FINANCIAL STATEMENTS

Consolidated financial statements

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X5 Retail Group N.V.

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

Expressed in millions of Russian Roubles, unless otherwise stated

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

X5 Retail Group N.V.

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

Expressed in millions of Russian Roubles, unless otherwise stated

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

X5 Retail Group N.V.

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

Expressed in millions of Russian Roubles, unless otherwise stated

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

X5 Retail Group N.V.

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

Expressed in millions of Russian Roubles, unless otherwise stated

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

X5 Retail Group N.V.

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

Expressed in millions of Russian Roubles, unless otherwise stated

Attributable to equity holders of the parent

	Number of shares	Share capital	Share premium	Share-based payment reserve	Cumulative translation reserve	Retained earnings	Total shareholders' equity	Total
Balance as at 1 January 2014	**67,844,665**	**2,456**	**46,126**	**170**	**(44)**	**29,098**	**77,806**	**77,806**
Other comprehensive income for the period	-	-	-	-	44	-	44	**44**
Profit for the period	-	-	-	-	-	12,691	12,691	**12,691**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**44**	**12,691**	**12,735**	**12,735**
Share-based payment compensation (Note 27)	-	-	-	17	-	-	17	**17**
Transfer of vested equity rights	23,078	1	92	(93)	-	-	-	**-**
Balance as at 31 December 2014	**67,867,743**	**2,457**	**46,218**	**94**	**-**	**41,789**	**90,558**	**90,558**
Balance as at 1 January 2015	**67,867,743**	**2,457**	**46,218**	**94**	**-**	**41,789**	**90,558**	**90,558**
Other comprehensive income for the period	-	-	-	-	-	7	7	**7**
Profit for the period	-	-	-	-	-	14,174	14,174	**14,174**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**14,181**	**14,181**	**14,181**
Share-based payment compensation (Note 27)	-	-	-	(21)	-	-	(21)	**(21)**
Transfer of vested equity rights	14,678	1	35	(36)	-	-	-	**-**
Balance as at 31 December 2015	**67,882,421**	**2,458**	**46,253**	**37**	**-**	**55,970**	**104,718**	**104,718**

X5 Retail Group N.V.

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

Expressed in millions of Russian Roubles, unless otherwise stated

1 / PRINCIPAL ACTIVITIES AND THE GROUP STRUCTURE

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

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

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2015 the Group operated a retail chain of 7,020 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express" in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg (31 December 2014: 5,483 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express"), with the following number of stores:

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

As at 31 December 2015 the Company's principal shareholder is CTF Holdings Limited ("CTF"). CTF owns 47.86 % of total issued shares in the Company, indirectly through Luxaro Retail Holding S.a.r.l. CTF, registered in Gibraltar, which is 100 % owned by three individuals: Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or owns 50 % or more in CTF. As at 31 December 2015 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share (Note 20).

2 / SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2.2 Consolidated financial statements

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

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

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

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

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

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

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

2.3 Associates

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

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

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

2.4 Foreign currency translation and transactions

A / **Functional and presentation currency**

Functional currency. The functional currency 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.

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

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

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

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

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

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

2.7 Investment property

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

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

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

2.8 Intangible assets

A / **Goodwill**

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

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

B / **Lease rights**

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

C / **Brand and private labels**

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

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

D / **Franchise agreements**

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

E / **Other intangible assets**

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

F / **Prepaid leases**

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

G / **Impairment of intangible assets**

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

2.9 Operating leases

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

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

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

2.10 Inventories of goods for resale

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

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

2.11 Financial assets and liabilities

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

Initial recognition of financial instruments

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

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

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

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

2.12 Loans, trade and other receivables

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

2.13 Available-for-sale investments

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

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

2.14 Cash and cash equivalents

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

2.15 Provisions

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

2.16 Value added tax

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

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

2.17 Employee benefits

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

2.18 Share-based payments

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

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

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

2.19 Borrowings

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

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

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

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

2.20 Trade and other payables

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

2.21 Share capital

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

2.22 Dividends

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

2.23 Treasury shares

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

2.24 Earnings per share

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

2.25 Taxes

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

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

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

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

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

2.26 Income and expense recognition

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

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

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

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

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

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

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

2.27 Impairment of non-current assets other than goodwill

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

2.28 Fair value of assets and liabilities at the acquisition date

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

2.29 Indemnification asset

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

2.30 Offsetting of financial assets and financial liabilities

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

3 / CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

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

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

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

The Group periodically assesses whether there is any indication that investment property may be impaired. The Group performs assets impairment testing (Note 11). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2015 the Group recognised an impairment gain in the amount of RUB 2 (year ended 31 December 2014: an impairment gain in the amount of RUB 43).

Lease rights. The Group's management determines the fair value of lease rights acquired in business combinations. The assessment of the fair value of such lease rights is based on the estimate of the market rates of the lease (Note 13). The Group periodically assesses whether there is any indication that lease rights may be impaired. The Group performs assets impairment testing (Note 13). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2015 the Group recognised an impairment loss in the amount of RUB 249 (year ended 31 December 2014: an impairment gain in the amount of RUB 84).

Prepaid leases. The Group periodically assesses whether there is any indication that prepaid leases may be impaired. The Group performs assets impairment testing (Note 13). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2015 the Group recognised an impairment loss in the amount of RUB 281 (year ended 31 December 2014: an impairment gain in the amount of RUB 58).

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

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

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

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

New standards, interpretations and amendments to IFRSs effective for the financial year beginning 1 January 2015 are not expected to have a material impact on the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2015 and have not been early adopted:

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2012
(issued in December 2013 and effective for annual periods beginning on or after 1 February 2015 for the EU). The improvements consist of changes to seven standards.

- IFRS 2 was amended to clarify the definition of a "vesting condition" and to define separately "performance condition" and "service condition". The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

- IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

- IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

- The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

- IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

- IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Accounting for Acquisitions of Interests in Joint Operations — Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

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

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018; not yet adopted by the EU). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

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

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

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

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

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

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

5 / SEGMENT REPORTING

In 2014 the Group started the transition to the new operational model. In early 2015 the process was mostly finalised, therefore starting from 2015 the Group identifies retail chains of each format (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8.

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

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

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

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

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

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

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

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

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

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

6 / SUBSIDIARIES

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

Ownership / %

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

7 / ACQUISITION OF SUBSIDIARIES

SPAR Retail AO

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

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

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

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

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

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

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

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

Soseddushka retail chain

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

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

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

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

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

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

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

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

RegionProduct and Region-Product

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

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

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

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

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

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

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

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

Other acquisitions

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

These businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2015 as though the acquisition date had been the beginning of that period.

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

	PROVISIONAL VALUES AT THE ACQUISITION DATE
Property, plant and equipment (Note10)	296
Other intangible assets (Note 13)	1,143
Deferred tax assets (Note 28)	57
Net assets acquired	1,496
Goodwill (Note 12)	1,795
Total acquisition cost	**3,291**
Purchase consideration	**3,291**
Net cash outflow arising from the acquisition	**3,286**

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

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

The goodwill recognised is attributable to: i) the business concentration in the Russian regions and ii) expected cost synergies from the business combination.

The Group proceeded with rebranding and full integration of the acquired retail chains into the Group's operational structure immediately after acquisition, therefore post acquisition separate financial information for these businesses is not relevant.

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

Agrotorg-Samara

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

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

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

8 / RELATED PARTY TRANSACTIONS

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

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

The following transactions were carried out with related parties:

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

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

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

Magazin Buduschego

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

Key management personnel compensation

Key management personnel compensation is disclosed in Note 26.

9 / CASH AND CASH EQUIVALENTS

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

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

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

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

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

10 / PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

Impairment test

At the end of 2015 management performed an impairment test of land, buildings, construction in progress, vehicles, equipment and other items of property, plant and equipment. The approach for determination of the recoverable amount of an asset was different for each listed class of property, plant and equipment.

The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally at the individual store/unit level. The variability of these factors depends on a number of conditions, including uncertainty about future events and changes in demand.

The impairment review has been carried out by comparing recoverable amount of the individual store/unit with their carrying values. The recoverable amount of store/unit is determined as the higher of fair value less cost to sell or value in use.

The resulting impairment charge arose primarily from underperforming stores. At the same time the Group recognised the reversal of previously recorded impairment charges due to improved performance of certain stores.

Fair value less costs to sell

The Group defines fair value less costs to sell of the item of land and buildings and construction in progress either by reference to current observable prices on an active market or to market value determined by an independent appraiser. The fair value less costs to sell of vehicles is determined based on prices on an active market. The fair value measurement is classified at level 3 of the fair value hierarchy.

Value in use

For items of land, buildings and construction in progress the discounted free cash flow approach is applied and covered a 10 year period from 2015 onwards. The free cash flows are based on the current budgets and forecasts

approved by the management. For the subsequent years, the data of the strategic business plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the subsequent years is revenue growth being in the range from 0% to 12.25% depending on the individual dynamics of the store and the region in which it operates. The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a post-tax basis and discounted at the Group post-tax weighted average cost of capital (14.67% for 2016–2017 years and 13.39% for subsequent years). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions. If the revised estimated discount rate consistently applied to the discounted cash flows had been 200 b.p. higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment, investment property and intangible assets by RUB 840, if 200 b.p. lower — increase by RUB 1,152. If the annual revenue growth rate used in calculations of value in use had been 200 b.p. higher/lower, the Group would need to increase/decrease the carrying value of property, plant and equipment, investment property and intangible assets by RUB 1,374.

11 / INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2015 and 31 December 2014:

	2015	2014
Cost:		
Cost at 1 January	6,510	4,911
Transfer from fixed assets	1,530	2,086
Disposals	-	(487)
Cost at 31 December	**8,040**	**6,510**
Accumulated depreciation and impairment:		
Accumulated depreciation and impairment at 1 January	(2,792)	(1,443)
Depreciation charge	(201)	(184)
Impairment charge	-	(3)
Reversal of impairment	2	46
Transfer from fixed assets	(221)	(1,505)
Disposals	-	297
Accumulated depreciation and impairment at 31 December	(3,212)	(2,792)
Net book value at 31 December	**4,828**	**3,718**
Net book value at 1 January	**3,718**	**3,468**

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

Rental income from investment property amounted to RUB 1,186 (2014: RUB 1,157). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 409 (2014: RUB 405). There were no significant direct operating expenses incurred by the Group in relation to investment property that did not generate rental income.

Management estimates that the fair value of investment property at 31 December 2015 amounted to RUB 8,494 (31 December 2014: RUB 7,209).

Impairment test

At the end of 2015 management performed an impairment test of investment property. The evaluation performed and reasons for it are consistent with the approach for impairment testing of PPE (Note 10).

