not jointly, represented and agreed that it will offer and sell the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, only in accordance with Rule 903 of Regulation S under the Securities Act, and that at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of the Offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

### United Kingdom

Each Joint Lead Manager has severally, but not jointly, represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (the "**FSMA**")) in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and



- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **The Netherlands**

Each Joint Lead Manager has severally, but not jointly, represented and agreed that the Notes are not, and may not be offered or sold to individuals or legal entities in The Netherlands other than to qualified investors as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

### **Russian Federation**

Each of the Joint Lead Managers has severally, but not jointly, represented and agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law.

### **General**

No action has been taken or will be taken in any jurisdiction by the Joint Lead Managers, the Issuer or the Guarantors that would, or is intended to, permit a public offering of the Notes, or possession or distribution of these Listing Particulars or any supplement hereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Each Joint Lead Manager has severally, but not jointly, undertaken that it will (to the best of its knowledge and belief) comply in all material respects with all applicable securities laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or has in its possession or distributes these Listing Particulars.

Persons into whose hands these Listing Particulars come are required by the Issuer, the Guarantors and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish these Listing Particulars or any other offering material relating to the Notes, in all cases at their own expense.

### **Other Relationships**

The Joint Lead Managers and their affiliates have in the past and may in the future perform certain commercial banking, investment banking or advisory services for the Group from time to time for which they have in the past received and may receive in the future customary fees and expenses. The Joint Lead Managers may, from time to time, continue to engage in transactions with and perform services for the Group in the ordinary course.

## **TAXATION**

*The statements herein regarding taxation are based on the laws in force in The Netherlands, Russia and elsewhere as of the date of these Listing Particulars and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.*

*The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.*

*Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.*

### **THE NETHERLANDS**

*The following summary of certain Dutch taxation matters is based on the laws and practice in force as of the date of these Listing Particulars and is subject to any changes in law and the interpretation and application thereof, which changes could have retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of Notes or coupons, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules.*

*For the purpose of the paragraph "Taxes on Income and Capital Gains" below it is assumed that a holder of Notes, being an individual or a non-resident entity, does not have a substantial interest (aanmerkelijk belang), or - in the case of such holder being an entity - a deemed substantial interest, in the Issuer and that no connected person (verbonden persoon) to the holder has or will have a substantial interest in the Issuer.*

*Generally speaking, an individual has a substantial interest in a company if (a) such individual, either alone or together with his partner, directly or indirectly has, or is deemed to have or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company*

*Generally speaking, a non-resident entity has a substantial interest in a company if such entity, directly or indirectly has (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent. or more of either the annual profit or the*

*liquidation proceeds of such company. An entity has a deemed substantial interest in a company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.*

*For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.*

*Where this summary refers to a holder of Notes, an individual holding Notes or an entity holding Notes, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in such Notes or otherwise being regarded as owning Notes for Dutch tax purposes. It is noted that for purposes of Dutch income, corporate, gift and inheritance tax, assets legally owned by a third party such as a trustee, foundation or similar entity, may be treated as assets owned by the (deemed) settlor, grantor or similar originator or the beneficiaries in proportion to their interest in such arrangement.*

*Where the summary refers to "The Netherlands" or "Dutch" it refers only to the European part of the Kingdom of the Netherlands.*

*Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of Notes or Coupons.*

## **Withholding Tax**

All payments made by the Issuer of interest and principal under the Notes can be made free of withholding or deduction of any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

## **Taxes on Income and Capital Gains**

### ***Residents***

#### ***Resident entities***

An entity holding Notes which is, or is deemed to be, resident in The Netherlands for corporate tax purposes and which is not tax exempt, will generally be subject to corporate tax in respect of income or a capital gain derived from the Notes at the prevailing statutory rates.

#### ***Resident individuals***

An individual holding Notes who is, or is deemed to be, resident in The Netherlands for Dutch income tax purposes will be subject to income tax in The Netherlands in respect of income or a capital gain derived from the Notes at rates up to 52% if:

- (i) the income or capital gain is attributable to an enterprise from which the holder derives profits (other than as a shareholder); or
- (ii) the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor (ii) applies, such individual will be subject to income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from the Notes. If neither condition (i) nor (ii) applies, such individual will be subject to Dutch income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from the Notes. The deemed return ranges from 2.87 per cent. to 5.39 per cent. of the value of the individual's net assets as at the beginning of the relevant fiscal year (including the Note). The applicable rates will be updated annually on the basis of historic market yields. Subject to application of certain allowances, the deemed return will be taxed at a rate of 30 per cent.

### ***Non-residents***

A holder of Notes which is not, and is not deemed to be, resident in The Netherlands for the relevant tax purposes will not be subject to taxation in The Netherlands on income or a capital gain derived from the Notes unless:

- (i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) taxable in The Netherlands and the holder of Notes derives profits from such enterprise (other than by way of the holding of securities); or
- (ii) the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

### **Gift and Inheritance Taxes**

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of Notes by way of gift by, or on the death of, a holder of Notes, unless:

- such holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
- the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions.

### **Value Added Tax**

There is no Dutch value added tax payable by a holder of Notes in respect of payments in consideration for the acquisition of Notes, payments of interest or principal under the Notes, or payments in consideration for a disposal of Notes.

### **Other Taxes and Duties**

There is no Dutch registration tax, stamp duty or any other similar Dutch tax or duty payable in The Netherlands by a holder of Notes in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgement in the courts of The Netherlands) of the Notes or the performance of the Issuer's obligations under the Notes.

## **Residence**

A holder of Notes will not be and will not be deemed to be resident in The Netherlands for Dutch tax purposes and, subject to the exceptions set out above, will not otherwise become subject to Dutch taxation, by reason only of acquiring, holding or disposing of Notes or the execution, performance, delivery and/or enforcement of Notes.

## **THE RUSSIAN FEDERATION**

### **General**

The following is an overview of certain Russian tax considerations relevant, among other things, to taxation of the Notes and payments under the Guarantee.

The overview is based on the laws of the Russian Federation in effect on the date of these Listing Particulars (where these laws are subject to potential changes, which could occur frequently, at short notice and may have retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation or tax implications arising for the Noteholders applying special tax regimes available under Russian tax legislation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Notes, or practical difficulties involved in claiming and obtaining such double tax treaty relief. Prospective investors should consult their own advisors regarding the tax consequences of investing in the Notes. No representations with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

The provisions of the Russian Tax Code applicable to the Noteholders and transactions involving the Notes are ambiguous and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be more inconsistent and subject to more rapid and unpredictable change (possibly with retroactive effect) than in jurisdictions with more developed capital markets or more developed taxation systems.

In practice, the interpretation and application of tax laws and regulations by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. The interpretation and application of such provisions will in practice rest substantially with local tax inspectorates. Furthermore, in the absence of binding precedents, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term "**Resident Noteholder**" means:

- a Russian legal entity which acquires, holds and disposes of the Notes, a legal entity or an organisation, in each case organised under a non-Russian law, which acquires, holds and disposes of the Notes through its permanent establishment in the Russian Federation or a foreign entity or an organisation recognized as a Russian tax resident in accordance with the requirements set out in the Russian Tax Code which acquires,

holds and disposes of the Notes (the "**Resident Noteholder-Legal Entity**"). A foreign entity or an organisation shall be deemed to be a tax resident of the Russian Federation for the purposes of the Russian Tax Code if (1) it is deemed to be a tax resident of the Russian Federation in accordance with an applicable double tax treaty or (2) its place of management is in the Russian Federation unless a different conclusion follows from an applicable double tax treaty; and

- an individual who satisfies the criteria for being a Russian tax resident (the "**Resident Noteholder-Individual**") who acquires, holds and disposes of the Notes. A "Russian tax resident" is an individual who is actually present in the Russian Federation for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months. Presence in the Russian Federation for Russian personal income tax residency purposes is not considered interrupted if an individual departs from the Russian Federation for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this overview, the term "**Non-Resident Noteholder**" means:

- a Noteholder which is a legal entity or an organisation, in each case not organised under Russian law, which acquires, holds and disposes of the Notes otherwise than through its permanent establishment in the Russian Federation and does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Noteholder-Legal Entity**"); and
- a Noteholder who is an individual which acquires, holds and disposes of the Notes and does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Noteholder-Individual**").

For the purposes of this overview, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of Russian tax law as written as of the date of these Listing Particulars. In practice, however, the application of the above formal residency definition may differ based on the position of the Russian tax authorities. As of the date of these Listing Particulars, the law is worded in a way that implies the potential for individuals to be tax resident in Russia for part of the calendar year. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either tax resident or non-resident in the Russian Federation for the full calendar year and consequently even where the travel pattern dictates differing tax residency status for a part of the tax year, the application of the Russian personal income residency tax rate may in practice be disallowed.

Although the Russian Tax Code states that tax residency for individuals depends exclusively on the number of days spent in the Russian Federation, in the beginning of 2015, the Federal Tax Service issued several private clarifications promulgating a view that, besides number of days of physical presence, such factors as permanent home and centre of vital interest (country where family, business are located) must be taken into account for the purposes of determination of tax residency. Although these private clarifications of the Federal Tax Service were subsequently cancelled by the Russian Ministry of Finance in April 2016, we may not exclude the risk of challenge of non-resident status for individuals who do not meet the physical presence test for residents, but have ties (such as property, family, business) to the Russian Federation.

Tax residency rules and the Russian Federation's rights with regard to taxation may be affected by the applicable double tax treaty. The Russian tax treatment of payments under the Guarantee made by the Russian Guarantors may affect the Noteholders. See "*Taxation of Payments under the Guarantee*" below.

## **Taxation of the Notes**

### ***Resident Noteholders***

Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the Notes (including interest received on the Notes).

Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

### ***Non-Resident Noteholders***

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer. A Non-Resident Noteholder also generally should not be subject to any Russian taxes in respect of any gains or other income realized on redemption, sale or other disposal of the Notes outside Russia, provided that the proceeds from such redemption, sale or other disposal of the Notes are not received from a source within the Russian Federation. However, in the absence of a clear definition of what constitutes income from sources within Russia in case of sale of securities, there is a risk that the income from disposal of the Notes (including any accrued and paid interest) may be considered as received from Russian sources for Non-Resident Noteholders.

### ***Taxation of Non-Resident Noteholders—Legal Entities***

#### ***Acquisition of the Notes***

The acquisition of the Notes by Non-Resident Noteholder—Legal Entities (whether upon their issue or in the secondary market) should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholder—Legal Entities.

#### ***Interest on the Notes***

Non-Resident Noteholders—Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. The taxation of interest on the Notes may, however, be affected by the taxation treatment of income from the sale of the Notes and payments under the Guarantee. See "*Sale or other Disposal of the Notes*" and "*Taxation of Payments under the Guarantee*" below.

#### ***Sale or other Disposal of the Notes***

Generally, there should be no Russian tax on gains from sale or other disposition of the Notes imposed on a Non-Resident Noteholder—Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the bonds (i.e. debt obligations) where proceeds from sale or

other disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity, which is caused by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Notes. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having a registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

### ***Taxation of Non-Resident Noteholders–Individuals***

#### ***Acquisition of the Notes***

The acquisition of the Notes by Non-Resident Noteholders–Individuals, may constitute a taxable event for Russian personal income tax purposes pursuant to the provisions of the Russian Tax Code relating to the so-called material benefit (deemed income) received by individuals as a result of acquisition of securities (in case the Notes are initially issued at par, these provisions are likely to be relevant for the acquisitions of the Notes in the secondary market only). In particular, if the acquisition price of the Notes is below the lower margin of the fair market value of the Notes calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may become subject to the Russian personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of acquisition), arguably subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income derived by Non-Resident Noteholders–Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, in practice, the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as a purchase of securities "in Russia", the Russian tax authorities may apply various criteria to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria. There is no assurance, therefore, that as a result any material benefit received by the Non-Resident Noteholders–Individuals in connection with the acquisition of the Notes will not become taxed in Russia.

#### ***Interest on the Notes***

The Non-Resident Noteholders–Individuals generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes may however be affected by the taxation treatment of income from sale of the Notes and payments under the Guarantee. See "*Sale or other Disposal of the Notes*" and "*Taxation of Payments under the Guarantee*" below.



### *Sale or other Disposal of the Notes*

Non-Resident Noteholder–Individuals should not be subject to any Russian taxes in respect of gains or other income realized on a redemption, sale or other disposal of the Notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if the receipt of any proceeds from the disposal of the Notes by a Non-Resident Noteholder–Individual is classified as income from a source within the Russian Federation for Russian personal income tax purposes and, as such, will be subject to Russian personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of payment) on the gross amount of proceeds from disposal of the Notes (including accrued and paid interest on the Notes) less any available duly documented cost deductions.

Since the Russian Tax Code does not contain any additional guidance as to when the sales or disposal proceeds should be deemed to be received from Russian sources, in practice, the Russian tax authorities may assert that such income should be considered as Russian source income if the Notes are sold or disposed "in Russia". In the absence of any additional guidance as to what should be considered as a sale or other disposal of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the purchaser, or other similar criteria. There is no assurance therefore that, as a result, sales or disposal proceeds received by the Non-Resident Noteholders–Individual will not become taxable in Russia.

If the disposal proceeds are considered as being derived from Russian sources, Russian personal income tax will apply to the gross amount of sales or disposal proceeds received upon the disposal of the Notes (including accrued and paid interest on the Notes), decreased by the amount of duly documented cost deductions (including the original acquisition costs and other documented expenses related to the acquisition, holding and sale or other disposal of the Notes), provided that such documentation is duly executed. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities, the immediate deduction will be disallowed, and Russian personal income tax will apply to the gross amount of sales or disposal proceeds.

In certain circumstances if sales or other disposal proceeds (including accrued and paid interest on the Notes) are paid to a Non-Resident Noteholder–Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation, carrying out operations under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement for the benefit of the Non-Resident Noteholder–Individual, the applicable personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of payment) should be withheld at source by such person who will be considered as the tax agent.

The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition costs and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to a Non-Resident Noteholder–Individual. The tax agent would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of

the agreement (see above) or by 1 March of the year following the calendar year in which the income was received. Failure or the inability of the tax agent to timely withhold the applicable Russian personal income tax in full will place the onus of payment of such tax on the Non-Resident Noteholder–Individual, based on the notification issued by the tax office.

If the costs were borne in connection with the acquisition of the Notes within the relationship with the party other than the tax agent who is obliged to calculate and withhold Russian personal income tax under this agreement, original duly documented acquisition costs may be taken into account by the tax agent upon written application of the Noteholder and presentation of the documents confirming the costs and expenses.

Where a sale is made to other legal entities, organisations (other than licensed brokers or asset managers mentioned above) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder–Individual would be then required to file a personal income tax return individually, report on the amount of income realized to the Russian tax authorities and apply for a deduction in the amount of acquisition and other expenses related to the acquisition, holding and the sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax would then have to be paid by the Non-Resident Noteholder–Individual on the basis of the filed personal income tax return.

In certain circumstances, gains received and losses incurred by a Non-Resident Noteholder–Individual as a result of the sale or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which would affect the total amount of income of a Non-Resident Noteholder–Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non-Resident Noteholder–Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of the sale or other disposal of the Notes and Russian Roubles. For personal income tax purposes, deductible costs and proceeds from disposal of the Notes are converted into Russian Roubles at the exchange rate of the Central Bank of Russia as of the date when the costs were incurred and proceeds were received. This may result in taxable income in Russian Rouble terms due to devaluation of the Russian Rouble (whereas, in foreign currency terms, there might be no gain or even capital loss).

Non-Resident Noteholders–Individuals should consult their own tax advisors with respect to tax consequences arising in connection with the disposal of the Notes, including the receipt of sales or other proceeds from a source within Russia upon the sale or other disposal of the Notes.

### **Taxation of payments under the Guarantee**

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realized by them in connection with payments received under the Guarantee. Resident Noteholders should consult their own tax advisors with regards to the effect that the receipt of payments under the Guarantee may have on their tax position.

## ***Withholding tax***

Pursuant to the Russian Tax Code, payments made by a Russian entity to a Non-Resident – Legal Entity should be subject to Russian withholding tax to the extent such payments represent Russian source income. The Russian Tax Code provides an open list of Russian source income, referring to "other similar income" that could include any income similar to specific examples of types of Russian source income provided in the Russian Tax Code (for instance, dividends, interest, royalties, fines, penalties, etc.), including guarantee payments. The Russian Tax Code provides that the exemption established for the "issued bonds" (as discussed below) is applicable with regard to payments made under the guarantee.

Therefore, payments under the Guarantee made by the Russian Guarantors to Noteholders should be subject to the Russian withholding tax at a rate of 20 per cent or 30 per cent (for Non-Resident Noteholders–Individuals), unless the criteria for application of the exemption established for the "issued bonds" are all met or the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty.

In particular, the Russian Tax Code envisages that the Russian companies which make payments in favour of foreign legal entities upon the execution of a guarantee or suretyship, should be released from the obligation to withhold Russian income tax from such payments provided that the following conditions are all met (i.e., exemption established for the "**issued bonds**"):

- (1) Payments under a guarantee or suretyship relate to "issued bonds", where "issued bonds" are defined as bonds or other debt obligations (a) listed and/or admitted to trading on one of the qualifying foreign exchanges and/or (b) that are cleared through qualifying foreign depositary/ clearing organisations.

The lists of qualifying foreign stock exchanges and foreign depositary/clearing organisations were approved by the former Federal Financial Markets Service of the Russian Federation in its Order No. 12-91/pz-n dated 25 October 2012 (the "**Lists**").

The Notes are to be admitted to the Official List of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange. The Notes will initially be represented by interests in the Global Certificate, which will be deposited with a common depositary for Euroclear and Clearstream.

The Irish Stock Exchange, Euroclear and Clearstream are included in the Lists.

Although Clearstream (as a legal entity) is not expressly mentioned in the Lists, "Clearstream", as well as "Clearstream International S.A." (which is the parent company of Clearstream), are mentioned in the Lists. In this respect, it is arguable that the legislators did not intend to exclude Clearstream from the Lists, since the Lists contain a general reference to "Clearstream", which can be interpreted to cover any entities of the Clearstream Group.

- (2) Payments under a guarantee or suretyship relate to "issued bonds" which were placed by a foreign entity in order to fund a debt to a Russian entity.

Debt obligations of a Russian legal entity towards a foreign legal entity should be recognized as arising in connection with the issuance by a foreign legal entity of

"issued bonds" if reference to this fact is made in the agreement governing the debt obligation and/or in the terms and conditions of the issuance of the respective "issued bonds" and/or in the prospectus, or the connection is verified by the actual movement of funds.

Pursuant to the section "*Use of Proceeds*" of these Listing Particulars, the Issuer intends to use the net proceeds from the issue of the Notes primarily for refinancing of the Group's loans.

Therefore, if any amounts of the net proceeds would not be used to fund debts to the Russian companies of the Group (including the Russian Guarantors), this condition will not be satisfied, and the above-mentioned tax release could not be applied in practice with respect to corresponding amounts of Guarantee payments. In this case, there is a risk that respective payments under the Guarantee may be subject to Russian withholding tax, unless it is reduced or eliminated based on the applicable double tax treaty.

- (3) There is a double tax treaty between the Russian Federation and the jurisdiction of tax residence of the issuer of the "issued bonds", the foreign entity authorized to receive interest income payable on the "issued bonds", or the foreign entity to which rights and obligations under bonds issued by another foreign entity have been assigned which can be confirmed by a tax residency certificate.

