X5 RETAIL GROUP

Focusing on retail basics

Annual Report and Accounts 2013

Focusing on the basics of retail

In 2013, we strengthened our basic retail operations in order to consistently provide the right offer in line with the value propositions of our formats and the desires of our customers.

During the year we also introduced a number of initiatives to improve the basic retail operations of our business and to provide our formats with more focused service and a better set of tools to deliver value to customers.

The changes we made to our operational model and management team will support our back-to-basics initiatives and provide the framework, know-how and vision necessary to take advantage of the opportunities in the dynamic Russian retail market.

Visit the investor relations section of our website

www.x5.ru/en/investors

Strategic report

Governance

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Overview

"

After a challenging year I believe we have a great opportunity to move into a phase of balanced and sustainable growth by focusing strongly on retail basics and making the most of our strengths and market opportunities."

Stephan DuCharme
CEO

Our focus

Back to basics retail...

During 2013, we continued with our efforts to move closer to the stores and better serve our customers. This involved changes to our product range – focus on fresh – as well as improved availability and in-store operations, routines and processes. These changes were supported by improvements in personnel training, accountability and refreshed format value propositions.

- **Product range and availability**
  Focus on fresh
- **Personnel**
  The right people, the right experience
- **Brand differentiation**
  Strong brands, popular formats
- **Improving our supplier relationships**
  Delivering more for our customers

Read more on pages 8-9

Strengths...

- **New operational model**
  Supporting multi-format strategy
- **New team**
  Delivering our strategy
- **Updated value propositions**
  Covering all market segments
- **Robust IT platform**
  X5's competitive advantage

Read more on pages 10-11

Opportunities...

- **Trends in the market**
  A growing retail market
- **Favorable market fundamentals**
  The largest retail market in Europe
- **Russian consumer**
  Open to innovation, differentiation and communication

Read more on pages 12-13

At a glance

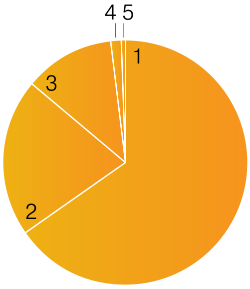
To take advantage of our unique opportunity we have a new structure which reinforces our format strategy and value propositions

The right operational model...

Our new model provides formats with more focused service and a better set of tools to deliver value to customers.

- Globally most multi-format retailers provide significant operational independence to individual formats.
- Dedicated operations, category management and supply chain teams focus on customer needs, drive sales and avoid convergence of format value propositions.
- Purchasing power is preserved through joint negotiations with common suppliers.
- The business processes of discounters are simpler than those of bigger formats.
- The new model provides all formats with more focus on cost control.
- Logistics requirements differ amongst formats: in terms of centralization levels, assortment and assortment size, and frequency of delivery.

2013 net retail sales by format (%)



1. Pyaterochka	65.4%
2. Perekrestok	20.8%
3. Karusel	12.1%
4. Express	1.5%
5. E5.RU	0.3%

...delivering more effective brands

Пятёрочка

3,882 STORES

Pyaterochka, a chain of conveniently located economy class stores, is one of the leading national brands. Pyaterochka stores are focused on simple, easy and economical shopping. The brand offers quality fresh products and a non-food assortment supported by attractive promotional events and customer communication. Pyaterochka accounted for 65.4% of X5's total 2013 net retail sales.

Read more on pages 24-27

Перекресток СУПЕРМАРКЕТ

390 STORES

Perekrestok is the leading national supermarket chain in Russia. Perekrestok strives to be the customer's first choice for fresh products supported by the right assortment and price strategy. Green Perekrestok is a premium version of the original brand and offers an extended range of high-quality products at the best prices in the premium supermarket segment. Perekrestok accounted for 20.8% of X5's total 2013 net retail sales.

Read more on pages 28-31

гипермаркет КАРУСЕЛЬ

83 STORES

Karusel is one of the largest hypermarket chains currently operating in the Russian market. It offers customers convenient one-stop shopping at fair prices in city locations with a wide range of quality food and non-food products, efficient service at cash registers, engaging weekly catalogues and a loyalty program. Karusel accounted for 12.1% of X5's total 2013 net retail sales.

Read more on pages 32-35

Перекресток ЭКСПРЕСС КОПЕЙКА ВКУСНО! ДОСТУПНО! УДОБНО!

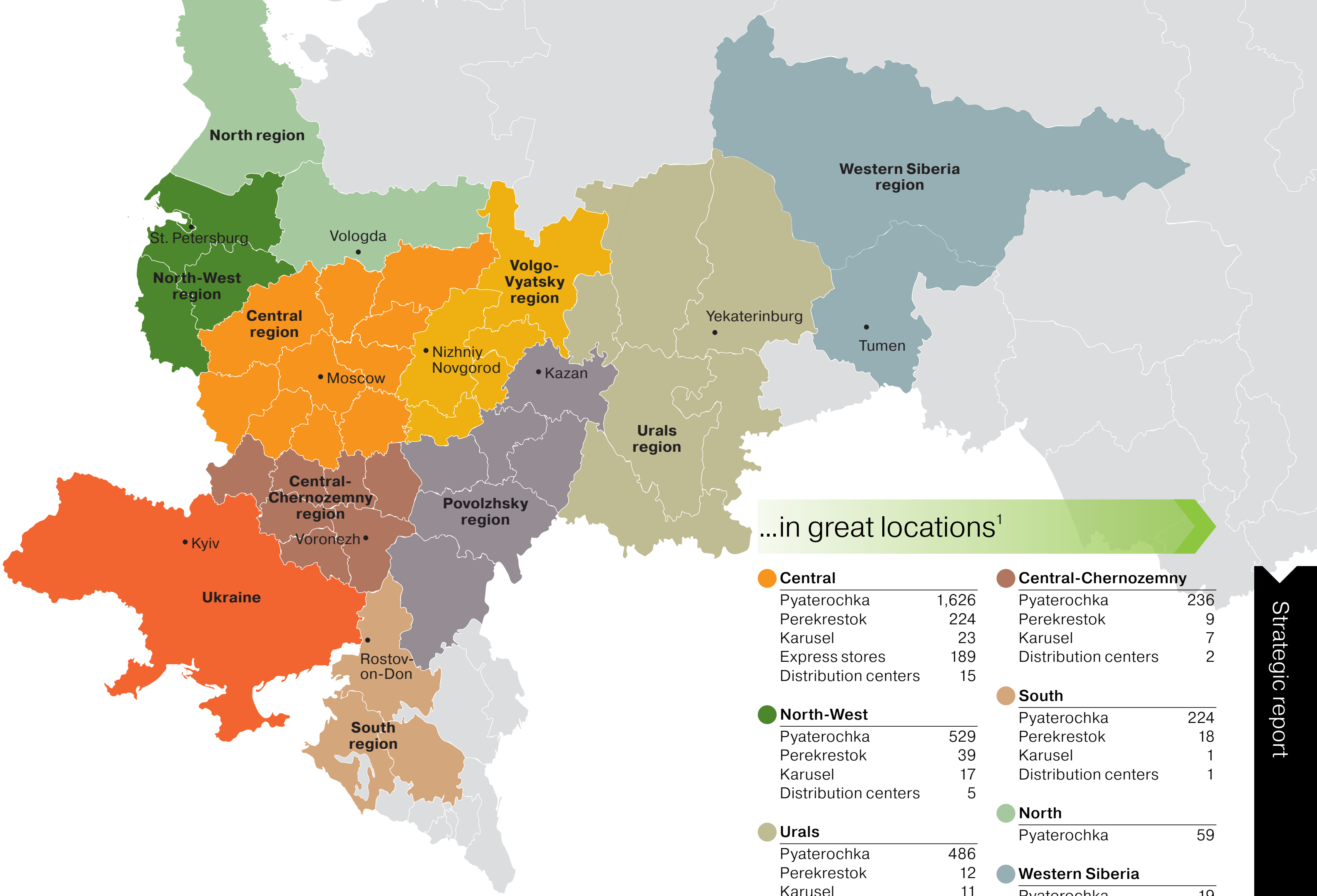
189 STORES

Express stores operate under the **Perekrestok Express** and **Kopeyka** brands and offer convenient shopping for people in a hurry. The Perekrestok Express brand offers ready-to-eat meals in high-traffic zones – near subways, airports, train stations and business centers – while the Kopeyka brand offers convenient shopping in residential areas with a focus on fresh products. Express stores accounted for 1.5% of X5's total 2013 net retail sales.

Read more on pages 36-39

E5.RU

E5.RU is our online retail channel that complements the Company's traditional non-food sales channels, increases traffic in the Company's stores and provides access to new sales opportunities in the growing Russian internet space. The brand was launched in early 2012 and contributed around 0.3% of net retail sales in 2013.



...in great locations[1]

Central

Pyaterochka	1,626
Perekrestok	224
Karusel	23
Express stores	189
Distribution centers	15

North-West

Pyaterochka	529
Perekrestok	39
Karusel	17
Distribution centers	5

Urals

Pyaterochka	486
Perekrestok	12
Karusel	11
Distribution centers	5

Povolzhsky

Pyaterochka	412
Perekrestok	44
Karusel	14
Distribution centers	3

Volgo-Vyatsky

Pyaterochka	291
Perekrestok	26
Karusel	9
Distribution centers	1

Central-Chernozemny

Pyaterochka	236
Perekrestok	9
Karusel	7
Distribution centers	2

South

Pyaterochka	224
Perekrestok	18
Karusel	1
Distribution centers	1

North

Pyaterochka	59

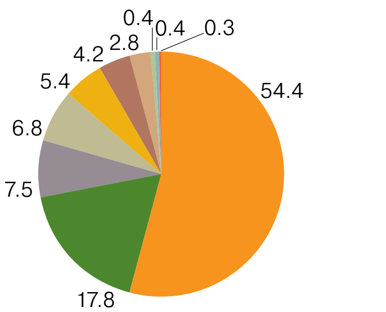
Western Siberia

Pyaterochka	19
Perekrestok	6
Karusel	1

Ukraine

Perekrestok	12

2013 net retail sales by region (%)



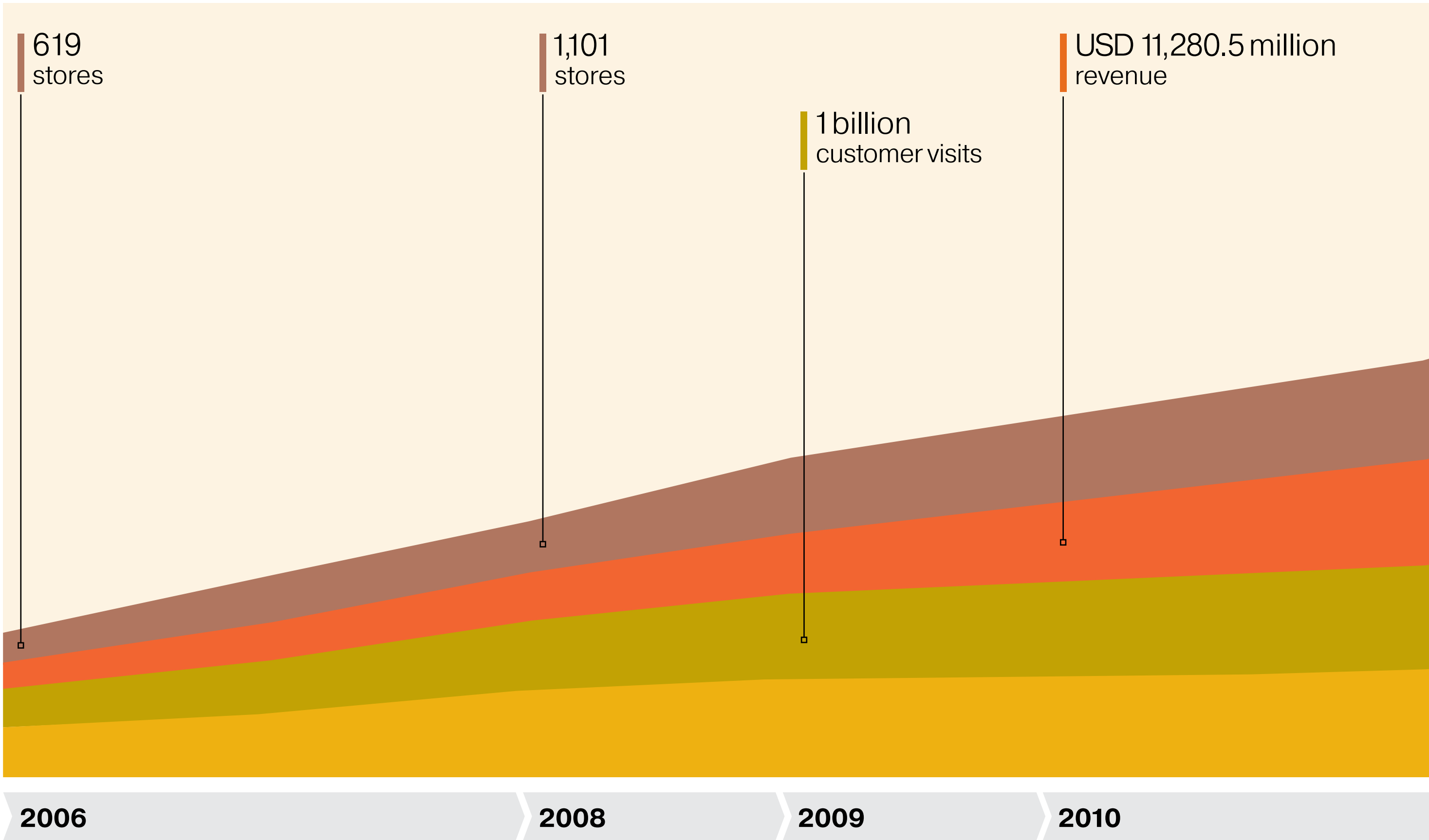
...establishing a platform for sustainable growth[1]

Stores	2009	2010	2011	2012	**2013**
Central	598	1,271	1,443	1,770	2,062
North-West	353	408	478	530	585
Central and North-West regions	**951**	**1,679**	**1,921**	**2,300**	**2,647**
Urals	162	200	254	391	509
Povolzhsky	99	218	280	371	470
Volgo-Vyatsky	65	151	221	276	326
Central-Chernozemny	37	129	162	209	252
South	46	83	140	198	243
North	3	0	11	32	59
Western Siberia	3	3	3	13	26
Other regions	**415**	**784**	**1,071**	**1,490**	**1,885**
Ukraine	6	6	10	12	12
Total	**1,372**	**2,469**	**3,002**	**3,802**	**4,544**

[1] According to the economic classification of Russian regions promulgated by the Ministry of Economy. This classifications differs from previously reported information regarding the regional breakdown of our store base, which was based on internal definitions of regions and which has changed in 2013 for some brands. The regional breakdown of stores and sales reported in the 'Our brands' section are based on the new internal definitions for each brand.

Our history

Building towards balanced and consistent growth



A history of achievement

2006
- Merger of Pyaterochka and Perekrestok.
- Renamed X5 Retail Group N.V.
- More than 600 stores under management.
- Presence in 21 Russian provinces.

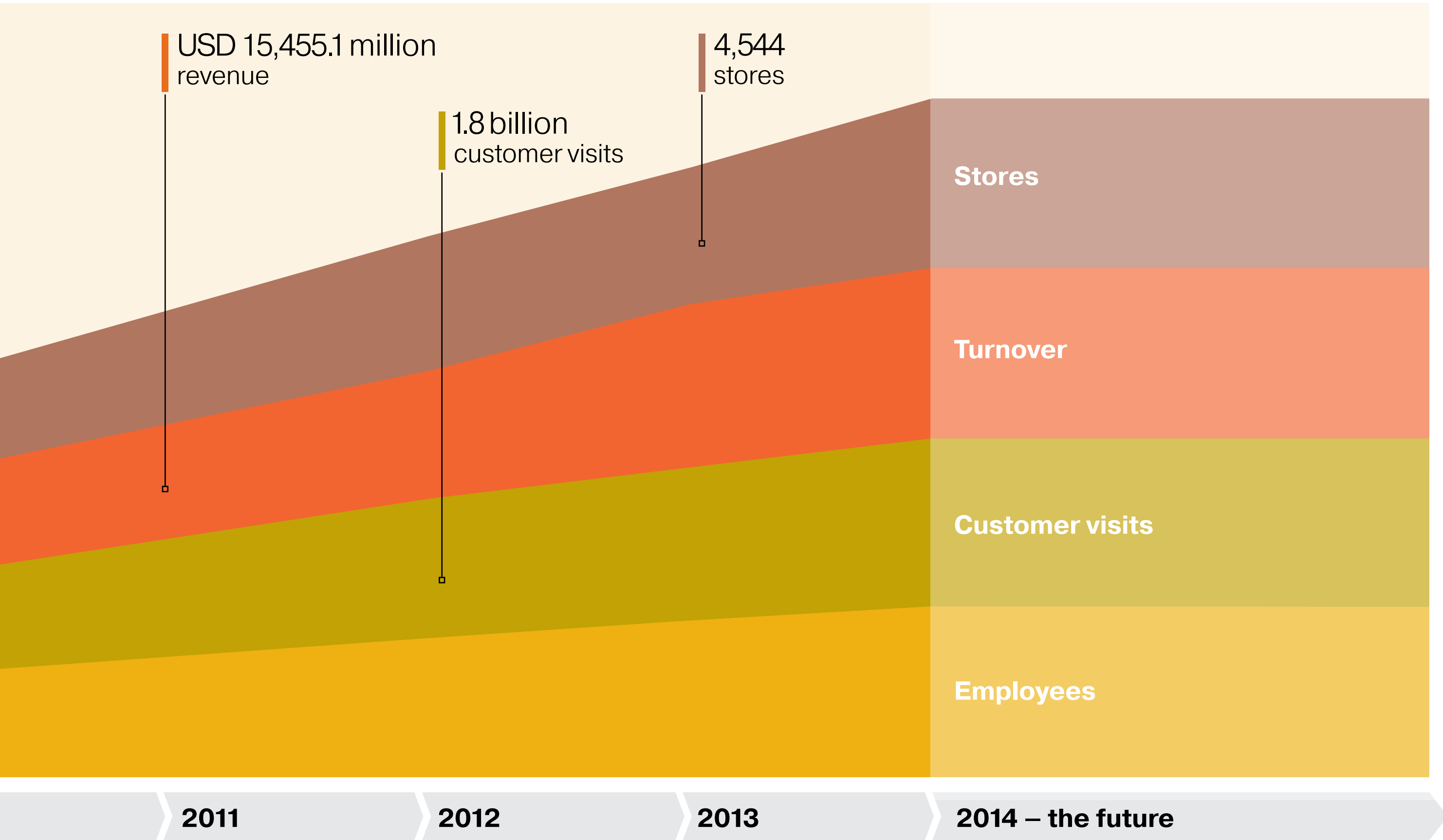
2008
- X5 acquires Karusel hypermarket chain.
- X5 opens 1,000th store.

2009
- 1,000th soft discounter opened.
- Total X5 store base exceeds 1,370 stores.

2010
- X5 acquires Kopeyka discounter chain.

We are well positioned to take advantage of Russian retail market opportunities to achieve balanced and consistent growth and generate sustainable value

Read more on pages 8-15



Building towards balanced and consistent growth

2011
- X5 opens 3,000th store.
- Over 1.6 bln customer visits.
- 577 stores added organically.
- Successful completion of SAP IT platform.
- X5 gains full control of convenience stores.

2012
- Transformation to multi-format organizational structure.
- Roll-out into 'Other' regions (presence in 47 Russian provinces).
- Launch of E5.RU internet store.
- Focus on corporate values.

2013
- 742 stores added organically.
- Introduction of new operating model.
- Roll-out of SAP auto-ordering at Pyaterochka.
- Launch of Pyaterochka rebranding initiatives and store refurbishment program.
- Development of corporate culture.
- Improved corporate governance.
- Focus on back-to-basics retail initiatives.

The future
- Roll-out JDA replenishment and demand planning software solution.
- Convert multi-format distribution centers to mono-format Pyaterochka or Perekrestok/Karusel distribution centers.
- Remain focused on 'back to basics' retail initiatives across X5.
- Continue to develop category management principles and roll-out store refurbishment program at Pyaterochka.
- Confirm Perekrestok positioning; including assortment and pricing strategy and store concept.
- Validate and begin roll-out of Karusel hypermarket concept.
- Continue sustainable, organic growth at all of our formats.

Chief Executive Officer's strategic review

Dear fellow shareholders
2013 was a year of positive change for X5, and I am pleased to report that over the past 12 months we have made significant progress in transforming our business. Throughout the year, the turnaround continued to gather momentum as we rolled out initiatives focused on getting the retail basics right underpinned by strategic changes in our operating model as well as our management team.

These changes were necessary to support the sustainable long-term growth of our business and have contributed to the turnaround taking longer than initially anticipated. However, the further decentralization of our operating model and roll out of 'back-to-basics' initiatives are starting to yield positive results – as demonstrated by our encouraging fourth quarter. More importantly, these initiatives are based on sustainable principles and provide the foundation for continuing improvements.

Although top-line growth of 8.7% fell short of our initial guidance, we finished the year strongly with 12% RUR revenue growth in the fourth quarter, led by Pyaterochka's top-line increase of 14%. More importantly we demonstrated significant improvement in total like-for-like sales, which increased by 4% for the quarter and were underpinned by positive traffic at all our formats.

Notably, and in the face of an operationally challenging year, we met our profitability guidance for 2013, delivering an EBITDA margin of 7.2%. During the year, we balanced the results of successful negotiations with suppliers with the need to invest in customers, while continuing to demonstrate tight cost controls.

Back to basics
Our fourth quarter results begin to reflect operational successes on different levels, and were supported by the increased focus on the basics of retail operations.

Products and promotional offers have improved across the network, both in terms of quality and selection. We focused on expanding fresh and non-food offerings as well as ensuring that the formats' promotional offers are relevant and accompanied by effective communication.

Improved product availability levels, peaking during the crucial holiday season, throughout the fourth quarter were due to improvements in logistics and in-store operations, which were supported by the roll-out of SAP auto-ordering software at Pyaterochka stores.

“

We have completed a thorough review of our structure and positioning and have now aligned our core business strengths so as to properly take advantage of our market opportunities.”

Stephan DuCharme
CEO

We have also continued to invest in our stores and in improving the customer experience. The rebranding of Pyaterochka has improved not only the look and feel of the stores but also service and quality. At Karusel we have rolled out several store models based on the new brand book, revised assortment and merchandising guidelines, which will help us realize the growth potential of this format. Finally, at Perekrestok we continued to invest in store redesigns, including the launch of popular in-store concepts like the ‘New Ocean’ fish market.

I am especially encouraged at how the executive team worked together to ensure proper planning and execution across all of the above-mentioned and other initiatives. We have worked hard this year to improve internal communication and transparency about the ongoing transformation and to create a team-oriented culture focused on supporting our stores and serving customers.

The right model
To establish a platform for sustainable growth, we are intent on creating a culture and organization focused on supporting stores and serving customers. The new operational model will allow the formats, and X5 overall, to do so.

Formats are responsible for their own assortment thus driving both product sales and margins. These KPIs will ensure that the goods we purchase for our shelves will be in line with our customers’ needs and will be at the best possible price. We will of course continue to harness the combined purchasing power across X5 and to focus on developing long-term relationships with suppliers.

Separating centralized supply chain activities into two dedicated functions, one for Pyaterochka and the other combined for Perekrestok and Karusel, will reinforce individual brand strategies to provide focus on different brand value propositions and assortments. This decision reflects, among other things, differences in geography, assortment sizes and warehouse requirements, as well as replenishment schedules.

The separation of the existing logistics services and infrastructure will be carried out during the course of 2014. We initiated this process in the second quarter of 2013 in the Moscow region for Pyaterochka and already see positive results in warehouse and transportation management, resulting in improved availability.

Under our new model, the head office will provide value-additive support to the formats, enabling them to become more customer- and store-oriented. Minimizing the number of layers between senior managers and stores will drive faster decision-making and continuous top-down and bottom-up feedback cycles will increase speed and innovation.

The right team
I am pleased with the way X5’s executive management has continued to evolve in 2013 into a stronger, more balanced team with shared business values, common goals and better communication. This team has the leadership capabilities to complete the turnaround.

The addition of Olga Naumova as General Director of Pyaterochka has proven to be a key driver in the format’s transformation and performance. Olga has successfully overseen the structural changes to Pyaterochka’s operating model as well as establishing the necessary internal structure and team to manage the format’s complexity and scale. The Pyaterochka rebranding and refurbishment initiative has been well received by the Russian consumer and we expect Olga and her team to continue surprising customers every day!

We also welcomed Janusz Lella to the team as the new General Director for Perekrestok. Janusz has an extensive Russian retail background and was instrumental in driving efficiencies and execution as part of the senior management team at M.video. He is already having an impact at Perekrestok and we expect a renaissance at this format under his leadership in 2014.

Janusz replaces Valeriy Tarakanov, who initiated the format’s ‘focus on fresh’ value proposition. I want to personally thank Valeriy for agreeing to take on this role in 2012 while continuing to manage our Express store format, which he founded. Valeriy has been working with us under an earn-out agreement that expired at the end of 2013 and has decided to pursue other interests. We wish him all the best.

The future
We have set an ambitious program for 2014; however, I am certain that by remaining focused on disciplined execution of both retail operations and our various change projects we will be successful.

We have made significant progress in 2013 in strengthening our team, our operations and our multi-format operating model, which gives me confidence that we are on the right path and can deliver the results our customers and shareholders expect.

On behalf of the Executive Board I would like to sincerely thank our shareholders and bond holders for their support and patience. Most importantly I would like to thank our customers and employees for their continued loyalty and support of X5.

Stephan DuCharme
CEO

Chief Executive Officer's strategic review

continued

Back to basics retail

Product range and availability – focus on fresh produce and meeting our customer needs

In 2013, we made substantial progress in improving our assortment across all formats and categories via the introduction of category management principles, assortment expansion and rotation, an increased share of direct import and private label.

- We conducted category reviews across all the formats, replacing SKUs that didn't appeal to customers. Pyaterochka expanded its assortment by 300 SKUs and introduced a weekly rotation of up to 50 SKUs from 1 October 2013 as a part of the 'New Pyaterochka' rebranding program.
- Our product availability improved, driven by improvements in logistics and in-store operations, which were supported by SAP auto-ordering software at Pyaterochka stores.
- Our focus on fresh across all subcategories was supplemented by the launch of the New Ocean seafood market in Perekrestok stores, which targets the rising demand for fish on the Russian consumer market.

Read more on pages 40-41

Quality products at the right price

Personnel – the right people, the right experience

Changes to the Executive Board in 2013 resulted in a stronger, more balanced management team with shared business values, common goals and better communication.

In order to achieve sustainable growth we also need efficient recruitment processes, extensive personnel training and development programs that provide employees with the opportunity to grow, and appropriate motivation and compensation tools.

- **Recruitment.** In 2013, our format HR services made significant progress in increasing the efficiency and standardization of the recruitment process, while at the same time further customizing the business processes of the respective retail chains and regional HR offices in order to decrease outsourcing levels in 2014.
- **Training.** Our training programs encompass all personnel levels from senior managers to store personnel. In order to support format operating initiatives our training activities were focused on improving customer service skills and handling fresh products.
- **Motivation.** In 2013, we have reviewed our employee motivation and compensation practices in order to become more in line with market rates and to attract and retain quality employees.

Read more on pages 46-49

Training activities focused on client interaction and working with fresh products

Brand differentiation – strong brands, popular formats

We operate six distinct brands in various market segments – from economy to middle-class and premium shopping – with unique value propositions that suit a wide range of shoppers and budgets. In 2013, we focused on reinforcing our value propositions through improved in-store routines and processes to deliver reliable customer service and quality products.

Pyaterochka
Pyaterochka stores are focused on simple, easy and economical shopping. The brand offers quality fresh products and a non-food assortment supported by attractive promotional events for customers.

- Approximately 3,500 active stock-keeping units.
- Average selling space of approximately 350 square meters.
- Average ticket – 274.4 RUR.

Perekrestok
Perekrestok strives to be the customer's first choice for fresh products, supported by the right complementary assortment and price strategy.

- Approximately 11,000 active stock-keeping units.
- Average selling space of approximately 1,000 square meters.
- Average ticket – 412.0 RUR.

Karusel
Karusel hypermarkets offer customers convenient one-stop shopping at fair prices in city locations, with a wide range of quality food and non-food products, efficient service at cash registers, engaging weekly catalogues and a loyalty program.

- The stores carry on average between 18,000 and 25,000 stock-keeping units, depending on the store size, and 8,000 additional seasonal items.
- Average net selling space of between 3,000 and 4,500 square meters.
- Average ticket – 600.7 RUR.

Perekrestok Express and Kopeyka
Express stores target the profitable and less competitive market niche of small, close-to-customer stores with a focus on ready-to-eat food and fresh produce.

- Approximately 3,000 active stock-keeping units.
- Average selling space of approximately 150 square meters.
- Average ticket – 254.3 RUR.

E5.RU
E5.RU is the X5's online retail channel that complements the Company's traditional non-food sales channels, increases traffic in the Company's stores and provides access to new sales opportunities in the growing Russian internet space.

- More than 1.8 million non-food items in the online catalogue.
- Average ticket – 1,366.2 RUR.

Read more on pages 24-39

Improving our supplier relationships – delivering more for our customers

Better communication
As part of moving closer to the customer we strive to improve our relationships with our partners and suppliers. To achieve this goal we organized the first annual supplier conference in September 2013, where X5 presented the Company's plans and approach to supplier-related issues concerning assortment, business processes, communication, category management and the Company's annual negotiation campaign. The conference also provided a forum for an open dialog between X5 and suppliers to address current issues of concern. At the conference we resolved to work more closely with our suppliers to ensure that all issues would be addressed in a timely manner and to maximize the benefits of our relationship.

Better cooperation on assortment
The introduction of category management principles provides us with an opportunity for better cooperation on assortment. When making category reviews and assortment decisions we now take into account suppliers' input and feedback as well as sharing sales statistics and where appropriate forecasts and plans with suppliers. This new cooperation will help us make better decisions on the product range as well as simplify the process of new product introduction.

Read more on pages 42

Chief Executive Officer's strategic review

continued

Our strengths

6
unique brands

Robust IT platform – X5's competitive advantage

- Expanding and improving IT capabilities.
- Fully integrated SAP retail platform – a base no other Russian retailer has and one that we have not yet used to the fullest potential.
- Scalable IT platform to allow company growth: from both the physical store perspective as well as virtual world.
- Robust IT systems that provide opportunities for improved data capture and analysis.
- Replenishment tools introduced in 2013 and 2014 have/will improve on-shelf availability and will enable better inventory management.
- E5.RU has one of the most extensive on-line offers in the market.

Read more on pages 40-43

Strong technological systems and leadership

Updated value propositions – to cover all market segments

- Unique brand identities supported by differentiated value propositions and relevant assortments.
- All value propositions underpinned by focus on freshness, quality and service.
- Effective communication strategy to support brand recognition and grow market share.
- Better customer experience due to improved quality, reliability and in-store experience.

Read more on pages 22-39

Пятёрочка

Перекресток ЭКСПРЕСС

Перекресток СУПЕРМАРКЕТ

КОПЕЙКА ВКУСНО! ДОСТУПНО! УДОБНО!

гипермаркет КАРУСЕЛЬ

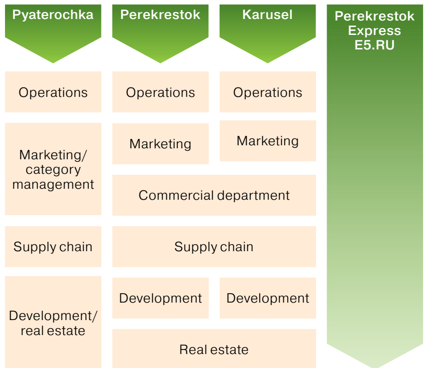
E5.RU

Brand autonomy supported by effective management team and operational model

New operational model – to support multi-format strategy

- Establishing a platform to deliver sustainable growth, reinforce individual brand strategies and focus on different brand value propositions.
- New model provides formats with more focused service and a better set of tools to deliver value to customers.
- Focused service will improve store operations: the previous centralized service meant average service for all but the new customized service will respond to specific format needs and improve operations.
- Provides a better shopping experience for the customer with an appealing assortment and good on-shelf availability.

Read more on pages 18-19



The right team – to deliver our strategy

- Balanced management team with shared business values, common goals and improved communication.
- Strong support from divisional teams with experienced Russian and international retailers.
- Proven track record of delivering change management and executing on strategic objectives.
- Developing a corporate culture within individual formats and promoting team spirit.

Read more on pages 62-63

Our values

- Professionalism
- Result oriented
- Client orientation (external/internal)
- Ethics and values
- Honesty and trust

Chief Executive Officer's strategic review
continued

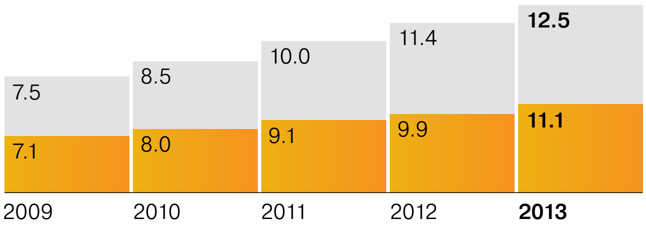
Our opportunities

Trends in the market

- Support for real wage growth for consumption expansion.
- Growth in modern retail has significantly outpaced overall market growth in past five years.
- More government stimulus, with an increase/focus on social spending.
- Strong purchasing power strength resulting in improved commercial terms.
- Potential positive legislative changes, tax deductibility of shrinkage.

Read more on pages 14-15

Russian retail market 2009-2013 (RUR trillion)



Non-food retail
Food retail
Source: Rosstat.

18.9%

overall Russian food retail market share of top five retailers

3.9%

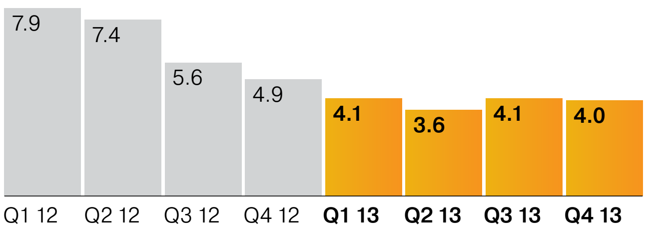
2013 growth in Russian retail sales

Favorable market fundamentals

- Russia is the largest grocery retail market in Europe, with approximately USD 349 billion in sales, including VAT. (Source: Rosstat)
- Modern formats accounted for just 58% of the total 2013 Russian food retail market, including open markets. (Source: Infoline)
- The top five Russian food retailers hold less than 20% of the market.
- Low unemployment at 5.5%; growth in real wages at 5.3%; and decreasing inflation at 6.8% in 2013 and 5.0% ± 1.5% targeted for 2014.

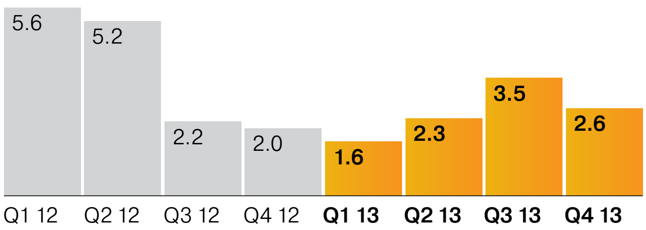
Read more on pages 14-15

Retail sales growth (real) (% year on year)



Source: Rosstat.

Food retail sales growth (real) (% year on year)

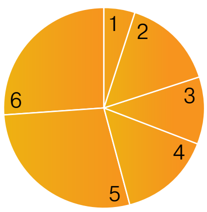


Source: Rosstat.

Regional expansion

- In 70% of the regions where X5 is present the Company has 70 stores or less.
- X5's market share is less than 15% in approximately 80% of the municipalities where its stores are located.
- X5's low store concentration in these regions as well as Russian's generally low modern retail penetration provide future opportunities for growth and economies of scale.

X5 store base – regional concentration
(% of regions with the following number of stores)

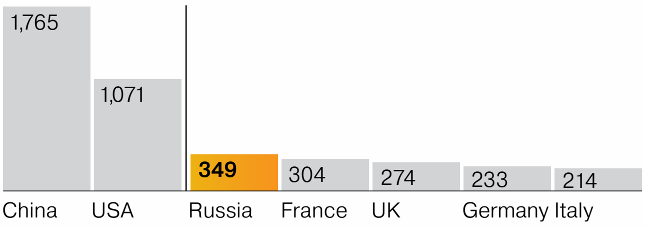


1. >750	5%
2. 150-300	15%
3. 70-150	11%
4. 50-69	15%
5. 30-49	28%
6. <30	26%

The Russian food retail market

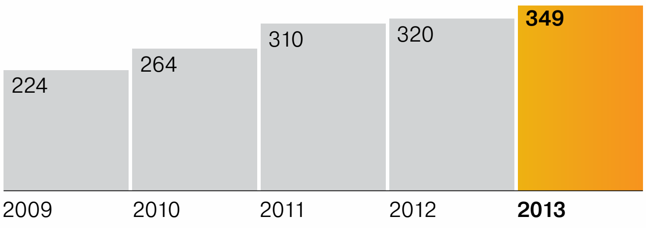
5.5%
X5's market share

Largest global and European food retail markets 2013 (USD bln)



Sources: Planet Retail, Rosstat.

Russian food retail market 2009-2013 (USD bln)



Sources: Infoline, X5 estimates.

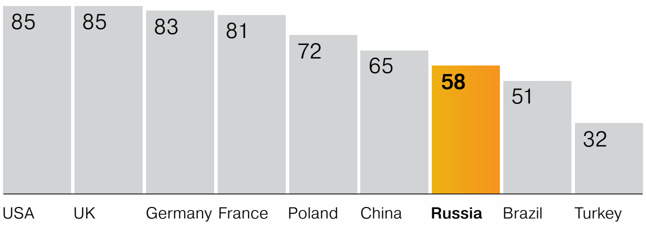
Largest European market

The Russian food retail market is the largest in Europe and amongst the largest globally.

Large and growing food retail market

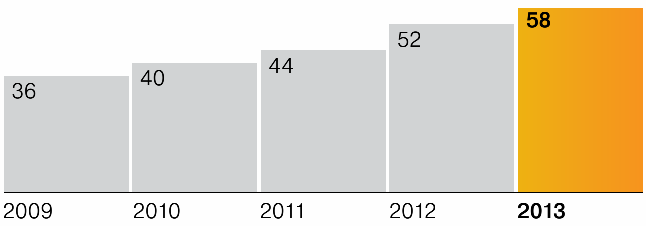
The Russian food retail market continued to grow in 2013 and increased by 9.1% in USD terms/11.7% in RUR terms according to Rosstat.

Modern retail penetration (%)



Note: Euromonitor uses different methodology from Planet Retail, which explains why market size numbers do not match with modern retail penetration numbers.
Sources: Euromonitor, Infoline.

Modern retail penetration share evolution in Russia (%)



Sources: Infoline, X5 estimates.

Modern retail penetration is still below other retail markets

Penetration of modern retail formats is still below the level of developed and more advanced emerging markets. According to Infoline estimates modern retail constituted 58% of the total Russian food retail market in 2013, far below other markets.

Modern retail penetration is expected to continue growing

The share of modern retail penetration increased from 36% in 2009 to 58% in 2013 reflecting the higher rate of growth for modern retailers, particularly top ten retailers. The top ten Russian retailers grew at 21.3% CAGR in 2009-2013, which is ahead of the 11.4% food retail market overall CAGR for the same period.

The retail trade sector is one of the key contributors to the Russian economy in terms of GDP, employment and investment

Russia's leading food retailers

	Company name	Net retail sales 2013, USD mln[1]	Percentage share in top ten	Percentage share of total food retail market
1	Magnit	17,824	24.8%	5.8%
2	X5 Retail Group	16,726	23.3%	5.5%
3	Auchan	11,911	16.6%	3.9%
4	Metro	5,768	8.0%	1.9%
5	Dixy	5,617	7.8%	1.8%
6	Lenta	4,530	6.3%	1.5%
7	O'Key	4,323	6.0%	1.4%
8	Seventh Continent	1,852	2.6%	0.6%
9	Monetka	1,677	2.3%	0.5%
10	Maria-Ra	1,633	2.3%	0.5%
	Total	**71,861**	**100.0%**	**23.5%**

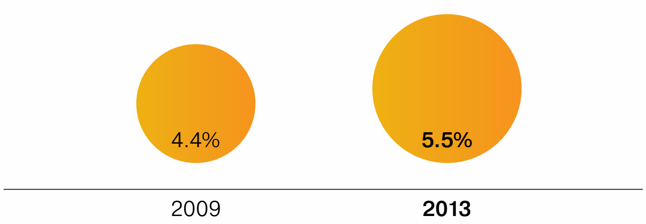
[1] Planet Retail and X5 estimates for non-public companies; Magnit sales exclude cosmetics stores' sales.

Sources: Rosstat, Planet Retail, companies' data, X5 estimates.

Market remains fragmented

The top ten Russian retailers account only for 23.5% of the market, which is substantially below comparable statistics in peer markets; however the figure is significantly above the 16.9% of 2009.

X5's market share growth 2009-2013 (%)

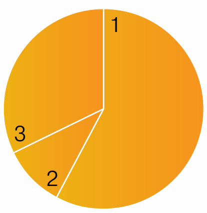


Sources: Rosstat, X5 estimates.

Expanding market share

In spite of being one of the largest Russian food retailers, X5 holds only a 5.5% market share, which implies substantial opportunities for growth and consolidation in the Russian market.