12 / GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries at 31 December 2015 and 31 December 2014 are:

	2015	2014
Cost:		
Gross book value at 1 January	131,996	130,815
Acquisition of subsidiaries (Note 7)	9,629	1,304
Disposal of subsidiaries	-	(123)
Gross book value at 31 December	**141,625**	**131,996**
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(66,312)	(66,312)
Accumulated impairment losses at 31 December	(66,312)	(66,312)
Carrying amount at 1 January	**65,684**	**64,503**
Carrying amount at 31 December	**75,313**	**65,684**

Goodwill **impairment test**

Goodwill is monitored for internal management purposes at the operating segment (cash generating unit) level. As at 31 December 2015 the retail chain of each format represents the cash generating unit for the goodwill impairment test purposes. As at 31 December 2014 there was a single CGU which was the entire retail business of the Group.

Goodwill is tested for impairment at the CGU level by comparing the carrying values of the CGU assets to their recoverable amounts. The recoverable amount of the CGU being the higher of its fair value less costs to sell or value in use is determined as the sum of recoverable amounts of each store included in the CGU.

The allocation of carrying amounts of goodwill to each CGU is as follows:

YEAR ENDED 31 DECEMBER 2015	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER	TOTAL
Goodwill	60,133	10,344	4,550	286	75,313

Fair value less costs to sell

The Group defines fair value less costs to sell of each store included in the CGU as a sum of fair values less costs to sell of its components, being items of property, plant and equipment, investment property and other intangible assets (Note 10, 11, 13).

Value in use

The discounted free cash flow approach is utilised. For the 10 year period from 2015 the free cash flows are based on the current budgets and forecasts approved by key management. For the subsequent years, the data of the strategic plan are extrapolated based on the consumer price index as obtained from external resources and based on key performance indicators inherent to the strategic plan. One of the main assumptions used for the subsequent years is revenue growth being in the range from 0% to 12.25% depending on the individual dynamics of the store and the region in which it operates. The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a post-tax basis and discounted at the Group post-tax weighted average cost of capital (14.67% for 2016–2017 years and 13.39% for subsequent years). Inflation rates are in line with consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best estimates.

The changes in assumptions applied in the model used for impairment testing don't indicate any trigger for impairment because the fair value less cost to sell and the value in use are significantly greater than the carrying values of the cash generating unit assets.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions.

Impairment Test

The recoverable amount of the CGUs calculated exceeds their carrying amounts. Therefore no impairment is recognised.

13 / OTHER INTANGIBLE ASSETS

Other intangible assets comprise the following:

COST	BRAND AND PRIVATE LABELS	FRANCHISE AGREEMENTS	SOFTWARE AND OTHER	PREPAID LEASE	LEASE RIGHTS	TOTAL
At 1 January 2014	17,136	2,191	5,281	3,880	5,924	34,412
Additions	-	-	968	119	-	1,087
Acquisition of subsidiaries	-	-	-	-	366	366
Disposals	-	(61)	(94)	(455)	(271)	(881)
At 31 December 2014	17,136	2,130	6,155	3,544	6,019	34,984
Additions	-	-	1,407	1,277	-	2,684
Acquisition of subsidiaries (Note 7)	-	-	-	-	1,181	1,181
Disposals	-	(2,118)	(61)	(8)	(28)	(2,215)
At 31 December 2015	17,136	12	7,501	4,813	7,172	36,634

ACCUMULATED AMORTISATION AND IMPAIRMENT	BRAND AND PRIVATE LABELS	FRANCHISE AGREEMENTS	SOFTWARE AND OTHER	PREPAID LEASE	LEASE RIGHTS	TOTAL
At 1 January 2014	(9,362)	(1,799)	(1,961)	(2,354)	(3,431)	(18,907)
Amortisation charge	(812)	(166)	(493)	(232)	(371)	(2,074)
Impairment charge	-	(196)	(119)	(23)	(93)	(431)
Reversal of impairment	-	-	-	81	177	258
Disposals	-	61	90	435	202	788
At 31 December 2014	(10,174)	(2,100)	(2,483)	(2,093)	(3,516)	(20,366)
Amortisation charge	(784)	(18)	(607)	(1,009)	(396)	(2,814)
Impairment charge	(38)	-	-	(317)	(406)	(761)
Reversal of impairment	-	-	-	36	157	193
Disposals	-	2,118	61	8	28	2,215
At 31 December 2015	(10,996)	-	(3,029)	(3,375)	(4,133)	(21,533)
Net book value at 31 December 2015	**6,140**	**12**	**4,472**	**1,438**	**3,039**	**15,101**
Net book value at 31 December 2014	**6,962**	**30**	**3,672**	**1,451**	**2,503**	**14,618**
Net book value at 1 January 2014	**7,774**	**392**	**3,320**	**1,526**	**2,493**	**15,505**

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

Impairment test

At the end of 2015 management performed an impairment test of lease rights and franchise agreements.

The evaluation performed and reasons for it are consistent with the approach for impairment testing of property, plant and equipment (Note 10).

Also the Group recognised an impairment of private labels which are no longer used.

14 / INVENTORIES

Inventories as of 31 December 2015 and 31 December 2014 comprise the following:

	31 DECEMBER 2015	31 DECEMBER 2014
Inventories	60,733	49,824
Less: provision for shrinkage and slow moving stock	(2,846)	(2,740)
	57,887	47,084

Inventory shrinkage and slow moving stock recognised as cost of sales in the consolidated statement of profit or loss amounted to RUB 26,248 (2014: RUB 18,473).

15 / FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2015 Assets as per consolidated statement of financial position		LOANS AND RECEIVABLES
	Trade and other receivables excluding prepayments	22,408
	Cash and cash equivalents	8,958
		31,366

31 December 2015 Liabilities as per consolidated statement of financial position		FINANCIAL LIABILITIES AT AMORTISED COST
	Borrowings	144,215
	Interest accrued	1,390
	Trade and other payables excluding statutory liabilities and advances	133,224
		278,829

31 December 2014 Assets as per consolidated statement of financial position		LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE INVESTMENTS	TOTAL
	Available-for-sale investments	-	213	213
	Trade and other receivables excluding prepayments	19,045	-	19,045
	Cash and cash equivalents	25,623	-	25,623
		44,668	213	44,881

31 December 2014 Liabilities as per consolidated statement of financial position		FINANCIAL LIABILITIES AT AMORTISED COST
	Borrowings	130,986
	Interest accrued	693
	Trade and other payables excluding statutory liabilities and advances	113,858
		245,537

16 / TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 DECEMBER 2015	31 DECEMBER 2014
Trade accounts receivable	22,278	18,194
Advances made to trade suppliers	975	1,301
Other receivables	2,209	1,787
Prepayments	2,483	1,993
Accounts receivable for franchise services	23	21
Receivables from related parties (Note 8)	45	65
Provision for impairment of trade and other receivables	(3,005)	(1,897)
	25,008	21,464

All classes of receivables are categorised as loans and receivables under IAS 39 classification. The carrying amounts of the Group's trade and other receivables are primarily denominated in Russian Roubles. Other non-current assets are mainly represented by long-term prepayments for rent in the amount of RUB 3,548 (31 December 2014: RUB 2,134).

Trade receivables

There are balances of RUB 708 that in accordance with accounting policies are past due but not impaired as at 31 December 2015 (31 December 2014: RUB 107).

The ageing of these receivables based on days outstanding is as follows:

	31 DECEMBER 2015	31 DECEMBER 2014
2–6 months	708	107
	708	107

Movements on the provision for impairment of trade receivables are as follows:

	2015	2014
At 1 January	(260)	(433)
Addition of provision for receivables impairment	(1,048)	(135)
Release of provision for receivables impairment	93	57
Receivables written off as uncollectable	25	251
At 31 December	(1,190)	(260)

The creation and release of the provision for impaired receivables have been included in general and administrative costs in the consolidated statement of profit or loss.

The individually impaired trade receivables mainly relate to debtors that expect financial difficulties or where there is likelihood of the debtor's insolvency. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of amounts receivable that are individually impaired based on days outstanding is as follows:

	31 DECEMBER 2015	31 DECEMBER 2014
3–6 months	270	97
Over 6 months	1,037	309
	1,307	406

For those receivables that are neither past due nor impaired the Group considers the credit quality as high. Trade receivables are mainly bonuses from suppliers of goods for resale receivable on quarterly basis with a low historic default rate. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

Other receivables, advances made to trade suppliers, prepayments and receivables for franchise services

There are balances of RUB 1,092 that in accordance with accounting policies are past due but not impaired as at 31 December 2015 (31 December 2014: RUB 317).

The ageing of these receivables based on days outstanding is as follows:

	31 DECEMBER 2015	31 DECEMBER 2014
2–6 months	1,092	317
	1,092	317

Movements on the provision for impairment of other receivables and prepayments are as follows:

	2015	2014
At 1 January	(1,637)	(1,987)
Addition of provision for receivables impairment	(967)	(1,151)
Release of provision for receivables impairment	514	747
Receivables written off as uncollectable	275	754
At 31 December	(1,815)	(1,637)

The creation and release of the provision for impaired receivables have been included in general and administrative costs in the consolidated statement of profit or loss.

The individually impaired other receivables mainly relate to debtors that expect financial difficulties or there is likelihood of the debtor's insolvency. It was assessed that a portion of the receivables are expected to be recovered.

The ageing of amounts receivable that are individually impaired based on days outstanding is as follows:

	31 DECEMBER 2015	31 DECEMBER 2014
3–6 months	229	441
Over 6 months	2,112	1,560
	2,341	2,001

For those receivables that are neither past due nor impaired the Group considers the credit quality as high. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

17 / VAT AND OTHER TAXES RECEIVABLE

	31 DECEMBER 2015	31 DECEMBER 2014
VAT receivable	13,680	13,227
Other taxes receivable	182	261
	13,862	13,488

VAT receivable related to property, plant and equipment of RUB 492 (31 December 2014: RUB 335) is recorded within current assets because management expects it will be recovered within 12 months after the reporting date. The terms of recovery of VAT depend on the registration of certain property, plant and equipment or stage of completion of the construction works and fulfilment of other conditions in compliance with Russian tax legislation, therefore there are risks that recovering the balance may take longer than 12 months.

18 / PROVISIONS AND OTHER LIABILITIES

	31 DECEMBER 2015	31 DECEMBER 2014
Taxes other than income tax	7,806	6,141
Provisions and liabilities for tax uncertainties (Note 33)	2,392	882
Accrued salaries and bonuses	10,238	6,838
Payables to landlords	911	717
Other accounts payable and accruals	9,861	8,420
Accounts payable for property, plant and equipment	8,441	5,882
Advances received	1,471	1,540
	41,120	30,420

There are no significant amounts of other payables to foreign counterparties as at 31 December 2015 and 31 December 2014.

