

X5 Retail Group N.V.

Notes to the Company Financial Statements

for the year ended 31 December 2018

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

36

ACCOUNTING PRINCIPLES

General

The Company was incorporated as a limited liability Company under the laws of The Netherlands on 13 August 1975 and has its statutory seat in Amsterdam. The Company is publicly owned. The principal activity of the Company is to act as the listed holding company for retail chains operating mainly in Russia. The number at Chamber of Commerce is 33143036.

Basis of presentation

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands, in accordance with Part 9 of Book 2 of the Dutch Civil Code (art 362.8).

Accounting principles

Unless stated otherwise below, the accounting principles applied for the Company accounts are similar to those used in the IFRS *Consolidated Financial Statements* (refer to Note 2.1 to the *Consolidated Financial Statements*). The consolidated accounts of companies publicly listed in the European Union must be prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and adopted by the European Commission.

As the Company mainly exploits Russian grocery stores in four formats (proximity stores, supermarket, hypermarket and convenience stores), the functional currency of the Company is the Russian Rouble as this is the currency of its primarily business environment and reflects the economic reality. Unless stated otherwise all amounts are in millions of Russian Rouble ("RUB").

Investments in group companies

Investments in group companies are entities (including intermediate subsidiaries and special purpose entities) over which the Company has control, because the Company (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. Group companies are recognised from the date on which control is transferred to the Company or its intermediate holding entities. They are derecognised from the date that control ceases.

The Company applies the acquisition method to account for acquiring group companies, consistent with the approach identified in the consolidated financial statements. Investments in group companies are presented in accordance with the net asset value method. When an acquisition of an investment in a group company is achieved in stages, any previously held equity interest is remeasured to fair value on the date of acquisition. The measurement against the book value is accounted for in the statement of profit and loss.

When the Company ceases to have control over a group company, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the statement of profit or loss. When parts of investments in group companies are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognised in equity.

When the Company's share of losses in an investment in a group company equals or exceeds its interest in the investment (including separately presented goodwill or any other unsecured non-current receivables being part of the net investment), the Company does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case the Company will recognise a provision.

Amounts due from group companies

Amounts due from group companies are stated initially at fair value and subsequently at amortised cost. Amortised cost is determined using the effective interest rate.

To avoid the difference between equity in the Consolidated and the Company's Financial Statements any expected credit losses on intercompany receivables recognised in the Company's statement of Profit and Loss are eliminated (reversed) through the respective intercompany receivable account.

36

ACCOUNTING PRINCIPLES

Financial guarantee

For financial guarantee contracts, IFRS 9 retains the same definition and initial recognition requirements as IAS 39 but introduces different subsequent measurement requirements. On subsequent measurement financial guarantees contracts are measured at the 'higher of': The expected credit losses allowance as defined above, and the amount initially recognised (i.e. fair value) less any cumulative amount of income amortisation recognised.

For intercompany financial guarantees issued by the Company, the expected default is not significant and therefore the financial guarantees are not recognised.

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.

37

FINANCIAL FIXED ASSETS

	31 December 2018	31 December 2017
a. Movements in the interests in group companies have been as follows		
Opening balance	171,312	138,150
Acquisitions/capital contribution	16	9,228
Divestment of group companies / capital repayments	-	(9,592)
Profit from group companies for the year	32,106	33,526
Closing balance	203,434	171,312

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 2018	31 December 2017
b. Movements in the loans to group companies have been as follows		
Opening balance	7,321	7,313
Additions	77	14
Foreign exchange differences	35	(6)
Closing balance	7,433	7,321
Non-current financial assets	210,867	178,614
Current financial assets	-	19
TOTAL FINANCIAL FIXED ASSETS	210,867	178,633

31 December 2018	Loan currency	Carrying value	Interest rate, % p.a.	Maturity date
Borrowing group company				
GSWL Finance Ltd	RUB	4,601	11%	December 2022
GSWL Finance Ltd.	RUB	2,612	Mosprime 1m + 3.6%	December 2021
Perekrestok Holdings Ltd.	USD	190	11%	December 2022
X5 Capital S.A.R.L	EUR	29	4.5%	December 2023
X5 Capital S.A.R.L	EUR	1	4%	December 2022
TOTAL LOANS TO GROUP COMPANIES		7,433		

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

The total amount of the loans provided to group companies was RUB 7,433 (2017: RUB 7,321) and it approximated the fair value. The loans have not been secured.