Russian retail market structure 2013 (%)

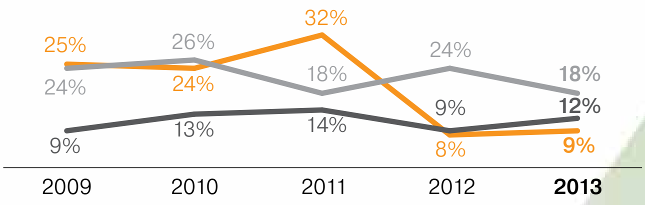


1. Modern retail 58%
2. Open markets 10%
3. Other 32%

Traditional retail is still a large part of the market

Modern retail continued to grow in 2013. Discounters are the most popular format with a 24% share (out of 58%) which reflects the current level of consumers' income and preferences. Hypermarkets and supermarkets account for 16% and 12%, respectively, while the share of convenience formats is 6%.

Food retail turnover – Top 10 vs X5 (%)



X5 – Net retail sales
Top 10
Food retail turnover

Sources: Rosstat, Planet Retail, X5 estimates, companies' data.

Higher rate of growth for top-10 retailers

Food retail turnover growth in nominal terms accelerated in 2013 to 11.7%, compared to 9.4% in 2012, on the back of higher food inflation.

Our strategy

Leveraging our scale and multi-format value proposition to capture greater wallet share by providing the best customer experience in the dynamic Russian food retail market

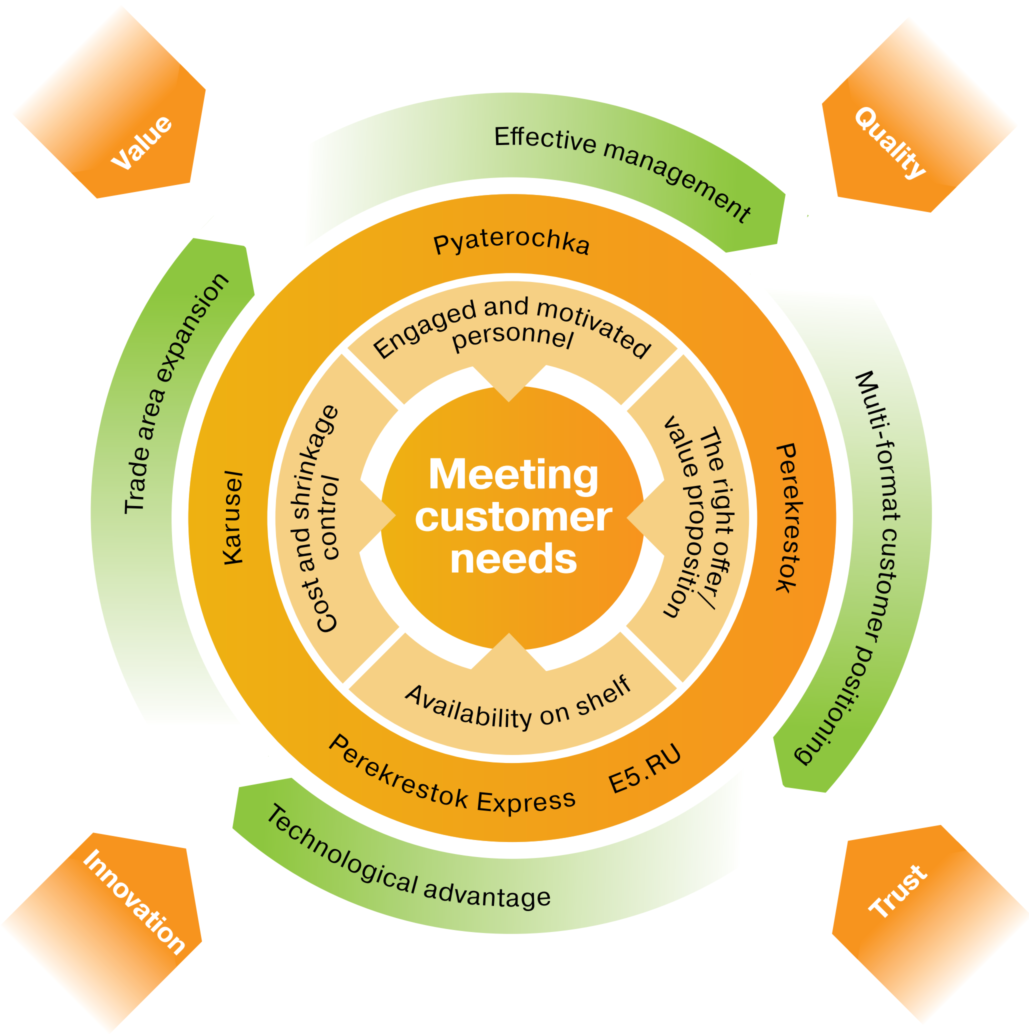
Our strategy	Strategic objective	Progress in 2013
Building on our formats' strengths	Regain market leadership through differentiated brands and motivated employees.	New operational model for further format independence; updated format value propositions; improved corporate culture and employee motivation.
Developing operational efficiency	Ongoing improvements to operations through optimizing supply chain, improving in-store operations and introducing new technologies.	Adoption of new operational model for supply chain; improvement in operational routines; supply route optimization; reduction in losses, roll-out of SAP auto-ordering.
Growing sustainably	Organic expansion in core and developing regions while supporting local communities.	Increased net selling space by 12.9%; created new jobs by adding 742 new stores; worked on increasing share of local suppliers in our regional assortment.
Focus on customers and cost control	Increase store traffic by improving value proposition to customers while maintaining cost discipline.	Improved product availability in our stores; improved and expanded assortments; improved promotions and customer communication; better supplier terms; met profitability guidance.
Ensuring effective management and strong governance	Build effective teams and governance framework to achieve the Company's goals.	Filled key management positions; improved execution; improved organizational structure for Pyaterochka and Karusel; developed corporate culture; improved independent composition of the Supervisory Board and strengthened Management Board.

Actions for 2014	KPIs aligned to our strategy	Risks associated with our strategy
Separation of logistics infrastructure; adopt category management principles for Perekrestok/Karusel; develop Karusel expansion strategy; reduce employee outsourcing.	Total revenue. LFL sales, traffic and basket. Commercial margin. Gross margin. EBITDA margin. Selling space added. Staff numbers, turnover rate and outsourcing levels.	Consumer behaviour. Market competitiveness. Human resource and employee retention. Operational risks.
Continue roll-out of new operational model; complete SAP auto-ordering in Pyaterochka; continue roll-out of JDA replenishment and demand planning software solution.		Operational risks related to product range, pricing, supplier relationships, customer relations, sales. Adequacy of IT systems. Financial risks.
Organic growth of 10.5%, create new jobs and opportunities for local suppliers and independent service contractors in the regions where we are growing.		Financial risks. Regulatory environment. Risks related to finding and managing retail locations. Litigation risks. Changes to consumer behaviour. Taxation.
Consolidate our gains from 2013 and continue to focus in these areas; maintain EBITDA margin between 6.8-7.2%.		Operational risks. Human resource and employee retention. Product safety risks. Financial risks. Risks related to ability to promote culture of integrity.
Finalize organizational structure for Perekrestok; continue cultivating corporate culture and team spirit.		Human resource and employee retention. Risks related to ability to promote culture of integrity.

Our business model

The combination of our business model and new operational structure reinforces format strategy and value propositions

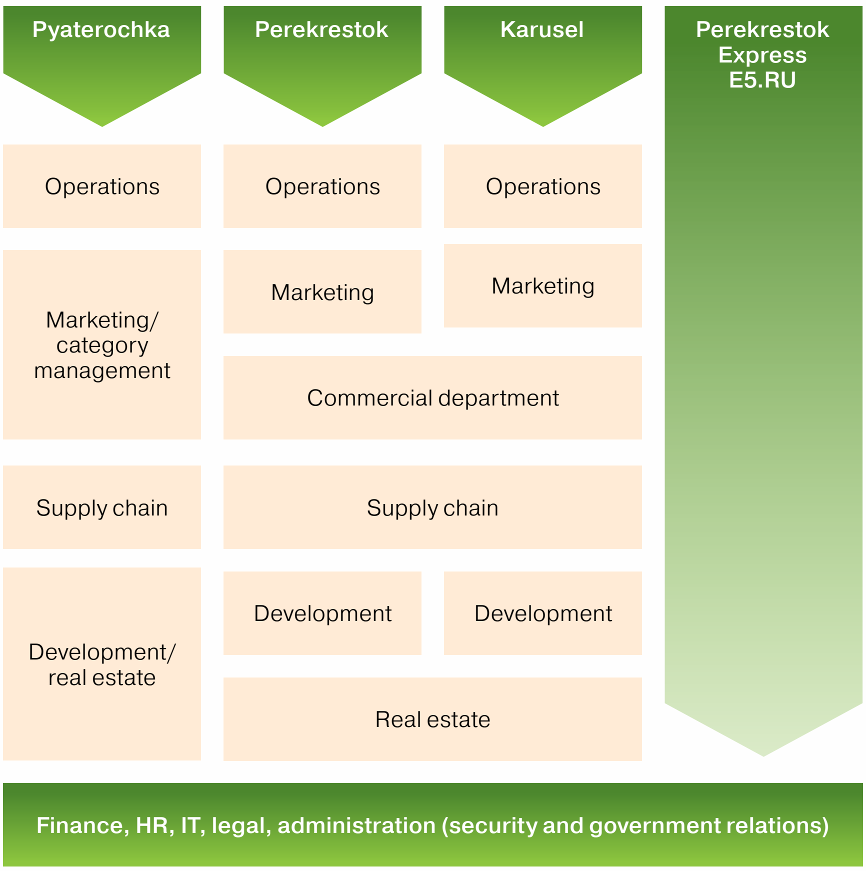
Our business model



Strong business model driving value generation

More focused service and a better set of tools to deliver value to customer

Our operational model



Our new structure reinforces format strategy and value propositions:

- globally most multi-format retailers provide significant operational autonomy to individual formats;
- dedicated operations, category management and supply chain teams focus on customer needs, drive sales and avoid convergence of format value propositions;
- purchasing power is preserved through joint negotiations with common suppliers;
- the business processes of discounters are simpler than those of bigger formats;
- provides all formats more focus on cost control; and
- logistics requirements differ between formats, eg. centralization levels, assortment, and assortment size, frequency of delivery.

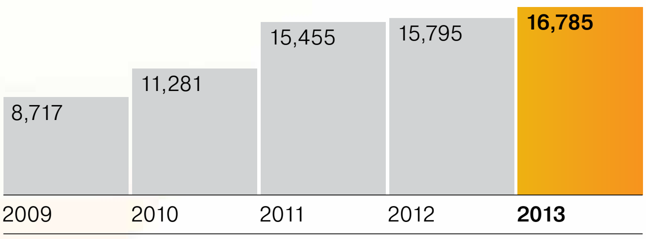
Greater focus on retail basics, Company strengths and market opportunities → **Increase in sales** → **Delivering value**

Highlights

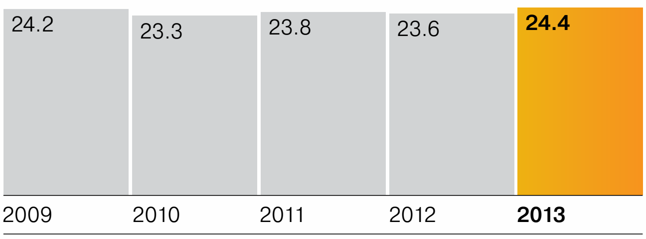
Despite a challenging 2013, we have a strong longer-term record and tremendous future potential

Financial highlights

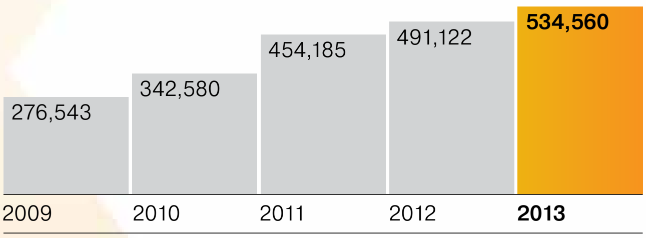
Total revenue
(USD mln)
Five-year CAGR 13.5%



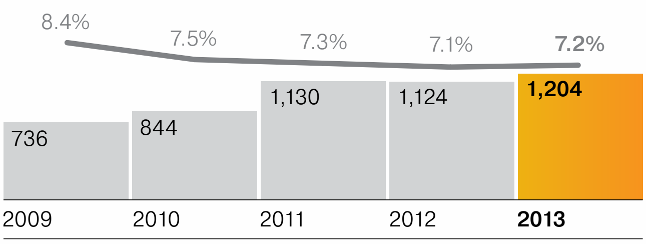
Gross margin
(%)



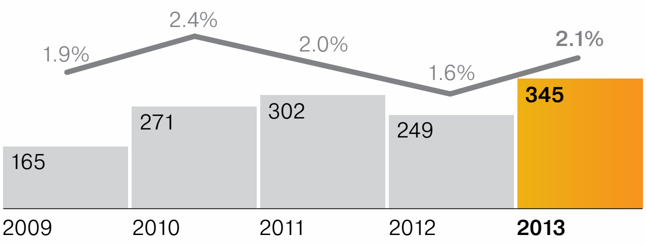
Total revenue
(RUR mln)
Five-year CAGR 19.3%



EBITDA (USD mln)
and EBITDA margin (%)



Adjusted net income (USD mln)
and adjusted net income margin (%)



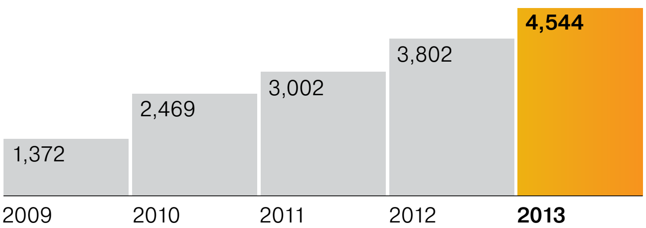
Note: Net income and net income margin for 2012 is adjusted for an impairment effect of USD 376 mln.

+8.8%
increase in revenue

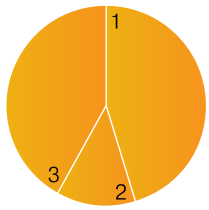
+12.9%
increase in selling space

Operating highlights

Store expansion dynamics (number of stores) Five-year CAGR 32.8%

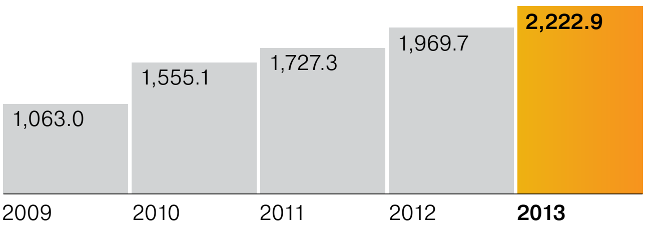


Store base breakdown by economic regions 2013 (%)

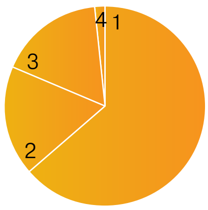


1. Central region	45.4%
2. North west region	12.9%
3. Other regions	41.7%

Selling space expansion dynamics (thd sqm) Five-year CAGR 20.5%

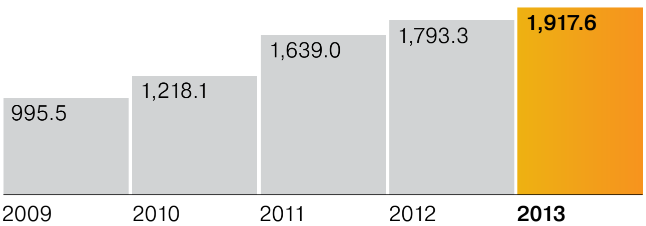


Selling space breakdown by format 2013 (%)

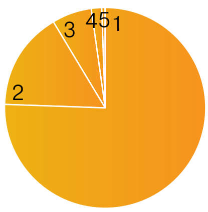


1. Pyaterochka	63.6%
2. Perekrestok	17.9%
3. Karusel	16.9%
4. Express	1.6%

Customer visits (mln) Five-year CAGR 18.6%

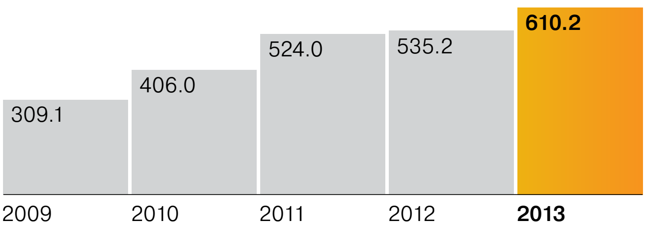


Customer visits breakdown by format 2013 (%)

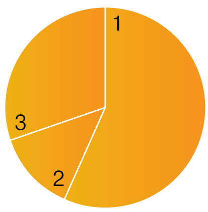


1. Pyaterochka	75.6%
2. Perekrestok	16.0%
3. Karusel	6.4%
4. Express	1.9%
5. E5.RU	0.1%

Distribution center space 2009-2013 (thd sqm) Five-year CAGR 26.1%



Distribution center space breakdown by economic regions 2013 (%)



1. Central region	56.7%
2. North west region	13.2%
3. Other regions	30.1%

Operational review

A strong portfolio of brands building towards balance and growth

Pyaterochka is a leading, national, economy class store.

Read more on pages 24-27

Perekrestok is the leading national supermarket brand in Russia.

Read more on pages 28-31

Karusel is X5 Retail Group's national hypermarket brand.

Read more on pages 32-35

Perekrestok Express and Kopeyka offer convenient shopping for people in a hurry.

Read more on pages 36-39

E5.RU is our online retail brand.

Read more on pages 36-39

2 billion

approximate number of customers in 2013

Strategic report

Governance

Financial statements

X5 overview

X5 is the second largest food retailer, in terms of sales, in Russia, one of the most exciting consumer markets in the world. We operate six distinct brands in various market segments from economy to premium, with unique value propositions and offerings that appeal to a wide range of shoppers and budgets. In 2011, X5 embarked on a multi-year transformation strategy to position the business for long-term market leadership and financial success.

In 2013, X5's revenue reached RUR 534.6 billion (USD 16.8 billion), an 8.8% increase in RUR terms compared to 2012. This was mainly due to an 8.1% increase in 2013 sales from new stores, which was supported by a 0.7% increase in like-for-like sales.

The Company operates the following retail chains, primarily in the Russian Federation: an economy class chain under the Pyaterochka brand, a supermarket chain under the Perekrestok brand, a hypermarket chain under the Karusel brand, an online retail channel under the E5.RU brand and Express stores under the Perekrestok Express and Kopeyka brands.

X5 was established on 18 May 2006, as the result of the merger between the Pyaterochka and Perekrestok retail chains. In June 2008, X5 acquired Karusel, which enabled the Company to substantially strengthen its position in the hypermarket category and become a true multi-format retail chain. X5 continued to consolidate the Russian retail market by completing two milestone transactions in 2009 and 2010 with the acquisition of the Paterson supermarket and Kopeyka discounter retail chains, respectively.

In 2011, the Company launched a large-scale reorganization of its retail operations aimed at providing more autonomy to the brands to reinforce the multi-format strategy. As part of the Company's decentralized approach to managing the multi-format structure X5 began the process of separating the centralized supply chain activities in the first half of 2013 into two dedicated functions to reinforce individual brand strategies and to provide focus on different brand value propositions and assortments.

Read more about Supply chain on pages 40-43

X5's multi-format organizational structure provides the Company with a unique opportunity to capitalize on the growing food retail market in Russia. The distinctive value proposition of each brand enables us to offer customers the products they want at the most attractive prices. Our stores provide Russian customers with multiple opportunities to purchase quality products in convenient locations, and allow X5 to capture a greater share of the consumer's wallet.

X5 is a retailer with wide geographical coverage and as at 31 December 2013 had 4,544 Company-operated stores, 742 of which were added during the year. This increased net selling space by 253 thousand square meters to 2,223 thousand square meters. We have the leading market position in Moscow and St. Petersburg, a significant presence in European Russia and the Urals regions, and a growing presence in Western Siberia.

The Company's store base includes 3,882 Pyaterochka economy class stores, 390 Perekrestok supermarkets, 83 Karusel hypermarkets and 189 Perekrestok Express and Kopeyka Express convenience stores. X5's direct franchise partners also operate 312 stores across Russia under our brands.

The Company's growth in 2013 was primarily the result of organic expansion, which resulted in a 12.9% increase in total net selling space at the end of the year. X5's total capital expenditures for 2013 amounted to RUR 22.6 billion (USD 709.0 million) of which a majority went to increasing and improving the store base while the remainder was on logistics, IT and strategic projects.

In order to support the Company's scale and rapid expansion, X5 has developed a robust supply chain to source and deliver products to its stores. As a leading retail chain in Russia and the second largest retail chain in terms of sales, X5 is one of the major buyers for many domestic and international food producers. This scale and wide geographical presence enable the Company to negotiate favorable terms from suppliers so that the consumer pays less in our stores. To ensure that products are efficiently transported to our shelves, X5 has developed a logistics infrastructure comprised of 32 distribution centers, or 610 thousand square meters, which utilize modern technologies to provide timely delivery of products to store shelves. In 2013, the Company increased the centralization level to approximately 78% compared to 75% in 2012.

X5's employees are the Company's most valuable resource. In parallel with the Company's rapid growth X5 has also invested in improving the quality of its workforce at both management and store levels. During 2013, there have been a number of changes to the Executive Board as well as at the store management level, which have resulted in improved communication and execution. The new team shares common business values that underpin the development of a new corporate culture.

Our strong, extensive and diverse store base, wide geographical coverage, logistics' reach and robust IT systems provide us with a strong platform for the further development and sustainable growth of our business.

Our brands

Pyaterochka Economy class stores

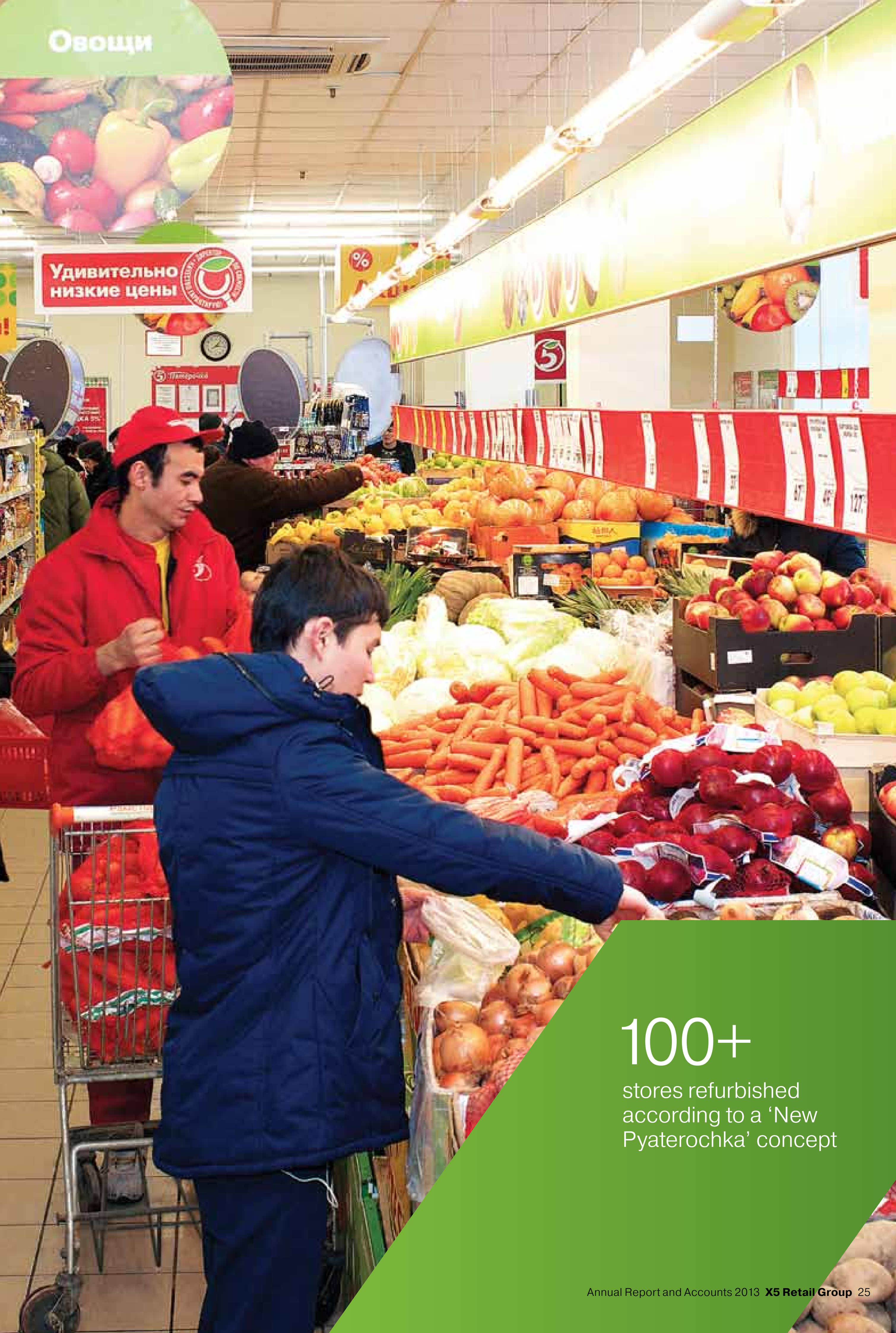
Surprising customers every day!

Пятёрочка

Key figures

65%
share of economy class stores in X5's net retail sales

3,500
stock-keeping units available



100+

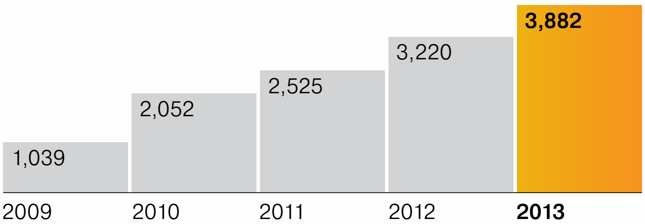
stores refurbished according to a 'New Pyaterochka' concept

Our brands
continued

662
net stores added in 2013

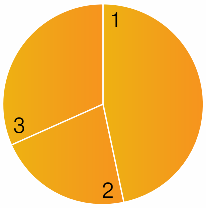
Pyaterochka Economy class stores

Store expansion (number of stores)



20.6% increase in 2013 number of stores

2013 net retail sales breakdown (%)

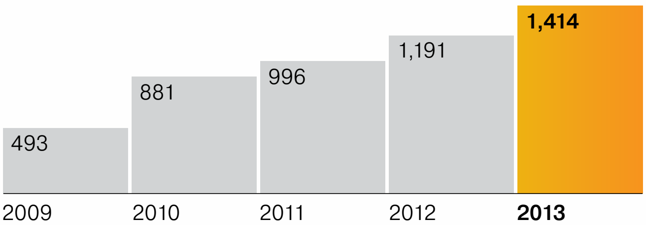


1. Central region 46.7%
2. North-West region 21.7%
3. Other regions 31.6%

Note: Regional boundaries were redrawn after introduction of new 'cluster'-based operational model.

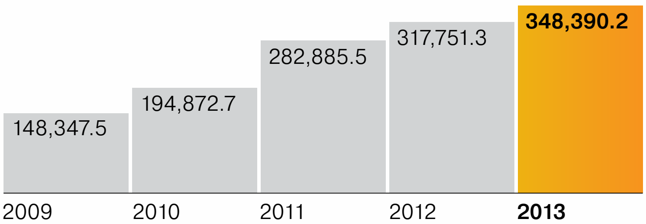
Strong presence in Central and North-West regions

Selling space expansion (thd sqm)



18.7% increase in 2013 selling space

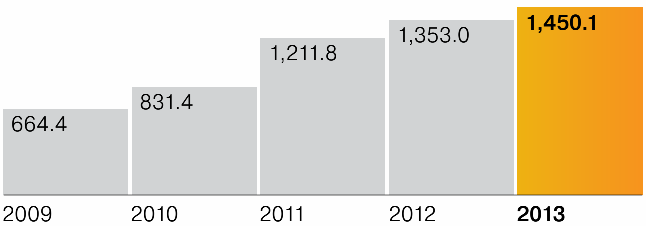
Net retail sales dynamics (RUR mln)



Note: In 2009 net retail sales include December sales of acquired Paterson stores classified as discounters. In 2010 net retail sales include Kopeyka net retail sales consolidated by X5 from 1 December 2010.

9.6% increase in 2013 net retail sales

Customer visits (mln)



7.2% increase in 2013 customer visits

> In 2013, we defined the 'New Pyaterochka' operational model and introduced a number of strategic initiatives to improve the shopping experience and meet customer's needs."

Olga Naumova
General Director of Pyaterochka

Pyaterochka, X5 Retail Group's conveniently located economy class store, is one of the leading national brands and was one of the first modern grocery retail chains to open in Russia. The brand was launched in St. Petersburg in February 1999 and as of 31 December 2013 the chain included 3,882 stores located in European Russia, the Urals and Western Siberia.

Pyaterochka stores are focused on simple, easy and economical shopping. The brand offers quality fresh products and a quality non-food assortment supported by attractive promotional events for customers. The stores' range consists of approximately 3,500 active stock-keeping units in an average selling space of approximately 350 square meters.

In 2013, Pyaterochka stores reported net retail sales of RUR 348,390.2 million (USD 10,939.2 million) representing a year on year increase of 9.6% in Russian Rouble terms, and accounted for 65.4% of X5's total 2013 net retail sales. The increase was primarily due to the performance of new stores opened in the last two years.

We added 662 Pyaterochka stores or 223 thousand square meters of net selling space in 2013, including 139 stores in the Central region, 104 stores in the North-West region and 419 stores in the remaining 'Other' regions. We plan to continue our store roll-out in our current regions of presence that are covered by our logistics network.

To manage the size and diversity of our store base in a more efficient way, we introduced store 'clusters' as the main business unit for the Pyaterochka brand in 2013. Clusters are comprised of up to 120 stores, have profit and loss responsibility and are formed based on the following criteria: distance from distribution center, logistics supply volume, and current and potential market share. The clusters allow us to be more responsive to changes in customer demand and the competitive environment.

In order to provide Pyaterochka stores with the necessary support to be successful in an increasingly competitive market, we began the process of establishing a dedicated supply chain function for the brand in 2013 which includes a dedicated logistics and commercial department. Pyaterochka's commercial department is based on category management principles that went live in Q3 2013. The new category management principles are focused on customer needs, higher sales and profitability.

We also initiated the separation of logistic services among the Company's formats. In the second half of 2013 Pyaterochka took control of five distribution centers in the Moscow region and during 2014 the separation between Pyaterochka and the Perekrestok/Karusel formats will continue in an orderly fashion in other regions. The focus of the dedicated logistics function is increased centralization and improved availability, inventory management and delivery times, resulting in increased freshness, improved service levels and lower operating costs.

In October 2013, we launched the 'New Pyaterochka' rebranding program to emphasize the brand's renewed focus on the customer. The rebranding program includes a new corporate style and logo that reflect the brand's business philosophy, as well as ongoing changes to assortment and improved customer service, quality control and store layout and design which aim to surprise customers every day.

The assortment at Pyaterochka is refreshed on a weekly basis with up to 50 new products introduced each week, primarily in the fresh category. Also, Store Directors have assumed the role of Fresh Director and are now responsible for control of product quality in stores, customer relations and service, and are always available to customers on the trading floor.

The rebranding also includes a store refurbishment program that updates store facades and equipment, improves in-store navigation and lighting and optimizes trade areas. We are also optimizing subleasing arrangements in the refurbished stores so that customers may find complementary services in Pyaterochka stores such as E5.RU stands, pharmacies, dry cleaners, mobile phone outlets and payment terminals for utilities.

The refurbishments are based on a pilot program that was conducted in the first half of 2013 in the Central, North-West and Urals regions, where the store base is the oldest. The program was expanded starting in October and by the end of the year we had refurbished 117 stores in these regions. In 2014 we plan to expand the refurbishment program further.

In order to ensure that our focus on the customer is sustainable we have continued to invest in developing personnel through improvements in recruiting and training as well as improved motivation and development of a strong corporate culture. Through team-building and increased employee engagement we plan to decrease turnover, increase productivity and retain and build operational expertise to provide a better experience for Pyaterochka customers.

Our brands
continued

Perekrestok Supermarkets

No.1 supermarket for fresh

Перекресток
СУПЕРМАРКЕТ

Перекресток
зелёный

Key figures

21%
share of supermarkets in X5's net retail sales

11,000
stock-keeping units available

24

stores refurbished and 12 'New Ocean' fish markets opened in 2013

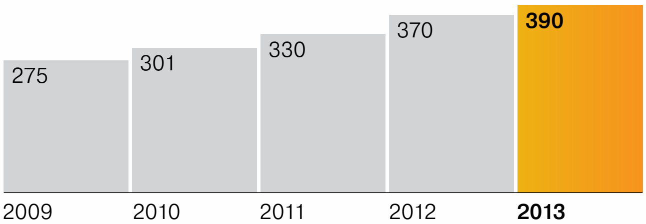
Our brands

continued

Perekrestok Supermarkets

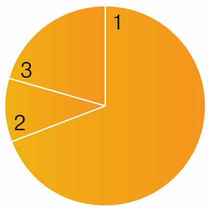
20
net stores added in 2013

Store expansion (number of stores)



5.4% increase in 2013 number of stores

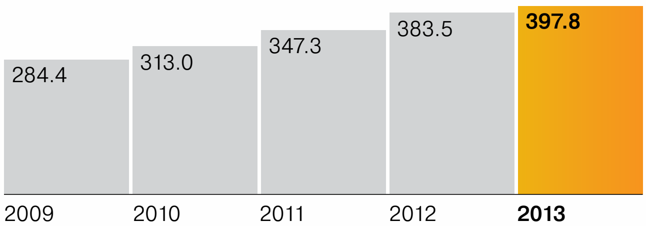
2013 net retail sales breakdown (%)



1. Central region 69.3%
2. North-West region 10.4%
3. Other regions 20.3%

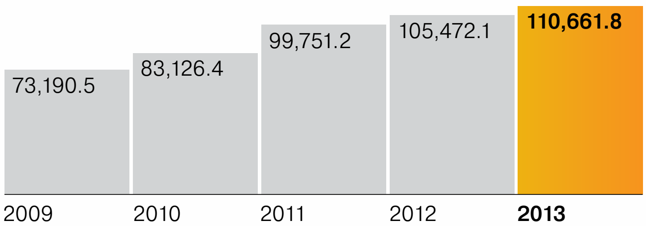
Strong presence in Central region

Selling space expansion (thd sqm)



3.7% increase in 2013 selling space

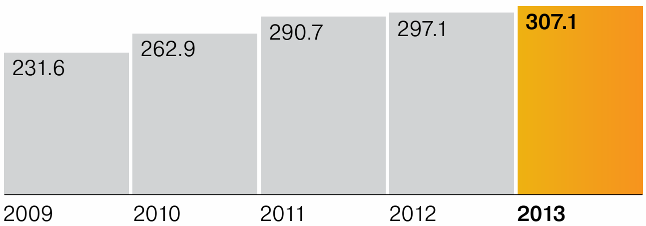
Net retail sales dynamics (RUR mln)



Note: In 2009 net retail sales include December sales of acquired Paterson stores classified as supermarkets.

4.9% increase in 2013 net retail sales

Customer visits (mln)



3.4% increase in 2013 customer visits

“

This year we made significant progress on our Fresh project. We plan to consolidate our successes and further develop and roll-out the project to deliver better value for our customers.”

Janusz Lella
General Director of Perekrestok

Perekrestok, X5 Retail Group’s supermarket brand, is the leading national supermarket chain in Russia and was one of the first modern supermarkets to open in the Russian retail space. The brand was launched in Moscow in September 1995 and in April 2008 Perekrestok launched the Green Perekrestok brand, which is a premium version of the original brand and offers an extended range of high-quality products at the best prices in the premium supermarket segment.

The financial and operational results of both original Perekrestok and Green Perekrestok supermarkets are reported together.

As of 31 December 2013, the chain included 390 supermarkets located in European Russia and the Urals region, including 17 Green Perekrestok supermarkets – 14 in the Moscow region, one in St. Petersburg and two in the South region, as well as 12 supermarkets in Ukraine.

Perekrestok strives to be the customer’s first choice for fresh produce, supported by the right complementary assortment and price strategy. The stores offer a range of approximately 11,000 stock-keeping units and target an average net selling space of approximately 1,000 square meters.

Perekrestok stores reported net retail sales of RUR 110,661.8 million (USD 3,474.7 million) in 2013, representing a year on year increase of 4.9% in Russian Rouble terms, and accounting for 20.8% of X5’s total 2013 net retail sales. The increase was primarily due to the performance of stores opened in the last two years as well as the performance of redesigned stores and the strong emphasis on promotional and advertising activity in the fourth quarter.

In 2013, the chain added 20 stores or 14 thousand square meters, including 14 stores in the Central region, four stores in the North-West region and two stores in other regions. We also remodeled 24 supermarkets during the year, mainly in the Central region. We plan to continue investing to expand the network through new store openings and to carry out full and partial store redesigns, to improve the customer experience.

We also successfully launched a self-service checkout pilot in a Moscow Perekrestok and initial results have been very positive with a high adoption rate among customers. This technology has the potential to increase operational efficiencies and customer loyalty.

During 2013, Perekrestok began the process of redefining the brand’s positioning with an emphasis on quality and freshness at competitive prices. To become the customer’s first choice for fresh we’ve identified five key categories that shape our customers’ perception of Perekrestok and thus are of particular importance for the supermarket segment. These categories are fruit and vegetables, bread, meat, fish, ready to cook and prepared meals and salads.

We have expanded our offering of fruit and vegetables while maintaining focus on quality. In meat and ready-to-cook and prepared meals we are focusing on a wide variety of tastes and an interesting selection of quality cuts of meat and ready-to-cook options that customers expect to find in supermarkets. Also, we are developing freshly baked bread and pastry facilities on the premises to improve our offering in the bread category, an important driver of everyday shopping. As of 31 December 2013 Perekrestok operated 338 bakeries.

One of the most visible and successful fresh initiatives has been the launch of the ‘New Ocean’ project. This is a destination concept aiming to establish Perekrestok as the number one fishmonger in the city based on exceptional service, presentation, selection and preparation.

New Ocean is a shop-in-shop trade area of on average 150 square meters with more than 600 stock-keeping units, including live, ice-cooled, dried, salted and smoked fish, seafood, preserves, exotic delicatessen items, ready-to-eat meals and complementary goods. New Ocean customers are offered additional services: for example, the delivery of pre-ordered exotic fish and seafood, fish cleaning and scaling, and pre-cooked fish dishes and sushi prepared by our in-store chefs. As of 31 December 2013 Perekrestok operated 12 New Oceans and plans to continue rolling this concept out in 2014.

We recognize that in our core markets customers have become more demanding in terms of price, assortment quality and service. Based on this we are updating our positioning, assortment and pricing strategy and plan to incorporate the changes during the first half of 2014.

To support our current and future initiatives we plan to continue to promote the brand through advertising and marketing activities as well as developing a strong and motivated team that believes in Perekrestok and the brand’s future.

Karusel Hypermarkets

Making customers happy

гипермаркет КАРУСЕЛЬ

Key figures

12%
share of hypermarkets in X5's net retail sales

Up to
25,000
stock-keeping units available

7

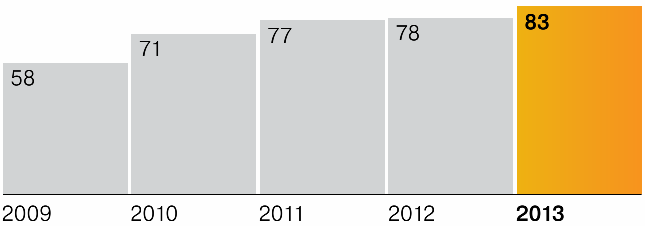
new hypermarkets opened in 2013

Our brands
continued

Karusel Hypermarkets

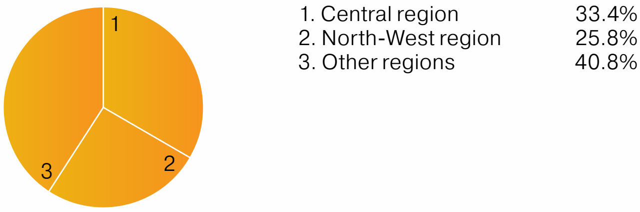
5
net stores added in 2013

Store expansion (number of stores)



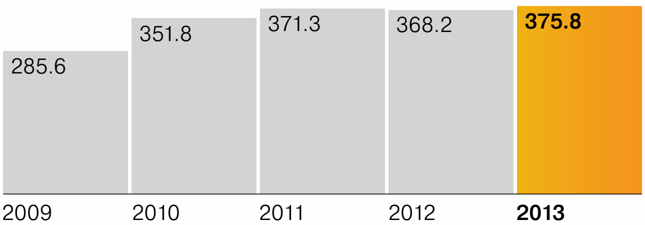
6.4% increase in 2013 number of stores

2013 net retail sales breakdown (%)



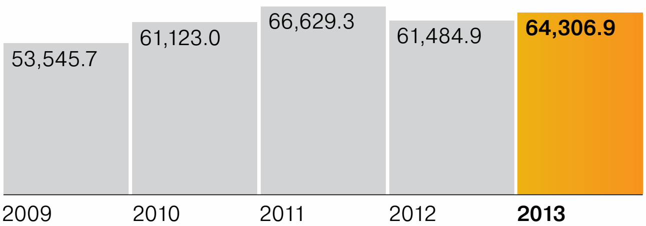
Nationwide operations

Selling space expansion (thd sqm)



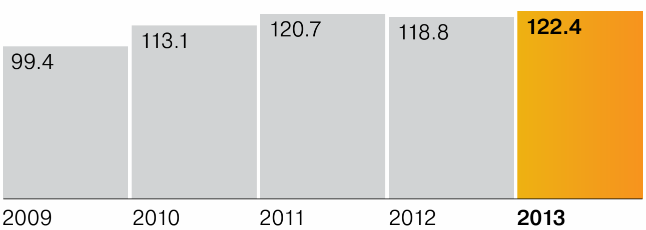
2.1% increase in 2013 selling space

Net retail sales dynamics (RUR mln)



4.6% increase in 2013 net retail sales

Customer visits (mln)



3.0% increase in 2013 customer visits

"

In 2013, we launched our flagship hypermarket in Moscow, which was refurbished according to our new brand book and reflected the teamwork and cooperation of all Karusel's divisions."