19 / BORROWINGS

The Group had the following borrowings at 31 December 2015 and 31 December 2014:

CURRENT	INTEREST RATE, % P.A.		FINAL MATURITY YEAR	FAIR VALUE		CARRYING VALUE	
	2015	2014		2015	2014	2015	2014
RUB Bonds X5 Finance series 04	10.5%	-	2016	7,992	-	8,000	-
RUB Bonds X5 Finance series BO-01	-	9.5%	-	-	4,850	-	5,000
RUB Bonds X5 Finance series BO-02	9.1%	-	2016	4,950	-	4,997	-
RUB Bonds X5 Finance series BO-03	8.85%	-	2016	4,914	-	4,999	-
RUB Bilateral Loans	10.72–12.10%	9.0%	2016	24,674	10,834	24,674	10,834
Total current borrowings				42,530	15,684	42,670	15,834

NON-CURRENT	INTEREST RATE, % P.A.		FINAL MATURITY YEAR	FAIR VALUE		CARRYING VALUE	
	2015	2014		2015	2014	2015	2014
RUB Club loan	-	MosPrime +2.5/2.75%	-	-	14,871	-	14,871
RUB Bonds X5 Finance series 04	-	10.5%	-	-	6,959	-	8,000
RUB Bonds X5 Finance series BO-02	-	9.1%	-	-	4,364	-	4,994
RUB Bonds X5 Finance series BO-03	-	8.85%	-	-	4,690	-	4,997
RUB Bonds X5 Finance series BO-04	11.9%	-	2019	5,000	-	4,991	-
RUB Bilateral Loans	-	MosPrime 3m +1.85–2.6%	-	-	21,436	-	21,436
RUB Bilateral Loans	11.50–12.65%	8.51–11.36%	2018	98,018	47,114	96,554	60,854
Total non-current borrowings				103,018	99,434	101,545	115,152
Total borrowings				**145,548**	**115,118**	**144,215**	**130,986**

In 2015 the Group made early repayments of the following long-term loans with interest rates linked to MosPrime:

- RUB 9 billion VTB Capital loan;
- RUB 15 billion Club loan;
- RUB 12.5 billion VTB Capital loan.

In 2015 the Group executed and made drawdowns of the following long-term loans:

- RUB 7.5 billion loan under three years term credit line with Credit Bank of Moscow;
- RUB 24 billion VTB bank loan with 2.5/3-year tranches;
- RUB 8.5 billion loan from Sberbank with 3-year maturity.

In October 2015 the Group issued exchange corporate bonds series BO-04 with 11.90% coupon rate and 3.5-year oferta (put-option).

All borrowings at 31 December 2015 are shown net of related transaction costs of RUB 207 which are amortised over the term of the loans using the effective interest method (31 December 2014: RUB 394). Borrowing costs capitalised for the year ended 31 December 2015 amounted to RUB 272 (2014: RUB 128). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 12.41% (2014: 9.70%).

In accordance with loan agreements the Group maintains an optimal capital structure by tracking certain covenants, such as the maximum level of Net Debt/EBITDA (4.00/4.25 during 2 quarters after acquisition). At 31 December 2015 the Group complied with this covenant.

20 / SHARE CAPITAL

As at 31 December 2015 the Group had 190,000,000 authorised ordinary shares (31 December 2014: 190,000,000) of which 67,882,421 ordinary shares are outstanding (31 December 2014: 67,867,743) and 10,797 ordinary shares are held as treasury stock (31 December 2014: 25,475) The nominal par value of each ordinary share is EUR 1.

No dividends were paid or declared during the year ended 31 December 2015 and the year ended 31 December 2014.

21 / EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

Earnings per share are calculated as follows:

	2015	2014
Profit attributable to equity holders of the parent	14,174	12,691
Weighted average number of ordinary shares in issue	67,876,926	67,859,817
Effect of share options granted to employees, number of shares	-	370
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,876,926	67,860,187
Basic earnings per share for profit from continuing operations (expressed in RUB per share)	208.82	187.02
Diluted earnings per share for profit from continuing operations (expressed in RUB per share)	208.82	187.02

22 / REVENUE

	2015	2014
Revenue from sale of goods	808,497	633,577
Revenue from franchise services	35	56
Revenue from other services	286	240
	808,818	633,873

23 / EXPENSES BY NATURE

	2015	2014
Cost of goods sold	583,970	454,429
Staff costs (Note 26)	78,343	61,987
Operating lease expenses	39,773	30,577
Depreciation, amortisation	17,952	14,912
Impairment of non-current assets	2,832	2,660
Other store costs	15,795	12,810
Utilities	16,086	13,707
Other	25,742	21,321
	780,493	612,403

Operating lease expenses include RUB 38,901 (2014: RUB 29,709) of minimum lease payments and contingent rents of RUB 872 (2014: RUB 868).

Impairment of trade and other receivables amounted to RUB 1,260 for the year ended 31 December 2015 (2014: RUB 533).

The fees listed below relate to the procedures applied to the Group by accounting firms and external auditors as referred to in article 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta):

	2015	2014
Financial statement audit	75	57
Tax services	14	52
Other non-audit services	8	5
	97	114

24 / OPERATING LEASE/SUBLEASE INCOME

The Group leases part of its store space to companies selling supplementary goods and services to customers. The lease arrangements are operating leases, the majority of which are short-term.

The future minimum lease payments receivable under non-cancellable operating **leases** are as follows:

	31 DECEMBER 2015	31 DECEMBER 2014
Not later than 1 year	2,166	2,148
Later than 1 year and no later than 5 years	970	986
Later than 5 years	427	375
	3,563	3,509

The future minimum lease payments receivable under non-cancellable operating **subleases** are as follows:

	31 DECEMBER 2015	31 DECEMBER 2014
Not later than 1 year	624	491
Later than 1 year and no later than 5 years	117	40
Later than 5 years	88	7
	829	538

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2015 amounted to RUB 5,519 (2014: RUB 5,691). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2015 amounted to RUB 142 (2014: RUB 58).

25 / FINANCE INCOME AND COSTS

	2015	2014
Interest expense	16,570	11,646
Interest income	(387)	(109)
Other finance costs, net	354	521
	16,537	12,058

Other finance costs include transaction costs of RUB 309 written-off to the consolidated statement of profit or loss (2014: RUB 385) (Note 19).

26 / STAFF COSTS

	2015	2014
Wages and salaries	61,510	48,678
Social security costs	16,815	13,277
Share-based payments expense	18	32
	78,343	61,987

Wages and salaries in 2015 include expenses of RUB 3,277 related to the long-term incentive programme (LTI) for a selected group of key executives, including members of the Management Board and other key management as described below.

For the year ended 31 December 2015 statutory pension contributions amounted to RUB 10,894 (2014: RUB 8,517).

Key executive management personnel
The Group key management personnel consists of members of the Management Board and Supervisory Board, and other key management personnel, having authority and responsibility for planning, directing and controlling the activities of the Group as a whole. Members of the Management Board and other key management personnel receive a base salary and participate in a short-term incentive and a long-term incentive plan; independent members of the Supervisory Board receive an annual base compensation in cash and share-based payments.

Management Board

The remuneration of the members of the Management Board, which comprises the CEO and the Company Secretary, is determined by the Supervisory Board within the framework of the remuneration policy as approved by the General Meeting of Shareholders. In 2015 the General Meeting of Shareholders approved an amendment of the remuneration policy, substituting a single deferred cash incentive plan launched in 2013 with a short-term incentive and a long-term incentive, both cash based. More details about the remuneration policy are included in the 'Remuneration' section on page 162 onwards.

As described in the Corporate Governance Report on page 139, the composition of the Management Board changed in 2015. At the Extraordinary General Meeting of Shareholders on 12 November 2015 Mr. DuCharme stepped down as CEO and member of the Management Board after completing a turnaround programme over a three year period to become chairman of the Supervisory Board as per the same date. Mr. DuCharme was succeeded by Mr. Shekhterman, who had served on the Supervisory Board since 19 July 2013.

Base salaries in 2015
The total remuneration of each member of the Management Board is determined in line with compensation levels in peer companies as set out in the remuneration policy. For the newly appointed CEO, the Supervisory Board has applied its discretionary authority to deviate from the remuneration policy in the same way that it had previously done for Mr. DuCharme when in office as CEO, thereby securing continuity. As such, Mr. Shekhterman's reward package does not include a severance entitlement and instead, he shall be entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, Mr. Shekhterman shall be entitled to the difference upon completion of his full term as CEO.

Short-term incentive (STI) for 2015

For 2015 the Supervisory Board had determined that 70% of the total on-target bonus opportunity for the CEO would depend on achieving group targets, with individual targets having a weight of 30%. For the Company Secretary the ratio is 50/50. The on-target payout as a percentage of base salary is set at a level of 100% for the CEO, and 20% for the Company Secretary. With regard to financial targets, the Group achieved EBITDA above the target threshold, while other financial targets, including the net sales target, were fully met. The achievement of individual performance targets was assessed and determined by the Supervisory Board for each Management Board member individually, as reflected in the table below. It includes the STI payout as a percentage of individual base salary and also reflects the CEO transition from Mr. DuCharme to Mr. Shekhterman which took place during the year.

Long-term incentive (LTI)

The LTI is a programme in two stages which runs until 31 December 2019. LTI targets have been structured to align the long-term interests of shareholders and management. The targets represent the Group's long-term ambitions, with a specific focus on net revenue and market share relative to the competition, without sacrificing EBITDA. The total available fund for all payouts under the LTI programme is capped at 12% of EBITDA in the year that the final stage performance targets are achieved. As per 31 December 2015 the targets set for the first stage of the LTI were achieved, as specific comparative performance indicators were met, and EBITDA also exceeded the target threshold. The size of each individual cash award is based on a pre-determined score reflecting the participant's role and function within the Group and his or her contribution to meeting the LTI targets, both at individual and team level. The total long-term incentive opportunity may be adjusted by up to 20%, either upwards or downwards, based on performance against non-financial individual targets determined at the discretion of the Supervisory Board.

Mr. Shekhterman, appointed acting CEO in September 2015 in a transition phase with his predecessor and formally appointed as CEO on 12 November 2015, was eligible for a payout, details of which are provided in the table below.

Mr. DuCharme's participation in the LTI is based on his tenure as CEO until September 2015, and his role in establishing X5 on a firm path towards the LTI targets. Details of Mr. DuCharme's payout under the programme are set out in the table below.