Therefore, the Russian Guarantors should not be required to deduct Russian withholding tax from Guarantee payments made to Non-Resident Noteholders—Legal Entities or foreign entities acting on behalf of the Non-Resident Noteholders—Individuals, provided the Russian Guarantors has received from such entities a tax residency confirmation and the entities (including Non-Resident Noteholders—Legal Entities) are deemed to be a "foreign entity authorized to receive interest income payable on the issued bonds" for Russian taxation purposes. However, there is a risk that Non-Resident Noteholders—Legal Entities or foreign entities acting on behalf of the Non-Resident Noteholders—Individuals could not be viewed as a "foreign entity authorized to receive interest income payable on the issued bonds" for Russian taxation purposes. In this case, the payments made by the Russian Guarantors under the Guarantee could be considered to be made directly to the Non-Resident Noteholders—Legal Entities or Non-Resident Noteholders—Individuals. Provided that the Russian Guarantors has received from the Non-Resident Noteholders—Legal Entities tax residency certificates (confirming that they reside in the jurisdictions having double tax treaties with the Russian Federation), the above exemption on the "issued bonds" could be applicable with respect to payments under the Guarantee payable to such Non-Resident Noteholders—Legal Entities.

In case the above exemption on the "issued bonds" is not applicable with regard to payments under the Guarantee, there is a risk that respective payments under the Guarantee may be subject to Russian withholding tax unless the Russian withholding tax is reduced or eliminated based on an applicable double tax treaty.

Pursuant to the Russian Tax Code, the double tax treaty benefits could be applied only by a non-resident income recipient who has the actual right to receive income (i.e., who qualifies as a "**beneficial owner of income**"). A non-resident income recipient claiming double tax treaty benefits that has the actual right to receive income should provide the tax agents that

pay Russian source income with a tax residency certificate before the date of the income payment. Starting from 1 January 2017, there is an obligation of a non-resident income recipient to provide a tax agent with the confirmation that it has an actual right to receive income in order to enjoy the double tax treaty benefits. There is no list of the particular documents which can be supplied by the non-resident income recipient for this purpose. Further, there is no explicit guidance on the list of the structures which can jeopardize the beneficial owner status of the non-resident income recipient. Beneficial ownership status is based on facts and circumstances and should be analysed on a case-by-case basis.

In this respect, if the Non-Resident Noteholder–Legal Entity is a beneficial owner of income payable under the Guarantee and provides the Russian Guarantors with its tax residency certificate and a relevant confirmation that it is a beneficial owner of income, the Russian withholding tax on Guarantee payments payable to such Non-Resident Noteholder–Legal Entity could be reduced or eliminated based on the applicable double tax treaty. However, there can be no assurance that the double tax treaty relief (or refund of any taxes withheld) will be available for the Non-Resident Noteholder–Legal Entity with respect to payments under the Guarantee in practice.

There can be no assurance that Russian withholding tax would not be imposed on the payments made under the Guarantee to Non-Resident Noteholders–Legal Entities not resident for tax purposes in countries which have concluded a double tax treaty with the Russian Federation. In such case there is a risk that Russian withholding tax would be imposed on the full amount of the payment under the Guarantee, including the principal amount of the Notes.

Importantly, the above-mentioned exemption established for the "issued bonds" that envisages the release from the obligation to deduct Russian withholding tax from payments made upon the execution of a guarantee or suretyship (provided the above conditions are all simultaneously met) does not provide for the exemption of the foreign interest income recipients from Russian withholding tax, although currently there is no requirement and mechanism in the Russian tax legislation for foreign income recipients which are the legal entities to self-assess and pay the tax to the Russian tax authorities. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including the Non-Resident Noteholders–Legal Entities.

In case the payments under the Guarantee are deemed to be made to the Non-Resident Noteholder–Individual, a Non-Resident Noteholder–Individual may be subject to Russian personal income tax as such income may be treated as a Russian source of income. In this case, depending on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the Notes, could be subject to Russian personal income tax at the rate of 30 per cent, which may be withheld at source or payable on a self-assessed basis. The tax may be reduced or eliminated pursuant to the provisions of any applicable double tax treaty.

If payments under the Guarantee become subject to Russian withholding tax (as a result of which the Russian Guarantors would have to reduce payments made under the Guarantee by the amount of tax withheld), the Russian Guarantors will be obliged (subject to certain conditions) to pay an additional amount so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such tax withholding or deduction had been required. See Condition 9 (*Taxation*) and "*Risk Factors—Risks Relating to the*

*Russian Taxation System—Payments under the Guarantee may be subject to Russian withholding tax or Russian personal income tax, as applicable".*

### **Russian VAT**

Payments under the Guarantee should not be subject to Russian VAT.

### **Tax treaty relief**

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions that allow recipients to reduce or eliminate Russian income tax due with respect to income received by Non-Resident Noteholders from Russian sources, including income relating to acquisition, holding, sale and disposal of the Notes (if this income is treated as income from Russian sources). To the extent double tax treaty benefits are available, in order to obtain them, such Non-Resident Noteholders must comply with the certification, information and reporting requirements in force in the Russian Federation (relating, in particular, to the confirmation of the entitlement and eligibility for treaty benefits).

In order to utilise the double tax treaty benefits, a Non-Resident Noteholder—Legal Entity which has the actual right to receive income (i.e., who qualifies as a "beneficial owner of income") should provide the tax agent with a tax residency certificate before the date of the income payment. Starting from 1 January 2017, there is an obligation of a non-resident income recipient to provide a tax agent with confirmation that it has an actual right to receive income in order to utilise the double tax treaty benefits.

Starting from 2016, in order to enjoy the benefits of the applicable double tax treaty, a Non-Resident Noteholder—Individual must provide to the tax agent a passport of a foreign citizen in order to prove his/her tax residency status in the foreign jurisdiction. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder—Individual to provide a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes. It is not explicit whether, under the new law Russian, citizens may enjoy exemption from taxation at source under the respective double tax treaty. It is not clear from the law how the tax agent shall determine whether a passport is sufficient to confirm the individual's eligibility to double tax treaty benefits.

Within 30 days upon payment of income subject to tax exemption or withholding at a reduced tax rate under the respective double tax treaty, the tax agent is obliged to submit information to the tax authorities on foreign individuals (passport details and citizenship) and income (type of income, amount of income and date of payment).

The procedure of elimination of double taxation of Non-Resident Noteholders—Individuals in the case of absence of a tax agent is not explicitly indicated in the Russian Tax Code.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled for obtaining such relief with respect to any Russian taxes imposed in respect of income received in connection with the acquisition, holding and the sale or other disposal of the Notes, as well as interest income and payments under the Guarantee.

## **Refund of tax withheld**

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder–Legal Entity was withheld at source, a claim for a refund of the Russian income tax that was excessively withheld at source can be filed by that Non-Resident Noteholder–Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, provided such Non-Resident Noteholder–Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be possible in practice.

If Russian personal income tax applicable to income derived from Russian sources by a Non-Resident Noteholder–Individual, for whom double tax treaty relief is available, was withheld at source despite the right of this Non-Resident Noteholder–Individual to rely on benefits of the applicable double tax treaty allowing the individual not to pay the tax in Russia or allowing the individual to pay the tax at the reduced tax rate in relation to such income, a claim for a refund of Russian personal tax which was excessively withheld at source and an application of the benefits of the applicable double tax treaty, together with a passport of a foreign individual / tax residency certificate issued by the competent authorities in his/her country of residence may be filed by that Non-Resident Noteholder–Individual with the tax agent within three years following the tax year when the corresponding income was received. In the absence of a tax agent who withheld the Russian personal income tax under consideration (for instance, in case of a liquidation of the tax agent), such an application for a refund may be filed with the Russian tax authorities within the same period (three years from the date when the tax was paid) accompanied by the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities. There can be no assurance that the tax agent and/or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which has to be provided by a foreign person to the Russian tax authorities for tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming a right of a Non-Resident Noteholder–Individual to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process and no assurance can be given that such refund will be granted to a Non Resident Noteholder–Individual in practice.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled in order to obtain treaty relief in practice with respect to any Russian taxes imposed on income received by a Non-Resident Noteholder upon the acquisition, holding and sale or other disposal of the Notes as well as payments under the Guarantee.

## **THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain,

France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary' market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## **FATCA**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuer have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of the IGAs as currently in effect between the United States of America and The Netherlands (the "**NL IGA**") and dated 18 December 2013, a Reporting Netherlands Financial Institution would generally not be required to withhold under the NL IGA from payments that it makes, unless such Reporting Netherlands Financial Institution is treated by the IRS as a Nonparticipating Financial Institution. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional notes (as described in Condition 16 (*Further Issues*)) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.



## **LISTING AND GENERAL INFORMATION**

### **1. Authorisations**

The issue of the Notes has been authorised and these Listing Particulars approved by a resolution of the member of the management board of the Issuer dated 31 March 2017.

The grant of the Guarantee has been authorised by resolutions of:

- the supervisory board of the Company dated 9 March 2017 and the management board of the Company dated 10 March 2017;
- the general shareholders' meeting of TH Perekriostok dated 3 April 2017; and
- the general participants' meeting of Agrotorg dated 3 April 2017.

### **2. Listing and Admission to Trading**

Application has been made to the Irish Stock Exchange for the Notes to be listed on the Official List and to be admitted to trading on the Global Exchange Market. The total expenses related to the admission of the Notes to trading on the Global Exchange Market are expected to amount to approximately €6,540.

### **3. Listing Agent**

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

### **4. Documents Available**

As long as the Notes are outstanding, copies of the following documents will be available (in physical form) for inspection from the registered office of the Issuer and from the specified office of the Principal Paying Agent:

- (a) the constitutive documents (with an English translation thereof) of the Issuer;
- (b) the constitutive documents (with an English translation thereof) of each of the Guarantors;
- (c) the audited Annual Consolidated Financial Statements, in each case, together with the independent auditor's reports prepared in connection thereon;
- (d) the Agency Agreement;
- (e) the Trust Deed (contains the Guarantee); and
- (f) these Listing Particulars.

5. **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream. The ISIN and Common Code for the Notes are XS1598697412 and 159869741, respectively.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, and the address of Clearstream is 42 Avenue JF Kennedy, L-1855 Luxembourg.

6. **Auditors**

The independent auditor of the Group is Ernst & Young Accountants LLP. Ernst & Young Accountants LLP has audited, without qualification, the Group's financial statements for the financial year ended on 31 December 2016, which have been prepared in accordance with IFRS and with Part 9 of Book 2 of the Dutch Civil Code.

For the financial year ended on 31 December 2015, the independent auditors of the Group were PricewaterhouseCoopers Accountants N.V. PricewaterhouseCoopers Accountants N.V. have audited, without qualification, the Group's accounts, which have been prepared in accordance with IFRS and with Part 9 of Book 2 of the Dutch Civil Code, for the financial year ended on 31 December 2015.

Neither Ernst & Young Accountants LLP nor PricewaterhouseCoopers Accountants N.V. has any material interest in the Group.

7. **No Material Adverse Change**

There has been no material adverse change in the financial position or prospects of the Issuer, the Guarantors or the Group since 31 December 2016, the date of the most recent audited financial information for the Group.

8. **No Significant Change**

There has been no significant change in the financial or trading position of the Issuer, the Guarantors or the Group since 31 December 2016, the date of the most recent audited financial information for the Group.

9. **Legal proceedings**

None of the Issuer, the Guarantors or any other member of the Group is or has been engaged in nor, so far as the Issuer, the Guarantors or any other member of the Group is aware, has pending or threatened, any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of the Listing Particulars, a significant effect on the Issuer's, the Guarantors' or the Group's financial position or profitability.

10. **Issuer's activity**

Since the date of its incorporation, the Issuer has not commenced operations other than with respect to the issue and sale of the Notes.

11. **Yield**

On the basis of the issue price of the Notes of 100 per cent. of the principal amount thereof, the gross yield of the Notes will be 9.25 per cent. per annum paid semi-annually.

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**X5 Retail Group N.V.**

**Consolidated Financial Statements**

**31 December 2016**

## Independent auditor's report

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

### Report on the audit of the financial statements 2016

#### Our opinion

We have audited the financial statements 2016 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 2016, and of its result and its cash flows for 2016 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 2016, and of its result for 2016 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 2016;
- the following statements for 2016: 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 2016;
- the company statement of profit or loss for 2016;
- 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 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 1.9 billion
Benchmark applied	2.5% of EBITDA
Explanation	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the stakeholders' needs and main KPI's set for management. On this basis we believe that EBITDA is an important metric for the financial performance of the Group.

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 90 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 X5 Retail Group N.V.

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 Company's management, internal audit and finance and reporting 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.

Risk	Our audit approach
<p><b>Impairment of goodwill</b> Note 12 to the financial statements</p> <p>As a result of past acquisitions, the Group carries capitalized goodwill with a value of RUB 80 billion as at 31 December 2016. In accordance with the requirements of IAS 36 Impairment of Assets, management performs an impairment assessment on an annual basis.</p> <p>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.</p> <p>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 management and are extrapolated for subsequent years based on consumer price index.</p> <p>Key assumptions used are revenue growth, projected EBITDA margin and the discount rate.</p> <p>We consider this to be a key audit matter as the goodwill amount is significant and the current economic environment in Russia specifically requires management to exercise judgment in performing the impairment assessment.</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p><b>Impairment of stores and other non-current assets</b> Notes 10, 11 and 13 to the financial statements</p> <p>The Group operates more than 9,000 retail stores in Russia. The associated valuation of stores and other non-current assets, such as property, equipment and intangible assets, approximated RUB 241 billion as at 31 December 2016 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.</p> <p>Management assesses annually the existence of triggering events for potential impairment of assets, or reversals thereof, related to underperforming stores.</p>	<p>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.</p> <p>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.</p>



Risk	Our audit approach
<p>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.</p> <p>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.</p> <p>Judgment is also involved in determination of the fair value of property undertaken on the basis of internal and external property valuation reports.</p> <p>We consider this to be a key audit matter as total amount of other non-current assets, such as property, equipment and intangible assets, is significant. Furthermore, the uncertain economic environment in Russia impacts the level of judgment exercised by management in performing the impairment assessment.</p>	<p>We assessed accuracy of management's forecasts used in prior year to identify potential bias.</p> <p>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.</p> <p>The audit of the model also included verification that the impairment methodology is consistently applied and that the model is mathematically accurate.</p> <p>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.</p>
<p>Recognition of vendor allowances Note 2.27 to the financial statements</p>	
<p>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.</p>	<p>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.</p> <p>We selected a sample of vendors and obtained direct confirmations from vendors of their settlements with the Group.</p>

Risk	Our audit approach
<p>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.</p> <p>The Group evaluates all required disclosures for vendor allowances and determines that they are appropriately included in the financial statements.</p>	<p>We tested on a sample basis documents supporting journal entries regarding the recognition of vendor rebates and services fees.</p> <p>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.</p> <p>We verified that the policy for the reduction of inventory cost related to vendor allowances is appropriate and has been applied correctly.</p>
Depreciation of buildings Note 2.6 to the financial statements	
<p>The Group's buildings category of property, plant and equipment includes own real estate objects and improvements of leased ones. In 2016 the Group revised the useful lives for certain parts of buildings. Buildings were categorized into foundation and frame, with a depreciation period of 40-50 years and other assets with a depreciation period of 7-8 years. The Group has evaluated the impact of retrospective application of this approach on the prior period consolidated financial statements noting it would not result in a material change.</p> <p>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.</p>	<p>We analysed composition of the Group's buildings category of property, plant and equipment and challenged reasonableness of the revised approach for depreciation of buildings (foundation and frame) and buildings (other parts) as well as revised useful lives assigned.</p> <p>We involved our internal real estate experts to evaluate reasonableness of the Group's revised useful lives for buildings (foundation and frame). For buildings (other parts) component we compared assigned revised useful lives with historical pattern of their replacement.</p> <p>We also tested mathematical accuracy of application of the revised approach for depreciation of buildings (foundation and frame) and buildings (other parts) components.</p>
Long-term incentive programme (LTI) Note 26 to the financial statements	
<p>The Group has a long term incentive plan in place. The long-term incentive programme (LTI) is a programme in several stages which runs until 31 December 2019.</p>	<p>We obtained an in-depth understanding of the Group's LTI program and methodology used for recognition of LTI expense.</p>

Risk	Our audit approach
<p>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 revenue and market share growth relative to the competition, without sacrificing EBITDA margin.</p> <p>The total available fund for all pay-outs under the LTI programme is capped at 12% of EBITDA in the year that the final stage performance targets are achieved. Each stage of the programme includes a deferred component of conditional pay-outs in order to maintain the focus on long-term goals throughout the programme. The size of each individual cash award is based on a pre-determined score reflecting the participant's role and contribution to meeting the LTI targets, both at individual and team level. For each LTI participant, total LTI pay-out may be adjusted downwards based on individual performance during the period of the programme.</p> <p>We consider this to be a key audit matter due to significant judgment involved in determination of appropriate accounting policies and estimates used in LTI calculations.</p>	<p>We challenged management's key assumptions used in the LTI expense calculations.</p> <p>We tested accuracy of prior year estimates and assumptions used by management to identify possible bias.</p> <p>We tested mathematical accuracy of LTI expense calculations, reconciled internal inputs in the calculations with audited accounting records and ensured consistency of data used for LTI calculations with other information obtained during the audit.</p>
Impact of the Russian economic crisis Note 30 to the financial statements	
<p>During 2016, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Ruble, as well as sanctions imposed on Russia by several countries in 2014.</p> <p>The Ruble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decreases in 2015 and 2016. These developments led to reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.</p>	<p>We carried out a detailed analysis of the Group's liquidity position as well as the Group's potential sensitivity to the reasonably possible changes in external factors.</p> <p>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.</p> <p>We agreed the cash requirements for the 12 months following the date of the statement of financial position to the budget that has been approved by the Board.</p>

Risk	Our audit approach
For 2017, it is expected that the total volume of the retail market will grow by 4% in nominal terms. GDP is expected to grow by 0 - 1%.	We compared the assumptions used in the 2017 budget to external information and extended the evaluation to 12 months after the date of the financial statements.
At 31 December 2016, the Group had RUB 156 billion of short and long term borrowings with a remaining average maturity of 2 years. The total amount of available credit lines as at 31 December 2016 is RUB 281 billion.	We ensured that the effect of current economic situation was correctly reflected in the assumptions used for impairment tests.
The liquidity assessment is important due to reduced access to capital by Russian entities and increased interest rates. In addition, the economic crisis creates additional uncertainty for certain assumptions used for impairment tests as well as for sensitivity of the Group to other market and non-market risks.	We ensured that risks associated with Russian economic crisis are correctly disclosed in the consolidated financial statements.

## Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The management board's report;
- The corporate governance report;
- The strategic report;
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Engagement

We were appointed as auditors of X5 Retail Group N.V. by the shareholders at the extraordinary general meeting held on 12 November 2015, as of the audit for the year 2016 and have operated as statutory auditor since that date.

## Description of responsibilities for the financial statements

### Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as 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, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. 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 objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- 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 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 management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events 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. However, future events or conditions may cause a company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also 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 for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

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 findings 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.