Svetlana Volikova
General Director of Karusel

Karusel is X5 Retail Group's national hypermarket brand and one of the largest hypermarket chains currently operating in the Russian market. X5 had been developing hypermarkets under the Perekrestok brand until the acquisition of Karusel in 2008, significantly strengthening the Company's position in this attractive and growing segment.

After acquisition, Perekrestok and Karusel were managed together by the same team, but this resulted in a number of constraints on the development of the hypermarkets concept. In 2011, as part of the Company's reorganization into a true multi-format retailer, we separated hypermarkets from supermarkets and established a standalone hypermarket format.

As of 31 December 2013, the chain included 83 hypermarkets located in European Russia and the Urals regions.

Karusel hypermarkets offer customers convenient one-stop shopping at fair prices in city locations with a wide range of quality food and non-food products, efficient service at cash registers, engaging weekly catalogues and a loyalty program.

The stores carry on average between 18,000 and 25,000 stock-keeping units, depending on the store size, and 8,000 additional seasonal items comprising groceries, prepared ready-to-eat meals, baked goods and an extended range of non-food items and basic consumer products. The stores target an average net selling space of between 3,000 and 4,500 square meters.

In 2013, Karusel stores reported net retail sales of RUR 64,306.9 million (USD 2,019.2 million) representing a year on year increase of 4.6% in Russian Rouble terms, and accounting for 12.1% of X5's total 2013 net retail sales. The brand also reported 3.1% increased like-for-like sales results in 2013, supported by a 2.5% increase in traffic.

In 2013, we added five hypermarkets net. During the year we opened five hypermarkets in the Central region and two in other regions, and we also closed two stores that did not meet the format's efficiency or size criteria.

For Karusel, 2013 was primarily about improving the customer experience by focusing on basic retail routines and processes, defining the brand's target store concept and positioning and raising brand awareness. During the year we improved customer experience at our stores by focusing on improvements in the following areas:

- **Services:** improved checkout quality and speed and better customer information and assistance;
- **Store operations:** improved ordering and inventory management, replenishment, promotion execution, merchandizing and store maintenance; and
- **Management processes:** human resources, communication and monitoring and control activities.

We also successfully launched a self-service checkout pilot in a Moscow Karusel and initial results have been very positive with customers readily adopting the new technology. Our ability to expand this program will have a positive impact on customer service and costs.

During 2013, the Karusel chain substantially increased its marketing activities, primarily focused on attracting new customers. The activities included federal promotions, which took into account seasonal specifics of consumer behavior, and a number of campaigns held in 2013 which were devoted to national holidays and sporting events.

We also held aggressive promotions related to competitors' anniversaries and cumulative promotions in order to retain current and new customers as well as to increase average ticket.

In addition, Karusel's value proposition was significantly strengthened by the introduction of the Ikra loyalty program in October 2013. The loyalty card allows customers to collect bonus scores that may be used to receive discounts for purchases or exchanged for scratch cards, coupons or stickers for promotional campaigns. The initial results have been positive: cardholders' ticket is on average more than twice that of Karusel's average ticket and the frequency of cardholders' store visits has increased by more than 15%.

The brand's new target concept is represented in the new Karusel brand book and is focused on ultra-fresh and fresh with an emphasis on own production and a superior shopping experience. Aside from the seven new hypermarkets opened during the year we also refurbished four stores in 2013, including our flagship store in the Metropolis city-center mall in Moscow.

We are aiming to refurbish up to ten stores a year, primarily in the Central and North-West regions where our store base is the oldest alongside pursuing smart and consistent organic development of the Karusel chain in select cities.

Stores opened and refurbished during the year, comply with the new Karusel brand book and we will continue to validate the target concept throughout the first half of 2014 and roll-out the future concept to new and existing stores from the second half of 2014.

In order to maintain and improve our stores and value proposition we continue to invest in personnel through constant training and improved motivation to ensure high standards of customer service and store operations.

Our brands

continued

Perekrestok Express and Kopeyka Express convenience stores **and E5.RU** Online retail channel

More than just products!

Перекресток ЭКСПРЕСС

КОПЕЙКА ВКУСНО! ДОСТУПНО! УДОБНО!

E5.RU

Key figures

1.8%

share of Express stores and E5.RU in X5's net retail sales

3,000

stock-keeping units available in Express stores

1.8 mln

number of non-food items offered in E5.RU

62%

growth in net retail sales of Express stores

Our brands

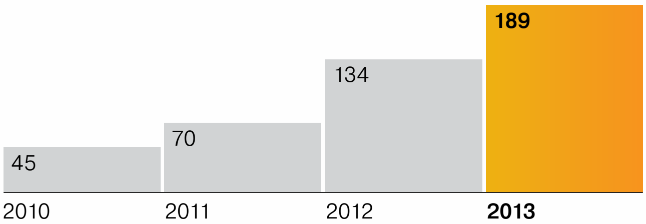
continued

Перекресток ЭКСПРЕСС КОПЕЙКА ВКУСНО! ДОСТУПНО! УДОБНО! E5.RU

55
net stores added

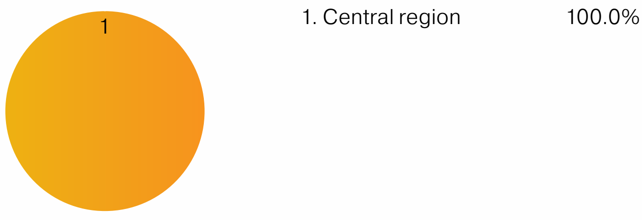
Perekrestok Express and Kopeyka Express convenience stores **and E5.RU** Online retail channel

Store expansion (number of stores)



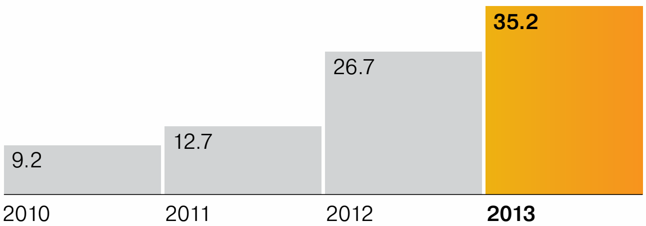
41.0% increase in 2013 number of stores

2013 net retail sales breakdown (%)



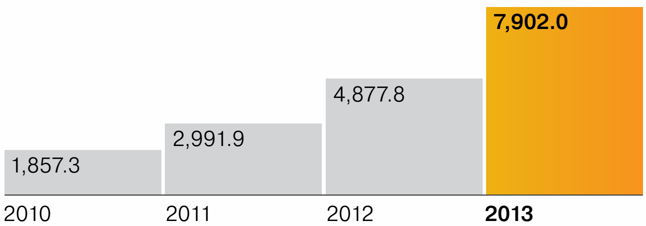
Located in the most attractive region of the Russian market

Selling space expansion (thd sqm)



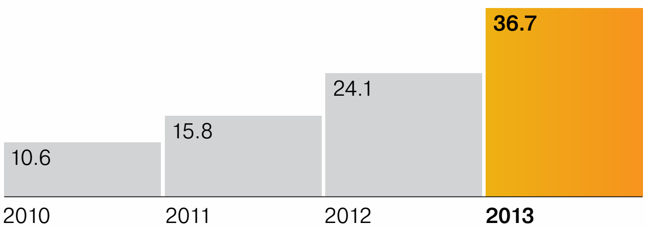
32.0% increase in 2013 selling space

Net retail sales dynamics (RUR mln)



62.0% increase in 2013 net retail sales

Customer visits (mln)



52.3% increase in 2013 customer visits

Valeriy Tarakanov
General Director of Perekrestok Express

Kirill Grodinsky
General Director of E5

Express convenience stores

X5 actively develops Express convenience stores under the Perekrestok Express brand and also operates a smaller number – 39 – of Kopeyka branded convenience stores. The chain was established in 2007 as a joint venture between the Company and local retail entrepreneurs. X5 gained operational control in 2010 and completed the acquisition in 2011. As of 31 December 2013, the chain included 189 stores located primarily in Moscow and the Moscow region.

Currently, Perekrestok Express and Kopeyka operate mainly in Moscow and the Moscow region, where they are independent from the Company's other formats and have their own commercial and logistics functions and services. The chain opened one new distribution center in 2013 and now has two distribution centers to supply stores.

Express stores target the profitable and less competitive market niche of small, close-to-customer stores with a focus on ready-to-eat food and fresh products. The format is being developed in Moscow and its suburbs, the wealthiest segment of the Russian food retail market. We plan to continue our expansion of this format, in the Central region.

The stores offer convenient shopping for people in a hurry. Perekrestok Express offers ready-to-eat meals, which account for up to 50% of the stores' product range, in high-traffic zones – near subways, airports, train stations and business centers – while Kopeyka offers convenient shopping in residential areas with a focus on fresh produce. The stores target an average net selling space of approximately 150 square meters and approximately 3,000 stock-keeping units.

In 2013, Express stores were our fastest growing chain and reported net retail sales of RUR 7,902.3 million (USD 248.1 million), representing a year on year increase of 62.0%, in Russian Rouble terms, and accounting for 1.5% of X5's total 2013 net retail sales. The increase was primarily due to the continued strong performance of stores opened over the last several years as well as new stores added in 2013.

E5.RU

E5.RU is the Group's online retail channel that complements the Company's traditional non-food sales channels, increases traffic in the Company's core formats and provides access to new sales opportunities in the growing Russian internet space.

The E5.RU project was launched in early 2012 as an online retail store offering 400,000 non-food items, and by the end of 2013 the channel offered more than 1.8 million non-food items combined with the convenience and flexibility of choosing the time, location and method of receiving online purchases.

The E5.RU business model is based on simple navigation and easy ordering, with minimal clicks to check out and no personal or credit card information required, just a valid mobile phone number. Products selected and ordered from the E5.RU website are either delivered to the nearest store, where the customer picks up and pays for their selected items, or delivered to the customer's home or work address.

In 2013, we increased the number of Company stores that participate in E5.RU's distribution network by 800. As of 31 December 2013, E5.RU point-of-sale options were present in 1,911 stores in 270 cities and towns, including 1,551 Pyaterochkas, 308 Perekrestok and Perekrestok-Express stores and 52 Karusels. In addition to that, there are nine customer service centers that provide customers with an opportunity to receive their order or return defective purchases or purchases that haven't met expectations.

During 2013, we organized a joint advertising campaign with our Pyaterochka chain in the cities of Moscow, St. Petersburg and Samara which translated into a significant increase in E5.RU sales and helped to promote the online channel among Russian consumers. As a part of the campaign Pyaterochka customers received a discount coupon for every RUR 500 (USD 15.3) purchase that can be used for any purchase at E5.RU.

The campaign helped E5.RU break into the top five e-commerce retailers in Russia by number of orders placed. During the peak dates of the campaign we received up to 10,000 orders per day.

In 2013, E5.RU reported net retail sales of RUR 1,431.1 million (USD 44.9 million) representing a year on year increase of 185.0%, in Russian Rouble terms, and accounted for 0.3% of X5's total 2013 net retail sales.

Supply chain: Commercial activities and logistics

As part of the Company's decentralized approach to managing its multi-format, structure X5 began the process of separating its centralized supply chain activities in the first half of 2013 into two dedicated functions. The aim is to reinforce individual brand strategies and to focus more tightly on different brand value propositions and assortments.

This has resulted in the separation of Pyaterochka, which has simpler business processes as well as a larger store base, broader geographic penetration and smaller assortment, from X5's Perekrestok and Karusel formats. Creating two separate supply chain functions will provide better focus on customer needs and better service for the brands, as well as reducing the risk of value proposition convergence.

Commercial activities

As a leading Russian retail chain, X5 is the largest buyer for many domestic and international food producers, as well as for local suppliers. Our wide geographical presence provides national suppliers with increased penetration of the Russian market and supports many local suppliers and entrepreneurs.

X5's commercial activities encompass relations with a large number of domestic and international fast-moving consumer goods (FMCG) companies and the Company continues to enhance and develop these relations in line with its growing business scale and commitment to become a better partner to suppliers.

During Q2 2013, Pyaterochka introduced a category management team that operates under a different model than the centralized commercial department. The new management model is based on product categories rather than regional, federal, private label, etc. segments, which encompassed all product categories within each segment.

Now there are five main categories – drinks, fresh, grocery, non-food and fruit and vegetables – that are headed by one category manager who is focused on meeting customers' needs to increase sales while maintaining a target profitability level. The category manager is responsible for all category related issues and decisions, including assortment policy, pricing strategy, private label development, inventory management, promotions and supplier relationships.

The new category management team has already introduced changes to the assortment and improved promotional offers that have had a positive impact on Pyaterochka's sales, most notable in Q4 2013. Initially, approximately 300 new SKUs were added to the Pyaterochka assortment from 1 October 2013 as well as weekly assortment rotations of up to 50 SKUs. The updating assortment is part of the format's rebranding and supports the 'New Pyaterochka' motto: 'Surprising customers every day!'.

The implementation of the category management model at Pyaterochka will continue into 2014 and in order to ensure stability within the operations of the group all changes in commercial business processes have been and will be done in an orderly step-by-step fashion.

Perekrestok and Karusel finished the year under the centralized commercial department model which also saw improvements to their assortments in terms of expansion and quality. We especially focused on improving our fresh offering of fruit and vegetables, meat, fish and prepared foods at Perekrestok and Karusel, and also the non-food assortment at Karusel. These were also supported by better promotional activities, especially on fruit and vegetables.

Since 1 February 2014 we have started introducing category management principles for Perekrestok and Karusel under a combined commercial department which will be supported by separate marketing functions.

Since 2012, we have conducted negotiations with suppliers under an annual negotiation campaign held at the end of the year. In 2013, we successfully carried out the campaign jointly by both the category management and commercial departments and did not experience any purchasing power deterioration or complications due to the new model. The campaign also benefited this year from investments we have been making to improve our supplier relationships.

Update on direct import

In 2013 we continued to develop our direct import activities and increased their scope and scale, which now encompasses more categories and SKUs. The total share of direct import reached 2.1% of X5's sales compared to just 0.8% in 2012. We achieved significant progress in direct import of certain categories, including fruit and vegetables and non-food, where the share of direct imports in sales has increased to over 15%. We are also expanding direct import to our private label program, including wine, milk and yogurt products.

In 2013, we expanded the product range of imported fruit and vegetables, which now includes bananas from Ecuador, cucumbers and tomatoes from Ukraine and wild berries from Italy. We also launched direct import of frozen seafood and cheese from France and Germany, respectively, cosmetics from Romania and pasta and spaghetti from Italy.

- X5 has one of the largest geographical foot prints among Russian retailers and is one of the largest buyers for many domestic and international food suppliers.
- The Company is committed to improving supplier relationships through improved communication and cooperation.
- In 2013, Pyaterochka established its own commercial department based on category management principles.
- X5 has initiated the separation of its logistics infrastructure and in 2014 plans to convert multi-format distribution centers into mono-format Pyaterochka and Perekerestok/Karusel distribution centers.

We are committed to expanding our direct import program to deliver better quality control and availability on our shelves.

Private label
Since the inception of the Company's private label program X5 has tried to stay one step ahead of the market in terms of the quantity and quality of its offering. Over the past years, the Company has been developing and enhancing its private label assortment and we now offer our customers a wide range of high-quality low- and medium-priced products.

From 2009 to 2013, we more than tripled the share of private label across our chains. In 2013, the share of private label in Pyaterochka, Perekrestok and Karusel stores' net retail sales reached 18.6%, 7.1% and 8.7% respectively, while the combined share for X5 amounted to 15.1%, up from 13.5% in the previous year.

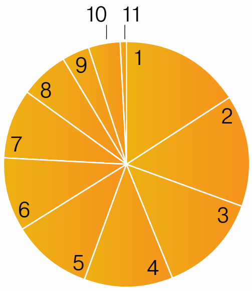
Our private label program embraces not only economy-class brands but also well-recognized and sought-after brands that compete with products from the leading Russian and international producers. As of the end of 2013 we offered approximately 2,000 items, including 300 first-price goods. The key constraints for rapid and large-scale roll-out of private label products are producers' production capacities and quality control. We have established relations with hundreds of enterprises, in Russia and abroad, and continue to look for new partners that can provide high volumes at the desired quality.

X5 has implemented a strict monitoring and quality control system within the entire private label product development and production chain. For more information on quality control of private label producers please go to the quality control section on page 54.

In 2013, we have completed a number of projects in both food and non-food categories with international suppliers. For example, we have introduced Italian pastas under the Trattoria di Maestro Turatti and Pasta del Ricci labels. We significantly extended our wine portfolio and introduced the Sommelier's Collection brand into our assortment. Our private label dairy products assortment, particularly popular in Russia, was complemented by new yogurts based on Greek recipes. We have also introduced 27 trademarks in various non-food categories after launching direct imports of non-food products.

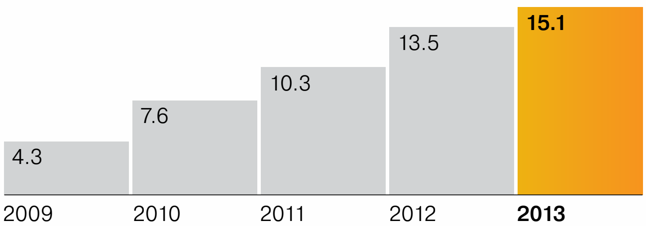
In 2014, we are planning to review and optimize the private label portfolio and streamline our marketing efforts in order to avoid excessive competition between brands and increase the effectiveness of marketing and advertising campaigns. We will be also focusing on developing a more customized private label proposition for each of our retail chains.

X5 product range breakdown (%)



1.	Dairy products, eggs and oils	16.0%
2.	Canned goods and groceries	14.6%
3.	Spirits and alcoholic beverages	13.4%
4.	Confectionery and bakery	11.7%
5.	Fresh and processed meat	10.6%
6.	Fruit and vegetables	9.6%
7.	Non-food	9.1%
8.	Fish and frozen food	6.4%
9.	Publications, tobacco and accessories	3.8%
10.	Drinks and non-alcoholic beverages	4.1%
11.	Other	0.7%

Share of private label in net retail sales (%)



Note: 2012 numbers were corrected under the new private label accounting approach.

Supply chain: Commercial activities and logistics

continued

Commercial activities continued

Electronic Data Interchange (EDI)

In August 2012, X5 introduced cutting-edge technology to support the exchange of electronic sales invoices with suppliers, through the launch of a pilot project that connected select suppliers to this new network. Based on the success of this pilot project, X5 has expanded the number of suppliers connected to the network to more than 80% by the end of 2013.

Implementing the automated exchange of electronic sales invoices has simplified and sped up the invoicing process and is another step towards improving X5's working practices with suppliers.

Relationship with suppliers

Our relationship with suppliers is important to the success of our business. X5 sourced products from approximately 5,000 suppliers from Russia and abroad in 2013, with the top 10 suppliers' products accounting for approximately 12% of net sales.

In order to achieve our stated goal of moving closer to the customer we need to move closer to suppliers.

In an effort to improve the way we work with suppliers and ensure that we maintain strong and open lines of communication to promote a mutually beneficial relationship, X5 hosted its inaugural supplier conference in Moscow in September 2013. The conference took place prior to the kick-off of our annual negotiation campaign and was attended by 360 representatives from leading Russian food suppliers and producers as well as by X5's senior management.

The main objectives of the conference were to improve the relationship between the Company and its suppliers, with a focus on enhancing cooperation and communication, and to introduce the Company's new commercial model and the category management function at Pyaterochka. We also addressed suppliers' concerns on a number of specific issues that had negatively impacted the relationship in the past.

During the conference, we presented the Company's plans and approach to supplier-related issues concerning assortment, business processes, communication, category management, supply agreements and the Company's annual negotiation campaign. We also resolved to work more closely with our suppliers to ensure that all issues would be addressed in a timely manner and to maximize the benefits of our relationship.

Logistics

As X5 is a leading Russian retailer with a network of different formats and a strong presence throughout European Russia, the Urals region and part of Siberia, a well-developed logistics infrastructure is vital to ensure efficient day-to-day retail operations and accommodate differences in store densities, delivery distances and frequencies, as well as the varying assortments of our different formats.

At the end of 2013, X5 owned and/or leased 32 distribution centers with 610 thousand square meters of floor space, which provided sufficient coverage for the Company's regions of operations. Five distribution centers are owned and operated by the Company, seven are operated by third-party logistics providers and the rest are leased and operated by X5.

By year-end 2013, our transportation fleet reached 1,848 trucks. We are currently in the process of determining the optimal balance between owned resources and third-party transportation services, to increase reliability of deliveries and optimize the logistics cost structure. In addition to increasing the efficiency of our fleet management we have started the process of optimizing routes and truck loading procedures.

Our distribution centers operate using a single warehouse management system (WMS) complemented by voice-picking and weighing technology, which enables efficient control over the movement and storage of goods within our warehouses and supports the optimization of processes and transactions involved in shipping, receiving and picking. Our strong focus on controlling losses in 2013 enabled us to decrease losses as a percentage of logistics turnover by more than 30 basis points in Q4 compared to Q1.

The aggregated centralization level for X5's formats was 78% for 2013, compared to 75% in 2012. The increase was primarily due to the increase in the centralization level at Pyaterochka which reached 83% in 2013.

In 2013, we completed the roll-out of the SAP ERP auto-ordering system at our Pyaterochka stores. The transition to ensuring all deliveries are based on auto-ordering, including fresh (but not ultra-fresh) will happen by the end of Q1 2014. The new system has already played a role in improving service levels and better inventory management and reducing volatility in order flow to distribution centers.

We are also continuing to roll-out JDA replenishment and demand planning software solution at our distribution centers. This was completed for all dry goods by the end of 2013. We are continuing to roll this system out in 2014 at distribution centers as well as in Perekrestok and Karusel stores. We expect the roll-out to be completed by July 2014 for distribution centers and by 2015 for stores.

32
distribution centers

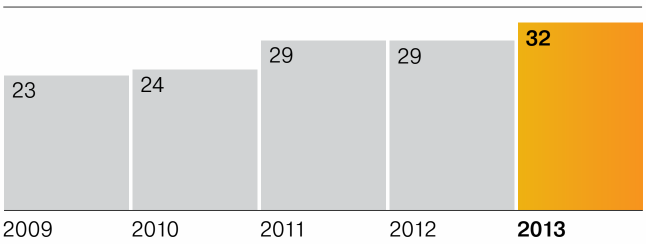
According to the new X5 operating model introduced in Q2 2013, we have begun the process of decentralizing our logistics function to provide our formats with the dedicated logistics services necessary to meet the requirements of our formats' various business models.

We have started initially with the Pyaterochka format and, as of 1 June 2013, five distribution centers in the Moscow region were dedicated to Pyaterochka. The new logistics model has emphasized an increase in centralization and frequency of deliveries to reduce delivery times and increase service levels. Already in the Moscow region we have seen positive results from the new model, which have resulted in improvements in service levels from 90% to 94% as well as a 20% reduction in kilometers traveled due to supply route optimization. In Q4, we have launched a temporary platform for processing fruit and vegetables for Perekrestok and Karusel to ensure better service levels and quality control during high-volume periods. The addition of this distribution center allowed us to execute according to plan during the last two weeks of December, when volumes peak due to the New Year holidays, and supply Perekrestoks and Karusels throughout the Central region.

Based on the results in the Moscow region we will continue the separation of logistics in 2014. We have agreed on a plan to separate the remaining distribution centers and we will work on rolling this out during 2014 and 2015.

The new logistics model, tools and management teams we have introduced in 2013 have already made a significant contribution to the results we achieved this year. Our strong finish to the year was due in part to the effective supply of goods to our stores during the period of seasonal high demand. We achieved over 92% availability of products on our shelves. We plan to continue to drive efficiencies in 2014 in order to increase freshness and availability while at the same time reducing costs and inventories.

Number of distribution centers



1


2

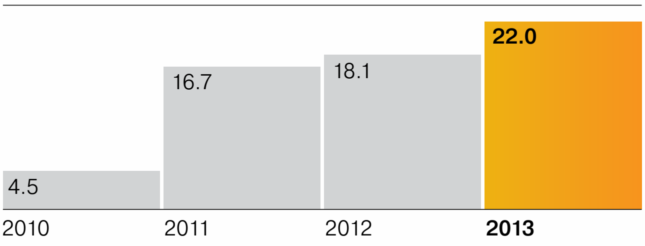

3


1. Inside X5 distribution center in Moscow region.
2. Employees checking supply quality.
3. Supplies arriving at a distribution center in St. Petersburg region.

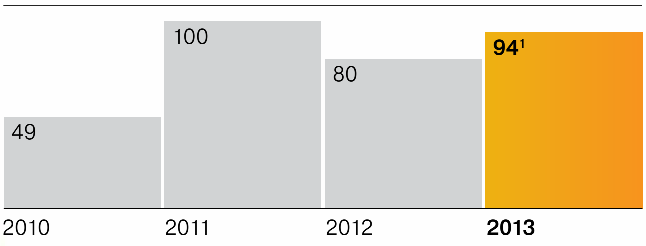
Social, corporate and environmental responsibility

As a leading Russian retailer, we are very aware of our economic, social and environmental responsibilities and the impact that we have throughout the communities in which we operate.

Money raised for children's operations (RUR mln)



Number of children's operations



[1] Note: Including operations scheduled but not completed.

X5 and society

Due to X5's national reach, and the nature of our business, we contribute significantly to the local communities where we operate and to society and the Russian economy in general. Our stores are located in approximately 1,000 cities, towns and villages, including metropolitan areas like Moscow, St. Petersburg, Yekaterinburg and Nizhniy Novgorod as well as small villages with less than 1,000 inhabitants.

We offer quality products at affordable prices and a modern retail shopping experience in both densely populated and remote regions. We employ thousands of people, and their families depend on us for their livelihoods. We work with a large number of suppliers, including global, national and local companies, and they depend on us as much as we depend on them.

We pay special attention to local assortments and therefore for some local suppliers and entrepreneurs we represent a large portion of their business. We are targeting an increase in locally sourced goods, not only to meet the particular tastes and preferences of communities but also to support local economies and consequently enhance and contribute to regional development.

Life Line Charitable Fund partnership
One of the main streams of our charitable activity is bringing together donations from customers and employees in the dedicated collection boxes installed in our stores for children with severe health problems. This is part of the strategic partnership X5 has with the Life Line Charitable Fund (the 'Fund'), with whom we have worked since 2006. Currently, we support the Fund via the 'Crossroads of Life' and 'Karusel for Children' programs, which consolidate financial support from X5's customers. The aim of these programs is to attract customers' attention to an important social problem and to provide a convenient way for them to provide assistance.

Charity marathon 5275
The X5 team participated in the second charity marathon organized by the Life Line, United Way and Reach for Change charity funds. As in the previous year the marathon took place at the end of September at Moscow's Gorky Park and participants donated RUR 1,000 (USD 30.6) to enter the race. The X5 team was represented by office and store employees and their families. In total the marathon raised RUR 2.9 million (USD 88.6), which will be used to finance the funds' charity projects.

'Future of Russia' charity program
The Pyaterochka retail chain acts as a partner for the annual national 'Future of Russia' charity festival that took place for the third year on the campus of Moscow State University of International Relations in October. The charity festival exhibited arts and crafts created by foster children and was attended by famous actors, athletes and politicians.

- We offer quality products at affordable prices while paying special attention to local assortments and supporting vulnerable segments of the population.
- X5 supports a number of charities focusing on providing assistance to children, the elderly and disabled as well as aid to regions impacted by natural disasters.
- We work with local authorities, established charity and relief organizations to ensure that our charitable efforts are channeled to those who truly need it.

The children presented their views on Russia and ethical problems in modern society from the following perspectives: 'Friendship', 'Ideals', 'Motherland' and 'Family'. The 'Future of Russia' festival included 740 foster children from 58 Russian regions. The children all received special gifts with a total value of RUR 200,000 (USD 6,110.8) from the Pyaterochka retail chain. This was the second year that Pyaterochka had partnered the festival.

Red Cross aid program
In 2012, our Karusel chain signed a partnership agreement with the Russian Red Cross to donate various products, including clothes, personal hygiene items, household products, toys and other goods. These products are passed to the Red Cross for distribution to senior citizens, orphans and the disabled. In 2013, Karusel continued to provide the Red Cross with products according to the agreement for various charity campaigns in different regions of Russia.

Supporting vulnerable segments of the population
As one of the largest Russian food retailers, we have the ability and consider it to be our responsibility to ensure that vulnerable sections of society have access to basic food products at affordable prices. In the past, we have consistently supported Russia's senior citizens by offering them discounts at our stores and we plan to continue this practice going forward.

At our Pyaterochka, Perekrestok and Karusel stores, pensioners enjoy a 5% discount, on average, throughout the week from 9 a.m. to 1 p.m., with some store and regional exceptions.

Electronic social certificates
In October 2013, the Moscow city government launched an electronic social certificates program. Those eligible to receive this card include senior citizens, multi-child families, the disabled and people suffering specific hardships. The cards have a monthly balance of RUR 500 (USD 15.3) that can be used to purchase goods, and the most popular items cardholders select are bread and bakery items, dairy products, canned goods and tea. By the end of 2013, the certificate was valid in 147 Perekrestok and 2 Karusel stores. In 2014, we plan to increase the number of stores participating in the program as well as introduce the Pyaterochka chain to the program.

Other 2013 activities
We believe that it is our duty to help and support communities where we are present, especially when this help is of vital importance. After the August 2013 flood in the Far East of Russia that left thousands of people homeless, we arranged supplies of basic food products to the cities that suffered from this natural disaster. Employees from the Moscow head office together with the Karusel retail chain collected over three tons of supplies, including food products, clothes and personal hygiene items. In addition, Karusel donated 23 pallets of various products worth approximately RUR 700,000 (USD 21,387.6) that were distributed among families in need.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1. LifeLine collection boxes in Moscow head office.
2. X5 employees participating in charity marathon 5275.
3. Sochi Winter Olympics day in the Moscow head office.

Social, corporate and environmental responsibility
continued

Human resources

X5 considers its employees as the Company's most valuable resource and the Company's human resource (HR) management system is based on the principles of fairness, respect and equal opportunity as well as on promoting an open dialogue between management and personnel.

Our HR activities are focused on recruitment, personnel training and development in order to improve skills and retain talented employees. These activities are supported by robust review and assessment systems that provide appropriate feedback and motivation.

X5 is one of the largest employers in the Russian labor market, with a workforce of approximately 102,100 employees as of 31 December 2013. The majority of employees work in retail operations (79.2%) and logistics (14.2%), while 6.6% work in Moscow head office and regional offices. The number of people working in operations is even higher if outsourced employees are taken into account. As of 31 December 2013 the number of outsourced employees was 21% of X5 total workforce.

X5 employee benefits
In 2013, X5 continued to provide its employees with a social benefits package in line with previous years. The following social benefits are part of the standard employment package:

- medical insurance;
- life insurance (for top managers, employees who frequently travel for work and drivers);
- corporate rates for mobile telephones;
- short-term disability payments (above statutory norms);
- additional payments to employees (financial support);
- additional vacation days;
- discounts for purchases in our stores; and
- transportation and corporate buses.

We provide our senior store, and most of our office employees, with insurance programs immediately upon joining the Company. Those employees and their family members who do not qualify for insurance programs may access insurance coverage at X5's corporate rates.

In 2013, we reviewed medical and life insurance programs and provided all employees eligible for medical insurance with two-year insurance policies. Moreover, we extended the number and improved the quality of medical centers and clinics that policyholders can use, particularly in the regions outside Moscow.

Employee annual review system
In 2013, X5 continued to develop its annual performance appraisal system and introduced a number of changes in the annual review and goal-setting process.

Individual results for 2013 were assessed on the basis of an integral score received for each of the three following areas:

- achieving individual KPIs set earlier in the year;
- key skills utilized by the employee to attain these goals; and
- how employee duties were carried out.

Key skills required and evaluated in our employees are a client-oriented approach (in dealing both with internal and external clients), commitment to results, proficiency, fairness and openness, ethics and values.

We base our target-setting process on the following principle: goals set for employees should be measurable, assignable, realistic and time-related. Starting from 2014, we plan to review annual targets, and update them if required, in the middle of the year. This will provide employees an opportunity to discuss progress and the level of completion of annual targets with their supervisor and receive feedback on their progress to date.

Results of the annual performance appraisals are used as a basis for annual bonus calculations and are taken into account in HR decisions with regard to career development and promotions.

Employee awards
X5 uses employee awards as a tool to motivate, recognize and reward employee contributions to the Company. In 2013, we selected over 4,000 employees for various awards in our branch offices and retail and logistics operations.

In 2013, the Ministry of Industry and Trade of the Russian Federation recognized 162 X5 employees for their dedication, performance and contribution to the development of the retail industry.

Internal communication
The ultimate goal of our internal communication activities is to create clarity and transparency within the Company, communicate our strategy and goals to all employees and promote a competitive and client-oriented team spirit and culture.

In 2013, our internal communication strategy was focused on informing our employees about the operational changes taking place across X5 as we continued to improve and update our operational model.

- Our HR activities are focused on recruitment, personnel training and development and in 2013 53,000 employees went through our training centers compared to 18,000 in 2012.
- X5 has established close ties with Russian universities and technical schools to provide opportunities for students in retail operations and culinary programs.
- We strive to provide our employees with clear and transparent communication regarding X5's strategy and goals and promote a client-orientated team spirit and culture.

We utilized various tools to communicate these changes to office, retail and logistics employees, including:

- our internal website;
- corporate newspapers for our retail chains, logistics and office employees;
- weekly electronic digests and newsletters; and
- corporate conferences.

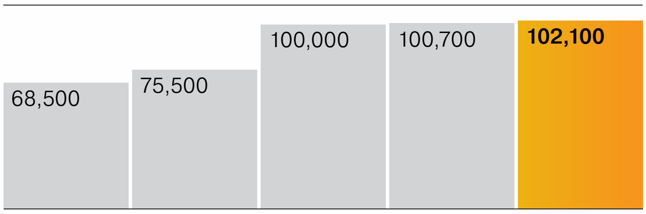
In regional branches, we organize meetings to inform local managers about recent developments in strategy and policies as well as holding team-building and other corporate events to increase the level of interaction between the Company's divisions and branches.

In 2013, we held a number of corporate events, including a leadership conference for top and middle management to discuss the Company's strategy and recent developments. Senior managers delivered presentations on key initiatives implemented in their respective business areas, and there was active participation by attendees in the question and answer session.

As the official retailer for the Sochi 2014 Olympics, X5 took part in the Olympic torch relay and 45 employees, including retail employees, made up the team that participated in the relay.

As a part of our efforts to move closer to the stores we updated and reintroduced our on-boarding system for new office employees. Under the new system office employees are required to spend a day working in the Company's stores and/or distribution centers to gain practical experience in X5's operations.

X5 headcount



Note: Differs from previously reported figures due to updated methodology.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1. Management conference in October.
2. Office employees working in-store.
3. Coach introducing X5 to new employees.

Social, corporate and environmental responsibility
continued

Human resources continued

In 2013, we also launched a special program called 'X5-Friday' as a part of our 'One team' initiative. The program provided Moscow head office employees, including top management, with the opportunity to spend at least one day in our stores to help our retail operations during the peak holiday season and to better understand our operational activities.

Over 1,000 employees spent from one to three days working in stores as a part of the 'X5-Friday' program in November and December 2013. The initiative not only provided additional personnel to support the stores during this period of high demand but also identified areas for improvement in store operations and strengthened ties between the Moscow head office and stores.

This initiative was complemented by the 'X5 agents' and 'Mentors' programs. X5 agents are office employees who conduct store visits as 'mystery shoppers' with special check lists that are later submitted to the respective format managers providing feedback and recommendations for improvements. Company mentors are office employees who select a particular Pyaterochka store for personal supervision.

Partners in education

The Company has established close relations with top Russian universities, including the Moscow State University, the Plekhanov Russian University of Economics, the Russian University of Economy and Trade, and the Presidential Academy of National Economy and Public Administration among others. These close ties allow us to project a positive image of X5 as a dynamic employer of talented young people, to participate in careers fairs and to hire talented graduates for entry-level positions in stores and offices.

In 2013, 24 students completed internship programs at the head office and the best performing candidates joined the Company as full-time employees.

X5 has cooperation agreements with more than 90 universities, technical schools and institutions in the regions in which it operates. Students studying retail operations and culinary programs are invited for internships year-round. In 2013:

- 720 students completed internships in Pyaterochka stores and 165 of them received and accepted job offers (versus 114 and 53, respectively, in 2012);
- 160 students completed internships in Perekrestok supermarkets and 17 of them received job offers and joined X5 (versus 116 and 21, respectively, in 2012); and
- 448 students completed internships in Karusel hypermarkets and 39 of them received job offers and joined X5 (versus 59 and 5, respectively, in 2012).

To hire both skilled and unskilled employees for our growing retail operations, X5 actively participated in careers fairs hosted in various Russian regions during 2013.

In 2013, we introduced flexible and part-time positions in order to facilitate the recruitment of store personnel (shop assistants, cashiers and laborers). As a result, we have attracted students, senior citizens, young mothers and others who prefer part-time jobs, and have partially resolved the problem of personnel shortages during rush hours, holidays and weekends.

Recruitment process

A well-functioning and customized recruitment process is crucial for a growing company of our scale, and especially in the retail sector due to high personnel turnover rates. In order to find and recruit candidates and fill vacant positions quickly, X5 has divided the Company's HR functions between the Moscow head office corporate HR and HR divisions at the regions and retail chains.

X5 corporate HR is responsible for developing, implementing and updating recruitment procedure standards within all our retail chains. The corporate HR function also provides advice and guidance in organizing corporate training for Company staff at all levels and supervises other HR activities undertaken by the formats.

The retail chains' and regional HR offices are responsible for recruiting store personnel in compliance with the Company's unified recruitment procedure, controlling advertising activities, conducting marketing campaigns to attract new employees for stores and distribution centers, and maintaining a candidate pool for difficult-to-fill positions.

Personnel training and development

The training and professional development of our employees, at all the levels in our stores and distribution centers, is crucial for business success and sustainable growth.

As of 31 December 2013, X5 had 79 training centers in 28 Russian regions, with a significant portion of them located in the Central and North-West regions.

In 2013, X5 focused on updating key training and development practices for:

- store directors, supervisors and regional directors;
- distribution center directors;
- strategic projects; and
- enhancement of the mentor program.

We also focused our training activities on client interaction and working with fresh products in order to support our focus on consumer-related initiatives as well as the 'New Pyaterochka' and 'New Ocean' projects.

79% of employees work in retail

72% of employees are women

Our training programs encompass all personnel levels from senior managers to store personnel. In 2013, the number of employees who went through our training centers was approximately 53,000, or 112,000 person days, compared to 18,000, or 84,000 person days, in 2012.

During the year, we actively developed our new employee and apprentice mentoring program at our Pyaterochka and Karusel stores, where we selected and trained 700 and 900 mentors, respectively, according to specially developed training programs for these formats. Mentors are involved in training, including store managers, as well as decision-making on operating issues related to training programs. Our mentors supervised and trained over 9,000 and 3,200 new employees and apprentices in Pyaterochka and Karusel, respectively.

In 2013, we continued to develop and improve our training software platform for distance learning and created and introduced a number of new training courses. New courses developed during the year include: 'Corporate ethics', 'FRESH', 'In-store business processes' and 'Online retail'. Over 12,000 store employees completed courses on 'Know your business' (for cashiers) and 'Client interaction' (for store workers). Over 9,000 employees completed courses related to strategic IT projects.

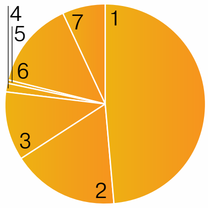
Attracting and developing talented employees
Our 'Talent pool' program assists the Company in planning for the expected increase in demand for new employees. The program identifies potential candidates for administrative positions in retail operations and includes employee reviews and training programs for new positions.

In 2013, the number of participants passing through our assessment centers exceeded 850 people – 53% were included in the talent pool and almost 100% of these were offered positions, mostly in our retail divisions, including store director, supervisor, and regional director positions.

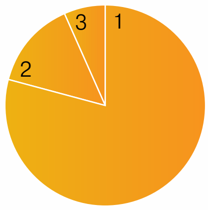
Women in our workforce
X5 is committed to supporting women in the workforce and offers equal support to female employees regardless of the position they hold within the Company. Approximately 72% of our employees are women. The respective share of women in management positions – department heads or higher – is 29%. At the end of 2013, four women were part of our Executive Board and one was also a member of our Management Board.

The Company provides additional financial support for women on maternity leave who have been with the Company for more than a year, by maintaining salaries at their base levels during several months before and after childbirth, which is above the Russian statutory norms.