Remuneration of the members of the Management Board:

NAME	YEAR	BASE SALARY[1]	SHORT-TERM INCENTIVE[2]	LONG-TERM INCENTIVE[3]	EXIT PAYMENT[4]	SHARE BASED COMPENSATION[5]	TOTAL
I. Shekhterman	2015	13	16	143	-	-	172
F. Lhoëst	2015	19	5	20	-	1	45
	2014	14	10	5	-	4	33
S. DuCharme[1]	2015	41	33	399	440	3	916
	2014	42	108	-	-	9	159
S. Piven[6]	2014	7	6	-	9	1	23
V. Yavorskaya[6]	2014	5	6	-	-	-	11
Total	**2015**	73	54	562	440	4	**1,133**
	2014	68	130	5	9	14	**226**

[1] Mr. Shekhterman succeeded Mr. DuCharme as member of the Management Board and CEO on 12 November 2015. For Mr. DuCharme and Mr. Shekhterman the annual base salary is RUB 42 million, reflected in the table on a pro rata basis, respectively, until and from 8 September 2015, the day that Mr. Shekhterman started a transition period following his nomination as CEO. The table reflects actual base salary amounts, including adjustments based on number of days spent on vacation and business trips, in accordance with Russian labor law.

[2] Short-term incentives are based on results achieved in 2015 and payable in 2016. The short-term incentive levels are based on full achievement of both group and individual targets with additional coefficients for outperformance of group targets and, for Mr. DuCharme, extraordinary individual performance, resulting in payouts of 123% of adjusted pro-rata base salary for Mr. Shekhterman, 80% of adjusted pro-rata base salary for Mr. DuCharme (re. note 1 above) and 26% of base salary for Mr. Lhoëst. In 2014 the short-term incentive for Mr. Lhoëst was the short-term component of the cash incentive for 2014 under the Deferred Cash Incentive Plan terminated in 2015.

[3] For Mr. Shekhterman and Mr. DuCharme respectively the long-term incentive reward is calculated on a pro-rata basis which reflects their term in office as CEO. For Mr. Lhoëst the long-term incentive is composed of the deferred components of the cash incentives awarded for performance in the years 2013 and 2014 respectively under the Deferred Cash Incentive Plan.

[4] Mr. DuCharme stepped down as CEO and member of the Management Board on 12 November 2015, to become Chairman of the Supervisory Board as per the same date. In accordance with a settlement agreement dated 21 September 2015 Mr. DuCharme is entitled to a deferred parts of bonuses awarded in 2014 and 2015 under the Deferred Cash Incentive Plan (USD 1,540,773) and a discretionary transformation bonus approved by the Supervisory Board (USD 5,000,000).

[5] Since 2013 members of the Management Board no longer participate in the Company's Restricted Stock Unit Plan. The share based compensation reflects the accrued amounts related to previous awards under the Restricted Stock Unit Plan (see table below) and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

[6] Mr. Piven and Mrs. Yavorskaya stepped down from the Management Board on 1 June 2014.

Restricted Stock Units (RSU) awarded and outstanding to members of the Management Board:

NAME	TRANCHE	CONDITIONAL GRANT 2015	RSUS AWARDED IN 2011	RSUS AWARDED IN 2012	RSUS AWARDED IN 2013	RSUS AWARDED IN 2014	RSUS AWARDED IN 2015	YEAR OF VESTING	RSUS VESTED	VALUE ON VESTING DATE[1]	GDRS LOCKED-UP AS PER 31/12/2015[2]	END OF LOCK-UP PERIOD	RSUS OUTSTANDING AS PER 31/12/2015	RSUS OUTSTANDING AS PER 31/12/2014
I. Shekhterman	4	-	-	-	-	7,384	-	2016	-	-	-	2018	7,384	7,384
	5	-	-	-	-	-	15,793	2017	-	-	-	2019	15,793	-
	6	11,396	-	-	-	-	-	2018	-	-	-	2020	-	-
F. Lhoëst	1	-	9,024	-	-	-	-	2013	9,024	5	-	2015	-	-
	2	-	-	13,645	-	-	-	2014	13,645	8	6,908	2016	-	-
	3	-	-	-	7,192	-	-	2015	7,192	7	4,068	2017	-	7,192

[1] Vesting date is 19 May of each respective year of vesting.

[2] Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.

Supervisory Board

As described in the Corporate Governance Report on page 140, the composition of the Supervisory Board changed in 2015. At the Annual General Meeting of Shareholders in May, Messrs. Gould, Tynkovan and Malis stepped down, and Messrs. King and Demchenkov were appointed as new Board members. At the Extraordinary General Meeting of Shareholders in November Mr. Shekhterman stepped down to become CEO, while Mr. DuCharme was appointed as new Board member and Chairman.

Supervisory Board members received remuneration in cash which accrued evenly throughout the year in proportion to the period of service. In accordance with the remuneration principles for the Supervisory Board, (i) the non-independent Board members Mr. Dorofeev, Mr. Fridman and Mr. Gould were not remunerated by the Group, and (ii) remunerated members of the Supervisory Board are entitled to an annual grant of Restricted Stock Units (RSUs), subject to approval of the General Meeting of Shareholders.

Restricted Stock Units

In 2015 the Annual General Meeting of Shareholders approved that the Supervisory Directors Christian Couvreux, Igor Shekhterman, Pawel Musial, Geoff King and Peter Demchenkov be granted a number of RSUs with award date 19 May 2016, equal to 100% of the fixed remuneration in 2015 of the relevant Board member, divided by the average market value of one GDR as of 19 May 2015. Under the rules of the plan, the average market value is defined as the volume weighted average price of a GDR over the thirty calendar days immediately preceding 19 May 2015. The volume weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange. The award is subject to the relevant supervisory director holding office during the period until the award date. The awarded RSUs will vest on 19 May 2018, followed by a lock-in period ending on 19 May 2020.

The number of RSUs granted and outstanding to the members of the Supervisory Board is shown below. For the calculation of the intrinsic value and further details refer to Note 27.

Remuneration of the members of the Supervisory Board:

	BASE REMUNERATION [1]		ADDITIONAL REMUNERATION [2]		SHARE-BASED COMPENSATION [3]	
CURRENT MEMBERS:	2015	2014	2015	2014	2015	2014
S. DuCharme (appointed 12 November 2015)	11	-	-	-	-	-
D. Dorofeev	-	-	-	-	-	-
M. Fridman	-	-	-	-	-	-
C. Couvreux	14	10	2	-	7	8
P. Musial	7	5	-	24	3	1
G. King (appointed 7 May 2015)	16	-	2	-	3	-
P. Demchenkov (appointed 7 May 2015)	7	-	-	-	1	-
M. Kuchment (appointed 12 November 2015)	3	-	-	-	-	-
FORMER MEMBERS:						
D. Gould (stepped down 7 May 2015)	-	-	-	-	-	-
A. Tynkovan (stepped down 7 May 2015)	4	10	-	8	13	6
A. Malis (stepped down 7 May 2015)	2	5	-	-	(2)	2
I. Shekhterman (stepped down 12 November 2015)	9	10	-	8	6	3
	73	40	4	40	31	20

[1] The annual membership allowance for independent Supervisory Board members is determined and paid in Euro, as follows: chairman EUR 250,000; members chairing a committee EUR 200,000; other members EUR 100,000. Of former Board members and Board members appointed during the year, the actual pro-rata amounts are reflected. In accordance with the remuneration principles for the Supervisory Board, non-independent Board members Messrs. Dorofeev, Fridman and Gould were not remunerated.

[2] Additional cash remuneration for extraordinary time and efforts spent on key strategic projects, subject to approval of the General Meeting of Shareholders.

[3] The share-based compensation reflects the accrued amounts related to the Restricted Stock Unit Plan (see table below) and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

Restricted Stock Units awarded and outstanding to members of the Supervisory Board:

NAME	TRANCHE	CONDITIONAL GRANT 2015	RSUS AWARDED IN 2011	RSUS AWARDED IN 2012	RSUS AWARDED IN 2013	RSUS AWARDED IN 2014	RSUS AWARDED IN 2015	YEAR OF VESTING	RSUS VESTED	VALUE ON VESTING DATE[1]	GDRS LOCKED-UP AS PER 31/12/2014[2]	END OF LOCK-UP PERIOD	RSUS OUTSTANDING AS PER 31/12/2015	RSUS OUTSTANDING AS PER 31/12/2014
S. DuCharme[3]	1	-	7,219	-	-	-	-	2013	7,219	4	-	2015	-	-
	2	-	-	7,939	-	-	-	2014	7,939	5	-	2015	-	-
	3	-	-	-	28,830	-	-	2015	28,830	30	-	2015	-	28,830
A. Tynkovan[4]	1	-	4,331	-	-	-	-	2013	4,331	3	-	2015	-	-
	2	-	-	4,763	-	-	-	2014	4,763	3	-	2016	-	-
	3	-	-	-	6,277	-	-	2015	6,277	6	-	2017		6,277
	4	-	-	-	-	10,830	-	2015	10,830	10	-	2018	-	10,830
	5	-	-	-	-	-	15,793	2015	15,793	16	-	2019	-	-
C. Couvreux	1	-	7,219	-	-	-	-	2013	7,219	4	-	2015	-	-
	2	-	-	7,939	-	-	-	2014	7,939	5	7,939	2016	-	-
	3	-	-	-	10,461	-	-	2015	10,461	11	6,904	2017	-	10,461
	4	-	-	-	-	14,768	-	2016	-	-	-	2018	14,768	14,768
	5	-	-	-	-	-	15,793	2017	-	-	-	2019	15,793	-
	6	11,396	-	-	-	-	-	2018	-	-	-	2020	-	-
A. Malis[5]	4	-	-	-	-	3,692	-	2015	1,230	1	-	2018	-	3,692
	5	-	-	-	-	-	-	2017	-	-	-	2019	-	-
P.Musial	4	-	-	-	-	2,461	-	2016	-	-	-	2018	-	2,461
	5	-	-	-	-	-	7,897	2017	-	-	-	2019	7,897	-
	6	5,698	-	-	-	-	-	2018	-	-	-	2020	-	-
G. King	6	13,250	-	-	-	-	-	2018	-	-	-	2020	-	-
P. Demchenkov	6	5,698	-	-	-	-	-	2018	-	-	-	2020	-	-

[1] Vesting date is 19 May of each respective year of vesting.

[2] Number of GDRs held during lock-up period equals the number of vested RSUs minus GDRs sold to cover taxes, if any.