38

SHAREHOLDERS' EQUITY

	Share capital ¹	Share premium	Other reserves	Profit/(loss)	Share-based payment (equity)	Total
Balance as at 1 January 2017	4,332	46,251	54,096	22,291	70	127,040
Share-based payment compensation (Note 28)	-	-	-	-	71	71
Transfer	-	-	22,291	(22,291)	-	-
Currency translation	343	-	(343)	-	-	-
Transfer of vested equity rights	-	(39)	-	-	(24)	(63)
Result for the period	-	-	-	31,394	-	31,394
Balance as at 1 January 2017	4,675	46,212	76,044	31,394	117	158,442
Share-based payment compensation (Note 28)	-	-	-	-	72	72
Transfer	-	-	31,394	(31,394)	-	-
Currency translation	720	-	(720)	-	-	-
Transfer of vested equity rights	-	(20)	-	-	(71)	(91)
Result for the period	-	-	-	28,642	-	28,642
Dividends	-	-	(21,590)	-	-	(21,590)
Balance as at 31 December 2018	5,395	46,192	85,128	28,642	118	165,475

¹ Share capital translated at the year-end exchange rate EUR/RUB of 79.4605 (2017: 68.8668).

Share capital issued

As at 31 December 2018 the Group had 190,000,000 authorised ordinary shares (31 December 2017: 190,000,000) of which 67,890,099 ordinary shares were outstanding (31 December 2017: 67,886,748) and 3,119 ordinary shares held as treasury stock (31 December 2017: 6,470). 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 2018 included translation reserve of RUB 2,937 (2017: RUB 2,217) and legal reserves of RUB 1,344 (2017: RUB 517).

Statutory profit appropriation

Dividends approved for distribution at the General Meeting in May 2018 have been paid in the amount of RUB 21,590 during the year ended 31 December 2018 (RUB 318.00 per share).

38

SHAREHOLDERS' EQUITY

The Supervisory Board proposed to the General Meeting to distribute in 2019 current year profit in the amount of RUB 25,000 (368.23 RUB per ordinary share) to shareholders.

39

LOAN FROM GROUP COMPANY

	Loan currency	31 December 2018	Interest rate, % p.a.	Final maturity date
Trade House PEREKRIOSTOK JSC	RUB	16,570	10%	December 2020
Trade House PEREKRIOSTOK JSC	USD	1,515	10%	December 2020
Trade House PEREKRIOSTOK JSC	EUR	788	10%	December 2020
TOTAL		18,873		

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

The loan payable to Trade House PEREKRIOSTOK JSC denominated in RUB/USD/EUR. RUB facility amounted to 16,570 (2017: RUB 15,628), USD 21.8 million (2017: USD 21.4 million) and EUR 9.9 million (2017: EUR 4.5 million).

40

BANK LOAN

	31 December 2018	31 December 2017
Balance as at 1 January		
Opening balance	-	-
Proceeds from the bank loan	21,568	-
Amortisation of transaction costs	4	-
Closing balance	21,572	-

In May 2018, X5 Retail Group NV closed a refinancing of its financial indebtedness with the credit facility from Sberbank. The size of the facility is RUB 21,900 of debt, non – revolving, that bears a fixed interest with the maturity of June 2021.

41

SHARE-BASED PAYMENTS

X5 Retail Group N.V. operates equity settled share based compensation plan in the form of its Restricted Stock Unit Plan.