Amsterdam, 24 March 2017

Ernst & Young Accountants LLP

Signed by G.A. Arnold

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**X5 Retail Group N.V.****Consolidated Statement of Financial Position at 31 December 2016***(expressed in millions of Russian Roubles, unless otherwise stated)*

	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	232,316	189,000
Investment property	11	4,590	4,828
Goodwill	12	80,369	75,313
Other intangible assets	13	16,380	15,101
Other non-current assets	16	4,448	3,751
Deferred tax assets	28	5,306	5,417
		<b>343,409</b>	<b>293,410</b>
<b>Current assets</b>			
Inventories	14	73,801	57,887
Indemnification asset	33	182	1,261
Trade, other accounts receivable and prepayments	16	28,027	25,008
Current income tax receivable		954	1,729
VAT and other taxes receivable	17	8,922	13,862
Cash and cash equivalents	9	18,190	8,958
		<b>130,076</b>	<b>108,705</b>
<b>TOTAL ASSETS</b>		<b>473,485</b>	<b>402,115</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	20	2,458	2,458
Share premium		46,251	46,253
Retained earnings		78,261	55,970
Share-based payment reserve	27	70	37
		<b>127,040</b>	<b>104,718</b>
<b>Total equity</b>		<b>127,040</b>	<b>104,718</b>
<b>Non-current liabilities</b>			
Long-term borrowings	19	110,865	101,545
Deferred tax liabilities	28	6,505	4,961
Long-term deferred revenue		8	11
Other non-current liabilities		1,697	-
		<b>119,075</b>	<b>106,517</b>
<b>Current liabilities</b>			
Trade accounts payable		131,180	103,773
Short-term borrowings	19	45,168	42,670
Interest accrued		1,177	1,390
Short-term deferred revenue		282	243
Current income tax payable		821	1,684
Provisions and other liabilities	18	48,742	41,120
		<b>227,370</b>	<b>190,880</b>
<b>Total liabilities</b>		<b>346,445</b>	<b>297,397</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>473,485</b>	<b>402,115</b>

Igor Shekhterman  
Chief Executive Officer

24 March 2017

Dmitry Gimmelberg  
Chief Financial Officer

24 March 2017

*The accompanying notes are the integral part of these consolidated financial statements.*



**X5 Retail Group N.V.****Consolidated Statement of Profit or Loss for the year ended 31 December 2016***(expressed in millions of Russian Roubles, unless otherwise stated)*

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Revenue	22	1,033,667	808,818
Cost of sales	23	(783,682)	(610,428)
<b>Gross profit</b>		<b>249,985</b>	<b>198,390</b>
Selling, general and administrative expenses	23	(211,314)	(170,065)
Lease/sublease and other income	24	6,960	6,124
<b>Operating profit</b>		<b>45,631</b>	<b>34,449</b>
Finance costs	25	(17,372)	(17,131)
Finance income	25	54	594
Net foreign exchange gain		340	18
<b>Profit before tax</b>		<b>28,653</b>	<b>17,930</b>
Income tax expense	28	(6,362)	(3,756)
<b>Profit for the period</b>		<b>22,291</b>	<b>14,174</b>
<b>Profit for the period attributable to:</b>			
Equity holders of the parent		22,291	14,174
<b>Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)</b>	21	<b>328.37</b>	<b>208.82</b>
<b>Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)</b>	21	<b>328.36</b>	<b>208.82</b>

\_\_\_\_\_  
Igor Shekhterman  
Chief Executive Officer

24 March 2017

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Dmitry Gimmelberg  
Chief Financial Officer

24 March 2017

*The accompanying notes are the integral part of these consolidated financial statements.*

**X5 Retail Group N.V.****Consolidated Statement of Comprehensive Income for the year ended 31 December 2016***(expressed in millions of Russian Roubles, unless otherwise stated)*

	2016	2015
<b>Profit for the period</b>	<b>22,291</b>	<b>14,174</b>
<b>Other comprehensive income/(loss)</b>		
<i>Items that may be reclassified subsequently to profit and loss</i>		
Reclassification of changes in fair value attributable to disposed available-for-sale investments	–	7
<b>Total items that may be reclassified subsequently to profit and loss, net of tax</b>	<b>–</b>	<b>7</b>
<b>Other comprehensive income, net of tax</b>	<b>–</b>	<b>7</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>22,291</b>	<b>14,181</b>
<b>Total comprehensive income for the period attributable to:</b>		
Equity holders of the parent	<b>22,291</b>	<b>14,181</b>

\_\_\_\_\_  
Igor Shekhterman  
Chief Executive Officer

24 March 2017

\_\_\_\_\_  
Dmitry Gimmelberg  
Chief Financial Officer

24 March 2017

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**X5 Retail Group N.V.****Consolidated Statement of Cash Flows for the year ended 31 December 2016***(expressed in millions of Russian Roubles, unless otherwise stated)*

	Note	2016	2015
<b>Profit before tax</b>		<b>28,653</b>	<b>17,930</b>
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment of property, plant and equipment, investment property and intangible assets	23	30,636	20,784
Loss on disposal of property, plant and equipment, investment property and intangible assets		47	77
Finance costs, net	25	17,318	16,537
Impairment of trade, other accounts receivable and prepayments	23	247	1,260
Share-based compensation expense	27	48	18
Net foreign exchange gain		(340)	(18)
Other non-cash items		(864)	90
<b>Net cash from operating activities before changes in working capital</b>		<b>75,745</b>	<b>56,678</b>
Decrease/(increase) in trade, other accounts receivable and prepayments		350	(6,228)
Increase in inventories		(15,914)	(10,152)
Increase in trade payable		27,471	9,339
Increase in other accounts payable		8,149	5,635
<b>Net cash flows generated from operations</b>		<b>95,801</b>	<b>55,272</b>
Interest paid		(17,236)	(15,924)
Interest received		40	387
Income tax paid		(3,690)	(4,248)
<b>Net cash flows from operating activities</b>		<b>74,915</b>	<b>35,487</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(68,694)	(51,605)
Acquisition of businesses, net of cash acquired	7	(6,658)	(5,884)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		589	288
Purchase of other intangible assets		(2,516)	(2,685)
Proceeds from disposal of available-for-sale investments		–	210
Proceeds from associate		–	31
<b>Net cash flows used in investing activities</b>		<b>(77,279)</b>	<b>(59,645)</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans		131,563	66,320
Repayment of loans		(119,922)	(58,822)
<b>Net cash flows generated from financing activities</b>		<b>11,641</b>	<b>7,498</b>
Effect of exchange rate changes on cash and cash equivalents		(45)	(5)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>9,232</b>	<b>(16,665)</b>
<b>Movements in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year	9	8,958	25,623
Net increase/(decrease) in cash and cash equivalents		9,232	(16,665)
<b>Cash and cash equivalents at the end of the year</b>	<b>9</b>	<b>18,190</b>	<b>8,958</b>

Igor Shekhterman  
Chief Executive Officer

24 March 2017

Dmitry Gimmelberg  
Chief Financial Officer

24 March 2017

*The accompanying notes are the integral part of these consolidated financial statements.*

**X5 Retail Group N.V.****Consolidated Statement of Changes In Equity for the year ended 31 December 2016***(expressed in millions of Russian Roubles, unless otherwise stated)*

	Attributable to equity holders of the parent						Total
	Number of shares	Share capital	Share premium	Share-based payment reserve	Retained earnings	Total shareholders' equity	
<b>Balance as at 1 January 2015</b>	<b>67,867,743</b>	<b>2,457</b>	<b>46,218</b>	<b>94</b>	<b>41,789</b>	<b>90,558</b>	<b>90,558</b>
Other comprehensive income for the period	—	—	—	—	7	7	7
Profit for the period	—	—	—	—	14,174	14,174	14,174
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>14,181</b>	<b>14,181</b>	<b>14,181</b>
Share-based payment compensation (Note 27)	—	—	—	(21)	—	(21)	(21)
Transfer and waiving of vested equity rights	14,678	1	35	(36)	—	—	—
<b>Balance as at 31 December 2015</b>	<b>67,882,421</b>	<b>2,458</b>	<b>46,253</b>	<b>37</b>	<b>55,970</b>	<b>104,718</b>	<b>104,718</b>
<b>Balance as at 1 January 2016</b>	<b>67,882,421</b>	<b>2,458</b>	<b>46,253</b>	<b>37</b>	<b>55,970</b>	<b>104,718</b>	<b>104,718</b>
Other comprehensive income for the period	—	—	—	—	—	—	—
Profit for the period	—	—	—	—	22,291	22,291	22,291
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>22,291</b>	<b>22,291</b>	<b>22,291</b>
Share-based payment compensation (Note 27)	—	—	—	31	—	31	31
Transfer and waiving of vested equity rights	1,919	—	(2)	2	—	—	—
<b>Balance as at 31 December 2016</b>	<b>67,884,340</b>	<b>2,458</b>	<b>46,251</b>	<b>70</b>	<b>78,261</b>	<b>127,040</b>	<b>127,040</b>

\_\_\_\_\_  
Igor Shekhterman  
Chief Executive Officer  
24 March 2017

\_\_\_\_\_  
Dmitry Gimmelberg  
Chief Financial Officer  
24 March 2017

*The accompanying notes are the integral part of these consolidated financial statements.*

**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 2016 the Group operated a retail chain of 9,187 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express" (each representing separate format) in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg (31 December 2015: 7,020 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express"), with the following number of stores:

	31 December 2016	31 December 2015
<b>"Perekrestok" – Supermarket</b>		
Central FD	336	301
North-western FD	50	47
Southern FD	24	22
Northern Caucasus	8	2
Volga FD	95	90
Ural FD	26	16
<b>Total</b>	<b>539</b>	<b>478</b>
<b>"Pyaterochka" – Proximity stores</b>		
Central FD	3,512	2,740
North-western FD	1,028	781
Southern FD	577	391
Northern Caucasus	128	93
Volga FD	2,348	1,733
Ural FD	730	527
Siberian FD	40	–
<b>Total</b>	<b>8,363</b>	<b>6,265</b>
<b>"Karusel" – Hypermarket</b>		
Central FD	35	34
North-western FD	17	17
Southern FD	5	5
Northern Caucasus	1	1
Volga FD	25	25
Ural FD	8	8
<b>Total</b>	<b>91</b>	<b>90</b>
<b>"Perekrestok Express" – Express</b>	<b>194</b>	<b>187</b>
<b>Total stores</b>	<b>9,187</b>	<b>7,020</b>

As at 31 December 2016 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 is 100% ultimately beneficially owned by three individuals: Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or ultimately beneficially owns 50% or more of CTF. Until 31 December 2016, CTF was the controlling parent company of the Company. CTF has since determined that it no longer exercises control over the Company given the cumulative effect of several factors and developments that occurred in the course of 2016, including changes in the composition of the Company's Supervisory Board, although the formal governance structure and CTF's shareholding have not changed. Following CTF's determination, CTF retains significant influence over the Company as at 31 December 2016. As at 31 December 2016 the Company's shares were 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 2016 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 Dutch Civil Code.

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 businesses other than those acquired from parties under common control. The consideration transferred 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 (bargain purchase gain) 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 pooling of interest method (also referred as "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.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.2 Consolidated financial statements (continued)**

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**

The functional currency of the Group's entities is the national currency of the Russian Federation, the Russian Rouble ("RUB"). The presentation currency of the Group is the Russian Rouble ("RUB"), which management believes is the most useful currency to adopt for users of these consolidated financial statements.

#### **(b) Transactions and balances**

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the Central Bank of Russian Federation ("CBRF") 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 the 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. 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.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.6 Property, plant and equipment (continued)**

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.

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 of disposal 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 of disposal.

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. In 2016 the Group revised the useful lives for certain parts of buildings. Buildings are divided into foundation and frame with a depreciation period of 40-50 years and other parts of 7-8 years. Other parts mainly include fixtures and fitting. The retrospective application of this revision would not result in any material effect on the prior period consolidated financial statements.

The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

Buildings (foundation and frame)	40-50 years
Buildings (other parts)	7-8 years
Machinery and equipment	5-10 years
Refrigerating equipment	7-10 years
Vehicles	5-7 years
Other	3-5 years

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 of disposal. 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 40-50 years.

Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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;
- Key money payments due to incumbent tenants and other directly attributable costs for entering into lease contracts (refer to Note 2.32).

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:

	<b>Useful lives</b>
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.

#### **(e) Software and other intangible assets**

Expenditure on acquired patents, software 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) 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.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.9 Operating leases (continued)**

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.

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**

Inventories at distribution centres 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 are initially recorded at fair value plus transaction costs. Financial liabilities are initially recorded at fair value minus 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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 purchase consideration 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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 that necessarily take a substantial period of 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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 exception, 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 tax 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 within the consolidated group of taxpayers (CGT) and within individual companies of the Group for the entities that are not members of the CGT.

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. Interest incurred in relation to taxation is included in finance costs in the consolidated statement of profit or loss. 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 Fair value measurement**

Fair values of financial instruments measured at amortised cost are disclosed in Note 32.

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.26 Fair value measurement (continued)**

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### **2.27 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 includes 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.28 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.

### **2.29 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.

### **2.30 Indemnification asset**

The indemnification asset equivalent to the fair value of the indemnified liabilities is included in net assets acquired in 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 does not have any impact on future earnings, unless the indemnification asset becomes impaired.

### **2.31 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.

### **2.32 Reclassification**

The Group has made reclassification of prepaid leases into lease rights within other intangible assets, as they both have the same characteristics except for the measurement at initial recognition.

## **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 is determined based on the higher of fair value less costs of disposal or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 12.

### **Identifying a business combination**

The Group enters into transactions to acquire integrated set of assets and operations of retail stores. The Group determines whether such transactions represent a business combination or assets acquisitions. The Group treats such transactions as business combinations when the integrated set of activities and assets acquired is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to the Group. In making this judgment the Group considers whether it acquired inputs and processes applied to the inputs that have ability to create output. All acquisitions of assets and operations of retail stores occurred in 2016 and 2015 were treated by the Group as business combinations.

### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)**

#### **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 increases the depreciation charge where useful lives are less than previously estimated lives or it writes-off or writes-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 2016 the Group recognised a net impairment loss in the amount of RUB 3,132 (year ended 31 December 2015: a net impairment loss in the amount of RUB 2,266).

#### **Investment property**

The Group's management determines the estimated useful lives and related depreciation charges for its investment properties (Note 11). Management increases the depreciation charge where useful lives are less than previously estimated lives or it writes-off or writes-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 2016 the Group recognised a net impairment loss in the amount of RUB 257 (year ended 31 December 2015: a net impairment gain in the amount of RUB 2).

#### **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 2016 the Group recognised a net impairment loss in the amount of RUB 66 (year ended 31 December 2015: a net impairment loss in the amount of RUB 530).

#### **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).



**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)****Provision for impairment of trade and other receivables**

The Group 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's 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 2016 the Group recognised an impairment loss in the amount of RUB 68 (year ended 31 December 2015: an impairment loss in the amount of RUB 38).

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

All new standards, interpretations and amendments to IFRSs adopted by the EU and effective for the financial year beginning 1 January 2016 were applied by the Group in these consolidated financial statements and did not have a material impact on the financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective:

<b>Standards issued but not yet effective in the European Union</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 9 <i>Financial Instruments</i>	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 16 <i>Leases</i> *	Not yet adopted by the EU
Amendments to IFRS 10 and IAS 28: <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (issued on 11 September 2014)*	Postponed
IAS 7 <i>Disclosure Initiative</i> – Amendments to IAS 7 (issued on 29 January 2016)*	Not yet adopted by the EU
IAS 12 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> – Amendments to IAS 12 (issued on 19 January 2016)*	Not yet adopted by the EU
IFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i> – Amendments to IFRS 2 (issued on 20 June 2016)*	Not yet adopted by the EU
IFRS 14 <i>Regulatory Deferral Accounts</i> (issued on 30 January 2014)	Not to be endorsed by the EU till the final standard is issued
Clarifications to IFRS 15 <i>Revenue from Contracts with Customers</i> (issued on 12 April 2016)*	Not yet adopted by the EU
Amendments to IFRS 4: <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> (issued on 12 September 2016)*	Not yet adopted by the EU
Annual Improvements to IFRS Standards 2014-2016 cycle (issued on 8 December 2016)*	Not yet adopted by the EU
IFRIC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i> (issued on 8 December 2016)*	Not yet adopted by the EU
Amendments to IAS 40 <i>Transfers of Investment Property</i> (issued on 8 December 2016)*	Not yet adopted by the EU

\* Subject to EU endorsement.

#### **4. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS (continued)**

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial positions in the period of initial application except for IFRS 16 *Leases* described below:

**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 standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group is currently assessing the potential effect of IFRS 16 on its consolidated financial statements.

#### **5 SEGMENT REPORTING**

The Group identifies retail chains of each format (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8.

The following significant operating functions are decentralised by formats:

- Category management, including purchasing, pricing, assortment management, promotion management;
- Distribution centres logistics;
- Development function.

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

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

**5. SEGMENT REPORTING (continued)**

The segment information for the year ended 31 December 2016, comparative figures for earlier periods and reconciliation of EBITDA to profit for the period is provided as follows:

<b>Year ended 31 December 2016</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other segments</b>	<b>Corporate centre</b>	<b>Total</b>
<b>Revenue</b>	<b>779,448</b>	<b>157,004</b>	<b>84,649</b>	<b>12,566</b>	<b>–</b>	<b>1,033,667</b>
<b>EBITDA</b>	<b>64,441</b>	<b>11,935</b>	<b>4,322</b>	<b>(195)</b>	<b>(4,236)</b>	<b>76,267</b>
Depreciation, amortisation and impairment						(30,636)
<b>Operating profit</b>						<b>45,631</b>
Finance cost, net						(17,318)
Net foreign exchange result						340
<b>Profit before income tax</b>						<b>28,653</b>
Income tax expense						(6,362)
<b>Profit for the year</b>						<b>22,291</b>
Capital expenditure	62,971	11,881	5,213	501	112	80,678
<b>31 December 2016</b>						
Inventories	52,022	12,050	8,951	778	–	73,801

<b>Year ended 31 December 2015</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other segments</b>	<b>Corporate centre</b>	<b>Total</b>
<b>Revenue</b>	<b>587,280</b>	<b>131,332</b>	<b>77,778</b>	<b>12,428</b>	<b>–</b>	<b>808,818</b>
<b>EBITDA</b>	<b>45,844</b>	<b>10,323</b>	<b>3,602</b>	<b>431</b>	<b>(4,967)</b>	<b>55,233</b>
Depreciation, amortisation and impairment						(20,784)
<b>Operating profit</b>						<b>34,449</b>
Finance cost, net						(16,537)
Net foreign exchange result						18
<b>Profit before income tax</b>						<b>17,930</b>
Income tax expense						(3,756)
<b>Profit for the year</b>						<b>14,174</b>
Capital expenditure	50,658	13,657	6,305	347	95	71,062
<b>31 December 2015</b>						
Inventories	42,069	8,443	6,641	734	–	57,887

## 6 SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2016 and 31 December 2015 are as follows:

Company	Country	Nature of operations	Ownership (%)	
			31 December 2016	31 December 2015
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
Torgovy Dom PEREKRESTOK CJSC	Russia	Retailing	100	100
X5 Finance LLC	Russia	Bond issuer	100	100
X5 Nedvizhimost CJSC	Russia	Real estate	100	100
TD Kopeyka OJSC	Russia	Holding Company	100	100

## 7 ACQUISITION OF BUSINESSES

### Acquisitions in 2016

In 2016 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2016 the acquired businesses contributed revenue of RUB 11,509 from the date of acquisition. The 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 2016 as though the acquisition date had been the beginning of that period.

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

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 10)	965
Other intangible assets (Note 13)	322
Deferred tax assets (Note 28)	627
Trade and other accounts receivable	1
Deferred tax liabilities (Note 28)	(18)
<b>Net assets acquired</b>	<b>1,897</b>
Goodwill (Note 12)	4,802
<b>Purchase consideration</b>	<b>6,699</b>
<b>Net cash outflow arising from the acquisition</b>	<b>6,654</b>

The Group assigned provisional fair 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.

The purchase consideration for the reporting period comprises the transfer of cash and cash equivalents of RUB 6,654, accounts receivable with fair value of RUB 44 and RUB 1 as deferred consideration. During 12 months ended 31 December 2016 the Group transferred RUB 4 as deferred payments for prior period's acquisitions.