[3] Mr. DuCharme stepped down as CEO, and was re-appointed as member of the Supervisory Board on 12 November 2015. As part of his termination package as CEO, the lock-up on the 36,769 vested GDRs awarded under tranches 2 and 3 was lifted.

[4] Mr. Tynkovan stepped down from the Supervisory Board per the AGM on 7 May 2015. The Supervisory Board resolved to accelerate vesting and release of 32,900 RSUs awarded under tranches 3, 4 and 5. Subsequently, all RSUs under tranches 1–5 were settled in cash at the amount of USD 551,439.

[5] Mr. Malis stepped down from the Supervisory Board per the AGM on 7 May 2015. In accordance with the RSU Plan Rules, one third of the number of RSUs awarded under tranche 4 vested in 2015.

Other key management personnel

Other key management personnel consists of certain members of the Executive Committee. In accordance with the Remuneration Policy, the total direct compensation of other key management personnel consists of a base salary, a short-term incentive and a long-term incentive.

Base salaries in 2015

The total remuneration of members of the Executive Committee is determined in line with compensation levels in peer companies as set out in the remuneration policy. Based on a salary benchmarking survey conducted in 2014, the Supervisory Board approved base salary adjustments for certain members of the Executive Committee, resulting in an average base salary increase of 10% vs. 2014.

Short-term incentive

For 2015, as in 2014, the Supervisory Board had determined that 70% of the total on-target bonus opportunity for leaders of the formats would be based on achieving financial targets at both group and format level, with individual targets having a weight of 30%. For functional leaders the ratio between group financial targets and personal targets is 50/50. The on-target payout as a percentage of base salary is set at a level of 100%. In terms of financial targets, average achievement levels exceeded targets set, including the net sales targets, while also EBITDA exceeded the target threshold. With regard to the individual performance targets the cash incentive is approved by the Supervisory Board for each executive individually. For other key management personnel this results in an average 75% cash payout as a percentage of base salary.

Long-term incentive
As indicated above under 'Management Board', the targets set for the first stage of the LTI were achieved, as specific comparative performance indicators were met with EBITDA exceeding the required threshold. The size of each individual cash award is based on a pre-determined score reflecting the participant's role and function within the Group and his or her contribution to meeting the LTI targets, both at individual and team level. The total long-term incentive opportunity may be adjusted by up to 20%, either upwards or downwards, based on performance against non-financial individual targets determined at the discretion of the Supervisory Board. Payout details resulting from the fulfilment of LTI targets by 'other key management personnel' as per 31 December 2015 are set out below.

Remuneration of other key management personnel

	YEAR	BASE SALARY[1]	SHORT-TERM INCENTIVE[2]	LONG-TERM INCENTIVE[3]	EXIT PAYMENT	TOTAL
Other key management personnel	**2015**	148	121	891	8	**1,168**
	2014	110	115	23	17	**265**

[1] Base salary remuneration reflects the increase in salary for some key management personnel, as well as fluctuation in base salary due to the number of days spent on vacation and business trips, in accordance with Russian labor law.

[2] Short-term incentive for performance in the year 2015 (2014) paid in cash in 2016 (2015).

[3] In 2014 and 2015 the long-term incentive include deferred components of the cash incentives awarded for, respectively, the performance years 2013 and 2014 to participants under the Deferred Cash Incentive Plan.

27 / SHARE-BASED PAYMENTS

Restricted Stock Unit plan
In 2010 the Group introduced its next generation long term incentive plan in the form of a Restricted Stock Unit Plan (RSU Plan) for its key executives and employees. Each Restricted Stock Unit (RSU) that may be granted under the RSU Plan carries the right to one GDR. The program runs in several tranches granted over the period starting May 2010. The RSU Plan provides for the annual grant of conditional rights to RSUs, subject to i) the achievement of specific performance criteria of the Group (KPIs) and ii) continuous employment with the Group until the completion of the vesting period. The KPIs mainly relate to (i) the performance of the Group compared to the performance of a selected group of comparable competitors in achieving sustained growth and an increasing presence in its markets of operation and (ii) maintain agreed profitability ratio of the Group at a pre-defined level.

Members of the Supervisory Board may be granted conditional RSUs not subject to performance criteria. The General Meeting of Shareholders determines the number of conditional RSUs granted to members of the Supervisory Board. The RSU Plan, as well as the first tranche of conditional RSUs in favour of members of the Supervisory Board, was approved by Annual General Meeting of Shareholders on 25 June 2010. During the year ended 31 December 2015 6,161 GDRs out of 102,528 vested under the first tranche in 2013 and 12,072 GDRs out of 114,285 vested in 2014 were waived in exchange for cash compensation. In May 2015 the Group vested 87,947 GDRs under the third tranche of long term incentive plan out of treasury stock, 11,001 of them were waived and the remaining 76,946 GDRs were locked-in for 2 years in accordance with RSU plan rules. The fourth, fifth and sixth tranches will vest on 19 May 2016, 19 May 2017 and 19 May 2018 respectively. Upon vesting the RSUs are converted into GDRs registered in the participant's name. Subsequently, GDRs are subject to a two-year lock-in period during which the GDRs cannot be traded.

In total, during the year ended 31 December 2015 the Group recognised expense related to the RSU plan in the amount of RUB 18 (expense during the year ended 31 December 2014: RUB 32). At 31 December 2015 the equity component was RUB 37 (31 December 2014: RUB 94). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding are as follows:

	2015		2014	
	NUMBER OF CONDITIONAL RIGHTS	WEIGHTED AVERAGE FAIR VALUE, RUB	NUMBER OF CONDITIONAL RIGHTS	WEIGHTED AVERAGE FAIR VALUE, RUB
Outstanding at the beginning of the period	235,425	659.61	318,531	830.48
Granted during the period	47,438	1,033.57	63,173	608.64
Vested during the period	(58,713)	606.52	(92,310)	1,000.48
Forfeited during the period	(101,027)	737.34	(53,969)	1,025.42
Outstanding at the end of the period	123,123	765.23	235,425	659.61

28 / INCOME TAX

	YEAR ENDED 31 DECEMBER 2015	YEAR ENDED 31 DECEMBER 2014
Current income tax charge	4,214	3,674
Deferred income tax benefit	(458)	(147)
Income tax charge for the year	3,756	3,527

The theoretical and effective tax rates are reconciled as follows:

	YEAR ENDED 31 DECEMBER 2015	YEAR ENDED 31 DECEMBER 2014
Profit before taxation	17,930	16,218
Theoretical tax at the effective statutory rates *	3,586	3,244
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of income taxable at rates different from standard statutory rates	(1,206)	(952)
Expenses on inventory shrinkage	1,479	1,086
Unrecognised tax loss carry forwards for the year	465	254
Deferred tax (income) arising from recovery of deferred tax assets written down in previous periods/ deferred tax expenses arising from the write-down of the deferred tax asset	(454)	483
Other non-taxable income	(114)	(588)
Income tax charge for the year	3,756	3,527

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

Effective 1 January 2014, 39 Russian subsidiaries of the Group formed a consolidated group of taxpayers (CGT) with "TH "PEREKRESTOK" CJSC acting as the responsible CGT member. In 2015 two Russian subsidiaries left CGT.

DEFERRED INCOME TAX

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss are attributable to the following items for the year ended 31 December **2015**:

	31 DECEMBER 2014	CREDITED/ (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	DISPOSAL OF SUBSIDIARIES	31 DECEMBER 2015
Tax effects of deductible temporary differences and tax loss carry forwards:					
Tax losses available for carry forward	3,589	1,050	22	-	4,661
Property, plant and equipment and Investment property	205	141	291	-	637
Other intangible assets	5	(152)	165	-	18
Inventories	2,476	(82)	-	-	2,394
Accounts receivable	128	(41)	106	-	193
Accounts payable	3,514	1,501	130	-	5,145
Other	221	(39)	8	-	190
Gross deferred tax asset	**10,138**	**2,378**	**722**	**-**	**13,238**
Less offsetting with deferred tax liabilities	(6,570)	(1,079)	(172)	-	(7,821)
Recognised deferred tax asset	**3,568**	**1,299**	**550**	**-**	**5,417**
Tax effects of taxable temporary differences:					
Property, plant and equipment and Investment property	(5,558)	(892)	(280)	-	(6,730)
Other intangible assets	(2,253)	163	(88)	-	(2,178)
Accounts receivable	(2,464)	(1,165)	-	-	(3,629)
Accounts payable	(1)	(44)	-	-	(45)
Other	(218)	18	-	-	(200)
Gross deferred tax liability	**(10,494)**	**(1,920)**	**(368)**	**-**	**(12,782)**
Less offsetting with deferred tax assets	6,570	1,079	172	-	7,821
Recognised deferred tax liability	**(3,924)**	**(841)**	**(196)**	**-**	**(4,961)**

DEFERRED INCOME TAX

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss are attributable to the following items for the year ended 31 December **2014**:

	31 DECEMBER 2013	CREDITED/ (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	DISPOSAL OF SUBSIDIARIES	31 DECEMBER 2014
Tax effects of deductible temporary differences and tax loss carry forwards:					
Tax losses available for carry forward	3,932	(269)	-	74	3,589
Property, plant and equipment and Investment property	798	(583)	30	40	205
Other intangible assets	124	(161)	42	-	5
Inventories	1,668	808	-	-	2,476
Accounts receivable	200	(72)	-	-	128
Accounts payable	3,182	328	4	-	3,514
Other	301	(80)	-	-	221
Gross deferred tax asset	**10,205**	**(29)**	**76**	**114**	**10,138**
Less offsetting with deferred tax liabilities	(5,259)	(1,307)	(4)	-	(6,570)
Recognised deferred tax asset	**4,946**	**(1,336)**	**72**	**114**	**3,568**
Tax effects of taxable temporary differences:					
Property, plant and equipment and Investment property	(5,957)	443	(44)	-	(5,558)
Other Intangible assets	(2,498)	273	(28)	-	(2,253)
Accounts receivable	(1,905)	(559)	-	-	(2,464)
Accounts payable	(10)	9	-	-	(1)
Other	(228)	10	-	-	(218)
Gross deferred tax liability	**(10,598)**	**176**	**(72)**	**-**	**(10,494)**
Less offsetting with deferred tax assets	5,259	1,307	4	-	6,570
Recognised deferred tax liability	**(5,339)**	**1,483**	**(68)**	**-**	**(3,924)**

Temporary differences on unremitted earnings of certain subsidiaries amounted to RUB 26,294 (2014: RUB 27,603) for which the deferred tax liability was not recognised as such amounts are being reinvested for the foreseeable future.