Personnel breakdown



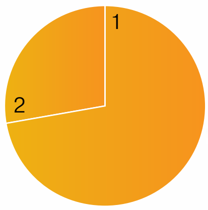
1. Pyaterochka	48.9%
2. Perekrestok	17.3%
3. Karusel	11.1%
4. Express	1.4%
5. E5.RU	0.5%
6. Logistics	14.2%
7. Office	6.6%



1. Retail	79.2%
2. Logistics	14.2%
3. Office	6.6%

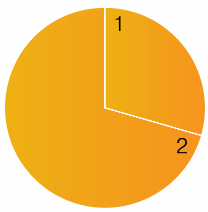
Note: Formats' employees include retail employees only.

Gender structure of labor force



1. Women	72.4%
2. Men	27.6%

Share of women in management positions (departmental head or above)

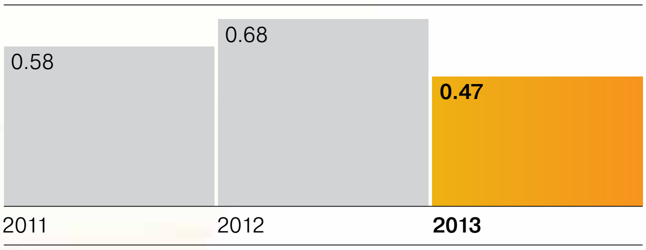


1. Women	29.5%
2. Men	70.5%

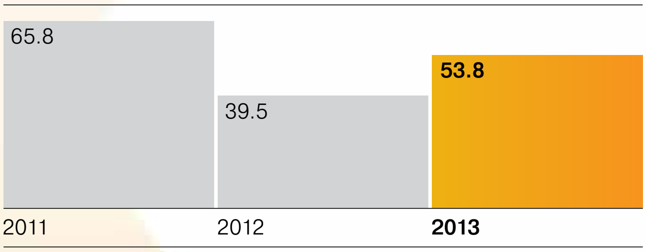
Social, corporate and environmental responsibility

continued

Accident frequency rate
(number of accidents per 1,000 employees)



Serious accident rate
(total number of employee work days lost per accident)



Health and safety

Overview

Ensuring the health and safety of our employees is a priority for X5. The Company has implemented a health and safety policy that covers issues related to our operations in retail, logistics and office functions based on current Russian legislation and health and safety best practices. We are committed to promoting the highest standards of health and safety through implementation of advanced safety technologies and techniques, ongoing risk monitoring, analysis and mitigation.

In order to effectively manage and oversee compliance with the Company's health and safety policy and with Russian legislation, we have established a centralized occupational health and safety department (OHS) which is responsible for the development of policy and standards of labor safety, instructions on health and safety issues and coordination of all health and safety activities within the Company. In our regional branches (based on our Group-wide regional structure) there are dedicated OHS services with specialists responsible for health and safety in the respective retail chains. In addition, we have qualified health and safety specialists at all X5 distribution centers. We also provide increased focus and support to the division with the highest accident incidence rate.

Our OHS specialists have the following responsibilities:

- ensure compliance with respective state and regional laws, regulations and standards;
- identify, evaluate and analyze operational risks;
- provide ongoing training and update employees on health and safety initiatives;
- motivate employees to comply with the requirements of local regulations on health and safety;
- improve working conditions; and
- organize employee medical examinations and screenings.

Medical examinations

Medical examinations and screenings are an effective measure to monitor the health of our employees, identify the early stages of professional diseases, take required actions to mitigate health risks and provide necessary treatment. All X5 employees in retail and logistics operations must undergo annual medical examinations.

- Ensuring the health and safety of our employees is an X5 priority and to reduce incidents we have organized special training on health and safety issues.
- In 2013, the number of accidents slightly decreased compared to 2012.
- X5 carries out regular monitoring and internal audits to ensure compliance with the Company's Health and Safety Policy and federal laws and to identify potential areas for improvement.

Control and monitoring
X5 carries out regular monitoring and internal audits to ensure compliance with the Company's health and safety policy and federal laws, as well as to identify potential areas of improvement for OHS activities. Internal audits are performed by the relevant OHS specialists responsible for health and safety in the respective formats.

In 2013, the Company conducted 786 internal audits. The audit recommendations were recorded in the inspection reports and relevant measures were taken to remedy the identified violations. Within 10 days, 80% of violations were fixed (versus 60% in 2012) and schedules and deadlines were developed to address the remaining 20%.

Employee training
To reduce health and safety risks X5 has organized special training for personnel on health and safety issues. We have developed dedicated training programs both for OHS specialists and for all Company employees, to ensure that they have the relevant qualifications.

All our managers (store directors, distribution center directors, logistics and transportation unit directors, store-based department heads, security managers, and other employees in supervisory functions) are obliged to complete an educational program in specialized training centers. These employees are responsible for instructing their direct employees on health and safety protocols. In 2013, the above-mentioned training was completed by more than 1,800 employees. All new employees receive safety instruction upon joining the Company, which is updated from time to time as required. In addition, all employees working in hazardous environments (electricians, forklift and truck operators, etc.) receive specialized training on a regular basis.

Injury statistics
In spite of the measures we have taken to minimize risks and prevent accidents, it is difficult to completely avoid occupational injuries in a business of our scale. In 2013, there were a number of accidents that resulted in injuries of varying severity. Our OHS activities in 2013 have had a positive impact and the number of accidents slightly decreased compared to the previous year in spite of the growing scale of our business. The accident frequency rate, which indicates the number of accidents per 1,000 employees, decreased to 0.47 in 2013 from 0.68 in 2012, while the severity of the accidents, measured in employee work days lost per accident, increased from 39.5 in 2012 to 53.8 days in 2013. We have analyzed the accidents and taken appropriate measures to reduce the risks and consequences of accidents in the future.

Environmental safety

Careful consideration of and attention to the environmental impact of our operations is necessary for the successful and sustainable long-term development of X5. As our business has grown, its environmental impact has increased. The by-products of industrial packaging, preparation of meat and fish for sale, bakery operations, used frying oil, polyethylene bags, electricity consumption for refrigeration equipment and lights as well as motor vehicle exhaust are all examples of how a modern retail company impacts the environment.

X5 is committed to full compliance with Russian legal requirements and strives to meet best practice international standards in environmental protection wherever possible. We believe that due environmental consideration is not just a part of the Company's social obligations, but also provides significant opportunities to improve business efficiency and reduce costs, and, in some cases, generate additional income. We are just beginning this long and challenging process, but even now, we can point to some concrete achievements in the area of environmental protection.

Waste recycling and disposal
Currently, waste generated during store operations is transferred to third-party companies either for utilization and burial at waste disposal sites or for further recycling. We have identified a list of recyclable waste that can be transferred or sold to specialized companies, which has decreased the volume of waste subject to burial. This practice not only helps decrease the negative environmental impact from landfills, but also reduces mandatory fees for their use and generates income from sales of recyclable waste.

In 2013, we increased our recycling activities by adding new waste items to the recycling list and expanding the number of recyclable materials for sale. In addition to recycling cardboard, polyethylene and used oil, in 2013 we started selling plastic boxes, stretch wrap, banana boxes and polystyrene used in fish storage containers to third-party recyclers. This is becoming more important given the increased share of fish products within our product range, in particular due to the development of the New Ocean fish market in Perekrestok stores. In terms of managing solid domestic waste generated during operations, we now sell leftover oil from Perekrestok and Karusel grills and roasters to be used as feedstock for bio-fuel production.

Social, corporate and environmental responsibility
continued

Environmental safety continued

Eco-bags and eco-sacks
A considerable share of the waste in landfill sites and disposal areas is store packaging and polyethylene bags. To decrease this burden and appeal to environmentally friendly customers we introduced eco-bags and eco-sacks. These products are available in Perekrestok and Karusel stores.

Eco-bags are made from recycled paper and decompose easily. They can carry up to three kilograms and cost RUR 10 (USD 0.31). Eco-sacks are made from spun-bond, a material produced from oil by-products, and can accommodate large-volume purchases. They cost RUR 25 (USD 0.76), can replace eight to ten plastic bags and be recycled up to ten times.

In 2013, the Company sold approximately 1,270,000 eco-bags and eco-sacks, compared to 430,000 bags and sacks in 2012, through its Perekrestok and Karusel chains. This increase is substantially above total traffic increase in supermarkets and hypermarkets and indicates the growth of eco-friendly bags and sacks' popularity.

Returnable containers
To minimize waste related to the supply of products by manufacturers, and their transportation from distribution centers to stores, we use reusable containers, which are returned to suppliers, as well as reusable wooden pallets and trays for products supplied to our stores.

Environmental cooperation
Since 2012, X5 has partnered with the international environmental non-profit organization Greenpeace within the framework of special projects. In particular, 2013 is the second year our Perekrestok supermarkets have taken part in the 'Give up the bags' environmental project, which was organized in partnership with Volkswagen and Tetra Pak.

As part of the project, mobile waste collection points were established in Perekrestok parking lots to collect drink and other recyclable packaging for delivery to processing centers.

Green supermarket environmental rating
In 2013, our achievements and initiatives were recognized by the expert community and X5 earned the top spot for the second year in a row in the environmental rating 'Green supermarket', organized by Greenpeace. The rating assessed the stores of ten leading retail chains based on the effectiveness of corporate actions in resolving environmental problems.

Environmental initiatives in logistics
We manage environmental risks separately for our distribution centers and transportation divisions. Our distribution centers transfer plastic shrink wrap, cardboard and packing materials, as well as solid domestic waste, for recycling. The transportation division utilizes automobile tires and tubes, batteries, ferrous and non-ferrous metals, automobile oil and other materials that must be handled and disposed of in accordance with Russian law.

To a large extent, instances of environmental pollution are primarily linked to our transportation division, where we use various approaches to minimize the environmental impact of goods transported from distribution centers to stores. X5 employs its own transportation fleet, as well as vehicles provided by third parties, to cover 40-45% of all Company cargo transportation. Contractors are responsible for compliance with environmental requirements and our transportation agreements include a condition that the trucks meet all legal requirements, including environmental ones.

Our trucks regularly undergo maintenance checks at certified service stations and use high-quality materials. The maintenance complies with legal requirements and norms established by truck manufacturers based on either number of kilometers on the odometer or vehicle working life. Daily control over vehicle condition (including exhaust system condition) is a specific job responsibility of mechanics and drivers. If serious failures are detected, the vehicle is withdrawn from use and sent for repairs.

In addition, we do not purchase used and/or outdated vehicles and over 90% of our vehicle fleet meets EURO-3 and EURO-5 standards. From 2014, we plan to purchase only EURO-4 or higher class vehicles and we fuel our trucks with quality fuel bought from reliable producers.

In 2013, we optimized transportation routes for product deliveries from distribution centers to stores. The result was only a marginal increase in the total kilometers driven by X5 trucks despite the addition of 742 new stores during the year.

Energy consumption and efficiency
Utilities expense, as a percentage of net sales, amounted to 2.1% of total selling, general and administrative expenses in 2013. Out of this, approximately 1.5% represents utility payments while the remainder is made up of cleaning expenses, telecommunications, and other expenses. The majority of utility payments are connected with energy consumption, which constitutes approximately 80% to 85% of the expense, while approximately 10% to 15% of the

- Careful consideration and attention to the environmental impact of our operations is necessary for the successful and sustainable long-term development of our business.
- We recognize the benefits of becoming more energy-efficient and have been implementing energy saving technologies since 2011.
- In 2013, our environmental achievements and initiatives were recognized by the expert community earning X5 the top spot in the ‘Green Supermarket’ rating organized by Greenpeace.

expenses are payments for heating and 5% is related to payments for water consumption. Therefore, our energy efficiency program, more than any other environmental initiative, has the most substantial impact on our cost base.

Currently, approximately 40% of energy consumption is attributable to refrigeration equipment and 20% to lighting. The remainder is connected with other equipment, tenant-related expenses and air conditioning.

We recognize the benefits of becoming more energy-efficient and have been implementing energy-saving technologies since 2011. We have been modernizing refrigeration equipment and installing consumption controlling equipment in all retail stores and we have also been modernizing the lighting in Pyaterochka stores.

In 2013, the installation of automatic monitoring systems for the volume and quality of electric energy consumed was rolled out. Analysis of the monitoring results will allow us to further expand the use of energy-efficient technologies.

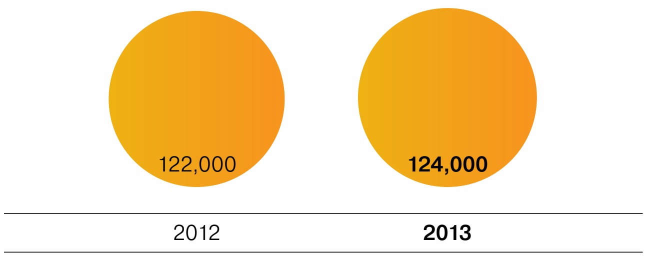
We continue to test various efficiency technologies. For example, in many stores we have installed glass modules on low-temperature refrigeration equipment. Photodiode lamps have also been installed in sales areas and utility rooms. Based on the results of these pilots, we will make decisions on utilizing the technology on a larger scale.

The Pyaterochka refurbishment program is also based on energy-efficient technologies. In particular, we have installed more efficient refrigeration equipment and lighting that reduces energy consumption and provides better light for the trading floor.

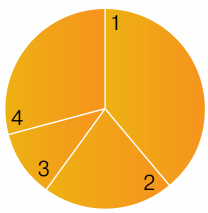
Our focus on energy-efficient technologies applies not only to our stores, but also to our offices. In particular, in 2013, we launched the ‘Turn off the lights and save money’ program at the Moscow headquarters targeting employee attitudes towards energy consumption and conservation. Moreover, regular light bulbs were replaced with photodiode lighting, which considerably reduced electricity consumption.

While we have already achieved some results in energy optimization and utilities expenses we see the potential for further savings in the course of implementing new technologies and more efficient consumption controls.

Average kilometers driven per annum by an X5 truck (kilometers)



Energy consumption structure (%)



1. Refrigeration equipment	39%
2. Lighting	21%
3. Power equipment	11%
4. Other	29%

Product safety and production quality

We are responsible for the quality and safety of all the products on our shelves, and we have a clear set of rules and guidelines to ensure that we meet the highest standards.

Ensuring the safety and quality of X5's products
Meeting consumers' demand for fresh, healthy and nutritious products with great taste and high quality is a priority for X5. To provide the highest level of quality to our customers, the Company has developed and introduced a set of rules that cover the entire food product chain from production to end consumption.

To help ensure the safety of our food products and ensure they meet the health and safety standards that the retail industry and our consumers demand, the Company employs the Hazard Analysis and Critical Control Points (HACCP) principles throughout the food production chain. The HACCP principles are supported by the following activities related to product safety:

- laboratory studies and tests at research and development centers and accredited research laboratories;
- personnel training;
- safe product storage and handling facilities and practices; and
- purchases of modern retail equipment and supplier audits.

As a part of the ongoing evolution of our multi-format operating model, dedicated quality control services were established in each of the Company's retail divisions and those commercial departments that oversee all stages of the production cycle. The Moscow head office is responsible for legal requirements, legislative initiatives and interaction with industry associations and unions, including; the Union of Consumer Market Participants, the Dairy Union, the Seafood Union, the Union of Russian Brewers, the Grocery Union and the Poultry Union.

Ensuring product quality on our shelves is an important goal for all of our operational divisions. X5 regularly conducts supplier audits with the help of independent and accredited international organizations. We also continuously update specifications and standards related to the quality of raw materials and ingredients for our in-store production, private label and packing materials. In 2013, we invested approximately RUR 16 million in these and other product quality activities.

Quality control at all stages of products' life cycle

Introducing goods to the product range

Before entering into a supply contract, the supplier provides a product sample and documents confirming the quality, safety and origin of the product to the relevant quality control department, where specialists confirm compliance with Company and industry regulations.

Acceptance at distribution centers

Each food product shipment undergoes compulsory quality control verification upon arrival at our distribution centers with a view to confirming compliance with organoleptic (taste, color, odor and feel) standards and standards of the Customs Union and other applicable federal standards. Quality control for fruit, vegetables and exotic fruit is performed in accordance with Russian national standards, United Nations Economic Commission for Europe standards (UNECE) and the quality catalog of X5, as well as individual criteria for caliber/size/ripeness level, etc. specified under the acceptance procedure.

Quality control in stores

The Company's standard approach to quality in the stores includes the 'Quality hour' program that applies to all formats. Under this program, every morning, from 9 a.m. to 10 a.m., store employees sort fruit and vegetables and check for external defects on all goods in the store.

Additionally, as part of the Pyaterochka retail chain's 'New Pyaterochka' initiative launched in October 2013, product freshness is now the personal responsibility of the store director who has also assumed the title of 'Fresh Director'.

Interaction with consumers

The Company's consumer rights protection department thoroughly studies any complaint received through the numerous channels available to the consumer and, in some cases, control purchases are performed and product samples are analyzed by third parties for complaint verification. Moreover, we regularly publish information about the results of product quality monitoring in the 'Quality' section on our website to inform consumers of any quality issues. If we discover quality issues related to products sold in our stores, we withdraw the products from the shelves and return them to the supplier.

- X5 has developed and introduced a set of rules that cover the entire food product chain from production to end consumption.
- During 2013, we conducted audits of 79 manufacturers of food products and 3,735 different products were sent for analysis in independent accredited testing facilities.
- X5's quality department actively participates in work aimed at preparing proposals for national food standards, technical regulations and practical suggestions to protect consumer health.

In 2013, we considered 1,460 complaints submitted by our customers and our specialists provided detailed responses to all the complaints.

Audit of private label manufacturers

During 2013, X5's quality department conducted audits of 79 manufacturers of food products and 3,735 different products were sent for analysis in independent accredited testing facilities. Approximately 9.5%, or 355 items, did not meet the applicable requirements, compared to 11%, or 762 items, in 2012. The analysis was performed to confirm the organoleptic, physic-chemical and microbiological quality parameters of the product. In addition, a number of specific analyses were performed to identify any intentional substitution of product ingredients by manufacturers which are not indicated on the product's ingredient label. In particular, the replacement of indicated ingredients with cheaper alternatives, the addition of food additives and the use of artificial colorants, sweeteners and preserving agents not indicated on the label.

Interactions with public authorities and self-regulating organizations

X5's quality department employees are current members of technical committees (TCs) under the governmental agency for technical regulation and metrology, which is under the jurisdiction of the Russian Ministry of Industry and Trade. The TCs include the following:

- TC 226 'Meat and meat products';
- TC 299 'Fish and non-fish preserves, packaging and control methods';
- TC 300 'Fish products – food, feed grade, technical and packaging';
- TC 178 'Fresh vegetables, vegetables and mushrooms, production of ethereal-oil medicine, nut-bearing cultures and flower-growing'; and
- TC 347 'Trade services and foodservice industry'.

Since the beginning of 2013, X5's quality department has prepared 47 proposals for legislative acts for the amendment of current legal acts regarding: technical regulations, systems of accreditation and standardization, food product quality and safety, veterinary controls and supervision, sanitary and phyto-sanitary measures and the protection of consumer rights. The quality department has also participated in the development of industry-wide positions jointly with the Association of Retailing Companies, the Union of Consumer Market Participants, the Russian Union of Industrialists and Entrepreneurs and the Russian Chamber of Commerce. These have related to unifying the efforts of retail companies in providing guaranteed product quality, consumer rights protection, encouraging Russian manufacturers to use HACCP principles, ensuring public health protection and increasing the social responsibility of participants in the food production and distribution chain.

Russia's entrance into the World Trade Organization (WTO) in 2012 required harmonization of Russian legislation with international rules, norms and standards. The quality department of X5 actively participates in work aimed at preparing proposals for national food standards, technical regulations and practical suggestions to protect consumer health. In 2013, the Company prepared 16 proposals on national standards including those that were harmonized with international standards. X5 takes part in discussions on the WTO Committee for Sanitary and Phyto-sanitary Measures initiative, which is related to the use of non-governmental standards in the sanitary and phyto-sanitary spheres: for instance standards for retail chains propagated by IFS (International Food Standard), BRC (British Retail Consortium), etc. Within the framework of the Codex Alimentarius Commission a number of committees are developing food product standards and representatives from X5's quality department took part in this work as experts, notably, as members of working groups responsible for food product labeling and requirements for fresh fruit and vegetables.

In December 2013, on the initiative of the X5 quality department the Union of Consumer Market Participants (AKORT) formed a quality committee. X5's Quality Director was appointed as Chairman of the Committee for 2014. The Committee's objectives include the protection of consumer interests, developing Russian retailers' reputation in respect of product quality improvements, and representing AKORT members' interests regarding the provision of high-quality products.

Financial review

The following review of our financial position and results of operations as of 31 December 2013 and for the year then ended should be read in conjunction with our audited consolidated financial statements as of and for the years ended 31 December 2013 and 2012. The consolidated financial statements and the related notes thereto have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS).

The financial and operational information contained in this Financial review comprises information of X5 Retail Group N.V. and its consolidated subsidiaries (hereinafter jointly referred to as 'we', 'X5' or the 'Company').

Overview
X5 is the second largest food retailer, in terms of revenue, in Russia, one of the most exciting consumer markets in the world. We operate six distinct brands in various market segments from economy to premium, with unique value propositions and offerings that appeal to a wide range of shoppers and budgets. Our retail operations, including sourcing, production, distribution and sales of principally food products, have been conducted primarily within the Russian Federation.

The Company operates the following retail chains: an economy class chain under the Pyaterochka brand, a supermarket chain under the Perekrestok brand, a hypermarket chain under the Karusel brand, an online retail channel under E5.RU brand and Express stores under the Perekrestok Express and Kopeyka brands.

Our operations and financial results are influenced by, among other things, changes in the macroeconomic environment in Russia. In the first half of 2013, the consumer price index (CPI) and food inflation were consistently higher year on year due to tariff freezes on natural monopolies in the first half of 2012, which also contributed to a greater increase in producer prices compared to CPI and food inflation during the 2012 period.

Selected macroeconomic data[1]

Russian macroeconomic indicators[2]	Q1		Q2		Q3		Q4		Year	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
CPI	**7.1%**	3.9%	**7.2%**	3.8%	**6.4%**	6.0%	**6.4%**	6.5%	**6.8%**	5.1%
Food inflation	**8.5%**	1.6%	**8.7%**	2.2%	**6.5%**	6.4%	**7.2%**	7.4%	**7.7%**	4.4%
PPI	**4.4%**	7.6%	**2.7%**	4.6%	**4.4%**	7.4%	**2.4%**	6.9%	**3.5%**	6.6%
Real wage growth	**4.5%**	10.3%	**6.2%**	11.3%	**6.4%**	6.3%	**3.9%**	6.2%	**5.3%**	8.4%
Unemployment rate	**5.8%**	6.5%	**5.4%**	5.5%	**5.3%**	5.3%	**5.5%**	5.3%	**5.5%**	5.7%
Retail sales	**4.1%**	7.9%	**3.6%**	7.4%	**4.1%**	5.6%	**4.0%**	4.9%	**3.9%**	6.3%
Food retail sales	**1.6%**	5.6%	**2.3%**	5.2%	**3.5%**	2.2%	**2.6%**	2.0%	**2.5%**	3.6%

[1] According to the Russian federal State Statistics Service (Rosstat). Quarterly CPI, food inflation and PPI numbers were calculated as an average of respective monthly data reported by Rosstat.

[2] Year-on-year comparison except for unemployment rate, which is the share of unemployed individuals in the labor force.

The Russian consumer remained relatively healthy throughout 2013, supported by growth in real wages and a historically low unemployment rate. According to the Russian federal Sate Statistics Service (Rosstat), Russian retail sales grew by 3.9% in 2013 compared to 6.3% in 2012 however they did not show any signs of deceleration through the year.

Results of operations for the year ended 31 December 2013 compared to the year ended 31 December 2012
The following table and discussion is a summary of our consolidated results of operations for the years ended 31 December 2013 and 2012.

Income statement highlights[1,2]

USD million (mln)	2013	2012	% change year on year
Revenue	**16,784.7**	15,795.2	6.3%
incl. net retail sales[3]	**16,726.1**	15,762.0	6.1%
Pyaterochka	**10,939.2**	10,219.4	7.0%
Perekrestok	**3,474.7**	3,392.1	2.4%
Karusel	**2,019.2**	1,977.5	2.1%
Express[4]	**248.1**	156.9	58.2%
E5.RU	**44.9**	16.1	178.3%
Gross profit	**4,092.8**	3,724.2	9.9%
Gross profit margin, %	**24.4%**	23.6%	–
EBITDA	**1,204.2**	1,123.8	7.1%
EBITDA margin, %	**7.2%**	7.1%	–
Operating profit	**794.3**	191.4	314.9%
Operating profit margin, %	**4.7%**	1.2%	–
Profit/(loss) for the period	**344.9**	(126.5)	n/a
Profit/(loss) margin, %	**2.1%**	(0.8%)	–

[1] Please note that in this and other tables and text, immaterial deviations in the calculation of % changes, subtotals and totals are explained by rounding.

[2] X5's operational currency is the RUR, while the Company's presentation currency is the USD. As the RUR/USD exchange rate has substantially changed in the past 12 months, comparisons of the Company's financial results either with the corresponding period a year ago (for income statement) or with the beginning of the year (for statement of financial position) have been substantially affected by these movements. For more information please see page 61.

[3] Net of VAT and revenue from wholesale operations as reported in the consolidated financial statements and the related notes.

[4] Refers to Perekrestok Express and Kopeyka branded convenience stores; previously disclosed as Convenience stores.

Revenue

The revenue increase in 2013, reported in US Dollars (USD), differs from the reported increase in Russian Rouble (RUR) terms due to exchange rate differences between the RUR, X5's operational currency, and the USD, the Company's presentation currency.

In 2013, X5's net retail sales in RUR terms grew by 8.7%, primarily due to an increase in customers.

Net 2013 RUR net retail sales dynamics, year on year % change	Average ticket	Number of customers	Total net retail sales
Pyaterochka	2.4%	7.2%	9.6%
Perekrestok	1.5%	3.4%	4.9%
Karusel	1.3%	3.0%	4.6%
Express	7.1%	52.3%	62.0%
E5.RU	(22.1%)	270.0%	185.0%
X5 Retail Group	1.7%	6.9%	8.7%

Financial review

continued

A primary driver for the increase in customers and net RUR retail sales was selling space expansion and the positive performance of maturing stores added over the past two years.

Selling space growth, sqm	As at 31 Dec 2013	As at 31 Dec 2012	% change year on year
Pyaterochka	**1,414,102**	1,191,353	18.7%
Perekrestok	**397,750**	383,459	3.7%
Karusel	**375,808**	368,249	2.1%
Express	**35,223**	26,683	32.0%
X5 Retail Group	**2,222,883**	1,969,745	12.9%

The Company's net RUR retail sales were also positively impacted by the following operational improvements, which also impacted like-for-like (LFL) sales, especially in Q4 2013:

- improvement in store operations, shelf availability and service levels;
- improvement in volume and quality of promotional and marketing activities;
- assortment rotation and expansion;
- introduction of loyalty program at Karusel; and
- (to a lesser extent) price inflation.

LFL[1] results, % growth year on year	Sales	Traffic	Basket
Pyaterochka	0.3%	(3.7%)	4.2%
Perekrestok	(0.2%)	(2.0%)	1.8%
Karusel	3.1%	2.5%	0.6%
Express	12.7%	4.2%	8.1%
X5 Retail Group	**0.7%**	**(2.9%)**	**3.7%**

[1] LFL comparisons of retail sales between two periods are comparisons of retail sales in local currency (including VAT) generated by the relevant stores. The stores that are included in LFL comparisons are those that have operated for at least 12 full months. Their sales are included in LFL calculation starting from the day of the store's opening. We include all stores that fit our LFL criteria in each reporting period.

Gross profit margin

The Company's gross profit margin in 2013 amounted to 24.4%, an 81 bps increase compared to 2012. The increase was primarily due to improvements in the commercial margin resulting from improved terms and conditions from suppliers, which were partially offset by higher logistics and shrinkage expenses in 2013.

Selling, general and administrative (SG&A) expenses[1]

USD mln	2013	2012	% change year on year
Staff costs	**(1,356.0)**	(1,298.5)	4.4%
% of revenue	**8.1%**	8.2%	
Lease expenses	**(716.1)**	(598.5)	19.7%
% of revenue	**4.3%**	3.8%	
Depreciation, amortisation and impairment	**(409.9)**	(932.4)	(56.0%)
% of revenue	**2.4%**	5.9%	
Utilities	**(357.9)**	(326.7)	9.5%
% of revenue	**2.1%**	2.1%	
Third-party services	**(147.2)**	(126.4)	16.4%
% of revenue	**0.9%**	0.8%	
Other store costs	**(294.4)**	(264.4)	11.3%
% of revenue	**1.8%**	1.7%	
Other expenses	**(196.2)**	(160.1)	22.5%
% of revenue	**1.2%**	1.0%	
Total SG&A	**(3,477.7)**	(3,706.9)	(6.2%)
% of revenue	**20.7%**	23.5%	
Impairment	**4.0**	(467.3)	
Total adjusted SG&A	**(3,481.7)**	(3,239.6)	7.5%
% of revenue	**20.7%**	20.5%	

[1] Please note that expenses in this financial review are classified by function while in the financial statements expenses are classified by nature, resulting in differences in allocations between individual expense items.

In 2013, SG&A expenses as a percentage of revenue decreased by 275 bps year on year to 20.7%, primarily due to the asset impairment the Company recorded in Q4 2012. On an adjusted basis, SG&A expenses as a percentage of revenue increased by 23 bps year on year in 2013 compared to 2012.

Staff costs, as a percentage of revenue, in 2013 decreased year on year by 14 bps to 8.1% mainly due to a reduction in base salaries of administrative employees (11 bps) and standard benefits for retail employees (12 bps), partially offset by higher base salaries for certain retail employees (10bps).

The decrease in administrative employees' base salaries was due to the ongoing optimization of the Company's organizational structure, while standard retail employee benefits decreased due to non-achievement of certain performance metrics. We did increase retail employee salaries for certain formats and positions in selected regions, which was offset by a decrease in the number of employees per store and optimization of employee work schedules.

Lease expenses in 2013, as a percentage of revenue, increased year on year by 48 bps to 4.3% primarily due to an increase in our average lease rates, new store openings, and the subsequent increase in the proportion of leased space as a percentage of our total real estate portfolio. As a percentage of X5's total real estate portfolio, leased space accounted for 56.3% at 31 December 2013 compared to 54.4% in the corresponding period of 2012.

Depreciation expense as a percentage of revenue in 2013 decreased by 346 bps year on year. This was primarily due to the asset impairment recorded in Q4 2012 on property, plant and equipment, intangible assets, investment property and prepaid leases in the aggregate amount of USD 467.3 mln, which represented 298 bps of the decrease.

Individually, utilities, third-party services (mostly advertising and marketing services), and other store costs (mostly maintenance and repair) increased immaterially year on year in 2013 as a percentage of revenue. On an aggregated basis they increased by 22 bps year on year as a percentage of revenue.

Financial review

continued

In 2013, other expenses, as a percentage of revenue, were higher by 16 bps compared to 2012, primarily due to an increase in agency fees paid to reverse franchisees.

As a result of the factors discussed above, EBITDA in 2013 totaled USD 1,204.2 mln, or 7.2% of revenue, compared to USD 1,123.8 mln, or 7.1% of revenue, in 2012.

Non-operating gains and losses

USD mln	2013	2012	% change year on year
Operating profit	**794.3**	191.4	314.9%
Net finance costs	**(343.3)**	(325.9)	5.4%
Net foreign exchange gain/(loss)	**2.4**	(2.5)	n/a
Share of (loss) of associates	**(0.5)**	(0.1)	441.1%
Profit/(loss) before tax	**452.9**	(137.0)	n/a
Income tax (expense)/benefit	**(108.0)**	10.5	n/a
Profit/(loss) for the period	**344.9**	(126.5)	n/a
Profit/(loss) margin, %	**2.1%**	(0.8%)	–

Net finance costs in 2013 increased by 5.4% year on year in USD terms, and 7.9% in RUR terms. The weighted average effective interest rate on X5's total debt for 2013 increased to 8.7% per annum from 8.6% per annum, in 2012.

In 2013, X5's effective tax rate was 23.8% compared to an adjusted effective tax rate of 24.5% in 2012, after adjusting for deferred tax income from impairment in 2012. The Russian statutory income tax rate for all periods was 20.0%. The difference between X5's effective and statutory tax rates is primarily due to certain non-deductible expenses.

Consolidated cash flow

USD mln	2013	2012	% change year on year
Net cash from operating activities	**891.3**	609.2	46.3%
Net cash from operating activities before changes in working capital	**1,218.8**	1,135.2	7.4%
Change in working capital	**72.8**	7.8	836.5%
Net interest and income tax paid	**(400.3)**	(533.8)	(25.0%)
Net cash used in investing activities	**(661.3)**	(796.3)	(17.0%)
Net cash (used in)/generated from financing activities	**(379.7)**	187.6	n/a
Effect of exchange rate changes on cash and cash equivalents	**(25.7)**	22.4	n/a
Net (decrease)/increase in cash and cash equivalents	**(175.3)**	22.9	n/a

The increase in working capital changes in 2013 were driven by an increase in trade payables and other accounts payable, which was offset by an increase in trade and other accounts receivable and inventories.

Trade and other accounts receivable increased by USD 196.1 mln in 2013 due to an increase in other receivables from suppliers.

The USD 113.1 mln increase in inventories in 2013 was related to the scheduled inventory buildup to support both higher retail sales during the New Year holidays and promotional activities planned for January 2014. The 24% year on year increase in December 2013 store openings and the subsequent stocking of shelves also contributed to the increase in 2013.

Higher purchases in 2013 related to the inventory buildup resulted in a USD 262.3 mln increase in trade accounts payable, while other accounts payable also increased in 2013 by USD 123.2 mln, primarily due to an increase in VAT payable.

Net cash used in investing activities, which generally consisted of payments for property, plant and equipment, totaled USD 661.3 mln in 2013, compared to USD 796.3 mln in 2012, and reflects lower expenditures for store expansion, IT, strategic projects and logistics.

Net cash used in financing activities in 2013 totaled USD 379.7 mln compared to net cash generated from financing activities of USD 187.6 mln in 2012. The difference was primarily related to the use of cash to reduce outstanding debt in 2013.

Liquidity update

USD mln	31 Dec 13	% in total	31 Dec 12	% in total
Total debt	**3,376.9**		4,027.3	
Short-term debt	**937.4**	**27.8%**	1,680.9	41.7%
Long-term debt	**2,439.5**	**72.2%**	2,346.4	58.3%
Net debt	**3,144.3**		3,619.4	
Denominated in RUR	**3,144.3**	**100.0%**	3,619.4	100.0%
Foreign exchange, end of period	**32.73**		30.37	
Net debt/EBITDA[1]	**2.68x**[2]		3.15x[3]	

[1] In RUR terms, as the Company's debt covenants are set in RUR terms in accordance with X5's loan facilities.

[2] Based on consolidated EBITDA of RUR 38,350 mln.

[3] Based on consolidated EBITDA of RUR 34,944 mln.

At 31 December 2013, the Company's total debt amounted to USD 3,376.9 mln (at RUR exchange rate of 32.73), of which 27.8% was short-term debt (USD 937.4 mln) and 72.2% long-term debt (USD 2,439.5 mln).

At 31 December 2013, the Company had access to RUR 100.8 bln (USD 3.1 bln) in undrawn credit lines with major Russian and international banks.

Effect of RUR/USD exchange rate movements on the presentation of X5's results

X5's operational currency is the Russian Rouble (RUR), while the Company's presentation currency is the US Dollar (USD). As the RUR/USD exchange rate has substantially changed in the past 12 months, comparisons of the Company's financial results, either with the corresponding period a year ago (for income statement) or with the beginning of the year (for statement of financial position), have been substantially affected by these movements:

- comparisons of income statement figures with the respective period last year reflect a negative translational effect from RUR/USD rate movements, resulting in a difference between the year on year change in RUR and the respective change in USD of approximately 2.4% for 2013. For reference, to translate the Company's income statement from RUR to USD for presentation purposes, the Company applied a RUR/USD rate of 31.85 for 2013 (average for the period) and a RUR/USD rate of 31.09 for 2012 (average for the period); and
- comparison of the statement of financial position at 31 December 2013 to the statement of financial position at 31 December 2012 reflects a negative translational effect from the RUR/USD exchange rate movement, resulting in a difference between the change in RUR and the respective change in USD of approximately 7.8%. For reference, to translate the statement of financial position from RUR to USD for presentation purposes, the Company applied a RUR/USD exchange rate of 32.73 at 31 December 2013 and a RUR/USD exchange rate of 30.37 at 31 December 2012.

Executive Board

01 Stephan DuCharme
X5 Chief Executive Officer
Chairman of the Management Board and the Executive Board
Year of birth: 1964

Mr. DuCharme has served on X5's Supervisory Board since 2008. Previously he held positions with SUN Group, Alfa Group, the European Bank for Reconstruction and Development (EBRD) and Salomon Brothers Inc. Stephan has served on the Boards of Directors of CSA Czech Airlines, Alfa Bank, SUN-Interbrew Ltd. and JSC SUEK. He graduated with distinction from the University of California at Berkeley and received his MBA from INSEAD.

02 Sergey Piven
X5 Chief Financial Officer
Member of the Management Board
Year of birth: 1974

Mr. Piven joined X5 in 2011 as Finance Director for the Commercial Division. Prior to joining X5, he was CEO of Belmarket Co., a retail chain owned by A1, the private equity arm of Alfa Group. Before this, he was Director for Strategic Planning with Alfa Group. From 1999 to 2005, he held several management positions in the Finance Division at Ford Motor Company in Cologne, Gothenburg, Helsinki and Moscow. Mr. Piven graduated from the Minsk State Linguistic University and received his MBA from INSEAD.

03 Olga Naumova
General Director of Pyaterochka
Year of birth: 1972

Ms. Naumova joined X5 in May 2013. She has over 20 years of managerial experience at the senior executive level with leading Russian and international companies, including Rimera, Severstal and IBS. During this time she has effectively managed very large teams in both Russian and international environments and has a track record of success in business integration and restructuring. Ms. Naumova graduated from the Social Science faculty of Moscow State University in 1994.

04 Janusz Lella
General Director of Perekrestok
Year of birth: 1957

Mr. Lella joined X5 in September 2013. He has approximately 20 years of managerial and operational experience at senior executive level with leading Russian and international retailers, including Castorama, Office Depot, M.video, Yoplait and CPC Amino/Bestfoods. During this time he has been involved in various restructuring programs to improve operational efficiencies and distribution platforms to increase sales and profits. Mr. Lella attended the Warsaw Technical University and earned a MSc in Chemical Engineering.

05 Svetlana Volikova
General Director of Karusel
Year of birth: 1972

Ms. Volikova joined X5 in 2007. Since then she has held various positions within X5's Finance Department. In July 2011, Ms. Volikova was appointed as Finance Director of Karusel and in August 2012 promoted to General Director of Karusel. From 1996 to 2007, she held positions at Auchan and Danone and was responsible for finance and operational control. Ms. Volikova graduated from the Higher Institute of Management in Paris, France. She qualified as an ACCA accountant in 2009.

06 Anton Mironenkov
Strategy and Business Development Director
Year of birth: 1976

Mr. Mironenkov joined X5 as Deputy Director of the M&A Department in September 2006. In March 2011, he was appointed Director for M&A and Business Development and in 2012

became Director for Strategy and Business Development. From 2005 to 2006, he managed various projects at Alfa Group including the merger of Pyaterochka and Perekrestok. Mr. Mironenkov began his business career in 2000 as an auditor at PricewaterhouseCoopers, and subsequently spent four years as an investment banker at Troika Dialog before transferring to the Vice President position at Troika Dialog Asset Management in 2005. Mr. Mironenkov graduated with honors from Moscow State University in 2000 with a degree in Economics.

07 Luc Koenot
Chief Information Officer
Year of birth: 1962

Mr. Koenot joined X5 in August 2012. He has over 30 years' experience in food retail and IT, mostly with Delhaize Group, an international multi-format food retailer, where he held various management positions, including most recently Senior Vice President & CIO and Senior Vice President Supply Chain & Logistics, Delhaize Belgium. Mr. Koenot graduated from the Institut Catholique des Hautes Etudes Commerciales in Brussels.

08 Sergey Bakumov
Executive Director for Corporate Services
Year of birth: 1957

Mr. Bakumov joined X5 in October 2012 as Advisor to the CEO and became Executive Director for Corporate Services in May 2013. From 1994 to 2012, he was responsible for development, implementation and maintenance of security systems in Alfa-Bank, where he held various positions, including Deputy Head of the Executive Committee for Security and Chairman of the Board of Directors of the Alfa-Schit private security agency. During his employment with Alfa-Bank Mr. Bakumov actively participated in the bank's credit and investment committees' sessions. Mr. Bakumov graduated from the Zhitomir Higher School of Military Electronics and Air Defense and the Kharkov Military Academy of Radionics.

09 Vladlena Yavorskaya
General Counsel
Member of the Management Board
Year of birth: 1957

Ms. Yavorskaya joined X5 in July 2013. She has over 30 years of legal experience in both Russian and multinational enterprises. Prior to joining X5, she was Director of the Legal Department of Rolf, a leading automotive retail business in Russia. From 2001 to 2006, Ms. Yavorskaya was Director of the Legal Department of Wrigley, where she was responsible for Eastern Europe and the Middle East. Ms. Yavorskaya graduated from the Law faculty of Moscow State University.

10 Tatiana Ryabova
Human Resources Director
Year of birth: 1962

Ms. Ryabova joined X5 in April 2013. She has over 15 years of experience in HR including senior management positions with the largest Russian and international companies, most recently at Tele-2 Russia. Previously she worked at PricewaterhouseCoopers, Baskin Robbins, Golden Telecom and LG Electronics. Ms. Ryabova graduated from Moscow State Linguistic University and is a certified member of the Chartered Institute of Personnel and Development (CIPD).