The goodwill recognised is attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers.

**7 ACQUISITION OF BUSINESSES (continued)****Acquisitions in 2015**

In 2015 the Group acquired 100% of several businesses of other retail chains in Russian regions.

At 31 December 2015 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2016 the Group completed the purchase price allocation, which resulted in the following changes in fair values at the acquisition date:

	<b>Provisional fair values at the acquisition date</b>	<b>Finalised fair values at the acquisition date</b>	<b>Effect of change in purchase price allocation on the consolidated statement of financial position as at 31 December 2016</b>
Property, plant and equipment (Note 10)	3,681	3,681	–
Other intangible assets (Note 13)	1,181	1,181	–
Other non-current assets	67	67	–
Deferred tax assets (Note 28)	550	570	20
Inventories	651	609	(42)
Indemnification asset	1,607	1,607	–
Trade, other accounts receivable and prepayments	437	321	(116)
VAT and other taxes receivable	16	40	24
Cash and cash equivalents	59	59	–
Long-term borrowings	(2,727)	(2,727)	–
Deferred tax liabilities (Note 28)	(169)	(245)	(76)
Trade accounts payable	(2,527)	(2,527)	–
Short-term borrowings	(2,696)	(2,696)	–
Interest accrued	(52)	(52)	–
Current income tax payable	(933)	(933)	–
Provisions and other liabilities	(2,703)	(2,767)	(64)
<b>Net assets acquired</b>	<b>(3,558)</b>	<b>(3,812)</b>	<b>(254)</b>
Goodwill (Note 12)	9,506	9,760	254
<b>Purchase consideration</b>	<b>5,948</b>	<b>5,948</b>	<b>–</b>
<b>Net cash outflow arising from the acquisition</b>	<b>5,884</b>	<b>5,884</b>	<b>–</b>

The purchase consideration for the prior period comprised the transfer of cash and cash equivalents of RUB 5,943 and RUB 5 as deferred consideration.

Not all businesses prepared 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.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers.

**8 RELATED PARTY TRANSACTIONS**

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2016 are provided below. The ownership structure is disclosed in Note 1.

## 8 RELATED PARTY TRANSACTIONS (continued)

The following transactions were carried out with related parties:

	Relationship	2016	2015
<b>CTF Holdings Ltd.</b>	Entity with significant influence over the Company (Ultimate parent company before 31 December 2016)		
Management services received		90	65
<b>Other</b>	Under control by the entity with significant influence over the Company (Under common control before 31 December 2016)		
Purchases from related parties		1,517	1,190
Insurance expenses		223	161
Other operating expenses		2	155
Bonuses from related parties		226	301
<b>Other</b>	Other		
Other operating expenses		42	52

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

	Relationship	31 December 2016	31 December 2015
<b>Other</b>	Under control by the entity with significant influence over the Company (Under common control before 31 December 2016)		
Trade accounts payable		278	236
Other accounts payable		3	4
Trade accounts receivable		29	38
Other receivables and prepayments from related parties		11	7
<b>Other</b>	Other		
Other accounts payable		12	9
Other accounts receivable		–	3

### Key management personnel compensation

Key management personnel compensation is disclosed in Note 26.

### Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2015: Nil).

## 9 CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in hand – Roubles	2,599	2,118
Bank current account – Roubles	5,799	1,143
Bank current accounts and deposits – other currencies	6	5
Cash in transit – Roubles	9,105	4,954
Short-term deposits – Roubles	681	738
<b>Total</b>	<b>18,190</b>	<b>8,958</b>

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

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

## 9 CASH AND CASH EQUIVALENTS (continued)

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

Bank	Moody's	Fitch	S&P	31 December 2016	31 December 2015
Alfa-Bank	Ba2	BB+	BB	1,088	621
Sberbank	Ba1	BBB-	—	3,510	246
Raiffeisenbank	Ba2	BBB-	—	—	5
HSBC	Aa2	AA-	AA-	5	3
MCB	B1/NP	BB	BB-	1,866	912
VTB	Ba2	—	BB+	3	91
Other banks				14	8
Cash in transit and in hand				11,704	7,072
<b>Total</b>				<b>18,190</b>	<b>8,958</b>

## 10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress	Total
<b>Cost</b>							
<b>At 1 January 2015</b>	<b>141,382</b>	<b>18,748</b>	<b>20,457</b>	<b>6,859</b>	<b>16,620</b>	<b>12,043</b>	<b>216,109</b>
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)
<b>At 31 December 2015</b>	<b>171,981</b>	<b>24,409</b>	<b>28,053</b>	<b>7,367</b>	<b>21,959</b>	<b>12,613</b>	<b>266,382</b>
Additions	—	—	—	—	—	70,492	70,492
Transfers	36,816	10,874	12,964	5,273	6,873	(72,800)	—
Transfers to investment property (Note 11)	(473)	—	—	—	—	(312)	(785)
Assets from acquisitions (Note 7)	—	—	—	—	—	965	965
Disposals	(363)	(4,041)	(2,780)	(710)	(2,843)	(3)	(10,740)
<b>At 31 December 2016</b>	<b>207,961</b>	<b>31,242</b>	<b>38,237</b>	<b>11,930</b>	<b>25,989</b>	<b>10,955</b>	<b>326,314</b>
<b>Accumulated depreciation and impairment</b>							
<b>At 1 January 2015</b>	<b>(33,540)</b>	<b>(9,750)</b>	<b>(8,189)</b>	<b>(3,755)</b>	<b>(9,987)</b>	<b>(560)</b>	<b>(65,781)</b>
Depreciation charge	(5,716)	(2,488)	(2,834)	(947)	(2,952)	—	(14,937)
Impairment charge	(3,131)	(366)	(468)	(69)	(128)	(452)	(4,614)
Reversal of impairment	2,334	—	—	—	—	14	2,348
Transfers	(75)	48	—	—	2	25	—
Transfers to investment property (Note 11)	221	—	—	—	—	—	221
Disposals	320	1,572	1,741	823	849	76	5,381
<b>At 31 December 2015</b>	<b>(39,587)</b>	<b>(10,984)</b>	<b>(9,750)</b>	<b>(3,948)</b>	<b>(12,216)</b>	<b>(897)</b>	<b>(77,382)</b>
Depreciation charge	(10,677)	(3,907)	(3,929)	(1,133)	(4,470)	—	(24,116)
Impairment charge	(4,883)	(835)	(685)	(2)	(157)	(643)	(7,205)
Reversal of impairment	3,671	—	—	—	—	402	4,073
Transfers	(1,454)	(30)	(24)	—	1,416	92	—
Transfers to investment property (Note 11)	141	—	—	—	—	238	379
Disposals	166	3,909	2,717	642	2,819	—	10,253
<b>At 31 December 2016</b>	<b>(52,623)</b>	<b>(11,847)</b>	<b>(11,671)</b>	<b>(4,441)</b>	<b>(12,608)</b>	<b>(808)</b>	<b>(93,998)</b>
<b>Net book value at 31 December 2016</b>	<b>155,338</b>	<b>19,395</b>	<b>26,566</b>	<b>7,489</b>	<b>13,381</b>	<b>10,147</b>	<b>232,316</b>
<b>Net book value at 31 December 2015</b>	<b>132,394</b>	<b>13,425</b>	<b>18,303</b>	<b>3,419</b>	<b>9,743</b>	<b>11,716</b>	<b>189,000</b>
<b>Net book value at 1 January 2015</b>	<b>107,842</b>	<b>8,998</b>	<b>12,268</b>	<b>3,104</b>	<b>6,633</b>	<b>11,483</b>	<b>150,328</b>

Depreciation charge, impairment charge and reversal of impairment were included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2016 and 31 December 2015.

## **10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Construction in progress predominantly related 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 were collateralised by land and buildings including investment property as of 31 December 2016.

### ***Impairment test***

At the end of 2016 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 (cash generating unit – CGU). 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 of disposal 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. Due to the great number of CGUs being tested for impairment it is considered impracticable to disclose detailed information for each individual CGU.

### ***Fair value less costs of disposal***

Fair value of land and buildings and construction in progress is determined by an independent appraiser by reference to current observable prices on an active market subsequently adjusted for specific characteristics of respective assets. The fair value measurement of these assets is classified at level 3 of the fair value hierarchy.

### ***Value in use***

For items of land, buildings and construction in progress the discounted future cash flow approach is applied and covers a 10 year period from 2017 onwards. The future 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 3.5% to 6% in accordance with the strategic plan and consumer price index projections (31 December 2015: 0% to 12.25%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 15.9% (31 December 2015: for the first two years – 18.29%, for subsequent years – 16.69%). 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.

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 1,005 (31 December 2015: RUB 840), if 200 b.p. lower – increase by RUB 1,643 (31 December 2015: RUB 1,152). If the annual revenue growth rate used in calculations of value in use had been 200 b.p. higher, the Group would need to increase the carrying value of property, plant and equipment, investment property and intangible assets by RUB 2,592 (31 December 2015: RUB 1,374), lower – decrease by RUB 2,473 (31 December 2015: RUB 1,374).



## 11 INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2016 and 31 December 2015:

<b>Cost</b>	<b>2016</b>	<b>2015</b>
<b>Cost at 1 January</b>	<b>8,040</b>	<b>6,510</b>
Transfer from fixed assets	785	1,530
Disposals	(141)	–
<b>Cost at 31 December</b>	<b>8,684</b>	<b>8,040</b>
<b>Accumulated depreciation and impairment</b>		
Accumulated depreciation and impairment at 1 January	(3,212)	(2,792)
Depreciation charge	(246)	(201)
Impairment charge	(446)	–
Reversal of impairment	189	2
Transfer from fixed assets	(379)	(221)
<b>Accumulated depreciation and impairment at 31 December</b>	<b>(4,094)</b>	<b>(3,212)</b>
<b>Net book value at 31 December</b>	<b>4,590</b>	<b>4,828</b>
<b>Net book value at 1 January</b>	<b>4,828</b>	<b>3,718</b>

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 2016 and 31 December 2015.

Rental income from investment property amounted to RUB 1,243 (2015: RUB 1,186). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 546 (2015: RUB 409). 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 2016 amounted to RUB 7,839 (31 December 2015: RUB 8,494). The fair value was estimated using the joint income and comparative approach with key inputs being rent income rates and market value of comparable assets.

### **Impairment test**

At the end of 2016 management performed an impairment test of investment property. The evaluation performed and reasons for it are consistent with the approach for impairment testing of Property, Plant and Equipment (Note 10).

## 12 GOODWILL

Movements in goodwill arising on the acquisition of businesses at 31 December 2016 and 31 December 2015 are:

<b>Cost</b>	<b>2016</b>	<b>2015</b>
<b>Gross book value at 1 January</b>	<b>141,625</b>	<b>131,996</b>
Acquisition of businesses (Note 7)	4,802	9,506
Effect of change in purchase price allocation (Note 7)	254	123
<b>Gross book value at 31 December</b>	<b>146,681</b>	<b>141,625</b>
<b>Accumulated impairment losses</b>		
Accumulated impairment losses at 1 January	(66,312)	(66,312)
Accumulated impairment losses at 31 December	(66,312)	(66,312)
<b>Carrying amount at 1 January</b>	<b>75,313</b>	<b>65,684</b>
<b>Carrying amount at 31 December</b>	<b>80,369</b>	<b>75,313</b>

### **Goodwill impairment test**

For the purposes of impairment testing, goodwill is allocated to groups of cash-generating units (groups of CGUs) being store chains of each format. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

**12 GOODWILL (continued)****Goodwill impairment test (continued)**

The group of CGUs to which goodwill has been allocated is tested for impairment annually or more frequently if there are indications that the particular group of CGUs might be impaired. Goodwill is tested for impairment at the group of CGUs level by comparing carrying values of particular group of CGU assets including allocated goodwill to their value in use.

The allocation of carrying amounts of goodwill to each group of CGUs is as follows:

<b>Year ended 31 December 2016</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other</b>	<b>Total</b>
<b>Goodwill</b>	<b>65,189</b>	<b>10,344</b>	<b>4,550</b>	<b>286</b>	<b>80,369</b>
<b>Year ended 31 December 2015</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other</b>	<b>Total</b>
<b>Goodwill</b>	<b>60,133</b>	<b>10,344</b>	<b>4,550</b>	<b>286</b>	<b>75,313</b>

*Value in use*

For items of land, buildings and construction in progress the discounted future cash flow approach is applied and covers a 10 year period from 2017 onwards. The future 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 3.5% to 6% in accordance with the strategic plan and consumer price index projections (31 December 2015: 0% to 12.25%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 15.9% (31 December 2015: for the first two years – 18.29%, for subsequent years – 16.69%). 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.

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 of disposal and the value in use are significantly higher 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 groups of CGUs calculated exceeds their carrying amounts. Therefore no impairment is recognised.

### 13 OTHER INTANGIBLE ASSETS

Other intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Lease rights	Total
<b>Cost</b>					
<b>At 1 January 2015</b>	<b>17,136</b>	<b>2,130</b>	<b>6,155</b>	<b>9,563</b>	<b>34,984</b>
Additions	–	–	1,407	1,277	2,684
Acquisition of businesses (Note 7)	–	–	–	1,181	1,181
Disposals	–	(2,118)	(61)	(36)	(2,215)
<b>At 31 December 2015</b>	<b>17,136</b>	<b>12</b>	<b>7,501</b>	<b>11,985</b>	<b>36,634</b>
Additions	–	–	3,294	549	3,843
Acquisition of businesses (Note 7)	–	–	–	322	322
Disposals	–	(12)	(20)	(91)	(123)
<b>At 31 December 2016</b>	<b>17,136</b>	<b>–</b>	<b>10,775</b>	<b>12,765</b>	<b>40,676</b>
<b>Accumulated amortisation and impairment</b>					
<b>At 1 January 2015</b>	<b>(10,174)</b>	<b>(2,100)</b>	<b>(2,483)</b>	<b>(5,609)</b>	<b>(20,366)</b>
Amortisation charge	(784)	(18)	(607)	(1,405)	(2,814)
Impairment charge	(38)	–	–	(723)	(761)
Reversal of impairment	–	–	–	193	193
Disposals	–	2,118	61	36	2,215
<b>At 31 December 2015</b>	<b>(10,996)</b>	<b>–</b>	<b>(3,029)</b>	<b>(7,508)</b>	<b>(21,533)</b>
Amortisation charge	(726)	(7)	(1,096)	(736)	(2,565)
Impairment charge	(68)	(5)	(181)	(442)	(696)
Reversal of impairment	–	–	–	376	376
Disposals	–	12	20	90	122
<b>At 31 December 2016</b>	<b>(11,790)</b>	<b>–</b>	<b>(4,286)</b>	<b>(8,220)</b>	<b>(24,296)</b>
<b>Net book value at 31 December 2016</b>	<b>5,346</b>	<b>–</b>	<b>6,489</b>	<b>4,545</b>	<b>16,380</b>
<b>Net book value at 31 December 2015</b>	<b>6,140</b>	<b>12</b>	<b>4,472</b>	<b>4,477</b>	<b>15,101</b>
<b>Net book value at 1 January 2015</b>	<b>6,962</b>	<b>30</b>	<b>3,672</b>	<b>3,954</b>	<b>14,618</b>

Brand and private labels includes brand “Pyaterochka” with the carrying amount of RUB 4,029 (31 December 2015: RUB 4,466) and brand “Karusel” with the carrying amount of RUB 1,258 (31 December 2015: RUB 1,456).

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 2016 and 31 December 2015.

#### **Impairment test**

At the end of 2016 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 recognized an impairment of software and private labels which were no longer used.

### 14 INVENTORIES

At 31 December 2016 inventories in the amount of RUB 73,801 were accounted at the lower of cost and net realisable value (31 December 2015: RUB 57,887). Inventory shrinkage and slow moving stock provisions recognised as cost of sales in the consolidated statement of profit or loss amounted to RUB 36,467 (2015: RUB 26,248).

## 15 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables
<b>31 December 2016</b>	
<b>Assets as per consolidated statement of financial position</b>	
Trade and other receivables excluding prepayments	25,021
Cash and cash equivalents	18,190
<b>Total</b>	<b>43,211</b>

	Financial liabilities at amortised cost
<b>31 December 2016</b>	
<b>Liabilities as per consolidated statement of financial position</b>	
Borrowings	156,033
Interest accrued	1,177
Trade, other current and non-current payables excluding statutory liabilities and advances	172,396
<b>Total</b>	<b>329,606</b>

	Loans and receivables
<b>31 December 2015</b>	
<b>Assets as per consolidated statement of financial position</b>	
Trade and other receivables excluding prepayments	22,411
Cash and cash equivalents	8,958
<b>Total</b>	<b>31,369</b>

	Financial liabilities at amortised cost
<b>31 December 2015</b>	
<b>Liabilities as per consolidated statement of financial position</b>	
Borrowings	144,215
Interest accrued	1,390
Trade and other payables excluding statutory liabilities and advances	133,224
<b>Total</b>	<b>278,829</b>

## 16 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2016	31 December 2015
Trade accounts receivable	24,606	22,316
Other receivables	2,206	2,209
Accounts receivable for franchise services	15	23
Provision for impairment of trade and other receivables	(1,806)	(2,137)
<b>Total trade and other accounts receivable</b>	<b>25,021</b>	<b>22,411</b>
Prepayments	2,956	2,490
Advances made to trade suppliers	733	975
Provision for impairment of prepayments and advances	(683)	(868)
<b>Total prepayments</b>	<b>3,006</b>	<b>2,597</b>
<b>Total</b>	<b>28,027</b>	<b>25,008</b>

All classes of receivables except prepayments are categorised as loans and receivables under IAS 39 classification. The carrying amounts of the Group's trade and other receivables were primarily denominated in Russian Roubles. Other non-current assets were mainly represented by long-term prepayments for rent in the amount of RUB 4,221 (31 December 2015: RUB 3,548).

**16 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)****Trade receivables**

There were balances of RUB 715 that in accordance with accounting policies were past due but not impaired as at 31 December 2016 (31 December 2015: RUB 708).

The ageing of these receivables based on days outstanding was as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
2-12 months	715	708
<b>Total</b>	<b>715</b>	<b>708</b>

Movements on the provision for impairment of trade receivables were as follows:

	<b>2016</b>	<b>2015</b>
<b>At 1 January</b>	(1 190)	(260)
Addition of provision for receivables impairment	(666)	(1,048)
Release of provision for receivables impairment	645	93
Receivables written off as uncollectable	299	25
<b>At 31 December</b>	<b>(912)</b>	<b>(1,190)</b>

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 related to debtors that expect financial difficulties or where there was likelihood of the debtor's insolvency. It was assessed that a portion of the receivables was expected to be recovered.

The ageing of amounts receivable (gross) that were individually impaired based on days outstanding was as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
3-6 months	107	270
Over 6 months	1,161	1,037
<b>Total</b>	<b>1,268</b>	<b>1,307</b>

For those receivables that were neither past due nor impaired the Group considered 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 was the carrying amount of each class of receivable mentioned above. The Group did not hold any collateral as security.

**Other receivables and receivables for franchise services**

There were balances of RUB 189 that in accordance with accounting policies were past due but not impaired as at 31 December 2016 (31 December 2015: RUB 428).