The current portion of the gross deferred tax liability amounted to RUB 4,204 (31 December 2014: RUB 2,929), the current portion of the gross deferred tax asset amounted to RUB 7,243 (31 December 2014: RUB 6,251).

Management believes that the future taxable profits in tax jurisdictions that suffered a loss in the current or preceding years will be available to utilise the deferred tax asset of RUB 4,661 recognised at 31 December 2015 for the carry forward of unused tax losses (31 December 2014: RUB 3,589).

The Group estimates unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 2,613 (2014: RUB 1,284).

Unused tax losses are available for carry forward for a period not less than four years depending on the tax residence of every certain company of the Group.

29 / FINANCIAL RISK MANAGEMENT

Financial risk management is a part of integrated risk management and internal control framework described in "Corporate Governance" section of this Annual Report. The primary objectives of the financial risk management are to establish risk limits, and then ensure that exposure to risks stays within these limits.

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

A / Market risk

Currency risk

The Group is exposed to foreign exchange risk arising from foreign currency denominated assets and liabilities with respect to import purchases. As at 31 December 2015 the Group has trade accounts payable denominated in foreign currency in the amount of RUB 1,731 (31 December 2014: RUB 1,215). As at 31 December 2015 the Group does not have any other significant assets and liabilities denominated in foreign currency and the exposure for the Group is estimated as not significant.

Interest rates risk

As at 31 December 2015 the Group has no significant floating interest-bearing assets and liabilities, the Group's income, expenses and operating cash inflows and outflows are substantially independent of changes in market interest rates.

B / Credit risk

Financial assets, which are potentially subject to credit risk, consist principally of cash and cash equivalents held in banks, trade and other receivables (Note 9 and Note 16). Due to the nature of its main activities (retail sales to individual customers) the Group has no significant concentration of credit risk. Cash is placed in financial institutions which are considered at the time of deposit to have minimal risk of default (Note 9). The Group has policies in place to ensure that in case of credit sales of products and services to wholesale customers only those with an appropriate credit history are selected. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant.

C / Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by the Group Treasury.

The Group finances its operations by a combination of cash flows from operating activities and, long and short-term debt. The objective is to ensure continuity of funding on the best available market terms. The policy is to keep the Group's credit portfolio diversified structure, continue to improve the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn available bank facilities, and a strong credit rating so that maturing debt may be refinanced as it falls due.

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

Year ended 31 December 2015

	DURING 1 YEAR	IN 1 TO 4 YEARS
Borrowings	58,041	114,225
Trade payables	103,773	-
Other finance liabilities	29,451	-
	191,265	114,225

Year ended 31 December 2014

	DURING 1 YEAR	IN 1 TO 4 YEARS
Borrowings	34,136	131,497
Trade payables	92,001	-
Other finance liabilities	21,857	-
	147,994	131,497

At 31 December 2015 the Group had net current liabilities of RUB 82,175 (31 December 2014: RUB 30,764) including short-term borrowings of RUB 42,670 (31 December 2014: RUB 15,834). At 31 December 2015 the Group had available bank credit lines of RUB 140,176 (31 December 2014: RUB 84,200). At 31 December 2015 the Group had RUB bonds available for issue on MICEX of RUB 15,000 (31 December 2014: RUB 20,000).

Management regularly monitors the Group's operating cash flows and available credit lines to ensure that these are adequate to meet the Group's ongoing obligations and its expansion programs. Part of the short term of the liquidity risk is seasonal, with the highest peak in 1st quarter and strong cash generation in 4th quarter, therefore the Group negotiates the maturity of credit lines for the 4th quarter, when the free cash flow allows for the repayment of debts. Part of the existing lines in the local currency (RUB) are provided on rolling basis which is closely monitored by detailed cash flow forecasts and are managed by the Group Treasury.

The Group's capital expenditure program is highly discretionary. The Group optimizes its cash outflows by managing the speed of execution of current capex projects and by delaying future capital extensive programs, if required.

The Group is carefully monitoring its liquidity profile by optimising the cost of funding and the drawdown periods within revolving credit facilities as well as extending existing credit facilities or obtaining new credit lines. The Group manages liquidity requirements by the use of both short-term and long-term projections and maintaining the availability of funding. Based on the review of the current liquidity position of the Group management considers that the available credit lines and expected cash flows are more than sufficient to finance the Group's current operations.

30 / OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

During 2015 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

31 / CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages total equity attributable to equity holders recognised under IFRS requirements. The Group is in compliance with externally imposed capital requirements.

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain requirements: the maximum level of Net Debt/EBITDA (4.00/4.25 after acquisition). This ratio is included as covenants into loan agreements (Note 19). At 31 December 2015 the Group complied with the requirements under the loan facilities.

32 / FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation method

ologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

The fair value of cash and cash equivalents (Level 1 of the fair value hierarchy), available-for-sale investments and trade and other financial receivables and payables (Level 3 of the fair value hierarchy) approximates their carrying value. The fair value of financial assets measured at level 3 of the fair value hierarchy is estimated based on future cash flows expected to be received including expected losses.

Liabilities carried at amortised cost. The fair value of bonds is based on quoted market prices. Fair values of other liabilities are determined using valuation techniques.

The fair value of bonds traded on the MICEX is determined based on active market quotations and amounted to RUB 22,856 at 31 December 2015 (31 December 2014: RUB 20,863). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 22,987 at 31 December 2015 (31 December 2014: RUB 22,991) (Note 19). The fair value of long-term borrowings amounted to RUB 98,018 at 31 December 2015 (31 December 2014: RUB 83,421). The measurement is classified in level 2 of the fair value hierarchy. The sensitivity analysis shows that the increase/decrease of the effective interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 1,812 at 31 December 2015. The fair value of short-term borrowings was not materially different from their carrying amounts.

33 / COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 December 2015, the Group operated 5,270 stores through rented premises (31 December 2014: 3,901 stores). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in RUB and normally calculated as a percentage of turnovers. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable rent payments.

The Group entered into a number of short-term and long-term lease agreements which are cancellable by voluntary agreement of the parties or by payment of termination compensation. The expected annual lease payments under these agreements amount to RUB 26,211 (net of VAT) (2014: RUB 20,260).

Capital expenditure commitments

At 31 December 2015 the Group contracted for capital expenditure for the acquisition of property, plant and equipment of RUB 7,271 (net of VAT) (2014: RUB 10,448).

Legal contingencies

During the year ended 31 December 2015 the Group was the defendant in a claim amounting to USD 58 million which had been lodged against the Group in the English courts. In November 2015 a settlement with the claimant was signed and the case was closed. The cash outflow in relation to the settlement was USD 21.5 million. Management does not anticipate any material negative impact on the resolution of other cases in which the Group is involved in the normal course of business.

Taxation environment

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged as not having been in compliance with Russian tax laws applicable at the relevant time. In particular, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systematic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation initially introduced on 1 January 1999 and further amended from 1 January 2012 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions if the transaction prices deviate from the arm's length level:

- Transfer pricing rules effective until 31 December 2011. According to the Russian transfer pricing rules effective during the period up to 31 December 2011, controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

  Inter-company transactions undertaken by the companies of the Group for the period up to 31 December 2011 are potentially subject to transfer pricing controls established by Article 40 of the Russian Tax Code. Tax liabilities arising from inter-company transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

- Amended transfer pricing rules effective from 1 January 2012. Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group. The level of impact for 2014–2015 is expected to be less than for preceding years since the prices of transactions between related parties which are the members of CGT (consolidated group of taxpayers) are not subject to transfer pricing control.

Deductibility of interest payable under intra-group financing arrangements is subject to various limitations under the Russian tax legislation which, in combination with applicable tax treaties may be interpreted in various ways. The impact of such interpretation may be significant to the financial condition and operations of the Group and depends on the development of case-specific administrative and court practice on the matter.

Starting from 1 January 2015 the "de-offshorisation law" came into force introducing the following rules and concepts which may have an impact on the Group's operations:

- **The concept of beneficial ownership**

  The possibility to apply the reduced tax rates to the income paid to foreign companies of the Group allowed under double tax treaties (DTTs) will depend on whether the company receiving such income is its beneficial owner. When determining the beneficial owner status of a foreign company the functions it performs and the risks it undertakes should be tested. It will be also considered whether such income was transferred (fully or in part) to another company. Given that the concept of beneficial ownership is rather new and the practice is not yet developed, the impact of any challenge of application of the reduced tax rates to the income paid to foreign Group companies cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Group.

  Management believes that the Group's foreign companies receiving income from Russia are beneficial owners of that income and the reduced tax rates are correctly applied in accordance with the relevant DTTs.

Broader rules for determining the tax residency of legal entities
Starting from 2015, more specific and detailed rules were put in place establishing when foreign entities can be viewed as managed from Russia and consequently can be deemed Russian tax residents. Russian tax residency means that such legal entity's worldwide income will be taxed in Russia. The Group comprises companies incorporated outside of Russia. The tax liabilities of the Group were determined on the assumption that these companies were not subject to Russian profits tax, because they did not have a permanent establishment in Russia and were not Russian tax residents by way of application of the new tax residency rules. This interpretation of relevant legislation in regard to the Group companies incorporated outside of Russia may be challenged. The impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

Russian tax legislation does not provide definitive guidance in many areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist.

Management estimates that possible exposure in relation to the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times the additional accrued liabilities and provisions reflected on the statement of financial position at that date. This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability.

Provisions and liabilities for tax uncertainties are attributable to profit tax and non-profits tax risks with expiration within three years, in 2015 the Group net released a provision of RUB 1,783 including net release non-income tax of RUB 196, income tax net release of RUB 990 and net release of RUB 597 indemnified by previous shareholders of acquired companies.

In 2014 the Group net released a provision of RUB 521 including net accrued non-income tax of RUB 175, income tax net release of RUB 645 and net release of RUB 51 indemnified by previous shareholders of acquired companies.

At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of RUB 3,740 at 31 December 2015 (31 December 2014: RUB 2,595) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2014	**1,268**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	273
Release of provision	(4,424)
Accrual of provision	3,903
Offset of provision	1,575
Balance at 31 December 2014	**2,595**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	2,791
Release of provision	(4,058)
Accrual of provision	2,275
Offset of provision	137
Balance at 31 December 2015	**3,740**

X5 Retail Group N.V.

Company Financial Statements

31 December 2015

X5 Retail Group N.V.

