

X5 RETAIL GROUP ANNOUNCES STRATEGIC PARTNERSHIP WITH IIDF

Moscow, 2 February 2017 – X5 Retail Group N.V. (“X5” or the “Company”), a leading Russian food retailer (LSE ticker: “FIVE”), today announces a strategic retail partnership programme with the Internet Initiatives Development Fund (IIDF) to test early-stage innovative projects and implement the best solutions in its business processes.

Under the partnership, the IIDF will set up a special retail track within its accelerator programme to give participating start-ups the opportunity to road-test their business models and multiply their growth. Applications may be submitted by companies offering products and services that can help streamline and improve the traditional shopping experience, personalise customer service, optimise logistics and shopping space layout, and increase conversion rates through synergies between online and offline sales.

Start-up companies completing the IIDF accelerator programme will be able to attract RUB 2 million to RUB 25 million in investment from the fund, and will have access to advice from Russia’s largest food retailer and the opportunity to test their business ideas on X5’s anonymised database of more than 3 billion purchases.

X5 will also launch projects to adopt high-potential start-up solutions in its business processes. Accelerator programme graduates and some mature names from the fund’s portfolio with an established track record will be invited to take part. The key requirement is for start-up products and services to be complementary to X5’s business strategy.

X5 CEO Igor Shekhterman said:

“Working with the IIDF will enable us to test and apply early-stage innovations, and to find new and unconventional solutions to deliver on our own objectives of focusing on operational improvements across the entire chain from suppliers to stores.”

IIDF CEO Kirill Varlamov said:

“Strategic partnership with X5 gives a strong competitive edge to start-ups in IIDF’s portfolio. Working with X5 gives founders access to industry-leading expertise at the very earliest stages, lets them test hypotheses on X5’s big data to deliver a perfect product-market fit, and once the pilot projects are completed will give them a successful case-study of working with Russia’s largest offline retailer.”

Until recently, investments in retail-tech start-ups disproportionately lagged the retail segment’s contribution to GDP worldwide: in 2015, global retail turnover was USD 22.6 trillion, while the traditional retail sector’s investment in start-up solutions has been low for many years. Digitisation unlocks opportunities for retailers to tap into and gain ground in new segments, and to build up competitive strengths and operating performance, and retailers worldwide are increasingly investing in retail-tech start-ups.

According to CB Insights, funding of traditional retail technologies is increasing around the globe, while online shopping technologies are attracting less money. In 2016, in-store investments exceeded projections and exceeded USD 800 million. In the past two years alone, global investments in retail-tech start-ups totaled over USD 2.3 billion, according to research from Tracxn.

Start-up projects providing solutions applicable in retail are increasing in number and technological diversity. In IIDF’s three-year history, the number of start-ups in the fund’s funnel developing products or services that can be successfully adopted by retail already numbers in the thousands, with more than half having applied for investment in 2016.

Self-checkout services to eliminate queues, maximum customisation of the product basket, smart loyalty programmes based on analysis of individual shopping histories using big data and machine learning – these and many other technologies will give retailers more precise insight into individuals’ shopping habits and help them tailor their offerings in terms of product mix and customer experience.

Note to Editors:

X5 Retail Group N.V. (LSE: FIVE, Fitch – ‘BB’, Moody's – ‘Ba3’, S&P – ‘BB-’) is a leading Russian food retailer. The Company operates several retail formats: the chain of proximity stores under the Pyaterochka brand, the supermarket chain under the Perekrestok brand, the hypermarket chain under the Karusel brand and Express convenience stores under various brands.

As of 31 December 2016, X5 had 9,187 Company-operated stores. It has the leading market position in both Moscow and St. Petersburg and a significant presence in the European part of Russia. Its store base includes 8,363 Pyaterochka proximity stores, 539 Perekrestok supermarkets, 91 Karusel hypermarkets and 194 convenience stores. The Company operates 35 DCs and 2,318 Company-owned trucks across the Russian Federation.

For the full year 2015, revenue totalled RUB 808,818 mln (USD 13,268 mln), Adjusted EBITDA reached RUB 59,413 mln (USD 975 mln), and net profit for the period amounted to RUB 14,174 mln (USD 233 mln). In 9M 2016, revenue totaled RUB 739,491 mln (USD 11,443 mln), EBITDA reached RUB 56,361 mln (USD 872 mln), and net profit amounted to RUB 19,874 mln (USD 308 mln).

X5's Shareholder structure is as follows: Alfa Group – 47.86%, founders of Pyaterochka – 14.43%, X5 Directors – 0.06%, treasury shares – 0.01%, free float – 37.64%.

Forward looking statements:

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the fact that they do not only relate to historical or current events. Forward-looking statements often use words such as "anticipate", "target", "expect", "estimate", "intend", "expected", "plan", "goal", "believe", or other words of similar meaning.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, a number of which are beyond X5 Retail Group N.V.'s control. As a result, actual future results may differ materially from the plans, goals and expectations set out in these forward-looking statements.

Any forward-looking statements made by or on behalf of X5 Retail Group N.V. speak only as at the date of this announcement. Save as required by any applicable laws or regulations, X5 Retail Group N.V. undertakes no obligation publicly to release the results of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of this document.

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