The ageing of these receivables based on days outstanding was as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
2-12 months	189	428
<b>Total</b>	<b>189</b>	<b>428</b>

## 16 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

### Other receivables and receivables for franchise services (continued)

Movements on the provision for impairment of other receivables and receivables for franchise services were as follows:

	2016	2015
<b>At 1 January</b>	(947)	(762)
Addition of provision for receivables impairment	(399)	(511)
Release of provision for receivables impairment	289	247
Receivables written off as uncollectable	163	79
<b>At 31 December</b>	<b>(894)</b>	<b>(947)</b>

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 related to debtors that expected financial difficulties or there was likelihood of the debtor's insolvency. It was assessed that a portion of the receivables was expected to be recovered.

The ageing of amounts receivable (gross) that were individually impaired based on days outstanding was as follows:

	31 December 2016	31 December 2015
3-6 months	119	110
Over 6 months	1,038	1,084
<b>Total</b>	<b>1,157</b>	<b>1,194</b>

For those receivables that were neither past due nor impaired the Group considered the credit quality as high. The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable mentioned above. The Group did not hold any collateral as security.

### Prepayments and advances made to trade suppliers

There were balances of RUB 876 that in accordance with accounting policies were past due but not impaired as at 31 December 2016 (31 December 2015: RUB 854).

The ageing of these receivables based on days outstanding was as follows:

	31 December 2016	31 December 2015
2-12 months	876	664
Over 1 year	—	190
<b>Total</b>	<b>876</b>	<b>854</b>

Movements on the provision for impairment of prepayments and advances made to trade suppliers were as follows:

	2016	2015
<b>At 1 January</b>	(868)	(875)
Addition of provision for receivables impairment	(417)	(456)
Release of provision for receivables impairment	297	267
Receivables written off as uncollectable	305	196
<b>At 31 December</b>	<b>(683)</b>	<b>(868)</b>

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 related to debtors that expected financial difficulties or there was likelihood of the debtor's insolvency. It was assessed that a portion of the receivables was expected to be recovered.

## 16 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

### Prepayments and advances made to trade suppliers (continued)

The ageing of amounts receivable (gross) that were individually impaired based on days outstanding was as follows:

	31 December 2016	31 December 2015
3-6 months	–	119
Over 1 year	754	1,028
<b>Total</b>	<b>754</b>	<b>1,147</b>

For those receivables that were neither past due nor impaired the Group considered the credit quality as high. The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable mentioned above. The Group did not hold any collateral as security.

## 17 VAT AND OTHER TAXES RECEIVABLE

	31 December 2016	31 December 2015
VAT receivable	8,698	13,680
Other taxes receivable	224	182
<b>Total</b>	<b>8,922</b>	<b>13,862</b>

VAT receivable related to property, plant and equipment of RUB 446 (31 December 2015: RUB 492) was recorded within current assets because management expected 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 2016	31 December 2015
Other accounts payable and accruals	14,232	9,861
Accrued salaries and bonuses	12,412	10,238
Accounts payable for property, plant and equipment	11,890	8,441
Taxes other than income tax	7,037	7,806
Advances received	1,462	1,471
Payables to landlords	1,210	911
Provisions and liabilities for tax uncertainties (Note 33)	499	2,392
<b>Total</b>	<b>48,742</b>	<b>41,120</b>

There were no significant amounts of other payables to foreign counterparties as at 31 December 2016 and 31 December 2015.

## 19 BORROWINGS

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

Current	Final maturity year*	Fair value		Carrying value	
		2016	2015	2016	2015
RUB Bonds X5 Finance series 04	–	–	7,992	–	8,000
RUB Bonds X5 Finance series BO-02	–	–	4,950	–	4,997
RUB Bonds X5 Finance series BO-03	–	–	4,914	–	4,999
RUB Bonds X5 Finance series BO-06	2017	5,045	–	4,993	–
RUB Bilateral Loans	2017	40,175	24,674	40,175	24,674
<b>Total current borrowings</b>		<b>45,220</b>	<b>42,530</b>	<b>45,168</b>	<b>42,670</b>

**19 BORROWINGS (continued)**

Non-current	Final maturity year*	Fair value		Carrying value	
		2016	2015	2016	2015
RUB Bonds X5 Finance series BO-04	2019	5,219	5,000	4,993	4,991
RUB Bonds X5 Finance series BO-05	2018	5,089	–	4,995	–
RUB Bonds X5 Finance series BO-07	2019	5,008	–	4,991	–
RUB Bonds X5 Finance series 001P-01	2019	14,970	–	14,997	–
RUB Bilateral Loans	2019	81,919	98,018	80,889	96,554
<b>Total non-current borrowings</b>		<b>112,205</b>	<b>103,018</b>	<b>110,865</b>	<b>101,545</b>
<b>Total borrowings</b>		<b>157,425</b>	<b>145,548</b>	<b>156,033</b>	<b>144,215</b>

\* In case of the Group's Bonds – the next oferta (put option) date.

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

In 2016 the Group issued following exchange corporate bonds:

- In March 2016 series BO-05 with 10.90% coupon rate and 2.5-year oferta (put option) in the total amount of RUB 5 bn.
- In May 2016 series BO-06 with 10.50% coupon rate and 1.5-year oferta (put-option) in the total amount of RUB 5 bn.
- In August 2016 series BO-07 with 9.75% coupon rate and 2.5-year oferta (put option) in the total amount of RUB 5 bn.
- In September 2016 series 001P-01 with 9.45% coupon rate and 3-year oferta (put option) in the total amount of RUB 15 bn.

The Group made several drawdowns with fixed interest rate out of Alfa-Bank long-term credit line in the total amount of:

- RUB 14.7 bn. in June 2016;
- RUB 12.5 bn. in August 2016.

In December 2016 the Group made several drawdowns out of Sberbank long-term credit lines in the total amount of RUB 45.4 bn. with fixed interest rates.

The weighted average effective interest rate on X5's total borrowings for 2016 comprised 11.30% per annum (2015: 12.67%).

All borrowings at 31 December 2016 are shown net of related transaction costs of RUB 267 which are amortised over the term of the loans using the effective interest method (31 December 2015: RUB 207). Borrowing costs capitalised for the year ended 31 December 2016 amounted to RUB 285 (2015: RUB 272). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 11.20% (2015: 12.41%).

In accordance with loan agreements the Group maintains an optimal capital structure by tracking certain covenants, such as the maximum level of Net Debt/EBITDA (4.00/4.25 during 2 quarters after acquisition). At 31 December 2016 the Group complied with this covenant and Net Debt/EBITDA was equal to 1.81 (31 December 2015: 2.45).

**20 SHARE CAPITAL**

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

No dividends were paid or declared during the year ended 31 December 2016 and the year ended 31 December 2015.



**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 were calculated as follows:

	2016	2015
Profit attributable to equity holders of the parent	22,291	14,174
Weighted average number of ordinary shares in issue	67,883,606	67,876,926
Effect of share options granted to employees, number of shares	2,366	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,885,972	67,876,926
<b>Basic earnings per share for profit from continuing operations (expressed in RUB per share)</b>	<b>328.37</b>	<b>208.82</b>
<b>Diluted earnings per share for profit from continuing operations (expressed in RUB per share)</b>	<b>328.36</b>	<b>208.82</b>

**22 REVENUE**

	2016	2015
Revenue from sale of goods	1,033,320	808,497
Revenue from franchise services	34	35
Revenue from other services	313	286
<b>Total</b>	<b>1,033,667</b>	<b>808,818</b>

**23 EXPENSES BY NATURE**

	2016	2015
Cost of goods sold	751,763	583,970
Staff costs (Note 26)	92,947	78,343
Operating lease expenses	51,202	39,773
Depreciation, amortisation	26,927	17,952
Impairment of non-current assets	3,709	2,832
Other store costs	17,773	15,795
Utilities	20,445	16,086
Other	30,230	25,742
<b>Total</b>	<b>994,996</b>	<b>780,493</b>

Operating lease expenses included RUB 49,626 (2015: RUB 38,901) of minimum lease payments and contingent rents of RUB 1,576 (2015: 872 RUB).

Impairment of trade and other receivables amounted to RUB 247 for the year ended 31 December 2016 (2015: RUB 1,260).

The fees listed below related 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):

	2016	2015
Financial statement audit	55	75
Tax services	14	14
Other non-audit services	8	8
<b>Total</b>	<b>77</b>	<b>97</b>

**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 were as follows:

	31 December 2016	31 December 2015
Not later than 1 year	2,325	2,166
Later than 1 year and no later than 5 years	1,474	970
Later than 5 years	615	427
<b>Total</b>	<b>4,414</b>	<b>3,563</b>

The future minimum lease payments receivable under non-cancellable operating subleases were as follows:

	31 December 2016	31 December 2015
Not later than 1 year	676	624
Later than 1 year and no later than 5 years	127	117
Later than 5 years	61	88
<b>Total</b>	<b>864</b>	<b>829</b>

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2016 amounted to RUB 6,142 (2015: RUB 5,519). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2016 amounted to RUB 170 (2015: 142).

**25 FINANCE INCOME AND COSTS**

	2016	2015
Interest expense	17,044	16,570
Interest income	(47)	(387)
Other finance costs, net	321	354
<b>Total</b>	<b>17,318</b>	<b>16,537</b>

Other finance costs included transaction costs of RUB 177 written-off to the consolidated statement of profit or loss (2015: RUB 309) (Note 19).

**26 STAFF COSTS**

	2016	2015
Wages and salaries	73,435	61,510
Social security costs	19,464	16,815
Share-based payments expense	48	18
<b>Total</b>	<b>92,947</b>	<b>78,343</b>

Wages and salaries in 2016 included expenses of RUB 2,778 related to the long-term incentive programme (LTI) for key employees, including members of the Management Board, other key management and other key employees.

For the year ended 31 December 2016 statutory pension contributions amounted to RUB 13,065 (2015: RUB 10,894).

## **26 STAFF COSTS (continued)**

### **Key management personnel**

The Group 'key management personnel' consists of members of the Supervisory Board, Management Board and certain other members of the Executive Committee, having authority and responsibility for planning, directing and controlling the activities of the Group as a whole. The total direct compensation for members of the Executive Committee including the members of the Management Board consists of a base salary, a performance related short-term incentive and a performance related long-term incentive; 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. More details about the remuneration policy are included in the "Remuneration" section on page 169 onwards.

#### *Base salaries in 2016*

Base salaries of each member of the Management Board are determined in line with compensation levels in peer companies. For the 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.

#### *Short-term incentive (STI) for 2016*

For 2016 the Supervisory Board has determined that 100% of the total on-target bonus opportunity for the CEO depends on achieving financial and quantitative group targets. Group targets consist of elements related to the Company's operational performance, including net sales and return on invested capital (ROIC), with a profitability threshold as a condition for STI payout. For the Company Secretary the STI is based on achievement of individual targets, also with a profitability threshold as a condition for STI payout. The on-target payout as a percentage of base salary is set at a level of 100% for the CEO, and 40% for the Company Secretary. With regard to financial targets, the Group achieved EBITDA above the target threshold, while other group 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.

#### *Long-term incentive (LTI)*

The LTI programme comprises two stages which run 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 or incurring undue risk. 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. Each stage of the programme includes a deferred component of conditional payouts in order to maintain the focus on long-term goals throughout the programme. The size of each individual cash award is based on a pre-determined score reflecting the participant's role and contribution to meeting the LTI targets, both at individual and team level. For each LTI participant, total LTI payout may be adjusted downwards based on individual performance during the period of the programme.

**26 STAFF COSTS (continued)****Management Board (continued)**

As at 31 December 2016 the targets set for the deferred payout under the first stage of the LTI were achieved, as specific comparative performance indicators were met, and EBITDA also exceeded the target threshold. Consequently, Mr. Shekhterman was eligible for a payout, details of which are provided in the table below.

Expenses recognized for remuneration of the members of the Management Board:

Name	Year	Base salary <sup>1</sup>	Short-term incentive <sup>2</sup>	Long-term incentive <sup>3</sup>	Exit payment <sup>4</sup>	Share based compensation <sup>5</sup>	Social security cost	Total
I. Shekhterman	2016	47	52	296	–	1	59	455
	2015	13	16	143	–	–	26	198
F. Lhoëst	2016	20	6	10	–	–	–	36
	2015	19	5	20	–	1	–	45
S. DuCharme	2015	41	33	399	440	3	138	1,054
<b>Total</b>	<b>2016</b>	<b>67</b>	<b>58</b>	<b>306</b>	<b>–</b>	<b>1</b>	<b>59</b>	<b>491</b>
	<b>2015</b>	<b>73</b>	<b>54</b>	<b>562</b>	<b>440</b>	<b>4</b>	<b>164</b>	<b>1,297</b>

<sup>1</sup> Mr. Shekhterman succeeded Mr. DuCharme as member of the Management Board and CEO on 12 November 2015. Mr. Shekhterman's annual base salary is RUB 42 million, for 2015 reflected in the table on a pro rata basis 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 labour law.

<sup>2</sup> Short-term incentives are based on results achieved in 2016 and payable in 2017. The short-term incentive levels are based on full achievement of both group and individual targets with additional reward for outperformance of group targets, resulting in payouts of 123 % of base salary for Mr. Shekhterman, and 32% of base salary for Mr. Lhoëst.

<sup>3</sup> For Mr. Shekhterman the expense recognized for the long-term incentive reward is composed of two elements: (i) accrual for the period 2016 with respect to the deferred payout under the first stage of the LTI programme, and (ii) an accrual based on the probability of achieving the targets under the second stage of the LTI programme as per 31 March 2017, as described in the Remuneration Report on page 169. For Mr. Lhoëst the long-term incentive is composed of the deferred component of the cash incentive awarded for performance in the year 2014 under the Deferred Cash Incentive Plan.

<sup>4</sup> 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 was entitled to 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).

<sup>5</sup> 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.

## 26 STAFF COSTS (continued)

Restricted Stock Units (RSU) awarded and outstanding to members of the Management Board:

Name	Tranche	RSUs awarded in 2011	RSUs awarded in 2012	RSUs awarded in 2013	RSUs awarded in 2014	RSUs awarded in 2015	RSUs awarded in 2016	Year of vesting	RSUs vested	Value on vesting date <sup>1</sup>	GDRs locked-up as per 31 Decem- ber 2016 <sup>2</sup>	End of lock-up period	RSUs outstanding as per 31 Decem- ber 2016	RSUs outstanding as per 31 Decem- ber 2015
I. Shekhterman	4	–	–	–	7,384	–	–	2016	7,384	9	7,384	2018	–	7,384
	5	–	–	–	–	15,793	–	2017	–	–	–	2019	15,793	15,793
	6	–	–	–	–	–	11,396	2018	–	–	–	2020	11,396	–
F. Lhoëst	1	9,024	–	–	–	–	–	2013	9,024	5	–	2015	–	–
	2	–	13,645	–	–	–	–	2014	13,645	8	–	2016	–	–
	3	–	–	7,192	–	–	–	2015	7,192	7	4,068	2017	–	–

<sup>1</sup> Vesting date is 19 May of each respective year of vesting.

<sup>2</sup> Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.

## **26 STAFF COSTS (continued)**

### **Supervisory Board**

As described in the Corporate Governance Report on page 162, the composition of the Supervisory Board changed in 2016. At the Annual General Meeting of Shareholders in May, Dmitry Dorofeev stepped down, to be succeeded by Andrei Elinson.

The Annual General Meeting of Shareholders also approved the adjustment of the remuneration principles for the Supervisory Board so that Board members are entitled to additional compensation for time and expertise dedicated to specific strategic projects for X5, provided that such compensation (i) relates to work of a temporary, one-off nature, performed as an extension of the statutory non-executive duties of the relevant Board member and (ii) is approved in advance by the Supervisory Board, upon recommendation of the Nomination and Remuneration Committee, which will ensure, on a case-by-case basis, that any such engagement shall under no circumstance compromise the independence of the relevant Board member or the Board collectively.

Furthermore, with effect from May 2016, the Annual General Meeting of Shareholders approved the simplification of the award mechanism for Restricted Stock Units (RSUs) under the Restricted Stock Unit Plan while safeguarding the existing terms and conditions for vesting and lock-up under the Plan.

In accordance with the remuneration principles for the Supervisory Board, the non-independent Board members Mr. Fridman and Mr. Elinson are not remunerated by the Group.

In 2016 the remaining Supervisory Board members received remuneration in cash and an annual award of Restricted Stock Units (RSUs). In addition, Messrs. Couvreur, Musial and King received additional cash remuneration for time and expertise dedicated to specific strategic projects for X5, under the framework approved by the General Meeting of Shareholders.

### *Restricted Stock Units*

In 2016 the Annual General Meeting of Shareholders approved that the Supervisory Board members Stephan DuCharme, Christian Couvreur, Pawel Musial, Geoff King, Peter Demchenkov and Mikhail Kuchment be awarded a number of RSUs with award date 19 May 2016, equal to 100% of the fixed remuneration in 2016 of the relevant Board member, divided by the average market value of one GDR as of 19 May 2016. Under the rules of the RSU 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 2016. 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 RSUs awarded under tranche 6 will vest on 19 May 2018, followed by a lock-in period ending on 19 May 2020. The RSUs awarded under tranche 7 will vest on 19 May 2019, followed by a lock-in period ending on 19 May 2021.

## 26 STAFF COSTS (continued)

### Supervisory Board (continued)

The number of RSUs awarded 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.

Expenses recognized for remuneration of the members of the Supervisory Board:

	Base remuneration <sup>1</sup>		Additional remuneration <sup>2</sup>		Share-based compensation <sup>3</sup>	
	2016	2015	2016	2015	2016	2015
<b>Current members</b>						
S. DuCharme (appointed 12 November 2015)	32	11	—	—	10	—
A. Elinson	—	—	—	—	—	—
M. Fridman	—	—	—	—	—	—
C. Couvreur	14	14	8	2	10	7
P. Musial	7	7	35	—	4	3
G. King (appointed 7 May 2015)	18	16	8	2	10	3
P. Demchenkov (appointed 7 May 2015)	7	7	—	—	4	1
M. Kuchment (appointed 12 November 2015)	7	3	—	—	2	—
<b>Former members</b>						
D. Dorofeev (stepped down 10 May 2016)	—	—	—	—	—	—
D. Gould (stepped down 7 May 2015)	—	—	—	—	—	—
A. Tynkovan (stepped down 7 May 2015)	—	4	—	—	—	13
A. Malis (stepped down 7 May 2015)	—	2	—	—	—	(2)
I. Shekhterman (stepped down 12 November 2015)	—	9	—	—	—	6
<b>Total</b>	<b>85</b>	<b>73</b>	<b>51</b>	<b>4</b>	<b>40</b>	<b>31</b>

<sup>1</sup> 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. For former Board members and Board members appointed during the year, the pro-rata amounts are reflected. In accordance with the remuneration principles for the Supervisory Board, non-independent Board members Messrs. Dorofeev, Fridman, Gould and Elinson were not remunerated.

<sup>2</sup> Additional cash remuneration for time and expertise dedicated to key strategic projects in 2016.

<sup>3</sup> 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.