Company Statement of **Financial Position** at 31 December 2015 Before appropriation of profit

Expressed in millions of Russian Roubles, unless otherwise stated

	NOTE	31 DECEMBER 2015	31 DECEMBER 2014
Assets			
Non-current assets			
Financial fixed assets	35	111,233	105,813
		111,233	**105,813**
Current assets			
Financial assets	35	11,188	-
Amounts due from subsidiaries		793	521
Prepaid expenses		4	3
Other receivables		98	-
VAT receivable		-	8
Cash and cash equivalents		-	3
		12,083	**534**
Total assets		**123,316**	**106,347**
Equity and liabilities			
Paid up and called up share capital	36	5,410	4,638
Share premium account	36	46,253	46,218
Share-based payment reserve	39	37	94
Other reserves		38,844	26,917
Result for the year		14,174	12,691
Total equity		**104,718**	**90,558**
Non-current liabilities			
Bank loans	37	-	14,871
Loan from group company	38	-	344
		-	**15,216**
Current liabilities			
Loan form group company	38	17,242	-
Amounts due to group companies		1,286	524
Accrued expenses and other liabilities		48	47
VAT and other tax payable		22	2
		18,598	**573**
Total equity and liabilities		**123,316**	**106,347**

X5 Retail Group N.V.

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

Expressed in millions of Russian Roubles, unless otherwise stated

	NOTES	31 DECEMBER 2015	31 DECEMBER 2014
Other expenses after tax	40	(1,129)	(890)
Income on participating interest after tax		15,303	13,581
Profit after taxation		**14,174**	**12,691**

34 / ACCOUNTING PRINCIPLES

General

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

Basis of presentation

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

As the financial data of the company are included in the consolidated financial statements, the income statement in the company financial statements is presented in its condensed form (in accordance with article 402, Book 2 of the Dutch Civil Code).

Accounting principles

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

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

Investments in group companies

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

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

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

When the Company's share of losses in an investment in a group company equals or exceeds its interest in the investment, (including separately presented goodwill or any other unsecured non-current receivables, being part

of the net investment), the Company does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case the Company will recognise a provision.

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

Shareholders' Equity
Issued and paid up share capital, which is denominated in Euro, is restated into Russian Rouble ('RUB') at the official exchange rate of the Central Bank of the Russian Federation as at balance date in accordance with section 373 sub 5 of book 2 of the Dutch Civil Code. The difference is settled in the other reserves.

35 / FINANCIAL FIXED ASSETS

A / MOVEMENTS IN THE INTERESTS IN GROUP COMPANIES HAVE BEEN AS FOLLOWS:	31 DECEMBER 2015	31 DECEMBER 2014
Opening balance	94,778	81,105
Acquisitions/capital contribution	1,162	212
Divestment of group companies/ capital repayments	(16)	(120)
Profit from group companies for the year	15,303	13,581
Closing balance	111,227	94,778

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

B / MOVEMENTS IN THE LOANS TO GROUP COMPANIES HAVE BEEN AS FOLLOWS:		
Opening balance	11,035	11,522
Settlement/Repayment	(111)	(783)
Additions	269	296
Foreign exchange differences	1	1
Closing balance	11,194	11,035
Non-current financial assets	111,233	105,813
Current financial assets	11,188	-
Total Financial fixed assets	122,421	105,813

LOANS PROVIDED TO FOLLOWING GROUP COMPANIES:	CURRENCY	INTEREST RATE	MATURITY DATE
GSWL Finance Ltd	RUB	Mosprime1m +3.6%	August 2016
Perekrestok Holdings Ltd.	RUB	(Libor1m + Mosprime1m) × ½ +4.5%	December 2016
X5 Capital S.A.R.L	EUR	4%–4.5%	December 2017

The total amount of the loans provided to group companies is RUB 11,194 (2014: RUB 11,035) and it approximates the fair value. The loans have not been secured.

On 16 September and 24 October 2014 the Company entered into the new loans facility agreement with X5 Capital S.A.R.L. The subject of the agreement is the establishment of the loan up to EUR 500,000. As at 31 December 2015 the loan provided to X5 Capital S.A.R.L. amounted EUR 72,018 (equivalent in RUB 5.7 million) (2014: EUR 39,273 (equivalent in RUB 2.7 million)).

36 / SHAREHOLDERS' EQUITY

	SHARE CAPITAL[1]	SHARE PREMIUM	OTHER RESERVES	PROFIT/ (LOSS)	SHARE-BASED PAYMENT (EQUITY)	TOTAL
Balance as at 1 January 2014	**3,050**	**46,126**	**17,476**	**10,984**	**170**	**77,806**
Share-based compensation (Note 27)	-	-	-	-	17	17
Transfer	-	-	10,984	(10,984)	-	-
Currency translation	1,586	-	(1,542)	-	-	44
Transfer of vested equity rights	2	92	(1)	-	(93)	-
Result for the period	-	-	-	12,691	-	12,691
Balance as at 1 January 2015	**4,638**	**46,218**	**26,917**	**12,691**	**94**	**90,558**
Share-based compensation (Note 27)	-	-	-	-	(21)	(21)
Transfer	-	-	12,691	(12,691)	-	-
Currency translation	771	-	(771)	-	-	-
Transfer of vested equity rights	1	35	-	-	(36)	-
Result for the period	-	-	-	14,174	-	14,174
Disposed available-for-sale investments	-	-	7	-	-	7
Balance as at 31 December 2015	**5,410**	**46,253**	**38,844**	**14,174**	**37**	**104,718**

[1] Share capital translated at the year end exchange rate EUR/RUB of 79.6972 (2014: 68.3427).

Share capital issued
As at 31 December 2015 the Group had 190,000,000 authorised ordinary shares (31 December 2014: 190,000,000) of which 67,882,421 ordinary shares are outstanding (31 December 2014: 67,867,743) and 10,797 ordinary shares held as treasury stock (31 December 2014: 25,475). The nominal par value of each ordinary share is EUR 1.

The acquisition price of the shares purchased was charged against other reserves. Other reserves as at 31 December 2015 include RUB Nil (2014: RUB 44) translation reserve.

No dividends were paid or declared during the years ended 31 December 2015 and 2014.

37 / BANK LOANS

The movements in the bank loans have been as follows:

	31 DECEMBER 2015	31 DECEMBER 2014
Opening balance	14,871	14,800
Repaid (Club loan)	(15,000)	-
Amortisation of transaction costs capitalised (Club loan)	129	71
Closing balance	-	14,871

In September 2015 the club loan facility which had 2,5–2,75% margin over MOSPRIME was refinanced with the loan from group company Trade House Perekrestok (Note 38).

38 / LOAN FROM GROUP COMPANIES

	31 DECEMBER 2015	31 DECEMBER 2014
Trade House Perekrestok	17,242	344

The loan payable to Trade House Perekrestok denominated in RUB/USD/EUR. RUB facility amounts to 15,000 (2014: RUB 344), USD 21.5 million (2014: USD 0) and EUR 0.6 million (2014: EUR 0). Loans are attracted at 10% interest per annum for all currencies and mature in April 2016.

39 / SHARE-BASED PAYMENTS

X5 Retail Group N.V. operates both cash and equity settled share based compensation plans in the form of Restricted Stock Unit Plan.

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

The receivable or expense is accounted for at the fair value determined in accordance with the policy on share-based payments as included in the consolidated financial statements, including the related liability for cash settled plans or as equity increase for equity settled plans Note 27).

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

	2015	2014
Equity share-based payment reserve as at 31 December	37	94
Expenses for the year ended 31 December	35	48

40 / OTHER INCOME AND EXPENSES AFTER TAX

	31 DECEMBER 2015	31 DECEMBER 2014
Interest income from group companies	(1,967)	(1,661)
Interest expenses	2,557	1,966
General and administrative expenses	267	149
Other expenses	75	421
RSU program	35	48
Currency exchange rate differences	162	(33)
	1,129	890

In accordance with the Dutch legislation article 2:382a the total audit fees related to the accounting organisation PricewaterhouseCoopers Accountants N.V. amounted to RUB 10 (2014: RUB 6).

41 / INCOME TAX EXPENSE

	31 DECEMBER 2015	31 DECEMBER 2014
Operating loss before tax	(1,129)	(890)
Income on participating interest after tax	15,303	13,581
Current income tax	-	-
Deferred income tax	-	-
Effective tax rate	0%	0%
Applicable tax rate	25.0%	25.0%

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

The Company estimates unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 565 (2014: RUB 293). Unused tax losses are available for carry forward for a period not less than seven years.

42 / STAFF NUMBERS AND EMPLOYMENT COSTS

Other than Management and Supervisory Board the Company has 2 employees in the Netherlands, incurred wages, salaries and related social security charges comprise RUB 1,8 (2014: RUB 2).

43 / CONTINGENT RIGHTS AND LIABILITIES

Reference is made to the commitments and contingencies as disclosed in Note 33 in the consolidated financial statements. Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Group has the following guarantees issued under obligations of its group companies:

	31 DECEMBER 2015	31 DECEMBER 2014
Irrevocable offer to holders of X5 Finance bonds	23,000	23,000
Guarantee for Agrotorg	11,000	21,880
Guarantee for TH Perekrestok	67,500	56,500

44 / RELATED PARTY TRANSACTIONS

Refer to Note 8 of the consolidated financial statements;
all group companies are also considered related parties.

Statutory director's compensation

The Company has a Management Board and a Supervisory Board. The total remuneration of all board members as well as key management is disclosed in Note 26 and Note 27 of the Consolidated Financial Statements.

Loans to group companies

For loans issued to and interest income from the group companies refer to Note 35 and Note 40.

Loan from group company

For loan received from and interest expenses to the group company refer to Note 38 and Note 40.

45 / SUBSEQUENT EVENTS

In February 2016 the Group purchased the retail chain, which operates stores in the Komi Republic.

In February 2016 the Group made several drawdowns out of Sberbank long-term credit line in the total amount of RUB 8.9 billion with fixed interest rate and maturity in 3 years.

The Group appointed the issue date of new bonds series BO-05 with a maximum nominal value of RUB 5 bn under 10.9% coupon rate on 2.5-year term as 17 March 2016.

Management Board:

- Igor Shekhterman
- Frank Lhoëst

Supervisory Board:

- Stephan DuCharme
- Mikhail Fridman
- Dmitry Dorofeev
- Christian Couvreux
- Pawel Musial
- Geoff King
- Peter Demchenkov
- Michael Kuchment

Amsterdam
17 March 2016

/ OTHER INFORMATION

Auditor's report

The auditor's report is included on page 228.

Statutory profit appropriation

In Article 28 of the Company's statutory regulations the following has been stated concerning the appropriation of result:

On proposal of the Supervisory Board, the General meeting shall determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits..