Governance

In this section

Introduction from our Chairman

Dear Stakeholders
It gives me great pleasure to be able to address you in my first year as Chairman of the Board. 2013 was another challenging year for the Company, as we continued to make changes to better serve our customers and ultimately our shareholders.

Strategy and results
Our strategy, however, has not changed. The recent changes support X5's multi-format structure and are focused on giving the formats the operational independence and tools necessary to provide a better shopping experience for our customers and a platform to sustainably grow market share.

Retail is a constantly evolving industry and there is usually more than one way to execute a strategy in any given market. Globally most multi-format retailers provide significant operational independence to individual formats. We feel that the truly unique value propositions in our multi-format structure complement the market opportunities in Russia and are better served under a decentralized and dedicated support structure.

We operate in a very competitive environment, and we will continue to be tested especially as we consolidate the changes in our operating model and work to complete the turnaround. I am pleased to see that in the fourth quarter we delivered encouraging results, which were based on sustainable and best practice retail. It was the first quarter to demonstrate positive like-for-like traffic in more than two years.

This is a milestone that reflects the progress we have made under the new management team and operating model, as well as the expertise and efforts of our over 100,000 employees.

A primary objective of the Board is ensuring the execution of the Company's strategy in a sustainable way, for the benefit of all stakeholders. This includes not only our shareholders but also our employees, suppliers and customers.

X5 recognizes the importance its operations have on the towns and cities where we are located. We work closely and maintain an active dialog with regional administrations and local authorities to ensure that our development plans are in alignment with the overall strategy for the region.

> A strong commitment to governance and corporate responsibility lies at the heart of our operations and relationships."

Dmitry Dorofeev
Chairman

Leadership in governance

X5's supervisory board consists of eight members including five independent non-executive members

Read more on pages 68-69

As one of the largest retailers in Russia we provide economic support to more than a thousand cities through direct and indirect employment. We also provide a convenient source of quality products to the approximately two billion customers who visited our stores in 2013.

We have made the development of local suppliers one of the cornerstones of our assortment strategy. This not only provides customers with familiar and desired products but also supports local businesses in the regions where we operate. Our private label program also provides local producers in Russia with an opportunity to develop new, quality and affordable products made in Russia!

Governance and the Board
X5 has established a solid governance framework and our Board has a strong independent composition with relevant retail, finance and strategy expertise. This diversity provides management with valuable counsel and support as they translate our strategic objectives into X5's operations.

During 2013, two Board members left. Hervé Defforey, our Chairman at the end of 2012, resigned in March and Stephan DuCharme, the Chairman of the Nomination and Remuneration Committee, stepped down after accepting the nomination for X5 CEO.

Hervé served on X5's Board for nearly seven years and his deep industry experience and focus on the customer was instrumental in shaping our current strategy. We thank Hervé for his exceptional contributions and dedicated service.

In 2013, we strengthened our governance framework by expanding our Supervisory and Management Boards. During the past year, Igor Schekhterman, Alexander Malis and Pawel Musial have joined the Supervisory Board and brought significant experience in retail and human resources. They are also all independent, resulting in a total of five out of eight independent members on the Board. We also welcomed Vladlena Yavorskaya, X5's General Counsel, to the Management Board, increasing the number of members on this board from three to four.

I would like to thank my Board colleagues for their hard work and support throughout the year.

The future
X5 still has many challenges ahead of it as we work to complete the transformation we embarked on more than two years ago. I am convinced that the Company has a bright future ahead of it given the quality of our assets, both in terms of personnel and stores, and the favorable Russian retail market dynamics.

Stephan and his team will remain focused on retail fundamentals and meeting the needs of our customers. Our Board will continue to play a role in reviewing and advising on X5's strategy and ensuring that we continue to pursue an agenda of sustainable growth in compliance with the principles and practices of corporate governance of both the Dutch and UK financial regulators, to deliver stakeholder value.

I would like to thank all of X5's employees for their commitment and loyalty during these challenging times. I would also like to thank our shareholders for their patience during this transition period.

Dmitry Dorofeev
Chairman

Corporate Governance report

As a public company established under the laws of the Netherlands, with global depositary receipts of shares listed on the London Stock Exchange, X5 Retail Group N.V. is subject to the Dutch Corporate Governance Code adopted in 2003 and amended in 2008 (the 'Code'). The full text of the Code can be viewed on X5's website.

In accordance with the Code, a broad outline of the corporate governance structure of the Company is presented in this section, including any deviations from the Code's principles and best practice provisions. The Company adheres to the principles and best practice provisions of the Code as far as may be reasonably expected, while complying with local legislation and applying market practices in the countries in which the Company operates.

Management and Supervisory Boards

X5's management and supervision structure is organized in a two-tier system, comprising a Management Board and a Supervisory Board. Both the Management Board and the Supervisory Board are accountable to the General Meeting of Shareholders for the performance of their functions.

Duties of the Management Board

The Management Board is responsible for X5's overall management. It is accountable for the Company's pursuit and achievement of corporate goals and objectives, its strategies and policies. The Management Board is responsible for complying with all relevant legislation and regulations, for managing the risks associated with the Company's activities, for financing and for external communication. The Management Board is required to report related developments to, and discusses the internal risk management and control systems with, the Supervisory Board and its Audit Committee.

Composition of the Management Board

The Management Board consists of four members: the Chief Executive Officer, the Chief Financial Officer, the General Counsel and the Company Secretary. In 2013 the composition of the Management Board changed: on 19 April 2013 the General Meeting of Shareholders appointed Mr. DuCharme as CEO and member of the Management Board. Mr. DuCharme was nominated by the Supervisory Board in January 2013, following a six-month period during which he assumed the CEO's responsibilities in a delegated capacity. Also on 19 April 2013, the General Meeting appointed Mr. Piven as CFO and member of the Management Board, succeeding Mr. Balfe who stepped down in March. Furthermore, on 19 July 2013, the General Meeting appointed Mrs. Yavorskaya, General Counsel, as a fourth member of the Management Board.

The table below shows the members of X5's Management Board and their respective terms of appointment:

Name	Year of birth	Position	Year of initial appointment	End of current term of appointment
Stephan DuCharme	1964	Chief Executive Officer, Chairman of Management Board	2013	2017
Sergey Piven	1974	Chief Financial Officer	2013	2017
Vladlena Yavorskaya	1957	General Counsel	2013	2017
Frank Lhoëst	1962	Company Secretary	2007	2015

Duties of the Supervisory Board

The Supervisory Board is responsible for advising and supervising the Management Board and the general course of affairs of X5 and its businesses. In performing its duties, the Supervisory Board takes into account the relevant interests of the Company's stakeholders, and, to that end, considers all appropriate interests associated with the Company. Major business decisions require the approval of the Supervisory Board. The Supervisory Board also supervises the structure and management of systems of internal controls as well as the financial reporting process. The Supervisory Board meets at least four times per year.

Composition of the Supervisory Board

The General Meeting of Shareholders determines the number of members of the Supervisory Board. The Supervisory Board currently consists of eight members.

The Supervisory Board has prepared a profile describing its optimal size and composition, taking account of the nature of the Company's business and its activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board evaluates its profile annually.

According to the rules governing the principles and practices of the Supervisory Board, a person may be appointed to the Supervisory Board for a maximum of three terms of four years. The Supervisory Board has prepared a retirement and reappointment schedule to prevent, to the greatest extent possible, reappointments occurring simultaneously. Both the Supervisory Board profile and rotation plan can be viewed on the Company's website.

The table below shows the current members of the Supervisory Board and their respective terms of appointment. The terms of Mr. Gould and Mr. Couvreux will expire in 2014. Both Mr. Gould and Mr. Couvreux are eligible for reappointment.

Name	Year of birth	Position	Year of initial appointment	End of current term of appointment
Dmitry Dorofeev	1977	Chairman	2012	2016
Mikhail Fridman	1964	Member	2006	2017
David Gould	1969	Member	2006	2014
Alexander Tynkovan	1967	Member	2008	2016
Christian Couvreux	1950	Member	2010	2014
Alexander Malis	1972	Member	2013	2017
Igor Shekhterman	1970	Member	2013	2017
Pawel Musial	1968	Member	2013	2017

Committees of the Supervisory Board

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its four permanent committees: the Audit Committee, the Nomination and Remuneration Committee, the Related Party Committee and the Strategy Committee. Each committee is composed of at least two members, at least one of whom must be independent within the meaning of the Dutch Corporate Governance Code. The members of each committee are appointed by and from the Supervisory Board. Each committee has a charter describing its role and responsibilities and the manner in which it discharges its duties and reports to the full Supervisory Board. These charters are included in the rules governing the principles and practices of the Supervisory Board, which can be viewed on X5's website.

Audit Committee. The Audit Committee assists the Supervisory Board in fulfilling its supervision and monitoring responsibilities in respect of the integrity of X5's financial statements, systems of internal business control and risk management, financing and finance-related strategies and tax planning. It furthermore advises on the appointment of the external auditor by the General Meeting of Shareholders and the auditor's remuneration.

Nomination and Remuneration Committee. The Nomination and Remuneration Committee recommends the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders, prepares proposals to the Supervisory Board for remuneration of the individual members of the Management Board in line with the remuneration policy and advises the Management Board on the level and structure of compensation for other senior personnel. The Nomination and Remuneration Committee also advises in respect of the selection and appointment of members of the Supervisory Board and the Management Board. At least annually the Nomination and Remuneration Committee evaluates the size and composition of the Supervisory Board and the Management Board, as well as the functioning of the individual members, and reports the results of such evaluations to the Supervisory Board.

Related Party Committee. The Related Party Committee advises the Supervisory Board on handling and deciding on reported (potential) conflicts of interests and any other related party transactions which are contemplated between X5, on the one hand, and conflicted persons or entities, including but not limited to its shareholders, members of the Supervisory Board and members of the Management Board, on the other hand.

Strategy Committee. The Strategy Committee advises in respect of the general strategy of X5, including, but not limited to, the future direction to be taken by X5 as a whole and each of its affiliated businesses, overall growth and development strategy, mergers and acquisitions and financing strategy.

Composition of the Supervisory Board committees

Name	Audit Committee	Nomination and Remuneration Committee	Related Party Committee	Strategy Committee
Dmitry Dorofeev	Member	Member		Member
Mikhail Fridman				
David Gould	Chairman	Member		
Alexander Tynkovan		Member	Chairman	Member
Christian Couvreux	Member		Member	Chairman
Alexander Malis				Member
Igor Shekhterman		Chairman		
Pawel Musial				Member

Corporate Governance report

continued

Gender diversity

Pursuant to the Dutch Management and Supervision Act which took effect on 1 January 2013, at least 30% of the positions on the Management Board and the Supervisory Board are to be held by women. Currently, X5's Management and Supervisory Boards are not balanced in accordance with the Act. This deviation is unintentional; while X5 generally aims for a diverse composition, diversity is not a decisive factor when finding the most suitable candidate for any of the Company's boards.

Appointment, suspension and dismissal

The General Meeting of Shareholders shall appoint the members of the Management and Supervisory Board from a binding nomination, to be drawn up by the Supervisory Board. Because the nomination by the Supervisory Board of the candidate is binding, the recommended candidate will be appointed by the General Meeting of Shareholders unless the nomination is deprived of its binding character by a qualified majority vote of at least two-thirds of the votes cast, representing more than one-half of the issued share capital of the Company.

Supervisory Board members are appointed for a period of up to four years and may be re-elected twice. Members of the Management Board are also elected for a period of four years. The Articles of Association do not limit the total term of office for Management Board members.

Each member of the Supervisory Board and Management Board may, at any time, be dismissed or suspended by the General Meeting of Shareholders. A member of the Management Board may at any time be suspended by the Supervisory Board. Such suspension may be discontinued by the General Meeting of Shareholders at any time.

Remuneration

In line with the remuneration policy adopted by the General Meeting of Shareholders, the remuneration of the individual members of the Management Board will be decided by the Supervisory Board on the recommendation of its Nomination and Remuneration Committee. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders. The remuneration policy for members of the Management Board, as well as the remuneration of members of the Supervisory Board is incorporated in the Remuneration report on page 80-85, and is available on the website of the Company.

Reporting on conflicts of interest

A member of the Management Board or Supervisory Board is required to immediately report and provide all relevant information to the Chairman of the Supervisory Board (and to the other members of the Management Board, if it concerns a member of that board) in the case of any conflict of interest, or potential conflict of interest, that he or she may have with the Company and that may be of material significance to him/her or the Company.

If a member of the Supervisory Board or a member of the Management Board has a conflict of interest with the Company, such member may not participate in the discussions and decision-making process on subjects or transactions relating to the conflict of interest. A decision of X5 to enter into a transaction involving a conflict of interest with a member of the Management Board or a member of the Supervisory Board that is of material significance to him/her or the Company requires the approval of the Supervisory Board. The Related Party Committee advises the Supervisory Board on the handling of and deciding on (potential) conflicts of interest and prepares resolutions of the Supervisory Board in relation thereto. An account of related party transactions in 2013 is included in the Report of the Supervisory Board on page 76-79.

Shareholders and their rights

General Meeting of Shareholders

X5 Retail Group N.V. is required to hold a General Meeting of Shareholders within six months after the end of the financial year, among other things to adopt the financial statements, to decide on any proposal concerning profit allocation and to discharge the members of the Management Board and Supervisory Board from their responsibility for the performance of their respective duties for the previous financial year.

Extraordinary meetings will be held as often as the Management Board or the Supervisory Board deem necessary. In addition, shareholders and holders of global depositary receipts (GDRs) jointly representing 10% of the outstanding share capital may request to the Management Board and the Supervisory Board that a General Meeting of Shareholders be held, stating their proposed agenda in detail.

The powers of the General Meeting of Shareholders are defined in the Company's Articles of Association. Apart from the decisions taken at the Annual General Meeting of Shareholders, the main powers of the shareholders are to appoint (subject to the Supervisory Board's right of making binding nominations), suspend and dismiss members of the Management Board and Supervisory Board, to appoint the external auditor, to adopt amendments to the Articles of Association, to issue shares and grant subscriptions for shares, to authorize the Management Board or the Supervisory Board to issue shares and grant subscriptions for shares, to authorize the Management Board or the Supervisory Board to restrict or exclude pre-emptive rights of shareholders upon issuance of shares, to authorize the Management Board to repurchase outstanding shares of the Company, to adopt the remuneration policy of the Management Board, to determine the remuneration of members of the Supervisory Board, and to merge, demerge or dissolve the Company.

The notice for a General Meeting of Shareholders needs to be published not later than the 42nd day prior to the day of the meeting. The mandatory record date, establishing which shareholders are entitled to attend and vote at the General Meeting of Shareholders, is fixed at the 28th day prior to the date of the meeting.

One or more shareholders or holders of GDRs representing at least 3% of X5's issued share capital are entitled to request that a matter be included on the agenda of the General Meeting of Shareholders. Such requests, if sufficiently substantiated and received by the Company at least 60 days before the date of the meeting, can only be refused on the grounds of exceptional circumstances, to be checked against the principles of reasonableness and fairness.

All shareholders and other persons who, pursuant to Dutch law or the Articles, are entitled to attend and/or vote at a General Meeting of Shareholders are entitled to address the General Meeting of Shareholders. X5 uses the Bank of New York Mellon, the depositary for X5's GDR facility, to enable GDR holders to exercise their voting rights represented by the shares underlying the GDRs. As described in the terms and conditions of the global depositary receipts, holders of GDRs may instruct the depositary with regard to the exercise of the voting rights connected to the shares underlying their GDRs. Alternatively, upon request of the holders of such depositary receipts, the depositary will grant a proxy to such holders who wish to vote in person at a General Meeting of Shareholders. Persons who hold a written proxy may represent shareholders at a General Meeting of Shareholders. The written proxy must be duly executed and legalized in accordance with the applicable laws, and may be submitted electronically.

Voting rights

Each share confers the right to cast one vote at the General Meeting of Shareholders. There are no restrictions, either under Dutch law or in the Articles, on the right of non-residents of the Netherlands or foreign owners to hold or vote the shares, other than those also imposed on residents of the Netherlands. Resolutions of the General Meeting of Shareholders will be passed by a simple majority of the votes cast in a meeting where more than 25% of the issued share capital is present or represented. If 25% or less of the issued share capital is present or represented, a second meeting should be convened and held no later than four weeks following the first meeting. At such second meeting, no quorum requirement will apply. However, the General Meeting of Shareholders can only resolve on a merger or demerger with a majority of at least two-thirds of the votes cast, if less than 50% of the issued capital is represented in that meeting.

Dividend rights

Any distribution of profits to shareholders will be made after the adoption by the General Meeting of Shareholders of the annual accounts of the Company from which it appears that such distribution is permitted. The Company may only declare profit distributions insofar as its net assets exceed the sum of its issued share capital plus any legal reserves required to be maintained pursuant to Dutch law and the Articles. A loss may only be applied against such reserves to the extent permitted by Dutch law. On a proposal of the Supervisory Board, the General Meeting of Shareholders will determine which part of the profits will be added to the reserves and the allocation of the remaining profits.

On a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to pay an interim dividend insofar as X5's net assets exceed the sum of its issued share capital and the reserves that are required to be maintained pursuant to Dutch law, as evidenced by an interim financial statement prepared and signed by all the members of the Management Board. In addition, on a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to make distributions to the shareholders out of any reserves that need not to be maintained pursuant to Dutch law.

Dividends and other distributions that have not been claimed within five years after the date on which they became due and payable revert to the Company.

Significant ownership of voting shares

According to the Dutch Financial Markets Supervision Act *(Wet op het financieel toezicht)*, any person or legal entity who, directly or indirectly, acquires or disposes of an interest in X5's capital and/or voting rights must immediately give written notice to the Netherlands Authority for the Financial Markets (AFM), if the acquisition or disposal causes the percentage of outstanding capital interest and/or voting rights held by that person or legal entity to reach, exceed or fall below any of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

The following table lists the shareholders on record on 28 February 2014 in the AFM's public register that hold an interest of 3% or more in the share capital of the Company:

Shareholder	Date of disclosure	Capital interest and voting rights[1]
CTF Holdings Ltd.	2 August 2007	48.41%
Axon Trust	22 December 2009	11.43%
The Baker Trust	5 June 2013	4.92%
Genesis Asset Managers, LLP	16 July 2012	5.23%
T. Row Price Associates Inc.	11 September 2012	4.99%

[1] In accordance with the filing requirements the percentages shown include both direct and indirect capital interests and voting rights. Further details can be obtained at www.afm.nl.

Securities owned by Board members

The members of the Management Board and Supervisory Board and X5's other senior management are subject to the Company's code of conduct with regard to insider trading, which contains rules of conduct to prevent trading in X5's global depositary receipts of shares or other financial instruments when holding inside information. The code of conduct with regard to insider trading can be viewed on the Company's website.

The code of conduct includes a specific section on obligations of members of the Management Board to report to the Compliance Officer in case of changes in their holding of securities in any Dutch listed company, not being X5 securities, in accordance with the Dutch Corporate Governance Code.

Furthermore, under the Dutch Financial Markets Supervision Act, members of the Management Board and Supervisory Board shall notify the AFM of X5 securities and voting rights at their disposal. These positions can be viewed on the AFM's public register.

In addition, under the Disclosure and Transparency Rules in the United Kingdom, X5 must notify a regulatory information service (RIS) of the occurrence of all transactions in X5 conducted – on their own account – and notified by members of the Management Board and Supervisory Board.

Corporate Governance report

continued

Repurchase by the Company of its own shares

The Company may acquire fully paid shares, or depositary receipts thereof, in its capital for a consideration only following authorization of the General Meeting of Shareholders and subject to certain provisions of Dutch law and the Company's Articles of Association, if:

- shareholders' equity minus the purchase price is not less than the sum of X5's issued and fully paid-in capital plus any reserves required to be maintained by Dutch law or X5's Articles of Association; and
- X5 and its subsidiaries would not, as a result, hold shares or depositary receipts thereof with an aggregate nominal value exceeding half of the issued share capital.

In 2013 the Management Board has been authorized to acquire up to 10% of the shares or depositary receipts of X5. This authorization is valid through 29 October 2014. In addition, the Supervisory Board has resolved that in the case that a purchase of shares or depositary receipts thereof by X5 would lead to X5 holding more than 5% of the shares or depositary receipts thereof, the Management Board requires the Supervisory Board's prior approval for such purchase.

Authorization by the General Meeting of Shareholders is not required if X5's own shares are acquired for the purpose of transferring those shares to X5 employees pursuant to any arrangements applicable to such employees.

Shares or depositary receipts thereof held by X5 or a subsidiary may not be voted on and are not taken into account for determining whether quorum requirements, if any, are satisfied.

Issue of new shares and pre-emptive rights

Shares in X5 may be issued, and rights to subscribe for shares may be granted, pursuant to a resolution of the General Meeting of Shareholders or another corporate body of X5 to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. In 2013, the General Meeting of Shareholders approved a delegation of this authority to the Supervisory Board, relating to the issuance and/or granting of rights to acquire up to 6,789,322 shares (10% of the issued share capital) through 29 October 2014.

Upon the issue of new shares, holders of X5's shares have a pre-emptive right to subscribe for shares in proportion to the aggregate amount of their existing holdings of X5's shares. According to the Company's Articles of Association, this pre-emptive right does not apply to any issue of shares to employees of X5 or a Group company. Pre-emptive rights may be restricted or excluded pursuant to a resolution of the General Meeting of Shareholders or another corporate body of X5 to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. The General Meeting of Shareholders has delegated the authority to restrict or exclude the pre-emptive rights of shareholders upon the issue of shares and/or the granting of rights to subscribe for shares to the Supervisory Board through 29 October 2014.

Articles of Association

X5's Articles of Association contain rules on the organization and corporate governance of the Company. The current text of the Articles of Association is available at the Trade Register of the Chamber of Commerce and Industry for Amsterdam and on X5's website.

Amendment of the Articles of Association of the Company requires a resolution of the General Meeting of Shareholders. Any proposal to amend the Articles, including the text of the proposed amendment, must be made available to holders of shares and GDR for inspection at the offices of X5 as of the date of the notice convening the meeting of the General Meeting of Shareholders until the end of the meeting of the General Meeting of Shareholders at which the proposed amendment is voted on.

In January 2013 the Company's Articles of Association were amended in order to bring them into conformity with certain provisions of the Management and Supervision Act and the Corporate Governance Act which came into force in the Netherlands on 1 January 2013 and 1 July 2013 respectively. The current text of the Articles of Association is available on X5's public website at www.x5.ru.

Anti-takeover measures and change-of-control provisions

According to provision IV.3.11 of the Code, the Company is required to provide a survey of its actual or potential anti-takeover measures, and to indicate in what circumstances it is expected that they may be issued. No special rights of control as referred to in Article 10 of the EU Directive on takeover bids are attached to any share or GDR in X5. X5 and X5 subsidiaries may have customary change-of-control arrangements included in agreements, such as credit facilities, ISDA agreements and debt instruments. Following a change of control of X5 (as the result of a public bid or otherwise), such agreements may be amended or terminated, leading, for example, to an early repayment of amounts due under existing credit facilities.

Auditor

The General Meeting of Shareholders appoints the external auditor following nomination by the Supervisory Board. Both the Audit Committee and the Management Board make a recommendation to the Supervisory Board with respect to the external auditor to be proposed for (re)appointment by the General Meeting of Shareholders. In addition, the Audit Committee evaluates and, where appropriate, recommends the replacement of the external auditor. The Audit Committee also pre-approves the fees for audit and permitted non-audit services to be performed by the external auditor as negotiated by the Management Board. The Audit Committee shall not approve the engagement of the external auditor to render non-audit services that are prohibited by applicable laws and regulations or that would compromise the auditor's independence.

At least every four years, the Management Board shall together with the Audit Committee thoroughly assess the performance of the external auditor in the various entities and capacities in which the external auditor operates. The main conclusions of the assessment shall be notified to the General Meeting of Shareholders for the purpose of considering the nomination for the appointment of external auditor of the Company.

Compliance with Dutch Corporate Governance Code

X5 applies the relevant principles and best practices of the Code in the manner described in this Corporate Governance Report. X5's policy with respect to the implementation of the Code was last discussed with its shareholders at the 2010 General Meeting of Shareholders. Since then, there have been no substantial changes in the corporate governance structure of the Company. Committed to a corporate governance structure that best serves the interests of all stakeholders, X5 continues to seek ways to improve and enhance its corporate governance standards in line with international best practices. X5 generally adheres to the Code, but does not comply with the following recommendations:

II.3.4, III.6.3 and III.6.4: Disclosure of transactions with related parties in the Annual Report

In accordance with the Code, transactions with members of the Management Board, Supervisory Board, or persons holding at least 10% of shares or depository receipts thereof in which there are significant conflicting interests will be published in X5's Annual Report. However, in deviation from the Code, a detailed statement of the relevant conflict of interest is not published if (i) this conflicts with the law or (ii) the confidential, share-price sensitive or competition-sensitive nature of the transaction prevents publication or could damage X5's competitive position.

III.2.1: Independence of members of the Supervisory Board

Three out of eight members of the Supervisory Board are related to companies that are owned or controlled by companies that ultimately hold 10% or more of the shares or GDRs in X5. These members of the Supervisory Board are, therefore, not considered to be independent within the meaning of the Code. Mr. Tynkovan, Mr. Couvreux, Mr. Malis, Mr. Shekhterman and Mr. Musial are independent within the meaning of the Code.

X5 believes that the non-independent members of the Supervisory Board have an in-depth knowledge of the geographic market, of business in general and of retail specifically in the markets in which X5 operates, which is of particular advantage to X5 and its stakeholders.

III.5: Committees of the Supervisory Board and deviation from the maximum of one non-independent member of the Audit Committee

In 2009, the Supervisory Board resolved to merge the Supervisory Board's Remuneration Committee and Selection and Appointment Committee to one 'Nomination and Remuneration Committee' and accordingly X5 currently deviates from the Code, which requires these two committees to be separate committees. However, in light of the respective duties, responsibilities and composition of each of the Remuneration Committee and the Selection and Appointment Committee, and for reasons of practicality, X5 believes that it was in X5's best interest to merge these committees.

In addition, X5 acknowledges that Mr. Gould and Mr. Dorofeev are non-independent members of the Audit Committee within the meaning of the Code whereas, pursuant to the Code, the terms of reference of each committee of the Supervisory Board may provide that a maximum of one member of each committee may not be independent. Considering Mr. Gould's and Mr. Dorofeev's financial expertise, and for reasons of continuity, X5 believes that it is in X5's best interest that Mr. Gould's and Mr. Dorofeev's membership of the Audit Committee be continued.

III.7.1: No grant of shares and options to members of the Supervisory Board

As determined by the General Meeting of Shareholders, the independent members of the Supervisory Board participate in the Company's restricted stock unit plan. X5 acknowledges that the award of shares to members of the Supervisory Board constitutes a deviation from the Code. However, in order to attract and reward experienced individuals with a track record that is of specific relevance to the Company, X5 believes it is necessary to allow members of the Supervisory Board to participate in the Company's equity-based remuneration plan. This structure aligns the interests of Supervisory Board members with those of shareholders and strengthens their commitment and confidence in the future of the Company. Equity-based awards to members of the Supervisory Board are determined by the General Meeting of Shareholders, and shall not be subject to performance criteria.

Supervisory and Management Boards

Supervisory Board

01 Dmitry Dorofeev
Chairman
Year of birth: 1977

Mr. Dorofeev, a Russian citizen, joined Alfa Group in May 2012 as Director of Group Portfolio Management and Control. His responsibilities include analysis and coordination of investment and strategic planning for Alfa Group's companies. Mr. Dorofeev also serves as a member at the Supervisory Board of Alfa Group. Prior to joining Alfa Group, Mr. Dorofeev worked at McKinsey & Company in Moscow from 2004. From 2000 to 2004, he also held various positions at Ernst & Young in St. Petersburg and in Moscow. Mr. Dorofeev received his MSc at the D. Ustinov Baltic State Technical University 'Voenmeh', Faculty of International Industrial Management. He also graduated from the Bodø Graduate School of Business in Norway, Faculty of International Business. Mr. Dorofeev qualified as a Chartered Certified Accountant (ACCA) in 2004.

02 Mikhail Fridman
Member of the Supervisory Board
Year of birth: 1964

Mr. Fridman, a Russian citizen, serves as Chairman of the Supervisory Board of Alfa Group and is one of Alfa Group's principal founders. He is a member of the Supervisory Board of ABH Holdings S.A. (the holding company for Alfa Banking Group) and of VimpelCom Ltd and X5 Retail Group N.V. Mr. Fridman is also a member of the International Advisory Board of the Council of Foreign Relations (USA). Mr. Fridman graduated from the Moscow Institute of Steel and Alloys.

03 David Gould
Chairman of the Audit Committee
Year of birth: 1969

Mr. Gould, a US citizen, serves as Deputy Director of Corporate Development, Finance and Control at Alfa Group Consortium. He is a member of the Supervisory Board of ABH Holdings S.A. (the holding company of Alfa Banking Group), a member of the Supervisory Board of X5 Retail Group N.V., and a member of the Advisory Committee of Alfa Finance Holdings S.A. Mr. Gould qualified as a CPA in 1992 and has been a CFA charter holder since 1999.

Mr. Gould formerly held positions at PricewaterhouseCoopers from 1992-2000. He graduated with honors with a BA from Colgate University (1991) and holds an MBA-MSc from Northeastern University (1992).

04 Alexander Tynkovan
Chairman of the Related Party Committee
Year of birth: 1967

Mr. Tynkovan, a Russian citizen, is the founder and CEO of M.video, a leading consumer electronics and home appliance retailer in the Russian Federation. Mr. Tynkovan graduated summa cum laude from the Moscow Energy Institute, majoring in Aircraft Electric Equipment.

05 Christian Couvreux
Chairman of the Strategy Committee
Year of birth: 1950

Mr. Couvreux, a French citizen, formerly held several leadership positions at Group Casino, including the position of CEO from 1997 until 2003, as well as at CFAO (now part of PPR) – in particular, of CFAO-Congo and La Ruche Méridionale. More recently he acted as a retail consultant in Asia, in particular in Thailand, Vietnam, Indonesia and the Philippines.

Mr. Couvreux holds a MSc in Economic Sciences from the University of Paris and an MBA from the French business school HEC.

06 Igor Shekhterman
Chairman of Nomination and Remuneration Committee
Year of birth: 1970

Mr. Shekhterman a Russian citizen, is the managing partner in RosExpert, the Russian alliance partner of Korn/Ferry International. He was one of the founders of the RosExpert Company in 1996. Mr. Shekhterman started his career as finance manager at the Russian branch of Beoluna, the Japanese jewelry producer. He holds a BA in Finance from business schools in France and Denmark.

07 Alexander Malis
Member of the Strategy Committee
Year of birth: 1972

Mr. Malis, a Russian citizen, has been CEO of Euroset Group since April 2009. From 2008 to 2009 he was head of broadband access development at VimpelCom Group. From 1995 Mr. Malis served in various capacities at Corbina Telecom, including the last two years as CEO. Since 2006 he has also served as CEO of CJSC Investelectrosvyaz and acting CEO of CJSC Cortec (a Corbina Telecom trademark). From 1990 to 1995 he was a financial consultant at RusConsult. Mr. Malis graduated from the Moscow State University of Commerce with a specialization in Financial Accounting and Audit. He received his PhD from the Research Institute of Finance in 1998.

08 Pawel Musial
Member of the Supervisory Board
Year of birth: 1968

Mr. Musial, a Polish citizen, is CEO of Profi Rom Food, one of the largest supermarket chains in Romania, following positions on the Supervisory Board of, consecutively, Ukraine Eko Market (Chairman) and Profi Rom Food since 2008. From 2006 to 2007 he was Chief Commercial Officer and a member of the management board of X5, having previously been General Director and Chief Operating Officer of the Perekrestok chain since 2004. Prior to joining Perekrestok, Mr. Musial held senior management positions in the food retail industry in Poland, including five years with Tesco Polska, with his last position as Regional Director. Mr. Musial graduated from the Warsaw University of Life Sciences (SGGW) with an engineering degree in nutrition technology.

Management Board

01 Stephan DuCharme
Chief Executive Officer
(Biography on page 62)

02 Sergey Piven
Chief Finance Officer
(Biography on page 62)

03 Vladlena Yavorskaya
General Counsel
(Biography on page 63)

04 Frank Lhoëst
Company Secretary
Year of birth: 1962

Mr. Lhoëst joined X5 in November 2007. Previously he held several positions at Intertrust Group, from account manager in the Netherlands Antilles to founder and Director of the Intertrust office in Vienna, Austria. In 2002, he established the Intellectual Property Group of Intertrust in the Netherlands. Mr. Lhoëst graduated from Leiden University with a degree in Law.

Report of the Supervisory Board

The Supervisory Board is charged with supervising the policies of the Management Board and the general course of affairs of the Company and the business connected with it, as well as assisting the Management Board by providing advice. In performing its duties the Supervisory Board acts in accordance with the interests of the Company and its affiliated businesses. It also takes into account the relevant interests of the Company's stakeholders and, to that end, considers all appropriate interests associated with the Company.

Composition and profile of the Supervisory Board
X5's General Meeting of Shareholders determines the number of members of the Supervisory Board. Currently X5's Supervisory Board consists of eight members. The Supervisory Board reviews on an annual basis the profile of its size and composition, taking into account the evolving nature of X5's business and activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board profile is published on X5's corporate website.

The composition of the Supervisory Board changed substantially in 2013. Mr. DuCharme stepped down from the Supervisory Board in January, following his nomination to become CEO of the Company. He was subsequently appointed by the General Meeting of Shareholders on 19 April 2013. In March Mr. Defforey stepped down as Chairman and member of the Supervisory Board, having served in this capacity for nearly seven years. The Supervisory Board expresses its gratitude for Mr. Defforey's leadership and significant contribution to the development of X5 during these years.

In order to restore the balance between independent and non-independent Board members, the Supervisory Board nominated Mr. Malis, Mr. Shekhterman and Mr. Musial as additional independent members of the Supervisory Board. Mr. Malis and Mr. Musial were nominated in view of their particular knowledge and experience of the retail industry, while Mr. Shekhterman was nominated in view of his general knowledge and experience of Russian business and his professional background in the area of human resources and management selection, assessment and development. Following the appointment of all three nominated candidates by the General Meeting of Shareholders in, respectively, July and September 2013, the Supervisory Board is composed of eight members, with a majority of five independent members.

In accordance with the retirement and reappointment schedule of the Supervisory Board, the terms of Mr. Gould and Mr. Couvreux will expire in 2014. Both Board members are eligible for reappointment.

An overview of the current composition of the Supervisory Board is presented in the Corporate Governance Report.

Composition of committees
While retaining overall responsibility, the Supervisory Board assigns certain tasks to its four permanent committees: the Audit Committee, the Nomination and Remuneration Committee, the Related Party Committee and the Strategy Committee. When Mr. Defforey stepped down in March, Mr. Dorofeev took over his position as Chairman of the Board. In addition, Mr. Defforey was succeeded by Mr. Gould as member of the Nomination and Remuneration Committee, and by Mr. Couvreux as member of the Audit Committee and the Related Party Committee. Upon their appointments in July, both Mr. Malis and Mr. Musial became a member of the Strategy Committee and Mr. Shekhterman succeeded Mr. Dorofeev as Chairman of the Nomination and Remuneration Committee.

An overview of the current composition of the committees is presented in the Corporate Governance Report.

Induction
Induction and ongoing professional development education are key elements of good governance. Following their appointments Messrs. Malis, Shekhterman and Musial went through X5's strategic, financial, legal and reporting affairs with senior executives of the Company. In addition, prior to their appointment, they attended meetings of the Strategy Committee and the Supervisory Board. On an ongoing basis, members of the Supervisory Board visit operating companies and other parts of the business including stores and distribution centers, to gain greater familiarity with senior management, and to develop deeper knowledge of local operations, opportunities and challenges.

Meetings of the Supervisory Board
In 2013 the Supervisory Board held six meetings including one meeting by conference call. Further resolutions in writing were taken when necessary during the year. On each of five occasions in 2013 the Supervisory Board meeting was preceded by meetings of the Audit Committee, the Nomination and Remuneration Committee, the Strategy Committee and, when necessary, the Related Party Committee. In 2013 the Supervisory Board strengthened its role in the development and implementation of the Company's strategic framework. Meetings of the Strategy Committee were attended by all members of the Supervisory Board, meaning that in effect, the Supervisory Board convened five times for two consecutive days. All these meetings included feedback sessions with members of the Executive Board.

All meetings were attended by the full Supervisory Board, apart from the meeting in September which was not attended by Mr. Malis. The CEO and CFO attended the meetings, and other members of senior management were regularly invited to present to the Supervisory Board. In 2013 the Supervisory Board held regular private sessions with no members of the Management Board present, to independently discuss matters related to the performance, functioning and development of the Management Board and members of senior management. The external auditor attended the meeting in March at which the 2012 Annual Report and financial statements were recommended for adoption by the Annual General Meeting of Shareholders. In between the Supervisory Board meetings, members of the Supervisory Board had frequent (telephone) meetings with members of the Management Board and other Company management.

Given the substantial changes in the composition of the Supervisory Board, including the appointment of three new Board members during the second half of the year, it was considered inappropriate and not representative to carry out the annual self-assessment of the Board in 2013. In order for the assessment to have meaningful and productive results, the Board decided that it should take place in 2014.

During 2013 the Supervisory Board reviewed various matters related to the Company's activities, operational results, strategies and management, but devoted considerable time to the following topics in particular:

- in-depth performance analysis of each format division, and ongoing assessment of the drivers and initiatives to increase sales dynamics and sustainable growth, with a focus on supply chain, the introduction of category management principles, refurbishment of stores, pricing strategy, staff motivation systems, M&A and further specific strategic growth opportunities;
- the Company's organization and governance structure, including the further implementation of the new operating model; and
- human resource issues connected to the continued business transformation and related management transition process.

Other topics included:

- the financial reporting process and in particular the approval of the 2012 Annual Report and review of the 2013 half-yearly and quarterly financial reports;
- the reports by the internal and external auditor;
- regular assessment of the members of the Management Board and the Executive Board, including talent management and succession planning;
- selection, appointment and remuneration of the new members of the Management Board and other senior managers of the Company;
- the changes in the composition of the Supervisory Board and its committees;
- the new remuneration policy for members of the Management Board and Executive Board;
- the adjustment of remuneration principles for the Supervisory Board;
- an ongoing performance and strategy review of the various business divisions of the Company;
- the financing strategy;
- an in-depth review of the Company's IT infrastructure;
- the development and expansion strategy;
- risk management; and
- the review and approval of the annual budget.

Meetings of the committees

Audit Committee

The role of the Audit Committee is described in its charter, which is available on the Company's website. On 31 December 2013 the Audit Committee consisted of Mr. Gould (Chairman), Mr. Couvreux and Mr. Dorofeev. In 2013 the Audit Committee held five face-to-face meetings. Additional meetings were held by conference call when necessary, for instance to review the publication of the quarterly financial reports and trading updates. As a rule, all meetings were attended by the CFO, the external auditor and the head of the corporate audit department (CAD). Other members of the Supervisory Board and senior management were invited when necessary or appropriate. The Audit Committee met once with the external auditors without the presence of management.

Throughout 2013 discussions regularly focused on internal and external control procedures, risk management, the Company's financing structure, financial reporting and tax. Internal audit reports were provided at all Audit Committee meetings. In 2013 the Audit Committee devoted considerable time to supply chain and logistics, with a continued focus on stock management, including aged inventory and loss prevention plans across all formats.

Report of the Supervisory Board

continued

The Audit Committee discussed further topics including:

- the 2012 Annual Report and financial statements;
- the external auditors' report with respect to accounting and audit issues and internal control recommendations in respect of their audit of the 2012 consolidated financial statements;
- quarterly interim financial reports and trading updates;
- audit fees, appointment and independence of the external auditor;
- working capital management;
- tax planning and risks;
- with bank financial covenants;
- management reporting;
- investment planning and analysis;
- updates on the functioning of IT systems;
- integrity and compliance;
- review and approval of the CAD's audit plan and budget for 2014; and
- financial reporting calendar and black-out trading calendar for the year 2014.

During the third quarter the Audit Committee, together with management, conducted its periodic assessment of the performance of the external auditor, and compliance with the Company's policy on external auditor independence, audit scope and approach within the various Group entities and in the different capacities in which the external auditor acts. The main conclusions of this assessment will be shared with the 2014 General Meeting of Shareholders for the purpose of assessing the nomination for reappointment of the external auditor.

Throughout the year the Audit Committee reviewed the Company's risk management and internal control systems, and the proper functioning of operational and business processes through the work of the CAD, the external auditor and directly with management. The CAD assessed processes in a number of departments in terms of their effectiveness and efficiency, compliance with laws and regulations, their safety and proper reflection in Company reporting systems, and developed recommendations to Company management on enhancing controls and decreasing inherent risks. Significant audit and forensic investigation findings of the CAD were reported to the Audit Committee on a regular basis. The status of follow-up actions by management in addressing CAD findings was regularly reviewed by the Audit Committee.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is described in its charter, which is available on the Company's website. On 31 December 2013 the Nomination and Remuneration Committee consisted of Mr. Shekhterman (Chairman), Mr. Dorofeev, Mr. Tynkovan and Mr. Gould. The Nomination and Remuneration Committee held six meetings in 2013. Other members of the Supervisory Board and senior management were invited when necessary or appropriate.