## 26 STAFF COSTS (continued)

### Supervisory Board (continued)

Restricted Stock Units awarded and outstanding to members of the Supervisory Board:

Name	Tranche	RSUs awarded in 2012	RSUs awarded in 2013	RSUs awarded in 2014	RSUs awarded in 2015	RSUs awarded in 2016 <sup>1</sup>	Year of vesting	RSUs vested	Value on vesting date <sup>2</sup>	GDRs locked-up as per 31 Decem- ber 2016 <sup>3</sup>	End of lock-up period	RSUs outstanding as per 31 Decem- ber 2016	RSUs outstanding as per 31 Decem- ber 2015
S. DuCharme <sup>3</sup>	7	—	—	—	—	25,703	2019	—	—	—	2021	25,703	—
C. Couvreur	1	—	—	—	—	—	2013	7,219	4	—	2015	—	—
	2	7,939	—	—	—	—	2014	7,939	5	—	2016	—	—
	3	—	10,461	—	—	—	2015	10,461	11	6,904	2017	—	—
	4	—	—	14,768	—	—	2016	14,768	19	9,747	2018	—	14,768
	5	—	—	—	15,793	—	2017	—	—	—	2019	15,793	15,793
	6	—	—	—	—	11,396	2018	—	—	—	2020	11,396	—
	7	—	—	—	—	11,424	2019	—	—	—	2021	11,424	—
P. Musial	4	—	—	2,461	—	—	2016	2,461	3	2,461	2018	—	2,461
	5	—	—	—	7,897	—	2017	—	—	—	2019	7,897	7,897
	6	—	—	—	—	5,698	2018	—	—	—	2020	5,698	—
	7	—	—	—	—	5,712	2019	—	—	—	2021	5,712	—
G. King	6	—	—	—	—	13,250	2018	—	—	—	2020	13,250	—
	7	—	—	—	—	14,280	2019	—	—	—	2021	14,280	—
P. Demchenkov	6	—	—	—	—	5,698	2018	—	—	—	2020	5,698	—
	7	—	—	—	—	5,712	2019	—	—	—	2021	5,712	—
M. Kuchment	7	—	—	—	—	5,712	2019	—	—	—	2021	5,712	—

<sup>1</sup> In 2016 the RSUs awarded under tranche 7 were awarded in accordance with the amended award schedule, observing the 3 year vesting period prescribed by the RSU Plan.

<sup>2</sup> Vesting date is 19 May of each respective year of vesting.

<sup>3</sup> Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.



## 26 STAFF COSTS (continued)

### Other key management personnel

Other key management personnel comprise 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 2016

Base salaries of members of the Executive Committee are determined in line with compensation levels in peer companies as set out in the remuneration policy.

#### Short-term Incentive

For 2016, the Supervisory Board had determined that 100% of the total on-target bonus opportunity for leaders of the formats would be based on achieving financial and quantitative group targets at both company and format level, with a profitability threshold as a condition for STI payout. For functional leaders 20% of the total on-target bonus opportunity depends on achieving financial group targets, while 80% depends on achieving personal targets; a profitability threshold is also a condition for STI payout. 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 the targets that had been set, including the net sales targets; 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 100% cash payout as a percentage of base salary.

#### Long-term incentive

As indicated above under "Management Board", the targets set for the deferred payout under 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 contribution to meeting the LTI targets, both at individual and team level. For each LTI participant, total LTI payout may be adjusted downwards based on individual performance during the period of the programme.

Expenses recognized for remuneration of other key management personnel:

	Year	Base salary <sup>1</sup>	Short-term incentive <sup>2</sup>	Long-term incentive <sup>3</sup>	Exit payment	Social security cost	Total
Other key management personnel	2016	155	141	650	31	144	1,121
	2015	148	121	891	8	179	1,347

<sup>1</sup> 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.

<sup>2</sup> Short-term incentive for performance in the year 2016 (2015) paid in cash in 2017 (2016).

<sup>3</sup> The expense recognized for the long-term incentive rewards is composed of two elements: (i) accrual for the period 2016 with respect to the deferred payout under the first stage of the LTI programme, and (ii) an accrual based on the probability of achieving the targets under the second stage of the LTI programme as per 31 March 2017, as described in the Remuneration Report on page 169. In 2015 and 2016 the long-term incentive includes 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

Members of the Supervisory Board are entitled to annual awards of restricted stock units (RSUs) under the Company's Restricted Stock Unit Plan (RSU Plan) approved at the AGM in 2010. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders.

During the year ended 31 December 2016, a total number of 115,981 RSUs were awarded under tranches 6 and 7 of the RSU Plan, of which 47,438 RSUs awarded under tranche 6 will vest in 2018 and 68,543 RSUs awarded under tranche 7 will vest in 2019. In 2016, 25,843 RSUs awarded in 2014 under tranche 4 vested. Upon vesting these RSUs were converted into GDRs registered in the participant's name, and kept in custody during a two-year lock-in period during which the GDRs cannot be traded.

## 27 SHARE-BASED PAYMENTS (continued)

### Restricted Stock Unit plan (continued)

In total, during the year ended 31 December 2016 the Group recognised expense related to the RSU Plan in the amount of RUB 48 (expense during the year ended 31 December 2015: RUB 18). At 31 December 2016 the equity component was RUB 70 (31 December 2015: RUB 37). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding were as follows:

	2016		2015	
	Number of conditional rights	Weighted average fair value, RUB	Number of conditional rights	Weighted average fair value, RUB
Outstanding at the beginning of the period	123,123	765.23	235,425	659.61
Granted during the period	68,543	1,272.00	47,438	1,033.57
Vested during the period	(25,843)	577.63	(58,713)	606.52
Waived of previously vested	18,168	890.28	—	—
Forfeited during the period	(28,527)	785.35	(101,027)	737.34
<b>Outstanding at the end of the period</b>	<b>155,464</b>	<b>1,030.77</b>	<b>123,123</b>	<b>765.23</b>

## 28 INCOME TAX

	2016	2015
Current income tax charge	4,154	4,214
Deferred income tax charge/(benefit)	2,208	(458)
<b>Income tax charge for the year</b>	<b>6,362</b>	<b>3,756</b>

The theoretical and effective tax rates are reconciled as follows:

	2016	2015
<b>Profit before taxation</b>	<b>28,653</b>	<b>17,930</b>
<b>Theoretical tax at the effective statutory rate *</b>	<b>5,731</b>	<b>3,586</b>
<b>Tax effect of items which are not deductible or assessable for taxation purposes</b>		
Effect of income taxable at rates different from standard statutory rates	(1,512)	(1,206)
Expenses on inventory shrinkage	2,082	1,479
Unrecognised tax loss carry forwards for the year	181	465
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	(312)	(454)
Other non-deductible expense/(non-taxable income)	192	(114)
<b>Income tax charge for the year</b>	<b>6,362</b>	<b>3,756</b>

\* Profit before taxation on Russian operations is assessed based on the statutory rate of 20%.

As at 31 December 2016 37 Russian subsidiaries of the Group were the members of the CGT (consolidated group of taxpayers) with Torgovy Dom PEREKRESTOK CJSC acting as a responsible CGT member.

## 28 INCOME TAX (continued)

### Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were attributable to the following items for the year ended 31 December 2016:

	31 December 2015	Credited/ (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2016
<b>Tax effects of deductible temporary differences and tax loss carry forwards</b>				
Tax losses available for carry forward	4,661	183	–	4,844
Property, plant and equipment and Investment property	637	(43)	28	622
Other intangible assets	18	(596)	599	21
Inventories	2,394	(790)	–	1,604
Accounts receivable	193	33	17	243
Accounts payable	5,145	(66)	27	5,106
Other	190	(17)	–	173
<b>Gross deferred tax asset</b>	<b>13,238</b>	<b>(1,296)</b>	<b>671</b>	<b>12,613</b>
Less offsetting with deferred tax liabilities	(7,821)	538	(24)	(7,307)
<b>Recognised deferred tax asset</b>	<b>5,417</b>	<b>(758)</b>	<b>647</b>	<b>5,306</b>
<b>Tax effects of taxable temporary differences</b>				
Property, plant and equipment and Investment property	(6,730)	(2,197)	(6)	(8,933)
Other intangible assets	(2,178)	669	(12)	(1,521)
Accounts receivable	(3,629)	818	(100)	(2,911)
Accounts payable	(45)	43	–	(2)
Other	(200)	(245)	–	(445)
<b>Gross deferred tax liability</b>	<b>(12,782)</b>	<b>(912)</b>	<b>(118)</b>	<b>(13,812)</b>
Less offsetting with deferred tax assets	7,821	(538)	24	7,307
<b>Recognised deferred tax liability</b>	<b>(4,961)</b>	<b>(1,450)</b>	<b>(94)</b>	<b>(6,505)</b>

## 28 INCOME TAX (continued)

### Deferred income tax (continued)

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were 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	31 December 2015
<b>Tax effects of deductible temporary differences and tax loss carry forwards</b>				
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
<b>Gross deferred tax asset</b>	<b>10,138</b>	<b>2,378</b>	<b>722</b>	<b>13,238</b>
Less offsetting with deferred tax liabilities	(6,570)	(1,079)	(172)	(7,821)
<b>Recognised deferred tax asset</b>	<b>3,568</b>	<b>1,299</b>	<b>550</b>	<b>5,417</b>
<b>Tax effects of taxable temporary differences</b>				
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)
<b>Gross deferred tax liability</b>	<b>(10,494)</b>	<b>(1,920)</b>	<b>(368)</b>	<b>(12,782)</b>
Less offsetting with deferred tax assets	6,570	1,079	172	7,821
<b>Recognised deferred tax liability</b>	<b>(3,924)</b>	<b>(841)</b>	<b>(196)</b>	<b>(4,961)</b>

Temporary differences on unremitted earnings of certain subsidiaries amounted to RUB 35,929 (2015: RUB 26,294) 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 4,170 (31 December 2015: RUB 4,204), the current portion of the gross deferred tax asset amounted to RUB 7,269 (31 December 2015: RUB 7,243).

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 4,844 recognised at 31 December 2016 for the carry forward of unused tax losses (31 December 2015: RUB 4,661).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 2,759 (2015: RUB 2,613).

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

**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 2016 the Group had trade accounts payable denominated in foreign currency in the amount of RUB 2,409 (31 December 2015: RUB 1,731). As at 31 December 2016 the Group did not have any other significant assets and liabilities denominated in foreign currency and the exposure for the Group was estimated as not significant.

*Interest rates risk*

As at 31 December 2016 the Group had no significant floating interest-bearing assets and liabilities, the Group's income, expenses and operating cash inflows and outflows were substantially independent of changes in market interest rates.

**(b) Credit risk**

Financial assets, which are potentially subject to credit risk, consisted 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 had no significant concentration of credit risk. Cash was placed in financial institutions which were 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 was 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 were continually monitored and no individual exposure was 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 as at the reporting date at spot foreign exchange rates:

<b>Year ended 31 December 2016</b>	<b>During 1 year</b>	<b>In 1 to 3 years</b>
Borrowings	58,621	123,058
Trade payables	131,180	–
Other finance liabilities	39,744	1,472
<b>Total</b>	<b>229,545</b>	<b>124,530</b>

<b>Year ended 31 December 2015</b>	<b>During 1 year</b>	<b>In 1 to 4 years</b>
Borrowings	58,041	114,225
Trade payables	103,773	–
Other finance liabilities	29,451	–
<b>Total</b>	<b>191,265</b>	<b>114,225</b>

## **29 FINANCIAL RISK MANAGEMENT (continued)**

### **(c) Liquidity risk (continued)**

At 31 December 2016 the Group had net current liabilities of RUB 97,294 (31 December 2015: RUB 82,175) including short-term borrowings of RUB 45,168 (31 December 2015: RUB 42,670 ). At 31 December 2016 the Group had available bank credit lines of RUB 280,808 (31 December 2015: RUB 140,176). At 31 December 2016 the Group had RUB bonds available for issue on MICEX of RUB 35,000 (31 December 2015: RUB 15,000).

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 programmes. Part of the short term 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 future 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 programme is highly discretionary. The Group optimises its cash outflows by managing the speed of execution of current capex projects and by delaying future capital extensive programmes, if required.

The Group is carefully monitoring its liquidity profile by optimizing 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 2016 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). Net debt is calculated as the sum of short-term and long-term borrowings less cash and cash equivalents. Reconciliation of EBITDA to operating profit is performed in Note 5. This ratio is included as covenants into loan agreements (Note 19). At 31 December 2016 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 methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

### **Financial assets carried at amortised cost**

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

The carrying amount of cash and cash equivalents and trade and other financial receivables approximates their fair value.

### **Liabilities carried at amortised cost**

The fair value of bonds is based on quoted market prices. Fair values of other liabilities are determined using valuation techniques.

The fair value of bonds traded on the MICEX is determined based on active market quotations and amounted to RUB 35,331 at 31 December 2016 (31 December 2015: RUB 22,856). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 34,969 at 31 December 2016 (31 December 2015: RUB 22,987) (Note 19). The fair value of long-term borrowings amounted to RUB 81,919 at 31 December 2016 (31 December 2015: RUB 98,018). The measurement is classified in level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using interest rate of similar instruments available on the market. The sensitivity analysis shows that the increase/decrease of the effective interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 1,292 at 31 December 2016. 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 2016, the Group operated 7,380 stores through rented premises (31 December 2015: 5,270 stores). There are two types of fees in respect of operating leases payable by the Group: fixed and variable (contingent rent). For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in RUB and normally calculated as a percentage of turnovers. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable 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 28,904 (net of VAT) (31 December 2015: RUB 26,211).

### **Capital expenditure commitments**

At 31 December 2016 the Group contracted for capital expenditure for the acquisition of property, plant and equipment of RUB 10,987 (net of VAT) (31 December 2015: RUB 7,271).

### **Law regulating the trade of the food products**

In 2016 there were amendments in the law regulating the trade of the food products in the Russian Federation ("trade law"). These amendments established certain strict limitations on volume of back margin received from suppliers. At the same time these amendments also established stricter limitations on payments terms to suppliers.

The amendments are effective starting 15 July 2016 for newly concluded contracts and starting 1 January 2017 for the existed contracts and are obligatory for all market participants. The Group may be charged with the fine of from 1 mln RUB to 5 mln RUB for each violation in case of failure or improper application of the provisions of this law. Currently the official position of government authorities is continually being reconsidered.

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

#### **Law regulating the trade of the food products (continued)**

The Group has performed all required procedures in order to amend existing and new contracts in compliance with the new provisions of the law by 1 January 2017 as well as the Group periodically evaluates its obligations under these regulations. As obligations are determined to be probable, they are recognized immediately as liabilities. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant probable liabilities related to compliance with the trade law.

#### **Legal contingencies**

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued at 31 December 2016.

#### **Taxation environment**

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of these legislative areas as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the Russian authorities decide to issue a claim and prove successful in court, they would be entitled to recover the tax amount claimed, together with fines amounting to 20% of such amount and late payment interest at the rate of 1/300 of the rate of the Central Bank of the Russian Federation (CBRF rate) for each day of the delay during the first 30 days, 1/150 of CBRF rate for each day of the delay if the latter is for more than 30 days to be calculated from the amount of underpaid tax. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russia has transfer pricing rules generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Given that the concept of the Russian transfer pricing rules is rather new and the practice is not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group. The level of impact is not expected to be significant since the prices of transactions between related parties which are the members of CGT (consolidated group of taxpayers) are not subject to transfer pricing control. Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the transfer pricing legislation.

Starting 2015 the "de-offshorisation law" came into force introducing the following rules and concepts which may have an impact on the Group's operations:

#### **The concept of beneficial ownership**

The possibility to apply the reduced tax rates to the income paid to foreign companies of the Group allowed under double tax treaties (DTTs) will depend on whether the company receiving such income is its beneficial owner. When determining the beneficial owner status of a foreign company the functions it performs and the risks it undertakes should be tested. It will be also considered whether such income was transferred (fully or in part) to another company. Given that the concept of beneficial ownership is rather new and the practice is not yet developed, the impact of any challenge of application of the reduced tax rates to the income paid to foreign Group companies cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Group.

Management believes that the Group's foreign companies receiving income from Russia are beneficial owners of that income and the reduced tax rates are correctly applied in accordance with the relevant DTTs.



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

#### **Broader rules for determining the tax residency of legal entities**

Starting 2015, more specific and detailed rules were put in place establishing when foreign entities can be viewed as managed from Russia and consequently can be deemed Russian tax residents. Russian tax residency means that such legal entities' worldwide income will be taxed in Russia. The Group comprises companies incorporated outside of Russia. The tax liabilities of the Group were determined on the assumption that these companies were not subject to Russian profits tax, because they did not have a permanent establishment in Russia and were not Russian tax residents by way of application of the new tax residency rules. This interpretation of relevant legislation in regard to the Group companies incorporated outside of Russia may be challenged. Given that the concept of the Russian broader rules for determining the tax residency of legal entities is rather new and the practice is not yet developed, the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

#### **Tax contingencies, commitments and risks**

Russian tax legislation does not provide definitive guidance in many areas. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in past may be challenged as not having been in compliance with Russian tax laws applicable at the relevant time. In particular, the Supreme Court issued guidance to lower courts on reviewing tax cases providing a systematic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed.

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

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

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.

In 2016 the Group released provisions and liabilities for tax uncertainties attributable to profit tax and non-profits tax risks in amount of RUB 3,242 including net release of non-income tax provision of RUB 1,732, income tax provision of RUB 522 with simultaneous release of respective indemnification asset of RUB 988. In 2016 indemnification asset of RUB 91 was impaired.

In 2015 the Group released provisions and liabilities for tax uncertainties attributable to profit and non-profits tax risks in amount of RUB 1,783 including non-income tax net release of RUB 196, income tax net release of RUB 990 and net release of RUB 597 indemnified by previous shareholders of acquired companies.

**33 COMMITMENTS AND CONTINGENCIES (continued)****Tax contingencies, commitments and risks (continued)**

At the same time management has recorded liabilities for income taxes in the amount of RUB 399 (31 December 2015: RUB 1,348) and provisions for taxes other than income taxes in the amount of RUB 499 at 31 December 2016 (31 December 2015: RUB 2,392) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

<b>Balance at 1 January 2015</b>	<b>2,595</b>
Increases due to acquisitions during the year recorded as part of the purchase price allocation	2,791
Release of provision	(4,058)
Accrual of provision	2,275
Offset of provision	137
<b>Balance at 31 December 2015</b>	<b>3,740</b>
Release of provision	(3,772)
Accrual of provision	530
Offset of provision	400
<b>Balance at 31 December 2016</b>	<b>898</b>

**34 SUBSEQUENT EVENTS FOR THE GROUP**

There were no significant events after the reporting date.