The Restricted Stock Unit Plan consists of performance based awards and awards subject to the employment condition only. For employees of the Company an expense is recorded in the profit and loss account.

The receivable or expense is accounted for at the fair value determined in accordance with the policy on share-based payments as included in the consolidated financial statements, including the related liability for cash settled plans or as equity increase for equity settled plans (Note 28).

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

	2018	2017
Equity share-based payment reserve as at 31 December	118	117
Expenses for the year ended 31 December	72	71

42

GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Other expenses	343	194
Audit expenses	16	12
RSU	72	62
TOTAL	431	268

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 16 (2017: RUB 12).

43

INCOME TAX EXPENSE

	2018	2017
Current income tax charge	-	-
Deferred income tax charge	1,294	1,158
Income tax charge for the year	1,294	1,158

The theoretical and effective tax rates are reconciled as follows:

	2018	2017
Loss before taxation	(2,170)	(974)
Theoretical tax at the effective statutory rate*	(543)	(244)
Tax effect of items which are not deductible or assessable for taxation purposes		
Unrecognised tax loss carry forwards for the year	526	119
Change in deferred tax liability associated with investments in subsidiaries	1,294	1,158
Other non-deductible expense	17	125
INCOME TAX CHARGE FOR THE YEAR	1,294	1,158

* Profit before taxation on operations in Netherlands is assessed based on the statutory rate of 25%.

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

43

INCOME TAX EXPENSE

Deferred income tax

Deferred tax liabilities and the deferred tax charge in the company statement of profit or loss were attributable to the following items for the year ended 31 December 2018:

	31 December 2017	Credited/ (debited) to profit and loss	31 December 2018
Tax effects of taxable temporary differences			
Investments into subsidiary	(1,158)	(1,294)	(2,452)
Gross deferred tax liabilities	(1,158)	(1,294)	(2,452)
Recognised deferred tax liabilities	(1,158)	(1,294)	(2,452)

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

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

The Company estimates that part of temporary difference related to investments in subsidiaries will be reversed in the foreseeable future and therefore accrued related deferred tax liability.

The Company estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 1,320 (2017: RUB 794). Unused tax losses are available for carry forward for a period not less than four years (for 2017 – five years).

44

STAFF NUMBERS AND EMPLOYEE EXPENSES

The number of persons having a contract with the Company is five: one of them has a services contract, and four of them have a contract of employment. One of them was posted outside of the Netherlands. For the remuneration of past and present members of the Management Board, please refer to Note 27 Staff Cost in the consolidated financial statements, which is deemed incorporated and repeated herein by reference. Incurred wages, salaries and related social security charges in relation to the other three employees comprise RUB 12 (2017: RUB 9).

45

CONTINGENT RIGHTS AND LIABILITIES

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 2018	31 December 2017
Irrevocable offer to holders of X5 Finance LLC bonds	51,424	45,000
Irrevocable offer to holders of X5 Finance B.V. Eurobonds	20,375	20,000
Suretyship for Trade House PEREKRIOSTOK JSC	22,458	62,400
Suretyship for Agrotorg LLC	25,054	-
TOTAL	119,311	127,400

The guarantees issued matures as follows:

	31 December 2018	31 December 2017
Not later than 1 year	44,690	20,000
Later than 1 year and no later than 5 years	74,621	107,400
TOTAL	119,311	127,400

46

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 27 and Note 28 of the Consolidated Financial Statements.

Loans to group companies

For loans issued to and interest income from the group companies refer to Note 37.

Loan from group company

For loan received from and interest expenses to the group company refer to Note 39.

47

SUBSEQUENT EVENTS FOR THE COMPANY

There were no significant events after the reporting date.

Amsterdam, 19 March 2019	
Management Board:	Supervisory Board:
Frank Lhoëst	Stephan DuCharme
Igor Shekhterman	Mikhail Fridman
	Andrei Elinson
	Geoff King
	Peter Demchenkov
	Michael Kuchment
	Karl-Heinz Holland
	Nadia Shouraboura