When Mr. DuCharme stepped down from the Board in connection with his nomination as CEO, and Mr. Defforey stepped down in March, the Nomination and Remuneration Committee reviewed the profile and composition of the Supervisory Board, leading to the nomination of Mr. Malis, Mr. Shekterman and Mr. Musial as new supervisory Directors. Also, in accordance with the retirement and reappointment schedule of the Supervisory Board, the Committee discussed and proposed the reappointment of Mr. Fridman for a new term until 2017.

Early in the year the Committee proposed the nomination of Mr. Piven as CFO and member of the Management Board, to succeed Mr. Balfe who resigned in March. Subsequently, in order to strengthen the Management Board's profile and diversify its composition, the Committee proposed the nomination of Mrs. Yavorskaya, General Counsel, as a fourth member of the Management Board. During the year the Nomination and Remuneration Committee evaluated X5's organizational and governance structure, as well as leadership and human resources needs, in relation to the Company's strategic and growth objectives. In the context of the ongoing business decentralization process, considerable time was devoted to the selection, appointment and assessment of senior executives, thus strengthening the leadership of the Company's main business divisions. In terms of remuneration, the Nomination and Remuneration Committee proposed the amendment of the remuneration policy, introducing the new deferred cash-based incentive plan for senior executives, substituting the short- and long-term variable remuneration components. Also, the Committee reviewed and proposed amendments to the remuneration principles for members of the Supervisory Board.

The Nomination and Remuneration Committee further reviewed and prepared the following items for recommendation or report to the full Supervisory Board, as part of its ongoing responsibilities:

- regular assessment of the members of the Management Board and Executive Board;
- proposals for the variable remuneration of the members of the Management Board and Executive Board, and review and approval of corporate and individual targets under the new deferred cash based incentive plan; and
- proposals for the appointment of senior managers based on selection criteria prepared in advance, as well as their remuneration in accordance with the Company's remuneration policy.

The Remuneration report on page 80 provides further details on the remuneration for the Management Board and the Supervisory Board, and includes the current remuneration policy for the Management Board and the Executive Board, as well as the outlook for 2014 and beyond.

Related Party Committee

The role of the Related Party Committee is described in its charter, which is available on the Company's website. On 31 December 2013 the Related Party Committee consisted of Mr. Tynkovan (Chairman) and Mr. Couvreux. During the year the Related Party Committee considered a number of transactions which gave rise to – the appearance of – conflicts of interest with the Company. More specifically, the Related Party Committee discussed the following transactions:

- insurance contracts with AlfaStrahovanie;
- engagement agreement for financial advisory services with Equity Investments Ltd.;
- foreign exchange agreements, bond issues, revolving credit facilities and other credit products with Alfa Bank; and
- agreements for executive search services with RosExpert.

These transactions were discussed and/or approved by the Related Party Committee and the Supervisory Board with due observance of best practice provisions II.3.2 to II.3.4 and III.6.1 to III.6.4 of the Dutch Corporate Governance Code, and the rules set forth in Chapter VI (Conflict of Interests) of the Rules Governing the Principles and Practices of the Supervisory Board, which rules are available on the Company's website.

Strategy Committee

The role of the Strategy Committee is described in its charter, which is available on the Company's website. On 31 December 2013 the Strategy Committee consisted of Mr. Couvreux (Chairman), Mr. Dorofeev, Mr. Tynkovan and Mr. Malis. The responsibilities of the Strategy Committee include the review of the general strategy of the Company, including but not limited to the following main areas: overall growth and development strategy, financing strategy, budget and key performance indicators, and mergers and acquisitions.

The Strategy Committee held five meetings in 2013. All meetings were attended by all other members of the Supervisory Board as well as the CEO and the CFO, and included feedback sessions with members of the Executive Board. As part of the business transformation process further implemented during the year, the Strategy Committee continuously assessed the drivers and initiatives to increase sales dynamics and sustainable growth, with a focus on logistics and supply chain, category management, renovation of stores, pricing strategy, staff motivation systems, M&A and further specific strategic growth opportunities. The meeting in July was dedicated to the Company's strategy for each of the formats, defining the parameters for the Company's multi-year strategic framework approved in the fall. Simultaneously, in a joint effort with the Nomination and Remuneration Committee, the Strategy Committee evaluated X5's organizational and governance structure against the strategic objectives of the Company. Furthermore, the Strategy Committee discussed the Company's budget for 2014.

Corporate Governance

Both the Supervisory Board and the Management Board continued their efforts to ensure that the Company's practices and procedures comply with the Dutch Corporate Governance Code. In accordance with the Dutch Corporate Governance Code, a broad outline of the corporate governance structure of the Company is presented in the Corporate Governance report.

Financial statements

This Annual Report and the 2013 consolidated financial statements, audited by PricewaterhouseCoopers Accountants N.V., were presented to the Supervisory Board in the presence of the Management Board and the external auditor. PricewaterhouseCoopers' report can be found on page 139.

The Supervisory Board recommends that the General Meeting of Shareholders adopts the 2013 consolidated financial statements of X5 Retail Group N.V. The General Meeting of Shareholders will be asked to release the members of the Management Board from liability for the exercise of the management of the Company's affairs and management. The appropriation of results approved by the Supervisory Board can be found on page 138.

The Supervisory Board wishes to thank the members of the Management Board and the Executive Board, as well as all employees, for their dedication and hard work for X5 in 2013.

The Supervisory Board
6 March 2014

Remuneration report

This report has been prepared by the Supervisory Board of X5 Retail Group N.V. in accordance with the Dutch Corporate Governance Code. It contains the remuneration policy of the Management Board of the Company as well as the remuneration specifics of both the Management Board and the Supervisory Board for the financial year 2013. This report also addresses the way in which the remuneration policy will be pursued for the financial year 2014 and beyond.

Nomination and Remuneration Committee
Apart from its responsibilities in the area of selection, appointment and assessment of Management Board and Supervisory Board members, the Nomination and Remuneration Committee (the 'Committee') is responsible for:

- preparing proposals for the Supervisory Board concerning the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders; and
- preparing proposals concerning the remuneration of individual members of the Management Board.

In carrying out its work in the area of remuneration, the Committee also addresses the assessment and remuneration of the senior managers in the Executive Board, and the remuneration climate in general within the Company.

The Committee prepares its proposals independently after careful consideration, including taking into account the advice of independent advisors, when necessary. These advisors do not advise the members of the Management Board personally on their remuneration.

The current members of the Nomination and Remuneration Committee are Mr. Shekhterman (Chairman), Mr. Dorofeev, Mr. Tynkovan and Mr. Gould.

Remuneration policy 2013
The remuneration of the individual members of the Management Board is determined by the Supervisory Board within the framework of the remuneration policy, as adopted by the General Meeting of Shareholders in 2007, and subsequently amended (most recently in 2013), if and when required pursuant to ongoing developments and insights gained in this area, and in accordance with the Dutch Corporate Governance Code.

The objective of the remuneration policy is twofold:

a. to create a remuneration structure that will allow the Company to attract, reward and retain qualified executives who will lead the Company in achieving its strategic objectives; and

b. to balance short-term operational performance with the long-term objectives of the Company and value creation for its shareholders, with due regard for the risks to which variable remuneration may expose the Company.

In 2013 the remuneration policy was amended by substituting the short- and long-term variable remuneration components with one cash-based incentive plan. Consequently, the current remuneration structure of the members of the Management Board includes three elements: base salary, annual incentive in the form of a performance-based and partially deferred cash bonus, and other arrangements.

Upon proposal by the Nomination and Remuneration Committee, and if in the interests of the Company, the Supervisory Board may at its own discretion deviate from the remuneration policy when offering a remuneration package to a newly appointed member of the Management Board or when amending the remuneration package of a current member of the Management Board, in the event of exceptional circumstances or if deemed appropriate.

The Supervisory Board has resolved that the remuneration policy shall equally apply to members of the Executive Board.

Benchmarking against industry peers
As a company with operations mainly in Russia, but with international exposure due to its governance structure and listing on the London Stock Exchange, distinct benchmarking is applied to X5 base salaries as well as variable salary components. Base salaries are benchmarked against mainly Russian peers while variable salary components, including long-term incentive elements, are benchmarked against Western peers as well. The peer group applied to base salaries' benchmarking is currently composed of Russian companies equivalent in terms of size of business, complexity of operations, growth dynamics and corporate governance.

Base salary
Base salaries are specified in the individual contracts of members of the Management Board and reflect their qualifications, experience, expertise and responsibilities. The levels of base salaries are determined by (i) benchmarking with industry peers, as described above, and (ii) the specific responsibilities and achievements of the individual member of the Management Board. The annual review date for the base salaries is April 1.

Deferred Cash Incentive Plan
In 2013 the remuneration policy was amended by substituting the short- and long-term variable remuneration components with one cash-based incentive plan for members of the Management Board and other key executives. The Restricted Stock Unit Plan will remain in place for independent members of the Supervisory Board only (see below). The new plan was launched in order to increase the effectiveness of the remuneration structure, by enhancing its transparency and by simplifying it. The plan intends to support both long-term value creation and short-term Company objectives.

The new plan no longer makes the distinction between short-term and long-term performance periods; the performance period for variable compensation will be one year. At the beginning of each performance period, the variable cash-based compensation is granted conditionally. After the performance year the amount of conditional variable compensation that can be allocated shall be established, based on the achievement of both individual and Company performance criteria. The 'on-target' payout as a percentage of annual base salary is set at a maximum level of 300%, divided in to three equal components payable over a three-year period.

The direct component, one-third of total variable remuneration, is paid in the year following the performance year. The deferred component, i.e. the remaining two-thirds of the total variable remuneration, will be paid in equal parts on the second and third anniversary of the grant date, subject to continuous employment with the Group. This deferred component is intended to serve the objective of retaining the plan participants for a longer period of time.

Participants receive an 'on-target' bonus opportunity for achieving both Company and individual performance criteria. The Supervisory Board shall determine the weight of each of the performance criteria prior to each performance year. Company performance criteria include revenue and EBITDA. Personal performance targets include targets related to divisional performance, mission-related or key project-related targets, as well as qualitative behavioral targets. Both the corporate and personal performance measures are considered success factors for the Company in the short term, while also contributing to the achievement of the long-term objectives of the Company, including in particular strengthening the Company's leading position in the Russian retail sector.

Restricted Stock Unit Plan

In 2013 the third and final tranche under the Restricted Stock Unit Plan (the 'Plan') was awarded to participating members of senior management. The Plan, approved by the General Meeting of Shareholders in 2010, provided for the annual grant of conditional rights to receive restricted stock units (RSUs), subject to the achievement of specific performance criteria and continuous employment with the Group until the completion of the vesting period.

The number of conditional RSUs granted was based on 200% of each participant's annual base salary, divided by the average market value[1] of a GDR on the relevant grant date. The actual number of RSUs subsequently awarded depended on the level of achievement of the performance targets, which mainly related 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) without sacrificing the EBITDA of the Company.

All awarded RSUs are subject to a two-year vesting period and the condition of continuous employment with the Group. Upon vesting, the RSUs will be converted into GDRs registered in the participant's name, whereby each RSU is converted into one GDR. Subsequently, these GDRs are subject to a two-year lock-in period during which period the GDRs cannot be traded.

As from 2013 the Plan remains in place for independent members of the Supervisory Board. RSU awards to members of the Supervisory Board shall not be subject to performance criteria, and determined by the General Meeting of Shareholders. X5 acknowledges that the award of equity-based instruments to members of the Supervisory Board constitutes a deviation from the Dutch Corporate Governance Code. However, given the international context in which the Company operates, X5 believes it is necessary to allow members of the Supervisory Board to align their interests with those of shareholders and strengthen their commitment and confidence in the future of the Company.

Other remuneration components

A number of other arrangements may be offered to members of the Management Board, such as an expense allowance, medical insurance, accident insurance and life insurance, in accordance with general policies approved by the Supervisory Board. The Company's policy does not allow personal loans and guarantees to members of the Management Board. The Company does not provide for pension arrangements in favor of members of the Management Board.

Contracts of employment

Members of the Management Board have a written contract of employment with X5 Retail Group N.V. in the Netherlands and/or its operational Russian subsidiaries. The fixed and variable salary components stipulated in each employment contract reflect the relevant responsibilities of each member of the Management Board in the Netherlands and in Russia.

The current members of the Management Board are employed and appointed for a four-year period, in accordance with the Dutch Corporate Governance Code. For future new appointments to the Management Board, the term of the contract is also set at four years.

New claw-back legislation introduced in the Netherlands from 1 January 2014 strengthens the Company's ability to revise and claw back Directors' variable pay components if they are excessive or wrongly awarded. Under the new rules the Supervisory Board may recover from the Management Board members all or part of a paid bonus if such bonus is based on incorrect information regarding the underlying targets or the conditions of the bonus. Furthermore, the Supervisory Board has the discretionary authority to adjust an unpaid bonus to an appropriate amount if payment of the bonus is considered unreasonable or unfair. The new rules also introduce the obligation to deduct from a Director's remuneration any increase in the value of any equity-based pay components, in case (i) a public offer is announced, (ii) the General Meeting approves a resolution about a significant change in the identity or character of the Company or its businesses, as referred to in section 2:107a (1) of the Dutch Civil Code, or (iii) a merger or demerger decision is taken.[2]

[1] The average market value is defined as 'on any particular day the volume-weighted average price of a GDR over the 30 immediately preceding calendar days. The volume-weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange'.

[2] Act dated 11 December 2013 regarding an amendment to the Dutch Civil Code and the Dutch Financial Supervision Act in connection with the authority to adjust and clawback bonuses and profit-sharing of directors and day-to-day policymakers. The provisions introducing the obligation to deduct increases in value of equity-based pay components are of a temporary nature and will expire on 1 July 2017, unless extended.

Remuneration report

continued

The severance payment is in principle limited to a maximum of one year's base salary of the relevant member of the Management Board. The Supervisory Board reserves the right to agree a different amount if required under individual circumstances.

Insurance and indemnity arrangements

Members of the Management Board and Supervisory Board, as well as certain senior management members, are insured under X5's Directors' and officers' insurance policy.

Although the insurance policy provides for a wide coverage, X5's Directors and officers may incur uninsured liabilities. Members of the Management Board, as well as members of senior management, may be indemnified by the Company against any claims arising out of or in connection with the general performance of their duties, provided that such claims are not attributable to gross negligence, willful misconduct or intentional misrepresentation by a Director or officer. In addition, the General Meeting of Shareholders approved the indemnity arrangements to be granted by the Company to members of the Supervisory Board.

Remuneration 2013

Management Board remuneration

As described in the Corporate Governance report on pages 68-73, the composition of the Management Board changed substantially in 2013. On 29 April Mr. DuCharme was appointed as CEO of the Company, having served as interim CEO since 12 July 2012. Also on 29 April, Mr. Piven was appointed as CFO of the Company, succeeding Mr. Balfe who resigned on 15 March. Furthermore, on 19 July, the General Meeting of Shareholders appointed Mrs. Yavorskaya, the General Counsel, as a fourth member of the Management Board.

The total remuneration of each member of the Management Board is determined in line with compensation levels in peer group companies. With respect to Mr. DuCharme the Supervisory Board applied its discretionary authority to deviate from the remuneration policy, in view of the exceptional circumstances under which Mr. DuCharme assumed the CEO responsibilities in 2012. In particular, Mr. DuCharme's reward package does not include a severance arrangement. Instead, and subject to holding office as CEO until at least 13 July 2014, he shall be entitled to a minimum annual compensation package of USD 4 mln. Should this amount exceed the annual payout on the basis of the fixed and variable remuneration components as described below, Mr. DuCharme shall be entitled to the difference upon completion of his full term as CEO.

In 2013 the annual base salaries for the members of the Management Board were as follows (in USD):

	Position	Base salary
Stephan DuCharme	Chief Executive Officer	1,318,765
Sergey Piven	Chief Financial Officer	533,786
Vladlena Yavorskaya	General Counsel	376,790
Frank Lhoëst	Company Secretary	365,361

For 2013 the Supervisory Board determined that the achievement of Company performance targets represents 70% of the total on-target bonus opportunity for the CEO, CFO and General Counsel, while their individual performance targets have a weight of 30%. For the Company Secretary the ratio is 50/50. In accordance with the Deferred Cash Incentive Plan, the on-target payout as a percentage of base salary is set at a maximum level of 300% for the CEO and CFO, and 210% for the Company Secretary. One-third of the total incentive award will be paid in 2014, and two-thirds is deferred and will be paid in equal parts in 2015 and 2016, subject to continuous employment with the Group. For the General Counsel, appointed to the Management Board in July 2013, the Deferred Cash Incentive Plan will apply from 2014 onwards; for 2013 her on-target payout as a percentage of base salary is set at a maximum level of 100%.

For the current members of the Management Board the cash incentive level for the reporting year is based on 0% achievement of the quantitative corporate performance indicators. For achievement of the personal performance targets the cash incentive was based on extraordinary performance as determined by the Supervisory Board for each member individually.

For the year ended 31 December 2013 the Management Board was entitled to total short-term compensation of USD 4,410,065 (2012: USD 3,206,465).

Compensation overview of members of the Management Board for the financial year 2013 (in USD):

	Position	Base salary 2013	Cash bonus 2013[1]	Equity based remuneration[2]
Stephan DuCharme[3]	Chief Executive Officer	1,318,765	1,283,258	385,758
Sergey Piven[4]	Chief Financial Officer	359,901	240,611	87,837
Vladlena Yavorskaya[4]	General Counsel	169,282	106,938	–
Frank Lhoëst	Company Secretary	365,361	132,247	122,313

1 For CEO, CFO and Company Secretary: short-term component of the cash incentive for the performance of the year, i.e. one third reported and paid in cash in 2014. The deferred component, i.e. two thirds of the total cash incentive, will be paid in equal parts in 2015 and 2016, subject to continuous employment with the Group. For the General Counsel the Deferred Cash Incentive Plan will apply from 2014 onwards.

2 The share based remuneration relates to awards under the restricted stock unit plan. Costs relate to the expenses recognized in the income statement for the period; reference is made to notes 42 and 45 to the Financial Statements.

3 Whereas Stephan DuCharme was appointed as member of the Management Board on 29 April 2013, he acted as CEO in a delegated capacity since 13 July 2012. The figure for Stephan DuCharme therefore reflects compensation as CEO during the whole year.

4 Sergey Piven and Vladlena Yavorskaya were appointed to the Management Board on 29 April and 19 July 2013 respectively. The figures for these members reflect compensation earned in the capacity as a Management Board member. Thus the figure for 2013 reflects a partial year as Management Board member.

Kieran Balfe resigned as of 15 March 2013. His compensation for the financial year 2013 can be specified as follows (in USD):

Base salary[1]	127,559
Severance payment 2013	306,142
Equity based remuneration[2]	(675,413)

1 Pro rata for the period 1 January until 15 March 2013.

2 The share based remuneration relates to awards under the restricted stock unit plan. Costs relate to the expenses recognized in the income statement for the period; reference is made to notes 42 and 45 to the Financial Statements.

Cash remuneration amounts were paid in either Russian Roubles or Euros and converted to USD for reporting purposes, using the average USD rate for 2013 to convert RUR amounts into USD, and the average cross-rate EUR/USD for amounts paid in Euros. Cash bonus amounts will be paid in either Russian Roubles or Euros and converted to USD for reporting purposes, using the closing USD rate for 2013 to convert RUR amounts into USD, and the closing cross-rate EUR/USD for amounts paid in Euros. The rates are available in Note 2 to the consolidated financial statements included in this Annual Report.

Supervisory Board remuneration

In 2013 the General Meeting of Shareholders adopted amended remuneration principles for the Supervisory Board. Consequently, the annual remuneration amounts to: the Chairman EUR 250,000, members chairing a committee EUR 200,000, and other members EUR 100,000. Furthermore, the following additional remuneration principles were adopted:

- any non-independent member of the Supervisory Board who is affiliated with, engaged or employed by, either directly or indirectly, a legal entity or person, including through an affiliated entity (other than the Company and its downstream affiliates), that holds at least 30% of the voting rights in the Company, shall waive his/her remuneration entitlement for acting as a member of the Supervisory Board; and
- independent members of the Supervisory Board are entitled to participate in the Company's Restricted Stock Unit Plan, as X5 believes it is necessary to allow members of the Supervisory Board to align their interests with those of shareholders and strengthen their commitment to and confidence in the future of the Company.

Furthermore, subject to approval of the General Meeting of Shareholders, the Supervisory Board proposes that the independent Board members each receive an additional, non-recurring compensation for extraordinary time and efforts spent on key strategic projects in relation to the Company's ongoing transition during 2013.

Remuneration report

continued

In the reporting year, the total cash remuneration of the Supervisory Board amounted to USD 1,220,520 (2012: USD 2,136,856).

	Position	Cash remuneration 2013	Extraordinary Cash Remuneration 2013	Equity based compensation[1]
Dmitry Dorofeev[2 3]	Chairman	152,235	–	–
Mikhail Fridman[3]		66,429	–	–
David Gould[3]	Chairman of the Audit Committee	132,859	–	–
Alexander Tynkovan[4]	Chairman of the Related Party Committee	194,860	300,000	144,904
Christian Couvreux[5]	Chairman of the Strategy Committee	265,717	164,846	229,841
Alexander Malis[6]		66,429	200,000	13,129
Igor Shekhterman[6]	Chairman of the Nomination and Remuneration Committee	132,859	500,000	26,257
Pawel Musial[7]		44,286	300,000	8,751

[1] The equity based compensation relates to awards under the restricted stock unit plan. Costs relate to the expenses recognised in the income statement for the period; reference is made to notes 42 and 45 to the Financial Statements.

[2] Dmitry Dorofeev became chairman of the Supervisory Board on 15 March 2013.

[3] In line with the new remuneration principles for the Supervisory Board (please see the paragraph above the table) Messrs. Dorofeev, Fridman and Gould were no longer remunerated as per 1 July 2013.

[4] In line with the new remuneration principles for the Supervisory board (please see the paragraph above the table), Alexander Tynkovan's annual remuneration increased up to EUR 200,000 as per 1 September 2013.

[5] Christian Couvreux' extraordinary cash compensation reflects the 2013 component of a total amount of USD 314.672 for providing temporary assistance to the CEO from 13 July 2012 until 31 July 2013, as approved by the General Meeting of Shareholders in April 2013.

[6] Alexander Malis and Igor Shekhterman were appointed as Supervisory Board member on 19 July 2013.

[7] Pawel Musial was appointed as Supervisory Board member on 6 September 2013.

As described in the Corporate Governance report on pages 68-73, Hervé Defforey stepped down from the Supervisory Board on 15 March 2013. His compensation for the financial year 2013 can be specified as follows (in USD):

Hervé Defforey[1]	
Cash remuneration 2013	137,883
Equity based compensation[2]	(114,596)

[1] Mr. Defforey's pro rata remuneration until 15 March 2013 includes an extraordinary cash compensation for providing temporary assistance to the CEO, as approved by the General Meeting of Shareholders in April 2013.

[2] The equity based compensation relates to the exercise of 70,000 options under the employee stock option plan and the accelerated vesting of restricted stock units (please see table below). Costs relate to the expenses recognized in the income statement for the period; reference is made to notes 42 and 45 to the Financial Statements.

All remuneration amounts are paid in Euros and converted to USD for reporting purposes, using the average cross-rate EUR/USD. The rate is available in Note 2 to the consolidated financial statements included in this Annual Report.

Extended crisis levy of taxable income

In 2013, the Dutch government imposed an additional tax charge of 16% on the income in excess of EUR 150,000 of each employee who is subject to Dutch income tax. The tax charge is charged to the Company and does not affect the remuneration of involved staff. The tax imposed on X5 for members of the Management Board and Supervisory Board amounts to USD 89,376, which is not included in the figures in the tables above.

Restricted Stock Units

In 2013 the third tranche of RSUs was awarded based on the level of achievement of the performance targets as defined under the Plan. This resulted in a 0% award of the performance-related conditionally granted RSUs, and a 100% award of the RSUs granted subject to the employment condition only. In accordance with the Plan rules, up to one-third of the conditional RSUs granted to the CEO, and up to one-quarter of the conditional RSUs granted to other participants, were subject to the employment condition only.

As from 2013 members of the Management Board and other key executive staff are no longer eligible for grants under the Restricted Stock Unit Plan. The Plan remains in place for independent members of the Supervisory Board only.

Details of RSUs conditionally granted and awarded to members of the Management Board and Supervisory Board are set forth below:

	Tranche	Conditional grant 2010	Conditional grant 2011	Conditional grant 2012	Conditional grant 2013	RSU value on grant date[1]	RSUs awarded in 2011	RSUs awarded in 2012	RSUs awarded in 2013[2]	RSU Value on award date[1]	RSUs vested	RSU value on vesting date[1]	RSUs out-standing as per 31.12.2013	GDRs locked-up as per 31.12.2013[3]	Year of vesting	End of lock-up period
Management Board																
Stephan DuCharme	1	7,219				$256,275	7,219			$259,884	7,219	$132,830		7,219	2013	2015
	2		7,939			$285,804		7,939		$179,024			7,939		2014	2016
	3			65,568		$1,478,558			28,830	$530,472			28,830		2015	2017
Sergey Piven	3			28,866		$650,928			7,217	$132,793			7,217		2015	2017
Frank Lhoëst	1	14,438				$512,549	9,024			$324,864	9,024	$166,042		9,024	2013	2015
	2		21,832			$785,952		13,645		$307,695			13,645		2014	2016
	3			28,769		$648,741			7,192	$132,333			7,192		2015	2017
Supervisory Board																
Hervé Defforey[4]	1	9,024				$320,352	9,024			$324,864	6,016	$110,694			2013	2015
	2		9,923			$357,228		9,923		$223,764	3,307	$60,849	0		2014	2016
	3			13,077		$294,886									2015	2017
Alexander Tynkovan	1	4,331				$153,751	4,331			$155,916	4,331	$79,690		2,858	2013	2015
	2		4,763			$171,468		4,763		$107,406			4,763		2014	2016
	3			6,277		$141,546			6,277	$115,497			6,277		2015	2017
	4				10,830	$199,272									2016	2018
Christian Couvreux	1	7,219				$256,275	7,219			$259,884	7,219	$132,830		7,219	2013	2015
	2		7,939			$285,804		7,939		$179,024			7,939		2014	2016
	3			10,461		$235,896			10,461	$192,482			10,461		2015	2017
	4				14,768	$271,731									2016	2018
Alexander Malis[5]	4				3,692	$67,933									2016	2018
Igor Shekhterman[5]	4				7,384	$135,866									2016	2018
Pawel Musial[5]	4				2,461	$45,282									2016	2018

1 RSU value on 25 June 2010: USD 35,50; RSU value on 19 May 2011: USD 36,00; RSU value on 19 May 2012: USD 22,55; RSU value on 19 May 2013: USD 18,40.

2 Award of non-performance related RSUs based on the performance test as per 19 May 2013, based on level of achievement of Plan KPIs; RSUs granted to Supervisory Board members are not subject to performance criteria.

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

4 Mr. Defforey stepped down from the Supervisory Board on 15 March 2013. In accordance with the rules of the restricted stock unit plan, two thirds of the number of RSUs awarded under tranche 1, and one third of the number of RSUs awarded under tranche 2, were subject to accelerated vesting in 2013; the lock-up was lifted.

5 For Supervisory Board members appointed during the year the number of RSUs awarded under tranche 4 are calculated in accordance with the pro rata rules of the restricted stock unit plan.

Remuneration policy in 2014 and beyond

In 2013 the remuneration policy as described in this report was applied. It is the intention that the current policy will in principle be continued in the next financial year and beyond.

The Supervisory Board
6 March 2014

Risk management and internal control

Overview
Accepting that risk is an inherent part of doing business, X5, as any other company, is constantly dealing with risks and opportunities that can either negatively or positively influence its business. In order to minimize the negative impact of risks and to capitalize on opportunities, X5 has introduced a risk management and internal control system geared to providing transparency in our operations while being mindful of our risk appetite. The overall objective of this system is to obtain reasonable assurance that the Company's business objectives can be achieved and obligations to customers, shareholders, employees and society can be met.

Our risk management system is designed both to encourage entrepreneurial spirit and to provide sufficient assurance that risk is fully understood and managed through a systematic process of risk identification, assessment and control. We do, however, recognize that risk management and internal control provide a reasonable, not an absolute, guarantee that we will achieve our objectives, because:

- risk identification and assessment are almost always subject to uncertainty as they deal with the future;
- certain risks are out of the Company's control, thus cannot be fully mitigated; and
- some control procedures may be degraded by human errors, carelessness, and errors of judgment or misunderstanding.

Accountability
The Management Board, supported by the Executive Board, has primary accountability for managing the risks associated with our activities, and for the establishment and adequate functioning of appropriate risk management and control systems. The Supervisory Board and the Audit Committee, as explained in the corporate governance section of this Annual Report, are responsible for overall supervision and monitoring activities with respect to the internal control and risk management system.

Approach
The risk management and internal control process at X5 are guided by the recommendations of the Committee of Sponsoring Organizations (COSO) and its enterprise risk management and internal control integrated frameworks. X5 maintains a key risk register that details the key risks faced by the Company, key risk owners, and controls and procedures to be implemented for mitigating those risks. The content of the register is determined through regular discussions with senior management and reviewed by the Executive Board and the Audit Committee.

Risk profile
This section describes the main risks X5 currently faces that could have a significant impact on the achievement of the Company's strategic goals and objectives. X5 is exposed to additional risks that apply to all companies operating in the Russian market, and the retail market globally, as well as other risks that are not presently known to us.

Strategy
As a retail business based and operating predominantly in Russia, X5 is particularly exposed to any economic downturn in Russia which could affect consumer confidence and therefore spending. Throughout 2013, global economic conditions remained unstable and the economic outlook fragile. The rate of Russian GDP growth decreased from 3.4% in 2012 to 1.3% in 2013. At the same time, food retail sales growth decreased from 6.3% in 2012 to 3.9% in 2013; however did not show any signs of further deceleration during the year and were supported by relatively high food inflation, increases in real wages and a historically low unemployment rate.

- X5's position in the Russian retail market depends largely on how well we adapt our strategy in the context of the macroeconomic and competitive industry environment, and how well we communicate and execute the right strategic vision.

The strength and diversity of X5's businesses and brands in our multi-format business model helps to mitigate our economic risk in the current retail environment. We continually focus on maintaining our product quality, customer service and supplier relationships, whilst retaining our competitive position.

The Company has made a significant shift in its growth strategy, from reliance on acquisitions to increased focus on opening new stores organically. Meanwhile, the Company continues to implement its decentralization strategy, to create flexible, independent and consumer-oriented business units supported by efficient central functions. An overview of our major strategic initiatives is described in the Chief Executive Officer's review section of this Annual Report.

To ensure that the Company's strategy is in line with stakeholders' expectations, the Supervisory Board and its Strategy Committee, together with senior management, hold specific sessions on all key aspects of X5's business, to review internal and external issues that could influence our strategy. We believe that by pursuing our strategic vision, carefully balanced in terms of risk management and risk appetite, we can strengthen our position in the Russian retail market, and achieve long-term sustainable growth for the benefit of our stakeholders.

Human resources
Our success in achieving the Company's strategic objectives relies heavily on the dedication of our employees and the effectiveness of our organization. In order to be an employer of choice, we recruit, develop and reward employees according to leading human resource (HR) practices. We constantly assess HR policies in order to effectively address the following risk factors:

- our ability to recruit, train and retain the optimal number of staff at both managerial and operational levels;
- our ability to create a balanced organizational structure that enables and motivates personnel to achieve key objectives; and
- the success of our organizational transformation in fostering a new corporate culture with clear internal communication and decision-making processes.

Throughout 2013 the Company remained focused on the transition to a new operating model including changes in the organizational structure and the senior management team. The current team recognizes the importance of developing X5's corporate culture, with a focus on shared business values, personal initiative and accountability at all levels, in order to achieve the Company's goals and objectives. A competitive compensation package is provided to our executive and line managers, whose performance is evaluated through well-defined targets, set in advance and in alignment with the Company's goals. Due to X5's rapid growth we are continually hiring a significant number of new employees and constantly improving and developing our recruitment methods. Our remuneration packages are benchmarked annually, enabling us to attract talent with a competitive proposition. Our talent development program meets the succession and capability needs of our businesses and enables career development across the Company, helping employees realize their full potential.

Health and safety
The Company is committed to avoiding injury or loss of life to both employees and customers, preventing harm to property so far as is reasonably practicable, and promoting the wellbeing of its workforce through a centralized occupational health and safety (OHS) department, which is responsible for the development of policy and standards of labor safety, instructions on health and safety issues and coordination of all health and safety activities within the Company. This commitment underpins our approach to health and safety, with Executive Board-level responsibility being carried by the Director of Human Resources, supported by OHS specialists and technical advisors employed within divisions.

The Company has developed and introduced policies and procedures that cover the entire food product chain from production to end consumption to manage health and product safety risks across the business and comply with all applicable regulations.

We cannot expect to eliminate health and safety risk completely from the workplace, but our priority is to ensure that management at all levels know, understand and mitigate the risks within their areas of responsibility.

Expansion
Our ongoing results and expansion plans for the future are significantly influenced by:

- our ability to find and effectively manage retail locations and negotiate appropriate purchase and lease terms; and
- effective development and implementation of plans and procedures to support organic growth.

In 2013 X5 accelerated expansion in various regions of presence outside our core Central and North-West regions and we plan to continue taking advantage of these opportunities for growth. The Company diversifies and expands its presence as a multi-format retailer by developing new retail channels, for example through the expansion of the Express store format or the online channel E5.RU. New distribution centers are opened to support the growth of our retail formats. X5's management pays particular attention and allocates significant resources to optimizing its organic expansion strategy and supporting processes. When identifying, leasing, purchasing or refurbishing suitable properties, our real estate divisions identify regulatory and other risks related to construction work. Our investment decisions are supported by a range of financial and non-financial indicators that provide reasonable assurance that we are obtaining attractive facilities at attractive prices.

Business support
The successful execution of strategic priorities such as the re-engineering of business processes or major infrastructure projects depends on the resources and skills available to the Company.

In order to support X5's growth plans and build a foundation for future development, the Company invests in IT infrastructure and business support processes. The key risk associated with this is:

- adequacy of IT facilities and systems for ensuring business continuity and supporting the growth of our business.

The Company has extensive controls in place to maintain the integrity and efficiency of its IT systems, including detailed recovery plans in the event of a significant failure. System upgrades and innovations, such as self-service cash desks, are ongoing to improve both customer experience and operational efficiency.

X5 is also working closely with its suppliers, Efficient Consumer Response (ECR) Russia and electronic data interchange (EDI) providers to take full advantage of the Russian Ministry of Justice's approval of the automated exchange of sales invoices. X5 has developed a network to support the exchange process involving suppliers who hold ECR Russia certificates.

In order to improve inventory management and logistics service levels, reduce costs and optimize replenishment execution, X5 has also implemented a JDA supply chain management solution.

Operations
Our customers are our main focus. In order to consistently provide high-quality goods and services at a reasonable price, we constantly analyze and improve our operational processes related to, for instance, assortment management, pricing, supplier relationships, merchandising, sales and customer relations. The key risks related to these activities are:

- our ability to define a product range that is in line with customer needs;
- our ability to provide our customers with an attractive shopping experience;
- our ability to develop and maintain effective relationships with suppliers and producers of private label goods to ensure supply while meeting our quality standards;
- our ability to establish strict food safety and quality control policies and procedures and ensure full adherence to these at all times;
- our ability to maintain a competitive price position with our customers and remain socially responsible by supporting the more vulnerable segments of society;
- effective inventory management, ensuring an adequate flow of goods to our customers, while minimizing shrinkage and excessive stock; and
- sound transport and warehouse infrastructure and management systems to ensure efficient distribution across the entire supply chain.

Risk management and internal control

continued

The Company has enhanced its commitment to investing in store renovation, category management, product range and improved availability of fresh and ultra-fresh products. This is supported by new employee motivation schemes, and measures improving operational efficiency. Our corporate responsibility commitments, including community activities, HR development and food product safety procedures, are described in the Social, corporate and environmental responsibility section of this Annual Report.

In 2013 X5 reviewed and updated its framework agreements with suppliers in accordance with the industry Code of Good Relationship Practices between retail chains and their suppliers. In addition, the Company also launched a communication hotline with suppliers and a dedicated commission responsible for handling complaints and disputes at whatever stage they may arise in the relationship with suppliers.

Integrity

Effective resource management depends to a significant extent on our ability to develop and promote a Company-wide culture of integrity, and prevent and detect corruption and fraud at all levels in the Company. Whilst we continually strive to ensure adherence to X5's high integrity standards among our staff, the potential for fraud and other inappropriate activity exists at all levels of the business, from store employees to senior management. Company employees are required to participate in special training on acceptable business practices, and confirm their adherence to the standards and rules reflected in the Company's Code of Business Conduct and Ethics. The Company constantly emphasizes its whistleblower policy and the 'ethics hotline' through which employees can report suspected violations of the Code, on an anonymous basis. Allegations of fraud are investigated by the Company's fraud investigation team. The findings of such investigations are reported to the Management Board and the Audit Committee of the Supervisory Board on a regular basis.

Regulatory environment and compliance

Our business is subject to various laws and regulations relating to, among other areas, land use, antitrust restrictions, alcoholic beverage sales, and our relationship with employees. The procedures for obtaining and renewing the licenses and permits required by X5's operations and with respect to various quality, health and safety, packaging, labeling and distribution standards are subject to supervision and regulation by various government authorities and agencies. Russia is in a process of structural, economic and political transition, and the regulatory regimes applicable to X5's operations are still developing. Operating successfully in this regulatory environment thus depends on:

- our ability to identify, quickly respond to and attempt to modify proposed unfavorable changes in applicable laws and regulations stemming from changes in political and economic conditions; and
- our ability to correctly interpret and establish compliance with newly applicable standards in a timely manner.

By continuously monitoring regulatory developments we strive to ensure that all existing and forthcoming regulations are complied with. Moreover we engage with public and governmental organizations to ensure that the interests of our customers are represented. In addition, X5 is consulted on and invited to contribute to important government regulations concerning the retail industry.

Litigation

X5 is exposed to pervasive contractual and litigation risks due to the Company's operational scale, number of employees and scope of commercial activities including suppliers' contracts, real estate and M&A transactions. Our legal team participates in every stage of important business activities and analyzes contract terms to minimize risks. We are strongly committed to complying with all applicable laws and regulations, and to enforcing our rights in litigation if necessary, using all means provided by law.

Taxation

Russian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to X5's transactions and activities could be challenged by the relevant regional and federal tax authorities. Management regularly reviews the Company's compliance with applicable tax legislation, regulations and decrees, as well as current interpretations published by governmental authorities and relevant jurisprudence.

Note 34 'Commitments and Contingencies' to the consolidated financial statements in this Annual Report contains a description of tax uncertainties and an estimate of the related liabilities.

Financial risks

The principal financial risk faced by the Company relates to the ability to generate and access sufficient funds to satisfy our business needs and to mitigate any adverse financial impact resulting from materialized risks. The central treasury function is responsible for managing the Company's monetary assets, funding requirements, interest rate and credit exposures and the associated risks, as well as insurance of assets. X5 has established diversified sources of funding through bank operating cash flows, working capital, loans and bonds. Foreign exchange risks are mitigated by obtaining all debt financing in Russian Roubles. The financial risks, together with a description of the instruments to mitigate these risks, are covered in more detail in Note 30 'Financial Risk Management' to this Annual Report.

Management summary

The Management Board has reviewed and analyzed the risks to which the Company is exposed, as well as the effectiveness of the Company's internal risk management and control systems, over the course of 2013. The conclusions of this review have been shared with the Audit Committee and the Supervisory Board and discussed with X5's external auditors. The Management Board believes that the risk management and internal control systems related to financial reporting risks have functioned properly during the year, and provide reasonable assurance that the Company's 2013 financial statements do not contain any errors of material importance. In view of the above, the Management Board believes that it is in compliance with the requirements of II.1.4 and II.1.5 of the Dutch Corporate Governance Code. In addition, in accordance with section 5.25c of the Dutch Financial Supervision Act, the Management Board confirms that to the best of its knowledge:

- the annual financial statements provide, in accordance with IFRS as endorsed by the EU, an accurate and fair view of the consolidated assets, liabilities, financial position and profit or loss of the Company and its consolidated subsidiaries; and
- the Annual Report gives an accurate and fair overview of the situation as at the balance sheet date, the state of affairs during the financial year of the Company and its consolidated subsidiaries included in the annual financial statements, together with a description of the principal risks it faces.