**X5 Retail Group N.V.**

**Company Financial Statements**

**31 December 2016**

**X5 Retail Group N.V.**  
**Company Statement of Financial Position at 31 December 2016**  
**Before appropriation of profit**  
*(expressed in millions of Russian Roubles, unless otherwise stated)*

	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial fixed assets	36	145,462	111,233
		<b>145,462</b>	<b>111,233</b>
<b>Current assets</b>			
Financial assets	36	1	11,188
Amounts due from subsidiaries		6,047	793
Prepaid expenses		2	4
Other receivables		75	98
		<b>6,125</b>	<b>12,083</b>
<b>TOTAL ASSETS</b>		<b>151,587</b>	<b>123,316</b>
<b>EQUITY AND LIABILITIES</b>			
Paid up and called up share capital	37	4,332	5,410
Share premium account	37	46,251	46,253
Share-based payment reserve	39	70	37
Other reserves		54,096	38,844
Result for the year		22,291	14,174
<b>Total equity</b>		<b>127,040</b>	<b>104,718</b>
<b>Non-current liabilities</b>			
Loan from group company	38	17,036	–
		<b>17,036</b>	<b>–</b>
<b>Current liabilities</b>			
Loan from group company	38	–	17,242
Amounts due to group companies		7,451	1,286
Accrued expenses and other liabilities		43	48
VAT and other taxes payable		17	22
		<b>7,511</b>	<b>18,598</b>
		<b>24,547</b>	<b>18,598</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>151,587</b>	<b>123,316</b>

Igor Shekhterman  
Chief Executive Officer

24 March 2017

Dmitry Gimmelberg  
Chief Financial Officer

24 March 2017

*The accompanying notes are the integral part of these company financial statements.*

**X5 Retail Group N.V.****Company Statement of Profit or Loss for the year ended 31 December 2016***(expressed in millions of Russian Roubles, unless otherwise stated)*

	<b>Note</b>	<b>2016</b>	<b>2015</b>
General and administrative expenses	40	(298)	(302)
Other income (expenses)		(254)	(75)
<b>Operating loss</b>		<b>(552)</b>	<b>(377)</b>
Finance costs		(1,705)	(2,557)
Finance income		1,517	1,967
Net foreign exchange gain/(loss)		234	(162)
<b>Loss before tax</b>		<b>(506)</b>	<b>(1,129)</b>
Income tax	41	-	-
Income on participating interest after tax		22,797	15,303
<b>Profit for the period</b>		<b>22,291</b>	<b>14,174</b>

\_\_\_\_\_  
Igor Shekhterman  
Chief Executive Officer

24 March 2017

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Dmitry Gimmelberg  
Chief Financial Officer

24 March 2017

*The accompanying notes are the integral part of these company financial statements.*

## **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.

### **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 2016	31 December 2015
<b>a. Movements in the interests in group companies have been as follows</b>		
Opening balance	111,227	94,778
Acquisitions/capital contribution	4,126	1,162
Divestment of group companies/ capital repayments	–	(16)
Profit from group companies for the year	22,797	15,303
<b>Closing balance</b>	<b>138,150</b>	<b>111,227</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 2016	31 December 2015
<b>b. Movements in the loans to group companies have been as follows</b>		
Opening balance	11,194	11,035
Settlement/repayment	(8,638)	(111)
Additions	4,761	269
Foreign exchange differences	(4)	1
<b>Closing balance</b>	<b>7,313</b>	<b>11,194</b>
Non-current financial assets	145,462	111,233
Current financial assets	1	11,188
<b>Total financial fixed assets</b>	<b>145,463</b>	<b>122,421</b>

#### 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>		

#### 31 December 2015

Borrowing group company	Loan currency	Carrying value	Interest rate, % p.a.	Maturity date
GSWL Finance Ltd	RUB	2,557	Mosprime1m + 3.6%	August 2016
Perekrestok Holdings Ltd.	RUB	8,631	(Libor1m + Mosprime1m)* ½ + 4.5%	December 2016
X5 Capital S.A.R.L	EUR	6	4%-4.5%	December 2017
<b>Total loans to group companies</b>		<b>11,194</b>		

The total amount of the loans provided to group companies was RUB 7,313 (2015: RUB 11,194) 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 2015</b>	4,638	46,218	26,917	12,691	94	90,558
Share-based payment 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
<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 31 December 2016</b>	<b>4,332</b>	<b>46,251</b>	<b>54,096</b>	<b>22,291</b>	<b>70</b>	<b>127,040</b>

<sup>1</sup> Share capital translated at the year end exchange rate EUR/RUB of 63.8111 (2015: 79.6972).

#### Share capital issued

As at 31 December 2016 the Group had 190,000,000 authorised ordinary shares (31 December 2015: 190,000,000) of which 67,884,340 ordinary shares were outstanding (31 December 2015: 67,882,421) and 8,878 ordinary shares held as treasury stock (31 December 2015: 10,797). 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 2016 included RUB Nil (2015: RUB Nil) translation reserve.

No dividends were paid or declared during the years ended 31 December 2016 and 2015.

#### Statutory profit appropriation

Supervisory Board propose to General Meeting to recapitalise full amount of the profits earned for the year.

### 38 LOAN FROM GROUP COMPANY

	Loan currency	31 December 2016	Interest rate, % p.a.	Final maturity date
Torgovy Dom PEREKRESTOK CJSC	RUB	15,629	10%	December 2020
Torgovy Dom PEREKRESTOK CJSC	USD	1,300	10%	December 2020
Torgovy Dom PEREKRESTOK CJSC	EUR	107	10%	December 2020
<b>Total</b>		<b>17,036</b>		



**38 LOAN FROM GROUP COMPANY (continued)**

	<b>Loan currency</b>	<b>31 December 2015</b>	<b>Interest rate, % p.a.</b>	<b>Final maturity date</b>
Torgovy Dom PEREKRESTOK CJSC	RUB	15,629	10%	April 2016
Torgovy Dom PEREKRESTOK CJSC	USD	1,566	10%	April 2016
Torgovy Dom PEREKRESTOK CJSC	EUR	47	10%	April 2016
<b>Total</b>		<b>17,242</b>		

The loan payable to Torgovy Dom PEREKRESTOK CJSC denominated in RUB/USD/EUR. RUB facility amounted to 15,629 (2015: RUB 15,629), USD 21.4 million (2015: USD 21.5 million) and EUR 1.7 million (2015: EUR 0.6 million).

**39 SHARE-BASED PAYMENTS**

X5 Retail Group N.V. operates both cash and equity settled share based compensation plans 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).

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

	<b>2016</b>	<b>2015</b>
Equity share-based payment reserve as at 31 December	70	37
Expenses for the year ended 31 December	48	18

**40 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2016</b>	<b>2015</b>
Other expenses	248	257
Audit expenses	12	10
RSU + LTI programme	38	35
<b>Total</b>	<b>298</b>	<b>302</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 (the total audit fees related to the accounting organisation PricewaterhouseCoopers Accountants N.V. in 2015: RUB 10).

**41 INCOME TAX EXPENSE**

	<b>2016</b>	<b>2015</b>
Operating loss before tax	(506)	(1,129)
Income on participating interest after tax	22,797	15,303
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 due to uncertainty of future taxable income to offset the current tax losses.

The Company estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 675 (2015: RUB 565). Unused tax losses are available for carry forward for a period not less than six years (for 2015 – 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 1,4 (2015: RUB 1,8).

**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 2016	31 December 2015
Irrevocable offer to holders of X5 Finance LLC bonds	35,000	23,000
Suretyship for Agrotorg LLC	–	11,000
Suretyship for Torgovy Dom PEREKRESTOK CJSC	23,500	67,500

**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**

In February 2017 the Company provided suretyship for Torgovy Dom PEREKRESTOK CJSC in the amount of RUB 45,400.

Amsterdam, 24 March 2017

Management Board:  
Frank Lhoëst  
Igor Shekhterman

Supervisory Board:  
Stephan DuCharme  
Mikhail Fridman  
Andrei Elinson  
Christian Couvreur  
Pawel Musial  
Geoff King  
Peter Demchenkov  
Mikhail Kuchment

## **OTHER INFORMATION**

### **Auditor's report**

The auditor's report is included on page 246.

### **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.

**X5 Retail Group N.V.**

**Consolidated Financial Statements**

***31 December 2015***



## *Independent auditor's report*

To: the general meeting and supervisory board of X5 Retail Group N.V.

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### *Report on the financial statements 2015*

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#### *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; and
- 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; and
- 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.

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*PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, The Netherlands*

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'PwC' is the brand under which PricewaterhouseCoopers Accountants N.V. (Chamber of Commerce 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (Chamber of Commerce 34180284), PricewaterhouseCoopers Advisory N.V. (Chamber of Commerce 34180287), PricewaterhouseCoopers Compliance Services B.V. (Chamber of Commerce 51414406), PricewaterhouseCoopers Pensions, Actuarial & Insurance Services B.V. (Chamber of Commerce 54226368), PricewaterhouseCoopers B.V. (Chamber of Commerce 34180289) and other companies operate and provide services. These services are governed by General Terms and Conditions ('algemene voorwaarden'), which include provisions regarding our liability. Purchases by these companies are governed by General Terms and Conditions of Purchase ('algemene inkoopvoorwaarden'). At [www.pwc.nl](http://www.pwc.nl) more detailed information on these companies is available, including these General Terms and Conditions and the General Terms and Conditions of Purchase, which have also been filed at the Amsterdam Chamber of Commerce.

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### ***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.

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### ***Our audit approach***

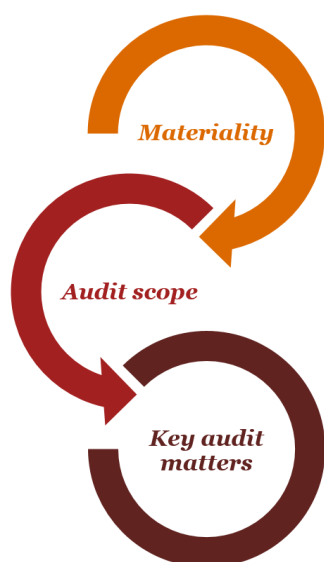
#### ***Overview and context***

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 to 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:

<b>Overall group materiality</b>	RUB 1.5 billion (2014: RUB 1.1 billion).
<b>How we determined it</b>	2.5% of EBITDA adjusted for Long Term Incentive plan expenses.
<b>Rationale for benchmark applied</b>	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.



### *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.

<i>Key audit matter</i>	<i>How our audit addressed the matter</i>
<b><i>Impairment of goodwill</i></b> <b><i>Note 12 to the financial statements</i></b> 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 <i>Impairment of Assets</i> . 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.	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.



### **Key audit matter**

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.

### **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.

### **How our audit addressed the matter**

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.

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**

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.

### **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.

### **How our audit addressed the matter**

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 devalue against most major foreign currencies resulting in sustained high inflation and interest rates and negative economic growth in the Russia.

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 twelve months following the date of the statement of financial position to the budget that was approved by the board.

<i>Key audit matter</i>	<i>How our audit addressed the matter</i>
<p>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.</p> <p>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.</p> <p>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.</p>	<p>We compared the assumptions used in the 2016 budget to external information and extended the evaluation to twelve months after the date of the financial statements.</p> <p>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.</p>

### ***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.

Original signed by A.G.J. Gerritsen RA

The above auditor's report is the original auditor's report that was issued on 17 March 2016 with respect to the financial statements for the period ending 31 December 2015. These financial statements also contained the management report. For purposes of the Listing Particulars the management report has been omitted. The financial statements are set forth on pages F-84 to F-144 in these Listing Particulars.

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## ***Appendix to our auditor's report on the financial statements 2015 of X5 Retail Group N.V.***

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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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## COMPANY 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
<b>ASSETS</b>			
<b>Non-current assets</b>			
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
		<b>293,410</b>	<b>240,411</b>
<b>Current assets</b>			
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
		<b>108,705</b>	<b>110,509</b>
<b>TOTAL ASSETS</b>		<b>402,115</b>	<b>350,920</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
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
		<b>104,718</b>	<b>90,558</b>
<b>Total equity</b>		<b>104,718</b>	<b>90,558</b>
<b>Non-current liabilities</b>			
Long-term borrowings	19	101,545	115,152
Deferred tax liabilities	28	4,961	3,924
Long-term deferred revenue		11	13
		<b>106,517</b>	<b>119,089</b>
<b>Current liabilities</b>			
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
		<b>190,880</b>	<b>141,273</b>
<b>Total liabilities</b>		<b>297,397</b>	<b>260,362</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>402,115</b>	<b>350,920</b>

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Igor Shekhterman  
Chief Executive Officer  
17 March 2016

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Elena Milinova  
Chief Financial Officer  
17 March 2016



**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)
<b>Gross profit</b>		<b>198,390</b>	<b>154,982</b>
Selling, general and administrative expenses	23	(170,065)	(133,512)
Lease/sublease and other income	24	6,124	6,818
<b>Operating profit</b>		<b>34,449</b>	<b>28,288</b>
Finance costs	25	(17,131)	(12,175)
Finance income	25	594	117
Share of loss of associates		-	(37)
Net foreign exchange gain		18	25
<b>Profit before tax</b>		<b>17,930</b>	<b>16,218</b>
Income tax expense	28	(3,756)	(3,527)
<b>Profit for the period</b>		<b>14,174</b>	<b>12,691</b>
<b>Profit for the period attributable to:</b>			
Equity holders of the parent		14,174	12,691
<b>Basic earnings per share for profit attributable to the equity holders of the parent</b> (expressed in RUB per share)	21	208.82	187.02
<b>Diluted earnings per share for profit attributable to the equity holders of the parent</b> (expressed in RUB per share)	21	208.82	187.02

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Igor Shekhterman  
Chief Executive Officer  
17 March 2016

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Elena Milinova  
Chief Financial Officer  
17 March 2016

**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
<b>Profit for the period</b>	<b>14,174</b>	<b>12,691</b>
<b>Other comprehensive income/(loss)</b>		
<i>Items that may be reclassified subsequently to profit and loss</i>		
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	-
<b>Total items that may be reclassified subsequently to profit and loss, net of tax</b>	<b>7</b>	<b>44</b>
<b>Other comprehensive income, net of tax</b>	<b>7</b>	<b>44</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>14,181</b>	<b>12,735</b>
<b>Total comprehensive income for the period attributable to:</b>		
Equity holders of the parent	<b>14,181</b>	<b>12,735</b>

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17 March 2016

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17 March 2016

**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
<b>Profit before tax</b>		<b>17,930</b>	<b>16,218</b>
<b>Adjustments for:</b>			
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)
<b>Net cash from operating activities before changes in working capital</b>		<b>56,678</b>	<b>45,766</b>
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
<b>Net cash generated from operations</b>		<b>55,272</b>	<b>43,554</b>
Interest paid		(15,924)	(11,771)
Interest received		387	117
Income tax paid		(4,248)	(3,333)
<b>Net cash from operating activities</b>		<b>35,487</b>	<b>28,567</b>
<b>Cash flows from investing activities</b>			
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	-
<b>Net cash used in investing activities</b>		<b>(59,645)</b>	<b>(29,737)</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans		66,320	70,655
Repayment of loans		(58,822)	(51,307)
Principal payments on finance lease obligations		-	(4)
<b>Net cash generated from financing activities</b>		<b>7,498</b>	<b>19,344</b>
Effect of exchange rate changes on cash and cash equivalents		(5)	(162)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(16,665)</b>	<b>18,012</b>
<b>Movements in cash and cash equivalents</b>			
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
<b>Cash and cash equivalents at the end of the year</b>	<b>9</b>	<b>8,958</b>	<b>25,623</b>

Igor Shekhterman  
Chief Executive Officer  
17 March 2016

Elena Milinova  
Chief Financial Officer  
17 March 2016

**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						Total shareholders' equity	Total
	Number of shares	Share capital	Share premium	Share-based payment reserve	Cumulative translation reserve	Retained earnings		
<b>Balance as at 1 January 2014</b>	<b>67,844,665</b>	<b>2,456</b>	<b>46,126</b>	<b>170</b>	<b>(44)</b>	<b>29,098</b>	<b>77,806</b>	<b>77,806</b>
Other comprehensive income for the period	-	-	-	-	44	-	44	44
Profit for the period	-	-	-	-	-	12,691	12,691	12,691
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>12,691</b>	<b>12,735</b>	<b>12,735</b>
Share-based payment compensation (Note 27)	-	-	-	17	-	-	17	17
Transfer of vested equity rights	23,078	1	92	(93)	-	-	-	-
<b>Balance as at 31 December 2014</b>	<b>67,867,743</b>	<b>2,457</b>	<b>46,218</b>	<b>94</b>	<b>-</b>	<b>41,789</b>	<b>90,558</b>	<b>90,558</b>
<b>Balance as at 1 January 2015</b>	<b>67,867,743</b>	<b>2,457</b>	<b>46,218</b>	<b>94</b>	<b>-</b>	<b>41,789</b>	<b>90,558</b>	<b>90,558</b>
Other comprehensive income for the period	-	-	-	-	-	7	7	7
Profit for the period	-	-	-	-	-	14,174	14,174	14,174
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,181</b>	<b>14,181</b>	<b>14,181</b>
Share-based payment compensation (Note 27)	-	-	-	(21)	-	-	(21)	(21)
Transfer of vested equity rights	14,678	1	35	(36)	-	-	-	-
<b>Balance as at 31 December 2015</b>	<b>67,882,421</b>	<b>2,458</b>	<b>46,253</b>	<b>37</b>	<b>-</b>	<b>55,970</b>	<b>104,718</b>	<b>104,718</b>

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17 March 2016

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17 March 2016

**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, Nizhny 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
<b>"Perekrestok" - Supermarket</b>		
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
<b>Total</b>	<b>478</b>	<b>403</b>
<b>"Pyaterochka" – Proximity stores</b>		
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
<b>Total</b>	<b>6,265</b>	<b>4,789</b>
<b>"Karusel" – Hypermarket</b>		
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
<b>Total</b>	<b>90</b>	<b>82</b>
Express	187	209
<b>Total stores</b>	<b>7,020</b>	<b>5,483</b>

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.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.



**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(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).

### **3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

**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 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's 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.



#### **4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

- 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.

#### **4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

**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.

#### **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.

## 5 SEGMENT REPORTING (CONTINUED)

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:

<b>Year ended 31 December 2015</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other segments</b>	<b>Corporate</b>	<b>Total</b>
<b>Revenue</b>	587,280	131,332	77,778	12,428	-	<b>808,818</b>
<b>EBITDA</b>	45,154	10,095	3,568	426	(4,010)	<b>55,233</b>
Depreciation, amortisation and impairment						(20,784)
<b>Operating profit</b>						<b>34,449</b>
Finance cost, net						(16,537)
Net foreign exchange result						18
<b>Profit before income tax</b>						<b>17,930</b>
Income tax expense						(3,756)
<b>Profit for the year</b>						<b>14,174</b>
Capital expenditure	50,658	13,657	6,305	347	95	71,062
<b>31 December 2015</b>						
Inventories	42,069	8,443	6,641	734	-	57,887

<b>Year ended 31 December 2014</b>	<b>Pyaterochka</b>	<b>Perekrestok</b>	<b>Karusel</b>	<b>Other segments</b>	<b>Corporate</b>	<b>Total</b>
<b>Revenue</b>	436,427	115,910	69,433	12,103	-	<b>633,873</b>
<b>EBITDA</b>	32,890	11,176	4,524	(420)	(2,310)	<b>45,860</b>
Depreciation, amortisation and impairment						(17,572)
<b>Operating profit</b>						<b>28,288</b>
Finance cost, net						(12,058)
Share of loss of associates						(37)
Net foreign exchange result						25
<b>Profit before income tax</b>						<b>16,218</b>
Income tax expense						(3,527)
<b>Profit for the year</b>						<b>12,691</b>
Capital expenditure	24,316	4,850	4,197	951	119	34,433
<b>31 December 2014</b>						
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:

<b>Company</b>	<b>Country</b>	<b>Nature of operations</b>	<b>Ownership (%)</b>	
			<b>31 December 2015</b>	<b>31 December 2014</b>
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

**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:

	<b>Provisional values at the acquisition date</b>
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
<b>Total acquisition cost</b>	<b>(557)</b>
Indemnification asset	797
<b>Purchase consideration</b>	<b>240</b>
<b>Net cash outflow arising from the acquisition</b>	<b>218</b>

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.

**7 ACQUISITION OF SUBSIDIARIES (CONTINUED)**

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

	<b>Provisional values at the acquisition date</b>
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
<b>Total acquisition cost</b>	<b>1,243</b>
Indemnification asset	137
<b>Purchase consideration</b>	<b>1,380</b>
<b>Net cash outflow arising from the acquisition</b>	<b>1,371</b>

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.

**7 ACQUISITION OF SUBSIDIARIES (CONTINUED)**

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

	<b>Provisional values at the acquisition date</b>
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
<b>Total acquisition cost</b>	<b>364</b>
Indemnification asset	673
<b>Purchase consideration</b>	<b>1,037</b>
<b>Net cash outflow arising from the acquisition</b>	<b>1,009</b>

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.

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:

	<b>Provisional values at the acquisition date</b>
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
<b>Total acquisition cost</b>	<b>3,291</b>
<b>Purchase consideration</b>	<b>3,291</b>
<b>Net cash outflow arising from the acquisition</b>	<b>3,286</b>

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.