Subsequent events

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

FINANCIAL STATEMENTS

1 /6

Independent auditor's report

To: the General Meeting and Supervisory Board of X5 Retail Group N.V.

pwc

Report on the financial statements 2015

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2015 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2015 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2015 of X5 Retail Group N.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of X5 Retail Group N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2015;
- the following statements for 2015: the consolidated statement of profit or loss and the consolidated statements of comprehensive income, changes in equity and cash flows;
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2015;
- the company statement of profit or loss for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of X5 Retail Group N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Our audit approach

Overview and context

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In 2015 the Group incurred costs for a Long Term Incentive plan, that are not expected to be incurred annually. We therefore excluded these costs in determining the materiality. In particular, we looked at where the management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. Most of these areas are included in the key audit matters section below and are similar to previous year as the areas relate to the primary business of the Group and are inherently subject to management's estimation. Additionally the economic environment that the Group is operating in, continues to present challenges. Due a change in the segmentation to multiple operating segments, the approach to the audit of the goodwill impairment assessment was adjusted compared to previous year as explained in the key audit matter on goodwill below.

Apart from the key audit matters, which are explained below, other points of focus in our audit included, among others, the liability for the Long Term Incentive plan, acquisitions of businesses, the valuation of inventory and fixed asset additions in connection with new store openings and the corporate income tax position. In addition we performed procedures on the inventory and revenue process, such as attending a sample of physical inventory counts in the stores and at distribution centres and reconciling daily revenue according to the cash registers to cash deposits made at the bank and revenue recorded in the accounting records of the Group.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competencies which are needed for the audit of a retail company. We therefore included specialists in the areas of real estate, information technology, valuation and taxation in our team.

Materiality

- Overall materiality: RUB 1.5 billion which represents 2.5% of EBITDA adjusted for Long Term Incentive plan expenses.

Audit scope

- Our audit covered all subsidiaries within the Group that are of relevance for the financial statements.
- Because of the centralised structure, the entire Group has been audited by the Group engagement team.
- The Group engagement team performed its audits in both the Netherlands and Russia.

Key audit matters

- Impairment of goodwill
- Impairment of stores and other assets
- Recognition of vendor allowances
- Impact of the Russian economic crisis

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality

RUB 1.5 billion
(2014: RUB 1.1 billion)

How we determined it

2.5% of EBITDA adjusted for Long Term Incentive plan expenses.

Rationale for benchmark applied

We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the stakeholders of X5 Retail Group N.V. On this basis we believe that EBITDA (adjusted for the Long Term Incentive Plan expenses) is an important metric for the financial performance of the Group. We have excluded the expenses for the Long Term Incentive plan (as disclosed in note 26 of the financial statements), as these expenses are not expected to recur annually and the expenses are audited separately.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above RUB 70 million (2014: RUB 55 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our Group audit

X5 Retail Group N.V. is the parent company of a group of entities. The financial information of this Group is included in the consolidated financial statements of X5 Retail Group N.V.

The Group includes a large number of subsidiaries, mainly located in Russia. The Group accounting function is centralized in Moscow and Nizhny Novgorod and the Group is primarily managed as a single operating unit with multiple operating segments. The Group uses centralized IT systems for its business processes and financial reporting including consolidation. Therefore all of the audit work was performed by the Group engagement team including the audit of the Group's consolidation and financial statement disclosures.

By performing the procedures above, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters below. On pages 149 to 155 of the 2015 Annual Report, the Company also disclosed several financial and/or operational risk factors that could have a material adverse effect on its financial position and results of operations.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

Key audit matter	How our audit addressed the matter
Impairment of goodwill Note 12 to the financial statements As a result of past acquisitions, the Group carries capitalised goodwill with a value of RUB 75 billion as at 31 December 2015. Management performs an impairment assessment on an annual basis as required by IAS 36 Impairment of Assets. In 2015 there was a change in the operating segments following a change in the Company's operational model in 2015. The Company identified separate operating segments for each of its retail formats, whereas in the recent past the Group had one operating segment. The impairment assessment for 2015 has been performed at the level of the operating segments, Pyaterochka, Perekrestok, Karusel and Other as disclosed in notes 5 and 12 to the financial statements, which required an allocation of the goodwill to each operating segment. The Company has allocated the goodwill based on the purchase price allocations at the time of the acquisitions. The impairment assessment includes the assessment of the value in use based on expected cash flows. These cash flows are based on current budgets and forecast approved by key management and for subsequent years extrapolated based on consumer price index. Key assumptions are revenue growth and the weighted average cost of capital ("WACC") as disclosed in note 12. In case of the carrying value being higher than the value in use, an assessment of the fair value less cost to sell is used. The impairment assessment and the conclusion that there is no impairment of goodwill as at 31 December 2015, has been disclosed in notes 3 and 12 to the financial statements. We consider this to be a key audit matter as the goodwill amount is significant, the test has been performed for multiple operating segments for the first time and the current economic environment in Russia specifically requires management to exercise judgement in performing the impairment assessment.	We performed an evaluation of managements' assessment of the (change in) operating segments based on the criteria included in IFRS 8 Operating segments. Our evaluation included discussion with management, review of the internal reporting structure, the decision making process and how resources are allocated among business units of the Group. We audited the allocation of the goodwill to the operating segments based on the purchase price allocations at the time of the acquisitions. We subsequently evaluated the impairment assessment made by management to also ensure they were in accordance with IFRS. We challenged management's key assumptions underlying the cash flow forecasts such as revenue growth and corroborated them through comparison to management's internal forecasts, long term and strategic plans that were approved by the Board, external data and historical performance. We also involved our internal valuation experts to evaluate the applied weighted average cost of capital ("WACC") calculated by the Group and to assist us with the audit of the impairment calculation model. An independent WACC calculation was prepared and compared to the WACC that was used by management. The audit of the model included verification that the impairment methodology applied was in accordance with general practice and that the model was mathematically accurate.

Key audit matter | How our audit addressed the matter

Impairment of stores and other assets

Notes 10, 11 and 13 to the financial statements

Key audit matter

The Group operates in excess of 7,000 retail stores in Russia. The associated valuation of store- and other non-current assets, such as property, equipment and intangible assets, approximates RUB 200 billion and are considered a key audit matter due to the magnitude of the carrying value as well as the judgment involved in assessing the recoverability of the invested amounts as disclosed in note 3 to the financial statements. Management assesses annually the existence of triggering events for potential impairment of assets or reversals thereof related to underperforming stores. For the impairment assessment that is performed in accordance with Group policies and procedures, management first determines the value in use for each store and compares this to the carrying value, where the carrying value is higher than the value in use, the fair value less cost to sell is determined.

The policies used, for example, exclude recently opened stores from the impairment assessment as it takes from one to three years for a store to mature in terms of reaching its longer term revenue and profitability capabilities.

The judgement involved focuses predominantly on the WACC and future store performance, which is, among others, dependent on the expected revenue and the local competition. The expected revenue is determined by categorising stores by format and region and applying different growth rates for the various categories based on past years' development. Management assesses the impairment and impairment reversal annually using an internal calculation model.

Judgement is also involved for determination of the fair value of property undertaken on the basis of internal and external property valuation reports.

In 2015 management recognised net impairment losses of RUB 2.7 billion as disclosed in notes 10, 11 and 13 to the financial statements.

How our audit addressed the matter

Among other audit procedures, we performed an evaluation of the Group's policies and procedures to identify triggering events for potential (reversal of) impairment of assets related to underperforming stores.

We challenged management's key assumptions underlying the cash flow forecast such as revenue growth and corroborated them through comparison to management's internal forecasts and long term, strategic plans that were approved by the Board, external data and historical performance. We also involved our internal valuation experts to evaluate the applied WACC calculated by the Group and to assist us with the audit of the impairment calculation model. An independent WACC calculation was prepared and compared to the WACC that was used by management.

The audit of the model included verification that the impairment methodology was consistently applied and that the model was mathematically accurate.

We also involved our internal valuation experts to assess the (market) property valuations performed by the Group. The competency and independence of the external property appraisers was assessed and the property valuations reviewed to assess their adequacy.

Key audit matter | How our audit addressed the matter

Recognition of vendor allowances

Note 2.26 of the financial statements

Key audit matter

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

Key audit matter

During 2015 the RUB continued to devaluate against most major foreign currencies resulting in sustained high inflation and interest rates and negative economic growth in the Russia. As set out in the risk section of the Management Board report and note 30 to the financial statements, management is adapting its operational strategy to these developments and is managing and monitoring its financial risk management. As there is uncertainty on the implications of the crisis for the Group, management evaluated the potential impact for the 2015 financial statements, the most important being the liquidity assessment and the assumptions underlying the impairment assessment.

At 31 December 2015, the Group had RUB 144 billion of short and long term borrowings with a remaining average maturity of 1.5 years. The total amount of available credit lines and other financing as at 31 December 2015 is RUB 140 billion. Refer to notes 19 and 29 to the financial statements. The liquidity assessment is important for the Group and our audit as in addition to the increase in interest rates the liquidity in the Russian Federation's financial markets has decreased.

Additionally the economic slow-down could also impact the assumptions underlying the annual impairment calculation. As disclosed in notes 10 and 12 to the financial statements, the Company has made a sensitivity analysis focusing on those variables that are the most sensitive to the impairment calculation.

How our audit addressed the matter

We evaluated the Group's financing facilities (which are largely in RUB) and access to finance as part of our audit procedures. We confirmed the existing financing and available credit lines with contracts and providers of finance, compliance with covenants and evaluated the access to capital markets. We agreed the cash requirements for the 12 months following the date of the statement of financial position to the budget that was approved by the Board. We compared the assumptions used in the 2016 budget to external information and extended the evaluation to 12 months after the date of the financial statements.

We assessed the impact of these developments on the WACC that was used for the impairment assessment and the potential impact on the revenues and EBITDA, for example through estimating the impact of inflation and the purchases of goods or services in foreign currencies. The impact on the WACC, inflation, foreign currencies and EBITDA has been included in the impairment sensitivity calculations.

Responsibilities of the Management and the Supervisory Board

Management is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Management Board report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and for
- such internal control as the management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management should prepare the financial statements using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the Management Board report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the Management Board report and other information):

- We have no deficiencies to report as a result of our examination whether the Management Board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the Management Board report, to the extent we can assess, is consistent with the financial statements.

Our appointment

We were appointed as auditors of X5 Retail Group N.V. by the shareholders at the annual meeting held on 16 June 2006 and have been re-appointed annually by the shareholders representing a total period of uninterrupted engagement appointment of 10 years.

Amsterdam, 17 March 2016
PricewaterhouseCoopers Accountants N.V.
A.G.J. Gerritsen RA

Appendix to our auditor's report on the financial statements 2015 of X5 Retail Group N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Concluding on the appropriateness of the management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the Company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

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