The Management Board
6 March 2014

Financial statements

International financial reporting standards consolidated financial statements

Dutch GAAP Company's financial statements and independent auditor's report

31 December 2013

In this section

Consolidated statement of financial position

at 31 December 2013

(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2013	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	10	**4,124,704**	4,147,265
Investment property	11	**105,946**	108,512
Goodwill	12	**1,970,814**	2,114,279
Intangible assets	13	**427,124**	503,483
Prepaid leases	14	**46,637**	53,392
Investment in associates	8	**2,087**	2,759
Available-for-sale investments		**6,429**	6,928
Other non-current assets	17	**52,426**	36,027
Deferred tax assets	29	**151,105**	143,787
		6,887,272	7,116,432
Current assets			
Inventories	15	**1,144,648**	1,114,894
Indemnification asset	35	**–**	29,833
Loans originated		**217**	3,033
Trade and other accounts receivable	17	**468,794**	420,565
Current income tax receivable		**66,164**	111,745
VAT and other taxes recoverable	18	**424,615**	378,001
Cash and cash equivalents	9	**232,557**	407,877
		2,336,995	2,465,948
Total assets		**9,224,267**	9,582,380
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	21	**93,752**	93,717
Share premium		**2,053,197**	2,049,592
Cumulative translation reserve		**(748,535)**	(581,043)
Retained earnings		**972,965**	628,083
Share-based payment reserve	28	**5,872**	11,452
		2,377,251	2,201,801
Total equity		**2,377,251**	2,201,801
Non-current liabilities			
Long-term borrowings	20	**2,439,499**	2,346,380
Long-term finance lease payable		**–**	113
Deferred tax liabilities	29	**163,139**	148,623
Long-term deferred revenue		**639**	676
Other non-current liabilities		**–**	71
		2,603,277	2,495,863
Current liabilities			
Trade accounts payable		**2,476,380**	2,396,934
Short-term borrowings	20	**937,381**	1,680,887
Share-based payments liability	28	**–**	496
Short-term finance lease payables		**117**	1,363
Interest accrued		**24,886**	20,980
Short-term deferred revenue		**4,863**	13,668
Current income tax payable		**7,277**	13,084
Provisions and other liabilities	19	**792,835**	757,304
		4,243,739	4,884,716
Total liabilities		**6,847,016**	7,380,579
Total equity and liabilities		**9,224,267**	9,582,380

Consolidated statement of profit or loss

for the year ended 31 December 2013
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2013	31 December 2012
Revenue	23	**16,784,728**	15,795,249
Cost of sales	24	**(12,691,916)**	(12,071,058)
Gross profit		**4,092,812**	3,724,191
Selling, general and administrative expenses	24	**(3,477,680)**	(3,706,952)
Lease/sublease and other income	25	**179,130**	174,183
Operating profit		**794,262**	191,422
Finance costs	26	**(345,523)**	(336,958)
Finance income	26	**2,179**	11,098
Share of loss of associates		**(487)**	(90)
Net foreign exchange gain/(loss)		**2,440**	(2,496)
Profit/(loss) before tax		**452,871**	(137,024)
Income tax (expense)/benefit	29	**(107,989)**	10,527
Profit/(loss) for the period		**344,882**	(126,497)
Profit/(loss) for the period attributable to:			
Equity holders of the parent		**344,882**	(126,497)
Basic earnings per share for profit/(loss) attributable to the equity holders of the parent (expressed in USD per share)	22	**5.08**	(1.87)
Diluted earnings per share for profit/(loss) attributable to the equity holders of the parent (expressed in USD per share)	22	**5.08**	(1.86)

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Consolidated statement of comprehensive income

for the year ended 31 December 2013
(expressed in thousands of US Dollars, unless otherwise stated)

	31 December 2013	31 December 2012
Profit/(Loss) for the period	**344,882**	(126,497)
Other comprehensive (loss)/income		
Item that may be reclassified subsequently to profit and loss		
Exchange differences on translation from functional to presentation currency	**(167,492)**	128,650
Total items that may be reclassified subsequently to profit and loss, net of tax	**(167,492)**	128,650
Other comprehensive (loss)/income, net of tax	**(167,492)**	128,650
Total comprehensive income for the period, net of tax	**177,390**	2,153
Total comprehensive income for the period attributable to:		
Equity holders of the parent	**177,390**	2,153

Consolidated statement of cash flows

for the year ended 31 December 2013

(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2013	31 December 2012
Profit/(Loss) before tax		**452,871**	(137,024)
Adjustments for:			
Depreciation, amortization and impairment of property, plant and equipment, investment property and intangible assets	24	**397,395**	900,151
Loss/(gain) on disposal of property, plant and equipment and intangible assets		**4,145**	(2,494)
Finance costs, net	26	**343,344**	325,860
Impairment of trade and other accounts receivable	24	**10,929**	33,098
Share-based options (income)/expense	28	**(718)**	4,012
Amortization and impairment of prepaid lease		**12,513**	32,271
Net foreign exchange (gain)/loss		**(2,440)**	2,496
Loss from associate		**487**	90
Other non-cash items	35	**317**	(23,266)
Net cash from operating activities before changes in working capital		**1,218,843**	1,135,194
Increase in trade and other accounts receivable		**(196,120)**	(147,885)
Increase in inventories		**(113,069)**	(162,308)
Increase in trade payable		**262,338**	372,145
Increase/(decrease) in other accounts payable		**119,638**	(54,180)
Net cash generated from operations		**1,291,630**	1,142,966
Interest paid		**(327,592)**	(331,988)
Interest received		**1,072**	5,807
Income tax paid		**(73,795)**	(207,603)
Net cash from operating activities		**891,315**	609,182
Cash flows from investing activities			
Purchase of property, plant and equipment	10	**(638,105)**	(724,675)
Prepaid lease		**(9,643)**	(13,794)
Acquisition of subsidiaries	7	**(23,170)**	(83,903)
Compensation from prepaid lease disposal		**2,926**	1,511
Repayment of loans issued		**–**	18,633
Proceeds from sale of property, plant and equipment and intangible assets		**30,219**	35,508
Purchase of intangible assets	13	**(23,490)**	(29,559)
Net cash used in investing activities		**(661,263)**	(796,279)
Cash flows from financing activities			
Proceeds from loans		**935,817**	1,274,190
Repayment of loans		**(1,314,122)**	(1,084,018)
Principal payments on finance lease obligations		**(1,397)**	(2,555)
Net cash (used in)/generated from financing activities		**(379,702)**	187,617
Effect of exchange rate changes on cash and cash equivalents		**(25,670)**	22,356
Net (decrease)/increase in cash and cash equivalents		**(175,320)**	22,876
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		**407,877**	385,001
Net (decrease)/increase in cash and cash equivalents		**(175,320)**	22,876
Cash and cash equivalents at the end of the year		**232,557**	407,877

Consolidated statement of changes in equity

at 31 December 2013

(expressed in thousands of US Dollars, 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 2012	**67,819,033**	**93,717**	**2,049,592**	**7,776**	**(709,693)**	**754,580**	**2,195,972**	**2,195,972**
Other comprehensive income for the year	–	–	–	–	128,650	–	128,650	128,650
Loss for the year	–	–	–	–	–	(126,497)	(126,497)	(126,497)
Total comprehensive income/(loss) for the year	–	–	–	–	128,650	(126,497)	2,153	2,153
Share-based payment compensation (Note 28)	–	–	–	3,676	–	–	3,676	3,676
Balance as at 31 December 2012	**67,819,033**	**93,717**	**2,049,592**	**11,452**	**(581,043)**	**628,083**	**2,201,801**	**2,201,801**
Other comprehensive loss for the year	–	–	–	–	(167,492)	–	(167,492)	(167,492)
Profit for the year	–	–	–	–	–	344,882	344,882	344,882
Total comprehensive income/(loss) for the year	–	–	–	–	(167,492)	344,882	177,390	177,390
Share-based payment compensation (Note 28)	–	–	–	(1,940)	–	–	(1,940)	(1,940)
Transfer of vested equity rights	25,632	35	3,605	(3,640)	–	–	–	–
Balance as at 31 December 2013	**67,844,665**	**93,752**	**2,053,197**	**5,872**	**(748,535)**	**972,965**	**2,377,251**	**2,377,251**

Notes to the consolidated financial statements

for the year ended 31 December 2013
(expressed in thousands of US Dollars, 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 Amsterdam, the Netherlands.

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2013 the Group operated a retail chain of 4,544 economy class, 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 and Kiev, Ukraine (31 December 2012: 3,802 economy class, supermarket, hypermarket and express stores under the brand names 'Pyaterochka', 'Perekrestok', 'Karusel' and 'Perekrestok Express'), with the following number of stores:

	31 December 2013	31 December 2012
'Perekrestok' – Supermarket		
Central	**224**	210
Povolzhsky	**44**	46
North-West	**39**	35
Volgo-Vyatsky	**26**	25
South	**18**	16
Ukraine	**12**	12
Urals	**12**	11
Central-Chernozem	**9**	9
Western Siberia	**6**	6
	390	370
'Pyaterochka' – Economy class		
Central	**1,626**	1,407
North-West	**529**	478
Urals	**486**	370
Povolzhsky	**412**	311
Volgo-Vyatsky	**291**	242
Central-Chernozem	**236**	193
South	**224**	181
North	**59**	32
Western Siberia	**19**	6
	3,882	3,220
'Karusel' – Hypermarket		
Central	**23**	19
North-West	**17**	17
Povolzhsky	**14**	14
Urals	**11**	10
Volgo-Vyatsky	**9**	9
Central-Chernozem	**7**	7
Western Siberia	**1**	1
South	**1**	1
	83	78
Express	**189**	134
Total stores	**4,544**	3,802

As at 31 December 2013, the Group's franchisees operated 312 stores (31 December 2012: 422 stores) across Russia.

As at 31 December 2013, the Company's principal shareholder is the Alfa Group Consortium through its holding company 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 under the common control of 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 2013 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 21).

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 2013 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.

Notes to the consolidated financial statements

for the year ended 31 December 2013
(expressed in thousands of US Dollars, unless otherwise stated)

2. Summary of significant accounting policies continued

2.2 Consolidated financial statements continued

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% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized 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 recognized 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 recognized 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 recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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 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 recognized 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 unrealized gains on transactions between Group companies are eliminated; unrealized 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 in accordance with the acquisition method of accounting 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 Foreign currency translation and transactions

a. Functional and presentation currency

Functional currency. The functional currencies of the Group's entities are the national currency of the Russian Federation, Russian Rouble ('RUR') and the national currency of Ukraine, Ukrainian Hryvnia ('UAH'). Currently the Group's Ukraine business unit's contribution to the financial results of the Group is immaterial. The Group's presentation currency is the US Dollar ('USD'), which management believes is the most useful currency to adopt for users of these consolidated financial statements.

Translation from functional to presentation currency. The results and financial position of each group entity (none of which have a functional currency that is the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

i. assets and liabilities for each statement of financial position presented are translated at the closing rates at the date of the respective reporting period;
ii. income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
iii. components of equity are translated at the historic rate; and
iv. all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

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 balance sheet 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 recognized in profit or loss. Translation at period-end rates does not apply to non-monetary items.

At 31 December 2013, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUR 32.7292 (31 December 2012: USD 1 = RUR 30.3727). The average rate for year ended 31 December 2013 was USD 1 = RUR 31.8480 (12 months 2012: USD 1 = RUR 31.0930).

2.4 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 Management Board determined retail operations as a single reportable segment.

2.5 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 capitalized and the replaced parts are retired. Capitalized 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 recognized in the consolidated statement of profit or loss. An impairment loss recognized 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 recognized 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 capitalized when it is probable that future economic benefits associated with the improvements will flow to the Company and the cost can be measured reliably. Capitalized leasehold improvements are depreciated over their useful.

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 balance sheet date.

2.6 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 recognizes 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 capitalized 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.

Notes to the consolidated financial statements

for the year ended 31 December 2013

(expressed in thousands of US Dollars, unless otherwise stated)

2. Summary of significant accounting policies continued

2.7 Intangible assets

a. Goodwill

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 a single 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 recognized initially at fair value. Lease rights are amortized using the straight-line method over the lease term of the respective lease contracts – ranging from 5 to 50 years (20 on average).

c. Brand and private labels

Brand and private labels acquired in a business combination are recognized initially at fair value. Brand and private labels are amortized 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 recognized initially at fair value. Franchise agreements are amortized using the straight-line method over their useful lives that are, on average, ranging from 7 to 10 years (8 on average).

e. Other intangible assets

Expenditure on acquired patents, software, trademarks and licenses is capitalized and amortized 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 amortized 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.

2.8 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 capitalized as a part of retail store or distribution center construction costs.

The Group leases retail outlets and distribution centers 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 35).

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 recognized as prepaid leases.

2.9 Finance lease liabilities

Where the Group is a lessee in a lease, which transfers substantially all the risks and rewards incidental to ownership to the Group, the leased assets are capitalized in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the consolidated statement of profit or loss over the lease period using the effective interest method. The assets acquired under finance leases as well as leasehold improvements are depreciated over their useful life or the lease term, if shorter and if the Group is not reasonably certain that it will obtain ownership by the end of the lease.

2.10 Inventories of goods for resale

Inventories at warehouses and retail outlets are stated at the lower of cost and net realizable value. Cost comprises direct costs of goods, transportation and handling costs. Cost is determined by the weighted average method. Net realizable 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 time to sell exceeds norms established by the Group.

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 derecognizes 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 recognized in the consolidated statement of profit or loss in the period in which they arise. Other financial liabilities are carried at amortized 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 amortized cost using the effective interest rate method. Trade receivables are initially recognized at their fair values and are subsequently carried at amortized 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 recognized 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 recognized in profit or loss. Dividends on available-for-sale equity instruments are recognized 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 derecognized or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognized 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 recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss.
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 recognized 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 with original maturities of three months or less.

2.15 Provisions
Provisions are recognized 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 balance sheet 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 recognized 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.

Notes to the consolidated financial statements

for the year ended 31 December 2013
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2. Summary of significant accounting policies continued

2.18 Share-based payments

Employee stock option program

The Group issues options to certain employees that give the employees the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments.

Share-based payment transactions, or the components of such transactions, are accounted for as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Share-based payments transactions are measured at the fair value of the compound financial instrument at the measurement date, taking into account the terms and conditions on which the rights to the cash or equity instruments were granted. The fair value is determined using the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

A liability equal to the portion of the services received is recognized at the current fair value determined at each balance sheet date. The Group records an expense based on the fair value of options related to the shares expected to vest on a straight-line basis over the vesting period.

At the date of settlement, the Group will remeasure the liability to its fair value. If the Group issues equity instruments on settlement rather than paying cash, the liability will be transferred directly to equity, as the consideration for the equity instruments issued.

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 recognized 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 recognized at their fair value, net of transaction costs, and are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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 balance sheet 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 capitalized as part of the costs of those assets.

The commencement date for capitalization 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. Capitalization of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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

The Group capitalizes borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalized 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 capitalized.

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 amortized cost using the effective interest method. Trade payables are recognized 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 recognized as share premium.

2.22 Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared on or before the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorized 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 income tax liabilities (assets) are measured in accordance with IAS 12, Income Taxes, based on legislation that is enacted or substantively enacted at the balance sheet date, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided, using the balance sheet 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 utilized. 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 realized or the liability is settled, based on tax rates which are enacted or substantially enacted at the balance sheet date.

Taxes other than on income, interest and penalties are measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent*. The Group provides against tax contingencies and the related interest and penalties where management can make a reliable estimate of the amount of the additional taxes that may be due. 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.

Liabilities for such taxes, interest and penalties are measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date (Notes 29 and 35).

2.26 Income and expense recognition
Income and expenses are recognized 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 recognized at the point of sale. Revenue from franchisee fees is recognized based on contractual agreements over the term of the contracts. The up-front non-refundable franchisee fees received by the Group are deferred and recognized over contractual term. Revenue from advertising services is recognized based on contractual agreements. Revenues are measured at the fair value of the consideration received or receivable. Revenues are recognized 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 recognized 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 amortization charges of non-current assets and other general and administrative expenses. Selling, general and administrative expenses are recognized 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 recognized whenever the carrying amount of an asset or the related cash-generating unit exceeds its recoverable amount. Impairment losses are recognized 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 finalized, any adjustments arising are recognized 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 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 statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends to settle on a net basis.

2.31 Reclassification
The Group has made reclassification within provisions and other liabilities. The effect of reclassification is not material.

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 recognized 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. No impairment loss on goodwill was recognized for the year ended 31 December 2013.

Notes to the consolidated financial statements

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3. Critical accounting estimates and judgements in applying accounting policies continued

Provisional fair values of net assets of acquired businesses

During the reporting period the Group made a 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 35).

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 recognized in the consolidated statement of profit or loss. For the year ended 31 December 2013 the Group recognized an impairment gain in the amount of USD 1,939 (year ended 31 December 2012: an impairment loss in the amount of USD 343,383).

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 recognized in the consolidated statement of profit or loss. For the year ended 31 December 2013 the Group recognized an impairment gain in the amount of USD 11,939 (year ended 31 December 2012: an impairment loss in the amount of USD 25,900).

Lease rights

The Group's management determines the fair value of lease rights acquired in business combinations. The assessment of the fair value of 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 recognized in the consolidated statement of profit or loss. For the year ended 31 December 2013 the Group recognized an impairment loss in the amount of USD 7,272 (year ended 31 December 2012: USD 8,943).

Prepaid leases

The Group periodically assesses whether there is any indication that prepaid leases may be impaired. The Group performs assets impairment testing (Note 14). 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 recognized in the consolidated statement of profit or loss. For the year ended 31 December 2013 the Group recognized an impairment loss in the amount of USD 2,571 (year ended 31 December 2012: USD 19,690).

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 15).

Provision for impairment of trade and other receivables

The Group determines an allowance for doubtful accounts receivable at the end of the reporting period (Note 17). 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.

Fair value of franchise agreements

The Group's management determines the fair value of franchise agreements acquired in business combinations. The assessment of the fair value of franchise agreements is based on the income method using discounted royalty payments during the period of the agreements (Note 13).

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 recognized in the consolidated statement of profit or loss. For the year ended 31 December 2013 the Group recognized no impairment loss.

4. Adoption of new and revised standards and interpretations and new accounting pronouncements
Certain new standards and interpretations became effective for the Group from 1 January 2013:

Amendments to IAS 1, Presentation of financial statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 33.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the statement of profit or loss as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements. These amendments had no material effect on the Group's consolidated financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value, which management considers is the average of actual trading prices on the reporting date. Prior to 1 January 2013, the quoted market price used for financial assets was the current bid price; the quoted market price for financial liabilities was the current asking price. Refer to Note 34.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2013 and have not been early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015, with earlier application permitted; not yet adopted by the EU). Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- 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.
- 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 amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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4. Adoption of new and revised standards and interpretations and new accounting pronouncements continued

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014, with earlier adoption permitted), replaces all of the guidance on control and consolidation in IAS 27 'Consolidated and separate financial statements' and SIC-12 'Consolidation – special purpose entities'. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 11, Joint arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014, with earlier adoption permitted), replaces IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers'. The Group does not expect the amendments to have any material effect on its financial statements.

IFRS 12, Disclosure of interest in other entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014, with earlier adoption permitted) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The Group is currently assessing the impact of the new standard on its financial statements.

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014, with earlier adoption permitted), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 'Consolidated Financial Statements'. The Group is currently assessing the impact of the new standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014, with earlier adoption permitted). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its financial statements.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014), which clarifies the meaning of 'currently has a legally enforceable right of set-off'. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2014, earlier application is required if the underlying standards (IFRSs 10, 11 and 12) are early-adopted), clarify the transition guidance in IFRS 10 'Consolidated Financial Statements' and provide additional transition relief from reporting comparative information under IFRS 10, IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities'.The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014), introduced a definition of an investment entity which will be required to carry its investee subsidiaries at fair value through profit or loss. The Group is currently assessing the impact of the amendments on its financial statements.

IFRIC 21 – Levies (issued in May 2013 and effective for annual periods beginning 1 January 2014; not yet adopted by the EU). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below; not yet adopted by 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 recognized 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 financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014; not yet adopted by the EU). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its financial statements.

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

5. Segment reporting

The Group identifies retailing operations as a single reportable segment.

The Group is engaged in management of retail stores located in Russia and Ukraine. The Group identified the segment in accordance with the criteria set forth in IFRS 8 and based on the way the operations of the Company are regularly reviewed by the chief operating decision-maker to analyze performance and allocate resources among business units of the Group.

The chief operating decision-maker has been determined as the Management Board. The Management Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined a single operating segment being retailing operations including royalties, advertising, communications and rent income based on these internal reports data.

The segment represents the Group's retail business in the European part of Russia and Ukraine. Currently the Group's Ukraine business unit's contribution to the financial results of the Group is immaterial.

Within the segment all business components demonstrate similar economic characteristics and are alike as follows:

- the products and customers;
- the business processes are integrated and uniform: the Group manages its store operations centrally, sources products centrally, supporting functions like Purchasing, Logistics, Investment Control, Finance, Strategy, HR, IT are centralized;
- the Group's activities are limited to a common market zone (i.e. Russia) with uniform legislation and regulatory environment.

The Management Board assesses the performance of the operating segment based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortization 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 the segment are the same as accounting policies applied for these consolidated financial statements as described in Note 2.

The segment information for the year ended 31 December 2013 is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Retail sales	**16,764,508**	15,778,468
Other revenue	**20,220**	16,781
Revenue	**16,784,728**	15,795,249
EBITDA	**1,204,170**	1,123,844
Capital expenditure	**708,979**	902,067
Total assets	**9,231,595**	9,582,380
Total liabilities	**6,854,344**	7,380,579

A reconciliation of EBITDA to profit/(loss) for the year is provided as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
EBITDA	**1,204,170**	1,123,844
Depreciation, amortization and impairment	**(409,908)**	(932,422)
Operating profit	**794,262**	191,422
Finance cost, net	**(343,344)**	(325,860)
Net foreign exchange result	**2,440**	(2,496)
Share of loss of associates	**(487)**	(90)
Profit/(Loss) before income tax	**452,871**	(137,024)
Income tax benefit/(expense)	**(107,989)**	10,527
Profit/(Loss) for the year	**344,882**	(126,497)

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6. Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2013 and 31 December 2012 are as follows:

			Ownership (%)	
Company	Country	Nature of operations	**31 December 2013**	31 December 2012
Agroaspekt OOO	Russia	Retailing	**100**	100
Agrotorg OOO	Russia	Retailing	**100**	100
Alpegru Retail Properties Ltd.	Cyprus	Real estate	**100**	100
GSWL Finance Ltd.	Cyprus	Financing	**100**	100
Key Retail Technologies Ltd.	Gibraltar	Holding company	**100**	100
Perekrestok Holdings Ltd.	Gibraltar	Holding company	**100**	100
Sladkaya Zhizn N.N. OOO	Russia	Retailing	**100**	100
Speak Global Ltd.	Cyprus	Holding company	**100**	100
TH Perekrestok ZAO	Russia	Retailing	**100**	100
X5 Finance OOO	Russia	Bond issuer	**100**	100
X5 Nedvizhimost ZAO	Russia	Real estate	**100**	100
X5 Retail Group Ukraine ZAT	Ukraine	Retailing	**100**	100
TD Kopeyka OAO	Russia	Holding Company	**100**	100
Kopeyka-Moscow OOO	Russia	Retailing	**100**	100
TF Samara-Product OOO	Russia	Retailing	**100**	100
Kopeyka-Voronezh OOO	Russia	Retailing	**100**	100
Kopeyka-Povolzhye OOO	Russia	Retailing	**100**	100

7. Acquisition of subsidiaries

In 2013 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 2013 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
Intangible assets (Note 13)	1,436
Property, plant and equipment (Note10)	9,694
Deferred tax assets	1,592
Net assets acquired	12,722
Goodwill (Note 12)	9,028
Total acquisition cost	**21,750**
Net cash outflow arising from the acquisition	**20,315**

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 finalize the purchase price allocation within 12 months from the acquisition date.

The purchase consideration comprises cash and cash equivalents of USD 20,315 and deferred consideration of USD 1,435.

The goodwill recognized 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 acquired retail chains into the Group's operational structure immediately after acquisition, therefore post acquisition separate financial information for these businesses is not relevant.

8. Related party transactions

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

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2013 are provided below. The ownership structure is disclosed in Note 1.

Alfa Group Consortium

The following transactions were carried out with members or management of Alfa Group Consortium:

	Relationship	2013	2012
CTF Holdings Ltd.	Ultimate parent company		
Management services received		**1,475**	1,452
Recharged expenses		**59**	63
Alfa-Bank	Under common control		
Interest expense on loan received		**33,215**	34,384
Rent revenue		**442**	684
Commission income		**256**	702
Bank charges		**157**	159
Interest income		**–**	116
Other	Under common control		
Purchases from related party		**15,662**	6,013
Communication services received		**3,850**	9,293
Rent revenue		**2,193**	665
Insurance expenses		**1,246**	4,480
Commission for mobile phone payments processing rendered by the Group		**16**	1,447
Other operating expenses		**507**	15

The consolidated financial statements include the followings balances with members of the Alfa Group Consortium:

	Relationship	2013	2012
CTF Holdings Ltd.	Ultimate parent company		
Other accounts payable		**4**	36
Alfa-Bank	Under common control		
Cash and cash equivalents		**17,233**	25,437
Other receivable from related party		**41**	690
Short-term loans payable		**–**	493,865
Other accounts payable		**547**	407
Accrued interests		**–**	399
Other	Under common control		
Trade accounts payable		**5,619**	1,060
Other accounts payable		**2,287**	1,986
Trade accounts receivable		**601**	53
Other receivables from related party		**167**	415

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of RUR 24,000 mln or USD 733,290 (31 December 2012: RUR 19,300 mln or USD 635,439). At 31 December 2013 the Group's liability under this credit line amounted to zero USD. (31 December 2012: USD 493,865) and available credit line of USD 733,290 (31 December 2012: USD 141,574). The Group has certain purchase agreements under which the Group settles its liabilities to Alfa-Bank in accordance with factoring arrangements concluded between vendors of goods and Alfa-Bank.

Magazin Buduschego

The Group together with Rosnano and Sitronix has investments in Magazin Budushego. The share in associate equals to 33.34%, no additional payments were made during the year 2013. At 31 December 2013 investment in associate equals to USD 2,087 and for the year then ended total assets, liabilities, revenue and loss of associate are not significant. The Group did not have significant balances and transactions with associate.

Key management personnel compensation

Key management personnel compensation is disclosed in Note 27.

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9. Cash and cash equivalents

	31 December 2013	31 December 2012
Cash in hand – Roubles	**54,324**	48,022
Cash in hand – Ukrainian Hryvnia	**302**	302
Bank current account – Roubles	**74,316**	82,694
Bank current account – Ukrainian Hryvnia	**104**	35
Bank current accounts and deposits – US Dollars	**1,187**	552
Cash in transit – Roubles	**101,716**	273,512
Cash in transit – Ukrainian Hryvnia	**603**	1,438
Short-term deposits – Roubles	**4**	1,321
Other cash equivalents	**1**	1
	232,557	407,877

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. 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 summarized as follows (current ratings):

Bank	Moody's	Fitch	S&P	**31 December 2013**	31 December 2012
Alfa-Bank	Ba1	BBB-	BB+	**17,233**	25,437
Sberbank	Baa1	BBB	–	**51,383**	39,744
Raiffeisenbank	Baa3	BBB+	BBB	**744**	903
HSBC	Aa3	AA-	A+	**1,345**	703
MCB	B1/NP	BB	BB-	**3,882**	9,298
Gazprombank	Baa3	BBB-	BBB-	**185**	577
VTB	Baa2	–	BBB	**457**	325
Other banks				**377**	6,294
Cash in transit and in hand				**156,950**	324,595
Other monetary assets				**1**	1
Total				**232,557**	407,877

10. Property, plant and equipment

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress	Total
Cost:							
At 1 January 2012	3,177,790	449,323	313,540	102,433	261,251	477,101	4,781,438
Additions	–	–	–	–	–	812,042	812,042
Transfers	485,013	52,160	149,368	133,094	125,784	(945,419)	–
Assets from acquisitions (Note 7)	–	38	271	–	38	21,448	21,795
Disposals	(34,410)	(10,151)	(4,836)	(19)	(6,383)	(33,489)	(89,288)
Translation movement	201,525	27,965	22,260	9,277	18,275	25,435	304,737
At 31 December 2012	3,829,918	519,335	480,603	244,785	398,965	357,118	5,830,724
Additions	–	–	–	–	–	646,809	646,809
Transfers (Note 11)	456,178	84,903	106,428	1,420	71,460	(720,389)	–
Assets from acquisitions (Note 7)	–	–	–	–	–	9,694	9,694
Disposals	(16,249)	(57,555)	(34,310)	(5,001)	(23,931)	(43,202)	(180,248)
Translation movement	(287,292)	(37,888)	(36,416)	(17,525)	(29,674)	(22,843)	(431,638)
At 31 December 2013	**3,982,555**	**508,795**	**516,305**	**223,679**	**416,820**	**227,187**	**5,875,341**
Accumulated depreciation and impairment:							
At 1 January 2012	(456,935)	(195,153)	(114,620)	(31,675)	(137,374)	(20,788)	(956,545)
Depreciation charge	(136,150)	(68,455)	(48,678)	(28,781)	(61,637)	–	(343,701)
Impairment charge	(211,759)	(31,159)	(12,454)	(50,672)	(19,511)	(17,828)	(343,383)
Disposals	14,417	5,773	2,543	5	2,581	7,327	32,646
Translation movement	(36,079)	3,473	(25,745)	(682)	(11,946)	(1,497)	(72,476)
At 31 December 2012	(826,506)	(285,521)	(198,954)	(111,805)	(227,887)	(32,786)	(1,683,459)
Depreciation charge	(132,166)	(51,910)	(55,473)	(27,122)	(66,882)	–	(333,553)
Impairment charge	(108,301)	(7,734)	(7,288)	–	(308)	(2,451)	(126,082)
Reversal of impairment	82,602	–	–	29,909	13,594	1,916	128,021
Disposals	4,153	55,250	32,888	3,937	22,838	19,318	138,384
Translation movement	64,182	20,780	15,069	7,872	17,307	842	126,052
At 31 December 2013	(916,036)	(269,135)	(213,758)	(97,209)	(241,338)	(13,161)	(1,750,637)
Net book value at 31 December 2013	**3,066,519**	**239,660**	**302,547**	**126,470**	**175,482**	**214,026**	**4,124,704**
Net book value at 31 December 2012	3,003,412	233,814	281,649	132,980	171,078	324,332	4,147,265
Net book value at 1 January 2012	2,720,855	254,170	198,920	70,758	123,877	456,313	3,824,893

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 35). No loans are collateralised by land and buildings including investment property as of 31 December 2013.

Impairment test

At the end of 2013 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.

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10. Property, plant and equipment continued

Impairment test continued

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

The reversal of impairment charges for vehicles is supported by more active usage of the fleet units which earlier could not generate sufficient cash flows.

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 independent appraiser. The fair value less costs to sell of vehicles is determined based on prices on an active market.

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 2013. 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 indices as obtained from external resources and key performance indicators inherent to the strategic plan. The projections are made in the functional currency of the Group and discounted at the Group post-tax weighted average cost of capital (12%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economical 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 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.

11. Investment property

The Group held the following investment properties at 31 December 2013 and 31 December 2012:

	2013	2012
Cost		
Cost at 1 January	**164,214**	163,769
Disposals	**(2,414)**	(9,170)
Translation movement	**(11,758)**	9,615
Cost at 31 December	**150,042**	164,214
Accumulated depreciation and impairment		
Accumulated depreciation at 1 January	**(55,702)**	(22,735)
Depreciation charge	**(5,209)**	(6,762)
Impairment charge	**(1,461)**	(25,900)
Reversal of impairment	**13,400**	–
Disposals	**1,075**	1,792
Translation movement	**3,801**	(2,097)
Accumulated depreciation at 31 December	**(44,096)**	(55,702)
Net book value at 31 December	**105,946**	108,512
Net book value at 1 January	**108,512**	141,034

Rental income from investment property amounted to USD 31,845 (2012: USD 29,608). Direct operating expenses incurred by the Group in relation to investment property amounted to USD 11,339 (2012: USD 11,989). 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 2013 amounted to USD 213,640 (31 December 2012: USD 118,440).

Impairment test

At the end of 2013 management performed impairment test of investment property by identifying non-core assets which the Group intends to sell.

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 2013 and 31 December 2012 are:

	2013	2012
Cost		
Gross book value at 1 January	**4,297,559**	4,017,508
Acquisition of subsidiaries (Note 7)	**9,028**	37,826
Translation to presentation currency	**(309,689)**	242,225
Gross book value at 31 December	**3,996,898**	4,297,559
Accumulated impairment losses		
Accumulated impairment losses at 1 January	**(2,183,280)**	(2,059,632)
Translation to presentation currency	**157,196**	(123,648)
Accumulated impairment losses at 31 December	**(2,026,084)**	(2,183,280)
Carrying amount at 31 December	**1,970,814**	2,114,279
Carrying amount at 1 January	**2,114,279**	1,957,876

Goodwill impairment test

Goodwill is monitored for internal management purposes at the operating segment level being retail trading in Russia (CGU).

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

Fair value less costs to sell

The Group defines fair value less costs to sell of the CGU by reference to an active market, i.e. as a market capitalization of the Group on the London Stock Exchange, since the Group's activities other than retail trade in Russia do not have a significant effect on the fair value. For indication purposes fair value less costs to sell of the CGU will be lower than its carrying amount if the GDR price falls below the level of USD 8.76 per GDR (stated in US Dollars). The market capitalization of the Group at 31 December 2013 amounted to USD 4,551,020 significantly exceeding the carrying value of the CGU. Costs to sell are considered to be insignificant.

Value in use

The discounted free cash flow approach is utilized. For the 10 year period from 2013 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. The projections are made in the functional currency of the Group and discounted at the Group post-tax weighted average cost of capital (12%). Inflation rates are in line with consumer price index forecast published by the Ministry of Economical 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.

Model applied for impairment testing is not sensitive to assumptions used by management because fair value less cost to sell and value in use are significantly greater than carrying values of 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 CGU calculated on a value in use basis exceeded its carrying amount therefore no impairment was recognized.

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13. Intangible assets

Intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Lease rights	Total
Cost					
At 1 January 2012	532,120	70,491	105,905	165,704	874,220
Additions	17	–	29,636	12,623	42,276
Acquisition of subsidiaries (Note 7)	–	–	–	15,628	15,628
Disposals	–	–	(183)	(8,793)	(8,976)
Translation movement	31,946	4,232	7,096	10,118	53,392
At 31 December 2012	564,083	74,723	142,454	195,280	976,540
Additions	94	–	29,999	90	30,183
Acquisition of subsidiaries (Note 7)	–	–	–	1,436	1,436
Disposals	–	(2,459)	(33)	(1,763)	(4,255)
Translation movement	(40,617)	(5,314)	(11,064)	(14,057)	(71,052)
At 31 December 2013	**523,560**	**66,950**	**161,356**	**180,986**	**932,852**
Accumulated amortization and impairment					
At 1 January 2012	(140,429)	(42,329)	(32,310)	(58,126)	(273,194)
Amortization charge	(58,268)	(8,719)	(13,662)	(21,416)	(102,065)
Impairment charge	(69,397)	–	–	(8,943)	(78,340)
Disposals	–	–	99	1,108	1,207
Translation movement	(11,459)	(2,748)	(2,275)	(4,183)	(20,665)
At 31 December 2012	(279,553)	(53,796)	(48,148)	(91,560)	(473,057)
Amortization charge	(27,359)	(7,437)	(15,648)	(14,795)	(65,239)
Impairment charge	–	–	–	(11,829)	(11,829)
Reversal of impairment	–	–	–	4,557	4,557
Disposals	–	2,242	23	1,671	3,936
Translation movement	20,864	4,013	3,887	7,140	35,904
At 31 December 2013	(286,048)	(54,978)	(59,886)	(104,816)	(505,728)
Net book value at 31 December 2013	**237,512**	**11,972**	**101,470**	**76,170**	**427,124**
Net book value at 31 December 2012	**284,530**	**20,927**	**94,306**	**103,720**	**503,483**
Net book value at 1 January 2012	**391,691**	**28,162**	**73,595**	**107,578**	**601,026**

Impairment test

At the end of 2013 management performed impairment test of lease rights.

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

14. Prepaid leases

Prepaid leases comprise the following:

	2013	2012
Cost		
Cost at 1 January	**129,664**	125,202
Additions	**11,829**	10,326
Disposals	**(13,655)**	(13,311)
Translation movement	**(9,287)**	7,447
Cost at 31 December	**118,551**	129,664
Accumulated amortization and impairment		
Accumulated amortization at 1 January	**(76,272)**	(44,134)
Amortization charge	**(9,942)**	(12,581)
Impairment charge	**(5,675)**	(19,690)
Reversal of impairment	**3,104**	–
Disposals	**11,347**	3,466
Translation movement	**5,524**	(3,333)
Accumulated amortization at 31 December	**(71,914)**	(76,272)
Net book value at 31 December	**46,637**	53,392
Net book value at 1 January	**53,392**	81,068

Impairment test

At the end of 2013 management performed impairment test of prepaid leases.

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

15. Inventories of goods for resale

Inventories of goods for resale as of 31 December 2013 and 31 December 2012 comprise the following:

	31 December 2013	31 December 2012
Inventories of goods for resale	**1,208,593**	1,179,381
Less: provision for shrinkage and slow moving stock	**(63,945)**	(64,487)
	1,144,648	1,114,894

Inventory shrinkage and slow moving stock recognized as cost of sales in the consolidated statement of profit or loss amounted to USD 472,362 (2012: USD 423,209).

16. Financial instruments by category

	Loans and receivables	Available-for-sale investments	Total
31 December 2013			
Assets as per consolidated statement of financial position			
Available-for-sale investments	**–**	**6,429**	**6,429**
Trade and other receivables excluding prepayments	**429,694**	**–**	**429,694**
Loans originated	**217**	**–**	**217**
Cash and cash equivalents	**232,557**	**–**	**232,557**
Total	**662,468**	**6,429**	**668,897**

	Financial liabilities at amortized cost
31 December 2013	
Liabilities as per consolidated statement of financial position	
Borrowings (excluding finance lease liabilities)	**3,376,880**
Interest accrued	**24,886**
Finance lease liabilities	**117**
Trade and other payables excluding statutory liabilities and advances	**3,030,315**
Total	**6,432,198**

	Loans and receivables	Available-for-sale investments	Total
31 December 2012			
Assets as per consolidated statement of financial position			
Available-for-sale investments	–	6,928	6,928
Trade and other receivables excluding prepayments	367,624	–	367,624
Loans originated	3,033	–	3,033
Cash and cash equivalents	407,877	–	407,877
Total	778,534	6,928	785,462

	Financial liabilities at amortized cost
31 December 2012	
Liabilities as per consolidated statement of financial position	
Borrowings (excluding finance lease liabilities)	4,027,267
Interest accrued	20,980
Finance lease liabilities	1,476
Trade and other payables excluding statutory liabilities and advances	2,908,529
Total	6,958,252

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17. Trade and other accounts receivable

	31 December 2013	31 December 2012
Trade accounts receivable	**408,495**	348,126
Advances made to trade suppliers	**22,182**	36,092
Other receivables	**60,135**	97,328
Prepayments	**50,646**	71,742
Accounts receivable for franchise services	**460**	1,249
Receivables from related parties (Note 8)	**809**	1,105
Provision for impairment of trade and other receivables	**(73,933)**	(135,077)
	468,794	420,565

All classes of receivables are categorized 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 USD 36,102 (31 December 2012: 31,322).

Trade receivables

There are balances of USD 21,555 that in accordance with accounting policies are past due but not impaired as at 31 December 2013 (31 December 2012: USD 35,069).

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

	31 December 2013	31 December 2012
2-3 months	**21,555**	35,069
	21,555	35,069

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

	2013	2012
At 1 January	**(33,848)**	(41,030)
Addition of provision for receivables impairment	**(5,861)**	(11,868)
Release of provision for receivables impairment	**7,262**	16,636
Receivables written off as uncollectable	**17,268**	4,065
Translation movement	**1,934**	(1,651)
At 31 December	**(13,245)**	(33,848)

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 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 2013	31 December 2012
3-6 months	**370**	2,450
Over 6 months	**16,340**	51,990
	16,710	54,440

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 USD 19,637 that in accordance with accounting policies are past due but not impaired as at 31 December 2013 (31 December 2012: USD 19,276).

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

	31 December 2013	31 December 2012
2-6 months	19,637	19,276
	19,637	19,276

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

	2013	2012
At 1 January	(101,229)	(57,389)
Addition of provision for receivables impairment	(33,247)	(68,408)
Release of provision for receivables impairment	21,886	16,096
Receivables written off as uncollectable	45,526	13,865
Translation movement	6,376	(5,393)
At 31 December	(60,688)	(101,229)

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 2013	31 December 2012
3-6 months	7,515	6,640
Over 6 months	69,298	125,575
	76,813	132,215

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.

18. VAT and other taxes recoverable

	31 December 2013	31 December 2012
VAT recoverable	413,474	365,283
Other taxes recoverable	11,141	12,718
	424,615	378,001

VAT recoverable related to property, plant and equipment of USD 5,840 (31 December 2012: USD 6,141) is recorded within current assets because management expects it will be recovered within 12 months after the balance sheet 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.

19. Provisions and other liabilities

	31 December 2013	31 December 2012
Taxes other than income tax	164,416	141,773
Provisions and liabilities for tax uncertainties (Note 35)	33,487	47,436
Accrued salaries and bonuses	200,017	191,843
Payables to landlords	21,440	19,071
Other accounts payable and accruals	215,399	177,259
Accounts payable for property, plant and equipment	117,079	123,422
Advances received	40,997	56,500
	792,835	757,304

There are no significant amounts of payables to foreign counterparties as at 31 December 2013 and 31 December 2012.