**7 ACQUISITION OF SUBSIDIARIES (CONTINUED)**

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:

<b>Effect of change in purchase price allocation on the consolidated statement of financial position as at 31 December 2015</b>	
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.

## 8 RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were carried out with related parties:

	Relationship	2015	2014
<b>CTF Holdings Ltd.</b>	Ultimate parent company		
Management services received		65	54
Recharged expenses		-	2
<b>Alfa-Bank</b>	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
<b>VimpelCom</b>	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
<b>Other</b>	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
<b>Other</b>	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
<b>Other</b>	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
<b>Other</b>	Other		
Other accounts payable		9	6
Other accounts receivable		3	-

### **Magazin Budushego**

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.



## 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
<b>Total</b>	<b>8,958</b>	<b>25,623</b>

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
<b>Total</b>				<b>8,958</b>	<b>25,623</b>

## 10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress	Total
<b>Cost:</b>							
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
<b>Accumulated depreciation and impairment:</b>							
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)
<b>Net book value at 31 December 2015</b>	<b>132,394</b>	<b>13,425</b>	<b>18,303</b>	<b>3,419</b>	<b>9,743</b>	<b>11,716</b>	<b>189,000</b>
<b>Net book value at 31 December 2014</b>	<b>107,842</b>	<b>8,998</b>	<b>12,268</b>	<b>3,104</b>	<b>6,633</b>	<b>11,483</b>	<b>150,328</b>
<b>Net book value at 1 January 2014</b>	<b>100,366</b>	<b>7,843</b>	<b>9,902</b>	<b>4,139</b>	<b>5,743</b>	<b>7,005</b>	<b>134,998</b>

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.

**10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

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.

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:

<b>Cost:</b>	<b>2015</b>	<b>2014</b>
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
<b>Accumulated depreciation and impairment:</b>		
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)
<b>Net book value at 31 December</b>	<b>4,828</b>	<b>3,718</b>
<b>Net book value at 1 January</b>	<b>3,718</b>	<b>3,468</b>

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.

**11 INVESTMENT PROPERTY (CONTINUED)**

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
<b>Cost:</b>		
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	<b>141,625</b>	<b>131,996</b>
<b>Accumulated impairment losses:</b>		
Accumulated impairment losses at 1 January	(66,312)	(66,312)
Accumulated impairment losses at 31 December	(66,312)	(66,312)
<b>Carrying amount at 1 January</b>	<b>65,684</b>	<b>64,503</b>
<b>Carrying amount at 31 December</b>	<b>75,313</b>	<b>65,684</b>

**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
<b>Goodwill</b>	60,133	10,344	4,550	286	<b>75,313</b>

**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).

## 12 GOODWILL (CONTINUED)

### 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.

## 13 OTHER INTANGIBLE ASSETS

Other intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Prepaid lease	Lease rights	Total
<b>Cost:</b>						
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
<b>Accumulated amortisation and impairment:</b>						
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)
<b>Net book value at 31 December 2015</b>	<b>6,140</b>	<b>12</b>	<b>4,472</b>	<b>1,438</b>	<b>3,039</b>	<b>15,101</b>
<b>Net book value at 31 December 2014</b>	<b>6,962</b>	<b>30</b>	<b>3,672</b>	<b>1,451</b>	<b>2,503</b>	<b>14,618</b>
<b>Net book value at 1 January 2014</b>	<b>7,774</b>	<b>392</b>	<b>3,320</b>	<b>1,526</b>	<b>2,493</b>	<b>15,505</b>

### 13 OTHER INTANGIBLE ASSETS (CONTINUED)

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)
<b>Total</b>	<b>57,887</b>	<b>47,084</b>

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

	Loans and receivables
<b>31 December 2015</b>	
<b>Assets as per consolidated statement of financial position</b>	
Trade and other receivables excluding prepayments	22,408
Cash and cash equivalents	8,958
<b>Total</b>	<b>31,366</b>

	Financial liabilities at amortised cost
<b>31 December 2015</b>	
<b>Liabilities as per consolidated statement of financial position</b>	
Borrowings	144,215
Interest accrued	1,390
Trade and other payables excluding statutory liabilities and advances	133,224
<b>Total</b>	<b>278,829</b>

	Loans and receivables	Available-for-sale investments	Total
<b>31 December 2014</b>			
<b>Assets as per consolidated statement of financial position</b>			
Available-for-sale investments	-	213	213
Trade and other receivables excluding prepayments	19,045	-	19,045
Cash and cash equivalents	25,623	-	25,623
<b>Total</b>	<b>44,668</b>	<b>213</b>	<b>44,881</b>

**15 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)**

	Financial liabilities at amortised cost
<b>31 December 2014</b>	
<b>Liabilities as per consolidated statement of financial position</b>	
Borrowings	130,986
Interest accrued	693
Trade and other payables excluding statutory liabilities and advances	113,858
<b>Total</b>	<b>245,537</b>

**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)
<b>Total</b>	<b>25,008</b>	<b>21,464</b>

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
<b>Total</b>	<b>708</b>	<b>107</b>

Movements on the provision for impairment of trade receivables are as follows:

	2015	2014
<b>At 1 January</b>	(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
<b>At 31 December</b>	<b>(1,190)</b>	<b>(260)</b>

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
<b>Total</b>	<b>1,307</b>	<b>406</b>

**16 TRADE AND OTHER ACCOUNTS RECEIVABLE (CONTINUED)**

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:

	<b>31 December 2015</b>	<b>31 December 2014</b>
2-6 months	1,092	317
<b>Total</b>	<b>1,092</b>	<b>317</b>

Movements on the provision for impairment of other receivables and prepayments are as follows:

	<b>2015</b>	<b>2014</b>
<b>At 1 January</b>	(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
<b>At 31 December</b>	<b>(1,815)</b>	<b>(1,637)</b>

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:

	<b>31 December 2015</b>	<b>31 December 2014</b>
3-6 months	229	441
Over 6 months	2,112	1,560
<b>Total</b>	<b>2,341</b>	<b>2,001</b>

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**

	<b>31 December 2015</b>	<b>31 December 2014</b>
VAT receivable	13,680	13,227
Other taxes receivable	182	261
<b>Total</b>	<b>13,862</b>	<b>13,488</b>

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
<b>Total</b>	<b>41,120</b>	<b>30,420</b>

There are no significant amounts of other payables to foreign counterparties as at 31 December 2015 and 31 December 2014.

## 19 BORROWINGS

The Group had the following borrowings at 31 December 2015 and 31 December 2014:

<b>Current</b>							
	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
<b>Total current borrowings</b>				<b>42,530</b>	<b>15,684</b>	<b>42,670</b>	<b>15,834</b>
<b>Non-current</b>							
	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
<b>Total non-current borrowings</b>				<b>103,018</b>	<b>99,434</b>	<b>101,545</b>	<b>115,152</b>
<b>Total borrowings</b>				<b>145,548</b>	<b>115,118</b>	<b>144,215</b>	<b>130,986</b>

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.

**19 BORROWINGS (CONTINUED)**

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:

	<b>2015</b>	<b>2014</b>
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
<b>Basic earnings per share for profit from continuing operations (expressed in RUB per share)</b>	<b>208.82</b>	<b>187.02</b>
<b>Diluted earnings per share for profit from continuing operations (expressed in RUB per share)</b>	<b>208.82</b>	<b>187.02</b>

**22 REVENUE**

	<b>2015</b>	<b>2014</b>
Revenue from sale of goods	808,497	633,577
Revenue from franchise services	35	56
Revenue from other services	286	240
<b>Total</b>	<b>808,818</b>	<b>633,873</b>

**23 EXPENSES BY NATURE**

	<b>2015</b>	<b>2014</b>
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
	<b>780,493</b>	<b>612,403</b>

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):

	<b>2015</b>	<b>2014</b>
Financial statement audit	75	57
Tax services	14	52
Other non-audit services	8	5
	<b>97</b>	<b>114</b>

**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:

	<b>31 December 2015</b>	<b>31 December 2014</b>
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
	<b>3,563</b>	<b>3,509</b>

The future minimum lease payments receivable under non-cancellable operating subleases are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
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
	<b>829</b>	<b>538</b>

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: 58).

**25 FINANCE INCOME AND COSTS**

	<b>2015</b>	<b>2014</b>
Interest expense	16,570	11,646
Interest income	(387)	(109)
Other finance costs, net	354	521
	<b>16,537</b>	<b>12,058</b>

**25 FINANCE INCOME AND COSTS (CONTINUED)**

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
<b>Total</b>	<b>78,343</b>	<b>61,987</b>

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.

**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.

## 26 STAFF COSTS (CONTINUED)

### 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 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 <sup>1</sup>	Short-term incentive <sup>2</sup>	Long-term incentive <sup>3</sup>	Exit payment <sup>4</sup>	Share based compensation <sup>5</sup>	Total
I. Shekhterman	2015	13	16	143	-	-	172
F. Lhoëst	2015	19	5	20	-	1	45
	2014	14	10	5	-	4	33
S. DuCharme <sup>1</sup>	2015	41	33	399	440	3	916
	2014	42	108	-	-	9	159
S. Piven <sup>6</sup>	2014	7	6	-	9	1	23
V. Yavorskaya <sup>6</sup>	2014	5	6	-	-	-	11
<b>Total</b>	<b>2015</b>	<b>73</b>	<b>54</b>	<b>562</b>	<b>440</b>	<b>4</b>	<b>1,133</b>
	<b>2014</b>	<b>68</b>	<b>130</b>	<b>5</b>	<b>9</b>	<b>14</b>	<b>226</b>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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 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).

<sup>5</sup> 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.

<sup>6</sup> Mr. Piven and Mrs. Yavorskaya stepped down from the Management Board on 1 June 2014.

## 26 STAFF COSTS (CONTINUED)

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 <sup>1</sup>	GDRs locked-up as per 31/12/2015 <sup>2</sup>	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

<sup>1</sup> Vesting date is 19 May of each respective year of vesting.

<sup>2</sup> Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.

## 26 STAFF COSTS (CONTINUED)

### 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 Couvreur, 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.

Remuneration of the members of the Supervisory Board:

	Base remuneration <sup>1</sup>		Additional remuneration <sup>2</sup>		Share-based compensation <sup>3</sup>	
	2015	2014	2015	2014	2015	2014
<b>Current members:</b>						
S. DuCharme (appointed 12 November 2015)	11	-	-	-	-	-
D. Dorofeev	-	-	-	-	-	-
M. Fridman	-	-	-	-	-	-
C. Couvreur	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	-	-	-	-	-
<b>Former members:</b>						
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
<b>Total</b>	<b>73</b>	<b>40</b>	<b>4</b>	<b>40</b>	<b>31</b>	<b>20</b>

<sup>1</sup> 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.

<sup>2</sup> Additional cash remuneration for extraordinary time and efforts spent on key strategic projects, subject to approval of the General Meeting of Shareholders.

<sup>3</sup> 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.

## 26 STAFF COSTS (CONTINUED)

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	GDRs locked-up as per 31/12/2014 <sup>2</sup>	End of lock-up period	RSUs outstanding as per 31/12/2015	RSUs outstanding as per 31/12/2014
S. DuCharme <sup>3</sup>	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 <sup>4</sup>	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. Couvreur	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 <sup>5</sup>	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	-	-

<sup>1</sup> Vesting date is 19 May of each respective year of vesting.

<sup>2</sup> Number of GDRs held during lock-up period equals the number of vested RSUs minus GDRs sold to cover taxes, if any.

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> 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.



**26 STAFF COSTS (CONTINUED)****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.

**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:

	<b>Year</b>	<b>Base salary<sup>1</sup></b>	<b>Short-term incentive<sup>2</sup></b>	<b>Long-term incentive<sup>3</sup></b>	<b>Exit payment</b>	<b>Total</b>
Other key management personnel	2015	148	121	891	8	1 168
	2014	110	115	23	17	265

<sup>1</sup> 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.

<sup>2</sup> Short-term incentive for performance in the year 2015 (2014) paid in cash in 2016 (2015).

<sup>3</sup> 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.

## 27 SHARE-BASED PAYMENTS (CONTINUED)

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
<b>Outstanding at the end of the period</b>	<b>123,123</b>	<b>765,23</b>	<b>235,425</b>	<b>659,61</b>

## 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)
<b>Income tax charge for the year</b>	<b>3,756</b>	<b>3,527</b>

The theoretical and effective tax rates are reconciled as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
<b>Profit before taxation</b>	<b>17,930</b>	<b>16,218</b>
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)
<b>Income tax charge for the year</b>	<b>3,756</b>	<b>3,527</b>

\* 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.

**28 INCOME TAX (CONTINUED)****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
<b>Tax effects of deductible temporary differences and tax loss carry forwards:</b>					
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
<b>Gross deferred tax asset</b>	<b>10,138</b>	<b>2,378</b>	<b>722</b>	<b>-</b>	<b>13,238</b>
Less offsetting with deferred tax liabilities	(6,570)	(1,079)	(172)	-	(7,821)
<b>Recognised deferred tax asset</b>	<b>3,568</b>	<b>1,299</b>	<b>550</b>	<b>-</b>	<b>5,417</b>
<b>Tax effects of taxable temporary differences:</b>					
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)
<b>Gross deferred tax liability</b>	<b>(10,494)</b>	<b>(1,920)</b>	<b>(368)</b>	<b>-</b>	<b>(12,782)</b>
Less offsetting with deferred tax assets	6,570	1,079	172	-	7,821
<b>Recognised deferred tax liability</b>	<b>(3,924)</b>	<b>(841)</b>	<b>(196)</b>	<b>-</b>	<b>(4,961)</b>

## 28 INCOME TAX (CONTINUED)

### 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
<b>Tax effects of deductible temporary differences and tax loss carry forwards:</b>					
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
<b>Gross deferred tax asset</b>	<b>10,205</b>	<b>(29)</b>	<b>76</b>	<b>114</b>	<b>10,138</b>
Less offsetting with deferred tax liabilities	(5,259)	(1,307)	(4)	-	(6,570)
<b>Recognised deferred tax asset</b>	<b>4,946</b>	<b>(1,336)</b>	<b>72</b>	<b>114</b>	<b>3,568</b>
<b>Tax effects of taxable temporary differences:</b>					
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)
<b>Gross deferred tax liability</b>	<b>(10,598)</b>	<b>176</b>	<b>(72)</b>	<b>-</b>	<b>(10,494)</b>
Less offsetting with deferred tax assets	5,259	1,307	4	-	6,570
<b>Recognised deferred tax liability</b>	<b>(5,339)</b>	<b>1,483</b>	<b>(68)</b>	<b>-</b>	<b>(3,924)</b>

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.

## 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.

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)****(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**

	<b>During 1 year</b>	<b>In 1 to 4 years</b>
Borrowings	58,041	114,225
Trade payables	103,773	-
Other finance liabilities	29,451	-
	<b>191,265</b>	<b>114,225</b>

**Year ended 31 December 2014**

	<b>During 1 year</b>	<b>In 1 to 4 years</b>
Borrowings	34,136	131,497
Trade payables	92,001	-
Other finance liabilities	21,857	-
	<b>147,994</b>	<b>131,497</b>

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).

## **29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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 optimises 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 optimizing 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.

## **32 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

**Financial assets carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

The 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.

### **33 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

#### **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:



### **33 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

- The concept of beneficial ownership

The possibility to apply the reduced tax rates to the income paid to foreign companies of the Group allowed under double tax treaties (DTTs) will depend on whether the company receiving such income is its beneficial owner. When determining the beneficial owner status of a foreign company the functions it performs and the risks it undertakes should be tested. It will be also considered whether such income was transferred (fully or in part) to another company. Given that the concept of beneficial ownership is rather new and the practice is not yet developed, the impact of any challenge of application of the reduced tax rates to the income paid to foreign Group companies cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Group.

Management believes that the Group's foreign companies receiving income from Russia are beneficial owners of that income and the reduced tax rates are correctly applied in accordance with the relevant DTTs.

- Broader rules for determining the tax residency of legal entities

Starting 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.

**33 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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:

<b>Balance at 1 January 2014</b>	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
<b>Balance at 31 December 2014</b>	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
<b>Balance at 31 December 2015</b>	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
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial fixed assets	35	111,233	105,813
		111,233	105,813
<b>Current assets</b>			
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
<b>Total</b>		<b>12,083</b>	<b>534</b>
<b>TOTAL ASSETS</b>		<b>123,316</b>	<b>106,347</b>
<b>EQUITY AND LIABILITIES</b>			
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
<b>Total equity</b>		<b>104,718</b>	<b>90,558</b>
<b>Non-current liabilities</b>			
Bank loans	37	-	14,871
Loan from group company	38	-	344
		-	15,216
<b>Current liabilities</b>			
Loan from group company	38	17,242	-
Amounts due to group companies		1,286	524
Accrued expenses and other liabilities		48	47
VAT and other taxes payable		22	2
<b>Total</b>		<b>18,598</b>	<b>573</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>123,316</b>	<b>106,347</b>

Igor Shekhterman  
Chief Executive Officer  
17 March 2016

Elena Milinova  
Chief Financial Officer  
17 March 2016

**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)*

	<b>Notes</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Other expenses after tax	40	(1,129)	(890)
Income on participating interest after tax		15,303	13,581
<b>Profit after taxation</b>		<b>14,174</b>	<b>12,691</b>

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Igor Shekhterman  
Chief Executive Officer  
17 March 2016

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Elena Milinova  
Chief Financial Officer  
17 March 2016

## **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.

### **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.

**34 ACCOUNTING PRINCIPLES (CONTINUED)****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**

	31 December 2015	31 December 2014
<b>a. Movements in the interests in group companies have been as follows:</b>		
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
<b>Closing balance</b>	<b>111,227</b>	<b>94,778</b>
A complete list of group companies has been disclosed in the consolidated financial statements (refer to Note 6 of consolidated financial statements).		
<b>b. Movements in the loans to group companies have been as follows:</b>		
Opening balance	11,035	11,522
Settlement/Repayment	(111)	(783)
Additions	269	296
Foreign exchange differences	1	1
<b>Closing balance</b>	<b>11,194</b>	<b>11,035</b>
Non-current financial assets	111,233	105,813
Current financial assets	11,188	-
<b>Total Financial fixed assets</b>	<b>122,421</b>	<b>105,813</b>

<b>Loans provided to following group companies:</b>	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity Date</b>
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 <sup>1</sup>	Share premium	Other reserves	Profit/ (Loss)	Share-based payment (equity)	Total
<b>Balance as at 1 January 2014</b>	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
<b>Balance as at 1 January 2015</b>	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
<b>Balance as at 31 December 2015</b>	5,410	46,253	38,844	14,174	37	104,718

<sup>1</sup> 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
<b>Closing balance</b>	<b>-</b>	<b>14,871</b>

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).



**38 LOAN FROM GROUP COMPANIES**

	<b>31 December 2015</b>	<b>31 December 2014</b>
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 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).

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

	<b>2015</b>	<b>2014</b>
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**

	<b>31 December 2015</b>	<b>31 December 2014</b>
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)
<b>Total</b>	<b>1,129</b>	<b>890</b>

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**

	<b>31 December 2015</b>	<b>31 December 2014</b>
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 due 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:

	<b>31 December 2015</b>	<b>31 December 2014</b>
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 bln under 10.9% coupon rate on 2.5-year term as 17 March 2016.

Amsterdam, 17 March 2016  
Management Board:

Frank Lhoëst  
Igor Shekhterman

Supervisory Board:  
Stephan DuCharme  
Mikhail Fridman  
Dmitry Dorofeev  
Christian Couvreur  
Pawel Musial  
Geoff King  
Peter Demchenkov  
Mikhail Kuchment

## **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.

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