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20. Borrowings

The Group had the following borrowings at 31 December 2013 and 31 December 2012:

	Interest rate, % p.a.		Final maturity year	Fair value		Carrying value	
Current	**2013**	2012		**2013**	2012	**2013**	2012
RUR Club loan	–	MosPrime +2.5%	2013	–	405,223	–	405,223
RUR Bonds TH Kopeyka series BO-01	–	7%	2013	–	4,095	–	4,136
RUR Bonds TH Kopeyka series BO-02	–	9%	2013	–	99,780	–	98,773
RUR Bonds X5 Finance series 01	**7.95%**	–	2014	**211,728**	–	**212,475**	–
RUR Bonds X5 Finance series 04	**7.75%**	–	2014 (put option)	**175,871**	–	**176,188**	–
RUR Bilateral Loans	**6.94%-9.0%**	7.75%-9.8%	2014	**548,718**	1,172,755	**548,718**	1,172,755
Total current borrowings				**936,317**	1,681,853	**937,381**	1,680,887

	Interest rate, % p.a.		Final maturity year	Fair value		Carrying value	
Non-current	**2013**	2012		**2013**	2012	**2013**	2012
RUR Club loan	**MosPrime +2.5%/2.75%**	–	2018	**452,219**	–	**452,219**	–
RUR Bonds X5 Finance series 01	–	7.95%	2014	–	222,217	–	229,004
RUR Bonds X5 Finance series 04	–	7.75%	2014 (put option)	–	189,364	–	189,858
RUR Bonds X5 Finance series BO-01	**9.5%**	9.5%	2015	**154,449**	165,115	**152,769**	164,274
RUR Bonds X5 Finance series BO-02	**9.1%**	–	2016	**152,555**	–	**152,478**	–
RUR Bonds X5 Finance series BO-03	**8.85%**	–	2016	**151,837**	–	**152,620**	–
RUR Bilateral Loans	**MosPrime 3m+1.85% –2.6%**	MosPrime 3m+2.6% –2.7%	2016	**424,543**	817,532	**424,543**	817,532
RUR Bilateral Loans	**6.94%-9.0%**	7.75%-9.8%	2015	**1,104,346**	945,337	**1,104,870**	945,712
Total non-current borrowings				**2,439,949**	2,339,565	**2,439,499**	2,346,380
Total borrowings				**3,376,266**	4,021,418	**3,376,880**	4,027,267

In December 2013 the Group made RUR 5 billion (USD 153,242[1]) drawdown from the executed new 3-year long-term facility with VTB Capital with the total facility amount of RUR 12.5 billion.

[1] Exchange rate as at the date of transaction is used.

During 2013 year, the Group has made several developments in connection with the borrowings:

1. In April 2013 the Group registered four new issues of documentary non-convertible coupon exchange bonds series BO-04, BO-05, BO-06 and BO-07 in the total amount of RUR 20 billion.
2. In June 2013 corporate bonds series 01, 04 and BO-01 that were issued in previous years, were included in the quotation list 'A1' at MOEX. In October 2013 corporate bonds series BO-02 issued in 2013, were included in the quotation list 'A1' at MOEX.

All borrowings at 31 December 2013 are shown net of related transaction costs of USD 21,408 which are amortized over the term of loans using the effective interest method (31 December 2012: USD 18,722). Borrowing costs capitalized for the year ended 31 December 2013 amounted to USD 2,549 (2012: USD 10,365). Capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 8.42% (2012: 8.70%).

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain covenants: the maximum level of Net Debt/EBITDA (4.00/4.25 after acquisition), minimum level of EBITDA/Net Interest expense (2.75). At 31 December 2013 the Group complied with these covenants under loan facilities.

21. Share capital

As at 31 December 2013 the Group had 190,000,000 authorized ordinary shares (31 December 2012: 190,000,000) of which 67,844,665 ordinary shares are outstanding (31 December 2012: 67,819,033) and 48,553 ordinary shares held as treasury stock (31 December 2012: 74,185) The nominal par value of each ordinary share is EUR 1.

No dividends were paid or declared during the year ended 31 December 2013 and the year ended 31 December 2012.

22. 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:

	2013	2012
(Loss)/Profit attributable to equity holders of the parent	344,882	(126,497)
Weighted average number of ordinary shares in issue	67,834,947	67,819,033
Effect of share options granted to employees, number of shares	–	9,692
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,834,947	67,828,725
Basic earnings per share for profit/(loss) from continuing operations (expressed in USD per share)	5.08	(1.87)
Diluted earnings per share for profit/(loss) from continuing operations (expressed in USD per share)	5.08	(1.86)

23. Revenue

	2013	2012
Revenue from sale of goods	16,764,508	15,778,468
Revenue from franchise services	3,516	3,059
Revenue from other services	16,704	13,722
	16,784,728	15,795,249

24. Expenses by nature

	2013	2012
Cost of goods sold	12,004,628	11,486,465
Staff costs (Note 27)	1,707,544	1,645,444
Operating lease expenses	776,932	652,067
Depreciation, amortization	413,942	465,109
Impairment of non-current assets	(4,034)	467,313
Other store costs	367,793	305,872
Utilities	374,913	342,361
Other	527,878	413,379
	16,169,596	15,778,010

Operating lease expenses include USD 758,243 (2012: USD 630,949) of minimum lease payments and contingent rents of USD 18,689 (2012: USD 21,118).

Impairment of trade and other receivables amounted to USD 10,929 for the year ended 31 December 2013 (2012: USD 33,098).

25. 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 2013	31 December 2012
Not later than 1 year	58,898	63,226
Later than 1 year and no later than 5 years	23,703	24,088
Later than 5 years	4,217	3,782
	86,818	91,096

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

	31 December 2013	31 December 2012
Not later than 1 year	16,008	19,612
Later than 1 year and no later than 5 years	1,165	1,761
Later than 5 years	–	–
	17,173	21,373

The rental income from operating leases recognized in the consolidated statement of profit or loss for the year ended 31 December 2013 amounted to USD 167,093 (2012: USD 162,194). There were no contingent rents recognized in the consolidated statement of profit or loss in the year ended 31 December 2013 (2012: nil).

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26. Finance income and costs

	2013	2012
Interest expense	332,987	339,962
Interest income	(2,005)	(11,098)
Other finance costs, net	12,362	(3,004)
	343,344	325,860

Other finance costs include transaction costs of USD 7,977 written-off to the consolidated statement of profit or loss (2012: USD 7,043) (Note 20).

27. Staff costs

	2013	2012
Wages and salaries	1,339,218	1,286,913
Social security costs	369,044	354,519
Share-based payments expense/(income)	(718)	4,012
	1,707,544	1,645,444

For the year ended 31 December 2013 statutory pension contributions amounted to USD 229,988 (2012: USD 218,845).

Key executive management personnel

The Group key management personnel consists of Management Board and Supervisory Board members, having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Members of the Management Board and Supervisory Board of the Group receive compensation in the form of a short-term compensation in cash (including, for Management Board members, an annual cash bonus and share-based payments (Note 28)). For the year ended 31 December 2013 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 7,068 (2012: USD 5,970), including accrued annual target bonuses of USD 1,763 (2012: USD 109) payable on an annual basis subject to meeting annual performance targets and termination payment of USD 306 (2012: USD 1,351). As at 31 December 2013 the total amount of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was nil (31 December 2012: 70,000 GDRs) and conditional rights under LTI plan was 133,398 GDRs (31 December 2012: 258,449 GDRs). During the year ended 31 December 2013 the Group recognized expenses from share-based compensation to Management Board and Supervisory Board members in amount of USD 229 (2012: USD 1,007). The total intrinsic value of vested share options amounted to USD nil as at 31 December 2013 (31 December 2012: USD 276).

28. Share-based payments

Employee stock option program

In 2007 the Group introduced an employee stock option program (ESOP) for its key executives and employees. Each option that may be granted under the ESOP carries the right to one GDR. The program ran in four tranches granted over the period to 19 May 2009. The vesting requirement of the program is the continued employment of participants. All four tranches expired as at 31 December 2013.

In total, during the year ended 31 December 2013 the Group recognized an expense related to the ESOP in the amount of USD 59 (income recognized during the year ended 31 December 2012: USD 896). At 31 December 2013 the share-based payments liability amounted to nil (31 December 2012: USD 496). The equity component was effectively zero at 31 December 2013 (31 December 2012: zero). The total intrinsic value of vested share options amounted to nil as at 31 December 2013 (31 December 2012: USD 423).

Details of the share options outstanding are as follows:

	2013		2012	
	Number of share options	Weighted average exercise price, USD	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the period	107,500	13.9	653,700	28.0
Exercised during the period	(102,500)	13.9	(78,000)	14.7
Forfeited during the period	(5,000)	13.9	(468,200)	33.4
Outstanding at the end of the period	–	–	107,500	13.9
Exercisable at 31 December	–	–	107,500	13.9

Employee stock 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 four tranches granted over the period to 19 May 2014. Over the period of four calendar years starting 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. In May 2013 the Group vested 102,528 GDRs under the 1st tranche of long term incentive plan out of treasury stock, 56,115 of them were transferred directly to participants and the remaining 46,413 GDRs were locked-in for 2 years in accordance with RSU plan rules. The second, third and fourth tranches will vest on 19 May 2014, 19 May 2015 and 19 May 2016 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 period the GDRs cannot be traded.

In total, during the year ended 31 December 2013 the Group recognized income related to the RSU plan in the amount of USD 777 (expense recognized during the year ended 31 December 2012: USD 4,908). At 31 December 2013 the equity component was USD 5,872 (31 December 2012: 11,452) and liability component was nil (31 December 2012: 478). 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:

	2013		2012	
	Number of conditional rights	**Weighted average fair value, USD**	Number of conditional rights	Weighted average fair value, USD
Outstanding at the beginning of the period	**1,053,053**	**28.21**	840,083	35.84
Granted during the period	**39,135**	**18.40**	602,689	22.55
Vested during the period	**(102,528)**	**35.50**	–	–
Forfeited during the period	**(671,129)**	**26.52**	(389,719)	35.91
Outstanding at the end of the period	**318,531**	**28.22**	1,053,053	28.21

29. Income tax

	Year ended 31 December 2013	Year ended 31 December 2012
Current income tax charge	**98,589**	52,360
Deferred income tax charge/(benefit)	**9,400**	(62,887)
Income tax charge/(benefit) for the year	**107,989**	(10,527)

The theoretical and effective tax rates are reconciled as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Profit/(loss) before taxation	**452,871**	(137,024)
Theoretical tax at the effective statutory rates[1]	**90,574**	(27,405)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Share-based payments expense	**149**	225
Effect of income taxable at rates different from standard statutory rates	**(19,992)**	(20,593)
Expenses on inventory shrinkage and surpluses	**39,819**	50,036
Unrecognized tax loss carry forwards for the year	**3,719**	4,024
Deferred tax expenses arising from the write-down of the deferred tax asset	**3,409**	3,292
Other non-taxable income	**(9,689)**	(20,106)
Income tax charge/(benefit) for the year	**107,989**	(10,527)

[1] Profit before taxation on Russian operations is assessed based on the statutory rate of 20%, profit before taxation on Ukrainian operations is assessed based on the statutory rate of 19%.

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29. Income tax continued

Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss are attributable to the following items for the year ended 31 December 2013:

	31 December 2012	Credited/ (debited) to profit and loss	Deferred tax on business combinations (Note 7)	Recognized in equity for translation differences	**31 December 2013**
Tax effects of deductible temporary differences and tax loss carry forwards:					
Tax losses available for carry forward	99,938	28,110	–	(7,953)	**120,095**
Property, plant and equipment and Investment property	29,434	(2,933)	(66)	(2,039)	**24,396**
Intangible assets and Prepaid lease	3,854	(1,433)	1,658	(296)	**3,783**
Inventories of goods for resale	38,079	16,071	–	(3,174)	**50,976**
Accounts receivable	17,755	(10,667)	–	(992)	**6,096**
Accounts payable	85,453	18,428	–	(6,649)	**97,232**
Other	17,944	(7,664)	–	(1,086)	**9,194**
Gross deferred tax asset	292,457	39,912	1,592	(22,189)	**311,772**
Less offsetting with deferred tax liabilities	(148,670)	(23,330)	–	11,333	**(160,667)**
Recognized deferred tax asset	143,787	16,582	1,592	(10,856)	**151,105**
Tax effects of taxable temporary differences:					
Property, plant and equipment and Investment property	(160,113)	(34,384)	–	12,454	**(182,043)**
Intangible assets and Prepaid lease	(94,738)	11,850	–	6,568	**(76,320)**
Accounts receivable	(35,303)	(26,136)	–	3,246	**(58,193)**
Accounts payable	(3,469)	3,005	–	168	**(296)**
Other	(3,670)	(3,647)	–	363	**(6,954)**
Gross deferred tax liability	(297,293)	(49,312)	–	22,799	**(323,806)**
Less offsetting with deferred tax assets	148,670	23,330	–	(11,333)	**160,667**
Recognized deferred tax liability	(148,623)	(25,982)	–	11,466	**(163,139)**

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 2012:

	31 December 2011	Credited/ (debited) to profit and loss	Deferred tax on business combinations (Note 7)	Recognized in equity for translation differences	31 December 2012
Tax effects of deductible temporary differences and tax loss carry forwards:					
Tax losses available for carry forward	66,899	28,350	–	4,689	99,938
Property, plant and equipment and Investment property	21,398	4,642	2,019	1,375	29,434
Intangible assets and Prepaid lease	32	3,731	–	91	3,854
Inventories of goods for resale	36,249	(338)	–	2,168	38,079
Accounts receivable	27,762	(11,403)	–	1,396	17,755
Accounts payable	100,233	(20,315)	–	5,535	85,453
Other	9,907	4,661	2,594	782	17,944
Gross deferred tax asset	262,480	9,328	4,613	16,036	292,457
Less offsetting with deferred tax liabilities	(125,679)	(15,088)	–	(7,903)	(148,670)
Recognized deferred tax asset	136,801	(5,760)	4,613	8,133	143,787
Tax effects of taxable temporary differences:					
Property, plant and equipment and Investment property	(183,222)	31,830	–	(8,721)	(160,113)
Intangible assets and Prepaid lease	(118,866)	30,540	–	(6,412)	(94,738)
Accounts receivable	(20,014)	(13,761)	–	(1,528)	(35,303)
Accounts payable	(1,921)	(1,400)	–	(148)	(3,469)
Other	(9,012)	6,350	(600)	(408)	(3,670)
Gross deferred tax liability	(333,035)	53,559	(600)	(17,217)	(297,293)
Less offsetting with deferred tax assets	125,679	15,088	–	7,903	148,670
Recognized deferred tax liability	(207,356)	68,647	(600)	(9,314)	(148,623)

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 725,708 (2012: USD 470,086) for which the deferred tax liability was not recognized as such amounts are being reinvested for the foreseeable future.

The current portion of the deferred tax liability amounted to USD 74,069 (31 December 2012: USD 59,391), the current portion of the deferred tax asset amounted to USD 157,598 (31 December 2012: USD 159,942).

Management believes that the future taxable profits in tax jurisdictions that suffered a loss in the current or preceding years will be available to utilize the deferred tax asset of USD 120,095 recognized at 31 December 2013 for the carry forward of unused tax losses (31 December 2012: USD 99,938). Unused tax losses are available for carry forward for a period not less than seven years depending on the tax residence of every certain company of the Group.

The Group estimates unrecognized potential deferred tax assets in respect of unused tax loss carry forwards of USD 9,380 (2012: USD 4,119).

30. 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 currency exposure with respect to import purchases. The exposure is not significant for the Group.

Interest rates risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates. Interest rate risk (MosPrime rate risk) arising from floating rate borrowings is managed through the balanced credit portfolio, using different types of financing instruments on the basis of fixed and floating rates.

If MosPrime had been 200 basis points lower/higher in 2013 with all other variables held constant, post-tax loss for the year would have been USD 10,631 (2012: USD 16,198) lower/higher.

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 17). 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. 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 balance sheet date at spot foreign exchange rates:

	During 1 year	**In 1 to 5 years**
Year ended 31 December 2013		
Borrowings	**1,226,331**	**2,716,277**
Trade payables	**2,476,380**	**–**
Gross finance lease liabilities	**117**	**–**
Other finance liabilities	**553,935**	**–**
	4,256,763	**2,716,277**

	During 1 year	In 1 to 4 years
Year ended 31 December 2012		
Borrowings	1,989,095	2,632,563
Trade payables	2,396,934	–
Gross finance lease liabilities	1,363	113
Other finance liabilities	511,593	–
	4,898,985	2,632,676

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30. Financial risk management continued

c. Liquidity risk continued

At 31 December 2013 the Group has net current liabilities of USD 1,906,744 (31 December 2012: USD 2,418,768) including short-term borrowings of USD 937,381 (31 December 2012: USD 1,680,887).

At 31 December 2013 the Group had available bank credit lines of USD 3,080,124 (31 December 2012: USD 2,686,623).

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

31. Operating environment of the group

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. 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.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

32. 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 recognized 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), minimum level of EBITDA/Net Interest expense (2.75). These ratios are included as covenants into loan agreements (Note 20). At 31 December 2013 the Group complied with requirements under loan facilities.

33. Offsetting financial assets and financial liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2013:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position (d)	Net amount of exposure (c) – (d)
Assets					
Trade receivables	**401,163**	**5,913**	**395,250**	**352,072**	**43,178**
Total assets subject to offsetting, master netting and similar arrangements	**401,163**	**5,913**	**395,250**	**352,072**	**43,178**
Liabilities					
Trade payables	**2,482,293**	**5,913**	**2,476,380**	**352,072**	**2,124,308**
Total liabilities subject to offsetting, master netting and similar arrangements	**2,482,293**	**5,913**	**2,476,380**	**352,072**	**2,124,308**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2012:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position (d)	Net amount of exposure (c) – (d)
Assets					
Trade receivables	402,913	88,635	314,278	279,396	34,882
Total assets subject to offsetting, master netting and similar arrangements	402,913	88,635	314,278	279,396	34,882
Liabilities					
Trade payables	2,485,569	88,635	2,396,934	279,396	2,117,538
Total liabilities subject to offsetting, master netting and similar arrangements	2,485,569	88,635	2,396,934	279,396	2,117,538

34. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments.

Financial assets carried at amortized 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.

Carrying amounts of trade and other financial receivables approximate fair values.

Liabilities carried at amortized cost. The fair value of bonds is based on quoted market prices. Fair values of other liabilities are determined using valuation techniques. Carrying amounts of trade and other payables approximate fair values.

The fair value of bonds traded on the MICEX is determined based on active market quotations and amounted to USD 846,440 at 31 December 2013 (31 December 2012: USD 680,571). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to USD 846,530 at 31 December 2013 (31 December 2012: USD 686,045) (Note 20). The fair value of long-term borrowings amounted to USD 1,981,108 at 31 December 2013 (31 December 2013: USD 1,762,869). 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 USD 15,812 at 31 December 2013. The fair value of short-term borrowings was not materially different from their carrying amounts.

35. Commitments and contingencies

Commitments under operating leases

At 31 December 2013, the Group operated 3,159 stores through rented premises (31 December 2012: 2,603 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 RUR 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 USD 478,180 (net of VAT) (2012: USD 439,928).

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35. Commitments and contingencies continued

Capital expenditure commitments

At 31 December 2013 the Group contracted for capital expenditure for the acquisition of property, plant and equipment of USD 133,620 (net of VAT) (2012: USD 83,141).

Legal contingencies

In the normal course of business the Group is involved in periodic legal cases. Management does not anticipate any material negative impact on the resolution of these cases.

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 it's 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.

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.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. The Russian tax legislation does not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated.

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 recognized 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 2013 the Group net accrued provision of USD 18,737 including net accrued non-income tax of USD 6,640 income tax net accrued of USD 40,438 and net release of USD 28,341 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 USD 38,745 at 31 December 2013 (31 December 2012: USD 54,723) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2012	119,382
Release of provision	(109,186)
Accrual of provision	75,251
Offset of provision	(36,223)
Translation movement	5,499
Balance at 31 December 2012	54,723
Release of provision	(90,420)
Accrual of provision	109,157
Offset of provision	(31,108)
Translation movement	(3,607)
Balance at 31 December 2013	**38,745**

Company's statement of financial position

at 31 December 2013
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2013	31 December 2012
Assets			
Non-current assets			
Financial assets	37	**2,559,796**	2,651,397
		2,559,796	2,651,397
Current assets			
Financial assets	37	**270,317**	91
Amounts due from subsidiaries		**9,390**	5,701
Prepaid expenses		**60**	130
Cash and cash equivalents		**264**	84
		280,031	6,006
Total assets		**2,839,827**	2,657,403
Equity and liabilities			
Paid up and called up share capital	38	**93,218**	89,826
Share premium account		**2,053,197**	2,049,592
Share-based payment reserve	42	**5,872**	11,452
Other reserves		**628,617**	758,471
Result for the year		**344,882**	(126,497)
Cumulative translation reserve		**(748,535)**	(581,043)
Total equity		**2,377,251**	2,201,801
Non-current liabilities			
Bank loans	39	**452,214**	–
Loan from Group company	40	**1,772**	6,110
		453,986	6,110
Current liabilities			
Bank loans	39	**–**	405,223
Amounts due to Group companies		**100**	35,692
Accrued expenses and other liabilities	41	**8,238**	8,081
Share-based payment liability	42	**–**	496
Other tax payable		**252**	–
		8,590	449,492
Total equity and liabilities		**2,839,827**	2,657,403

Company's statement of profit or loss

for the year ended 31 December 2013
(expressed in thousands of US Dollars, unless otherwise stated)

	Notes	**31 December 2013**	31 December 2012
Other expenses after tax	43	**(10,966)**	(9,805)
Result on participating interest after tax	37	**355,849**	(116,692)
Profit/(loss) after taxation		**344,882**	(126,497)

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36. Accounting principles

General

The Company was incorporated as a limited liability Company under the laws of The Netherlands on 13 August 1975 and has its statutory seat in Amsterdam. The Company is publicly owned. The principal activity of the Company is to act as a holding company for all X5 Group companies.

Basis of presentation

The Company's financial statements of X5 Retail Group N.V. have been prepared in accordance with accounting principles generally accepted in the Netherlands, in accordance with Part 9 of Book 2 of the Dutch Civil Code (art 362.8).

Accounting principles

Unless stated otherwise below, the Dutch GAAP accounting principles applied for the Company accounts are similar to those used in the IFRS Consolidated Financial Statements (refer to Note 2 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. Consequently the consolidated financial statements of the Group for the year ending 31 December 2013 have been prepared accordingly.

In accordance with Section 362 paragraph 7, Part 9 of Book 2 of the Dutch Civil Code, the presentation currency in the annual report is USD as a result of the international bifurcation of the Company. 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. Reference is made to section 2.5 (a) of the Notes to the Consolidated Financial Statements for the accounting policy in regard of the translation from functional currency to presentation currency.

Unless stated otherwise all amounts are in thousands of US Dollars.

Investments in group companies

Investments in group companies are entities (including intermediate subsidiaries and special purpose entities) over which the Company has control, i.e. the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Group companies are recognized from the date on which control is transferred to the Company or its intermediate holding entities. They are derecognized 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 or 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 recognized 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 recognize 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 recognize a provision.

Amounts due from group companies

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

Shareholders' Equity

Issued and paid up share capital, which is denominated in Euro, is restated into US Dollar at the exchange rate as of 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.

37. Financial assets

a. Movements in the interests in group companies have been as follows:	31 December 2013	31 December 2012
Opening balance	**2,348,675**	2,104,077
Acquisitions/capital contribution	**231,003**	247,190
Divestment of group companies/capital repayments	**(280,961)**	(30)
(Loss)/Profit from group companies for the year	**355,849**	(116,692)
Translation movement	**(176,491)**	114,130
Closing balance	**2,478,075**	2,348,675

A complete list of group companies has been disclosed in the consolidated financial statements (refer to Note 6 of consolidated financial statements). Above indicated movements are all related to the internal restructuring program.

b. Movements in the loans to group companies have been as follows:	31 December 2013	31 December 2012
Opening balance	**302,813**	418,230
Settlement/Repayment	**(11,213)**	(135,191)
Additions	**80,776**	–
Translation movement	**(20,338)**	19,774
Closing balance	**352,038**	302,813
Non-current financial assets	**2,559,796**	2,651,397
Current financial assets	**270,317**	91
Total Financial assets	**2,830,113**	2,651,488

Loans provided to following group companies:	Currency	Date of maturity
GSWL Finance Ltd	RUR	August 2016
Perekrestok Holdings Ltd.	RUR	December 2014

In the loans receivable there are amounts to Grasswell Ltd. and Perekrestok Holdings Ltd. denominated in RUR, the total amount of the loans is RUR 11,521,933 thousands. Furthermore an amount of RUR 8,847,275 thousands is classified as short term. The loans have not been secured and attract up to Mosprime 1m+4.5% interest per annum with Perekrestok Holdings Ltd. and up to Mosprime 1m+3.6% interest per annum with GSWL Finance Ltd.

In 2010 the Company entered into agreements with its 100% subsidiary Perekrestok Holdings limited, pursuant to which the Company has limited its debtor and currency exchange risks with respect to its finance activities. In 2012, an addendum to the agreement was entered into in which the compensation between parties was agreed. The compensation is included in other income (expenses).

38. Shareholders' equity

	Share capital	Share premium	Other reserves	Profit/ (Loss)	Share-based payment (equity)	Cumulative translation reserve	Total
Balance as at 1 January 2012	87,778	2,049,592	459,089	301,430	7,776	(709,693)	2,195,972
Sales of treasury shares							
Share-based compensation (Note 28)	–	–	–	–	3,676	–	3,676
Transfer	–	–	301,430	(301,430)	–	–	–
Currency translation	2,048	–	(2,048)	–	–	128,650	128,650
Result for the period	–	–	–	(126,497)	–	–	(126,497)
Balance as at 1 January 2013	89,826	2,049,592	758,471	(126,497)	11,452	(581,043)	2,201,801
Share-based compensation	–	–	–	–	(1,940)	–	(1,940)
Transfer	–	–	(126,497)	126,497	–	–	–
Currency translation	3,359	–	(3,359)	–	–	(167,492)	(167,492)
Transfer of vested equity rights	33	3,605	2	–	(3,640)	–	–
Result for the period	–	–	–	344,882	–	–	344,882
Balance as at 31 December 2013	**93,218**	**2,053,197**	**628,617**	**344,882**	**5,872**	**(748,535)**	**2,377,251**

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38. Shareholders' equity continued
A statutory undistributable reserve is maintained for currency translation adjustment recorded mainly as the result of the translation between functional and presentation currencies.

Share capital issued
The authorized share capital of the Company amounts to EUR 190,000,000 divided into 190,000,000 shares of EUR 1 each.

As at 31 December 2013, the issued and paid-up share capital amounts to EUR 67,844,665 and consists of 67,844,665 shares of EUR 1 each (2012: 67,819,033). This has been recalculated into USD with an exchange rate of EUR 1 = USD 1.374 (2012: EUR 1 = USD 1.3245) in the Company financial statements.

In July 2013 25,632 ordinary shares were vested. The result of vesting is an increase in the number of shares to 67,832,572.

In April 2010 1,746,505 ordinary shares were transferred in exchange for Global Depositary Receipts ('GDR'). These shares were issued in 2008 as part of the consideration paid for the Karusel hypermarket chain. The increase in the size of listing on the Main Market of the London Stock Exchange did not affect the number of outstanding shares, which remains unchanged at 67,893,218, while the number of GDRs admitted to trading on the London Stock Exchange's Regulated Market increased by 6,986,020. Following this conversion, 100% of the Group share capital is held in the form of GDRs.

39. Bank loans
The movement in the bank loans have been as follows:

	31 December 2013	31 December 2012
Opening balance	405,223	380,344
Repaid (Club loan)	(373,679)	–
New (Club loan)	447,946	–
Amortization of transaction costs capitalized (Club loan)	2,333	1,999
Translation movement	(29,609)	22,880
Closing balance	**452,214**	405,223

In August 2013 the Company refinanced RUR 12 billion club loan signing a new RUR 15 billion dual tranche term club loan facility agreement with 2.5-2.75% margin over MOSPRIME. The loan's final maturity is 2018. No collateral is provided for this facility (Refer to note 20).

40. Loan from group companies

	31 December 2013	31 December 2012
Trade House Perekrestok	1,772	–
GSWL Finance Ltd.	–	6,110

The loan payable to GSWL Finance Ltd. was fully repaid during the year.

The loan payable to Trade House Perekrestok denominated in RUR amounts to RUR 57,989. The loan attracts 10% interest per annum and matures in December 2014.

41. Accrued expenses
The current liabilities contain accrued expenses and non-income tax payable.

42. Share-based payment liability
X5 Retail Group N.V. operates both cash and equity settled share based compensation plans in the form of its Employee Stock Option Plan and Restricted Stock Unit Plan.

Employee Stock Option Plan
X5 Retail Group N.V. accounts for a receivable insofar the options granted to employees of the Group are recharged to its subsidiaries, in case there is no recharge the fair value of the options are treated as an investment in the subsidiary.
For employees of the Company an expense is recorded in the profit and loss account. The receivable or expense is accounted for at the fair value determined in accordance with the policy on share-based payments as included in the consolidated financial statements, including the related liability for cash settled plans or as equity increase for equity settled plans (Note 28).
As at 31 December 2013 all tranches of Stock Option Plan expired.

The following is included in the entity's accounts for the Employee Stock Option Plan:

	2013	2012
Share-based payments liability as at 31 December	–	(496)
Income	(321)	(4,093)

Restricted Stock Unit Plan

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

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

The 2010 plan includes a funding arrangement with the subsidiaries which is recorded as an expense in the subsidiary and as an income in the accounts of the Company for the amount of the funding that has been transferred in the financial year.

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

	2013	2012
Equity share-based payment reserve as at 31 December	(5,872)	(11,452)
Non-income tax payable	–	(161)
Income	(1,210)	(7,301)

43. Other income and expenses after tax

	31 December 2013	31 December 2012
Interest income from group companies	34,049	41,756
Other (expenses)/income	1,918	(20,507)
Interest expenses	(41,890)	(36,226)
General and administrative expenses	(3,985)	(6,536)
Share-based payment/RSU program	1,531	11,394
Gain/(Loss) from disposal of group companies	–	(28)
Currency exchange rate differences	(1,846)	(115)
Income tax (expenses)/benefit (Note 44)	(743)	457
	(10,966)	(9,805)

In accordance with the Dutch legislation article 2:382a the total audit fees related to the accounting organisation PricewaterhouseCoopers Accountants N.V. amounted to USD 208 (2012: USD 172).

44. Income tax expense

	31 December 2013	31 December 2012
Operating loss before tax	(10,223)	(10,262)
Current income tax	–	230
Deferred income tax (expenses)/benefit	(743)	227
Effective tax rate	0%	4%
Applicable tax rate	25.0%	25.0%

The effective tax rate differs from the applicable tax rate. In 2012 the difference related to non-taxable income on finance activities. In 2013 the Company impaired the value of the deferred tax asset in the amount of USD 743 (2012: USD Nil) no deferred tax asset has been recognized in relation to uncertainty of future taxable income to offset the current tax losses.

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45. Directors

The Company has a Management Board and a Supervisory Board. The total remuneration of all board members is disclosed as set out below. Further reference is made to the Remuneration Report on page 80 and Notes 27 and 28 in the consolidated financial statements.

Supervisory Board

Supervisory Board members were paid remuneration in cash which accrued evenly throughout the year in proportion to the period of service. Six members of the Supervisory Board participate in the Company's Stock Option Plan and/or Restricted Stock Unit Plan. The number of stock options and restricted stock units 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 28.

In 2013 the Supervisory Board members received a remuneration of:

	Base salary 2013	Additional remuneration 2013	Share-based compensation 2013[3]
Christian Couvreux[1 2]	**266**	**165**	**230**
Hervé Defforey (resigned 31.03.2013)[2]	**68**	**70**	**(115)**
Dmitry Dorofeev[4]	**152**	**–**	**–**
Michail Fridman[4]	**66**	**–**	**–**
David Gould[4]	**133**	**–**	**–**
Alexander Malis (from 19.07.2013)[5]	**66**	**200**	**13**
Pawel Musial (from 6.09.2013)[5]	**44**	**300**	**9**
Alexander Tynkovan[5]	**195**	**300**	**145**
Igor Shekhterman (from 19.07.2013)[5]	**133**	**500**	**26**
	1,123	**1,535**	**308**

[1] Excluding 16% Dutch crisis levy on Mr. Couvreux's remuneration in excess of EUR 150 (expressed in thousands), expensed as an employer's tax in 2013 in the amount of USD 12.

[2] The additional Remuneration 2013 relates to the temporary support for the Chief Executive Officer role in 2013.

[3] The share based compensation includes the Stock Option Plan and Restricted Stock Unit Plan and include benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

[4] In 2013 the Company changed its remuneration principles for the Supervisory Board; in accordance with the new principals, taking effect as per 1 July 2013, the non-independent supervisory directors Dmitry Dorofeev, Michail Fridman and David Gould are no longer remunerated by the Company.

[5] Non-recurring extraordinary compensation proposed by the Supervisory Board, subject to approval of the General Meeting of Shareholders.

In 2012 the Supervisory Board members received a remuneration of:

	Base salary 2012	Additional remuneration 2012[2]	Share-based compensation 2012[3]
Hervé Defforey[1]	321	159	117
Michail Fridman	128	–	–
David Gould	257	–	–
Vladimir Ashurkov (resigned 14.06.2012)	58	–	–
Alexander Tynkovan	154	–	138
Stephan DuCharme	198	944	230
Christian Couvreux	257	159	230
Dmitry Dorofeev (from 14.06.2012)	129	–	–
	1,502	1,262	715

[1] Excluding 16% Dutch crisis levy on Mr. Defforey's remuneration in excess of EUR 150 (expressed in thousands), expensed as an employer's tax in 2012 in the amount of USD 6.

[2] The additional Remuneration 2012 relates to the temporary assumption and support for the CEO role in 2012.

[3] The share based compensation includes the Stock Option Plan and Restricted Stock Unit Plan and include benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

In 2013 number of stock options granted to Supervisory Board members:

	No. of options granted in 2013	No. of options granted prior to 2013	No. of options exercised in 2013	Cancellation	No. of options outstanding as at 31 December 2013
Hervé Defforey	–	70,000	70,000	–	–
	–	70,000	70,000	–	–

As at 31 December 2013 all tranches of Stock Option Plan expired.

In 2012 number of stock options granted to Supervisory Board members:

	No. of options granted in 2012	No. of options granted prior to 2012	No. of options exercised in 2012	Cancellation	No. of options outstanding as at 31 December 2012
Hervé Defforey	–	112,500	–	42,500	70,000
	–	112,500	–	42,500	70,000

The exercise price amounts to USD 13.91 and the expiration date of the options is 20 November 2013.

In 2013 number of restricted stock units granted to Management Board and Supervisory Board members:

	Tranche	Conditional Grant 2013	RSUs awarded in 2011	RSUs awarded in 2012[1]	RSUs awarded in 2013	RSUs vested	GDRs locked-up as per 31.12.2013[2]	RSUs outstanding as per 31.12.2013
Management Board								
Stephan DuCharme	1		7,219			7,219	7,219	
	2			7,939				7,939
	3				28,830			28,830
Sergey Piven	3				7,217			
Frank Lhoëst	1		9,024			9,024	9,024	7,217
	2			13,645				13,645
	3				7,192			7,192
Supervisory Board								
Hervé Defforey[3]	1		9,024			6,016		
	2			9,923		3,307		
	3							
Alexander Tynkovan	1		4,331			4,331	2,858	
	2			4,763				4,763
	3				6,277			6,277
	4	10,830						
Christian Couvreux	1		7,219			7,219	7,219	
	2			7,939				7,939
	3				10,461			10,461
	4	14,768						
Alexander Malis[4]	4	3,692						
Igor Shekhterman[4]	4	7,384						
Pawel Musial[4]	4	2,461						

[1] Award of non-performance related RSUs based on the performance test as per 19 May 2013, based on level of achievement of Plan KPIs; RSUs granted to Supervisory Board members are not subject to performance criteria.

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

[3] Hervé Defforey stepped down from the Supervisory Board on 15 March 2013. In accordance with the rules of the restricted stock unit plan, two thirds of the number of RSUs awarded under tranche 1, and one third of the number of RSUs awarded under tranche 2, were subject to accelerated vesting in 2013; the lock-up was lifted.

[4] For Supervisory Board members appointed during the year the number of RSUs awarded under tranche 4 are calculated in accordance with the pro rata rules of the restricted stock unit plan.

Notes to the Company's financial statements

for the year ended 31 December 2013
(expressed in thousands of US Dollars, unless otherwise stated)

45. Directors continued

Supervisory Board continued

In 2012 number of restricted stock units granted to Management Board and Supervisory Board members:

	Tranche	Conditional Grant 2010	Conditional Grant 2011	Conditional Grant 2012	RSUs awarded in 2011	RSUs awarded in 2012[1]	RSUs outstanding as per 31.12.2012
Management Board							
Andrey Gusev[2]	1	39,147			24,467		16,311
	2		79,365			52,910	17,637
	3			110,215			
Kieran Balfe	2		37,214			23,259	23,259
	3			51,171			
Frank Lhoëst	1	14,438			9,024		9,024
	2		21,832			13,645	13,645
	3			28,769			
Supervisory Board							
Hervé Defforey	1	9,024			9,024		9,024
	2		9,923			9,923	9,923
	3			13,077			
Stephan DuCharme	1	7,219			7,219		7,219
	2		7,939			7,939	7,939
	3			10,461			
Alexander Tynkovan	1	4,331			4,331		4,331
	2		4,763			4,763	4,763
	3			6,277			
Christian Couvreux	1	7,219			7,219		7,219
	2		7,939			7,939	7,939
	3			10,461			

[1] 50% award of RSUs subject to performance test as per 19 May 2012, based on level of achievement of Plan KPIs; RSUs granted to Supervisory Board members are not subject to performance criteria.

[2] Andrey Gusev's contract terminated on 31 July 2012. In accordance with the Rules of the Restricted Stock Unit Plan, one third of the number of RSUs awarded under tranche 1, and two thirds of the number of RSUs awarded under tranche 2, were forfeited.

Management Board

The short term cash remuneration of the Management Board members consists of the base salary and the annual bonus. All members of the Management Board participate in the Company's Stock Option Plan and/or Restricted Stock Unit Plan. The number of stock options and restricted stock units granted and outstanding to the members of the Management Board is shown below. For the calculation of the intrinsic value and further details refer to Note 27.

	Base salary 2013	**Bonus 2013[1]**	**Share based compensation 2013[2]**	**Severance payment 2013**	
Stephan DuCharme[3]	**1,319**	**1,283**	**386**	**–**	
Sergey Piven	**360**	**241**	**88**	**–**	
Vladlena Yavorskaya	**169**	**107**	**–**	**–**	
Kieran Balfe	**128**	**–**	**(675)**	**306**	**Resigned per 15.03.2013**
Frank Lhoëst[3]	**365**	**132**	**122**	**–**	
	2,341	**1,763**	**(79)**	**306**	

[1] Bonus for the performance of the year reported.

[2] The share based compensation includes the Stock Option Plan and Restricted Stock Unit Plan and include benefits resulting from the reduction in the value of the cash settled share based payment compensation.

[3] Excluding 16% Dutch crisis levy on management board member's total remuneration in excess of EUR 150 (expressed in thousands), expensed as an employer's tax in 2013 in the amount of USD 7 for Stephan DuCharme and in the amount of USD 70 for Frank Lhoëst.

	Base salary 2012	Bonus 2012[1]	Share based compensation 2012[2]	Other 2012[4]	
Andrey Gusev	772	–	(486)	1,651	Resigned per 31.07.2012
Kieran Balfe	621	–	425	–	
Frank Lhoëst [3]	353	109	354	–	
	1,746	**109**	**293**	**1,651**	

[1] Bonus for the performance of the year reported and paid in cash in 2013.

[2] The share based compensation includes the Stock Option Plan and Restricted Stock Unit Plan and include benefits resulting from the reduction in the value of the cash settled share based payment compensation.

[3] Excluding 16% Dutch crisis levy on Mr. Lhoëst's total remuneration in excess of EUR 150 (expressed in thousands), expensed as an employer's tax in 2012 in the amount of USD 52.

[4] Includes USD 1,351 base salary and USD 300 consultancy fee.

In 2013 number of stock options granted to Management Board members was zero.

In 2012 number of stock options granted to Management Board members:

	No. of options granted in 2012	No. of options granted prior 2012	No. of options exercised in 2012	Cancellation	No. of options outstanding as at 31 December 2012
Andrey Gusev (resigned 31 July 2012)	–	212,500	–	212,500	–
	–	**212,500**	**–**	**212,500**	**–**

46. Staff numbers and employment costs

Other than Management and Supervisory Board the Company has one employee, incurred wages, salaries and related social security charges comprise USD 29 (2012: Nil).

47. Contingent rights and liabilities

Reference is made to the commitments and contingencies as disclosed in Note 34 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 2013	31 December 2012
Irrevocable offer to holders of X5 Finance bonds	**847,287**	419,160
Guarantee for Agrotorg	**954,004**	1,028,022
Guarantee for TH Perekrestok	**895,326**	800,169
Guarantee for Agroaspekt	**237,632**	301,257

48. Related party transaction

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

Statutory director's compensation

The statutory director's compensation is disclosed in Note 45.

Loans to group companies

For loans issued to and interest income from group companies refer to Note 39.

49. Subsequent events

There are no subsequent events to be reported.

Amsterdam, 6 March 2014

Management Board:
Stephan DuCharme
Sergey Piven
Frank Lhoëst
Vladlena Yavorskaya

Supervisory Board:
Dmitry Dorofeev
Mikhail Fridman
David Gould
Alexander Tynkovan
Christian Couvreux
Alexander Malis
Pawel Musial
Igor Shekhterman

Other information

Auditor's report
Auditor's report is included on page 139.

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 how the results of the financial year shall be allocated to the reserves.

Independent Auditor's report

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

Report on the financial statements

We have audited the accompanying financial statements 2013 as set out on pages 90 to 137 of X5 Retail Group N.V., Amsterdam. The financial statements include the consolidated financial statements and the company's financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of profit or loss, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company's financial statements comprise the company's statement of financial position as at 31 December 2013, the company's statement of profit or loss for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union 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. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2013, and of its result for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company's financial statements

In our opinion, the company's financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2013, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at (e) and (f) of the Dutch Civil Code, 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 under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Amsterdam, 6 March 2014
PricewaterhouseCoopers Accountants N.V.

A.G.J. Gerritsen RA

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Notes

Designed and produced by Instinctif Partners **www.instinctif.com**

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