X5 Group

2022

ANNUAL REPORT

UNAUDITED

X5Group

Contents

01 Strategic Report

Overview

ABOUT THIS REPORT

X5 Group's 2022 Annual Report complies with UK and Russian Federation listing requirements, as well as the Dutch Corporate Governance Code. This report looks at our performance on a number of different aspects. It provides an analysis of our financial and operating performance, states our strategic goals and gives an overview of our ESG performance and priorities, which are discussed in greater detail in the 2022 Sustainability Report.

Report boundary and scope

This report covers the period from 1 January 2022 to 31 December 2022 and looks at X5 Group's business model and strategy, market and consumer trends, operating and financial performance, environmental, social and governance (ESG) achievements, and the results of key business units.

Key business units include Pyaterochka proximity stores, Perekrestok supermarkets and Chizhik hard discounter stores, as well as Krasny Yar and Slata, two chains in which X5 acquired a 70% stake in 2022. Our key digital businesses include express delivery and Vprok.ru, which operate under the X5 Digital business unit, as well as 5Post, Mnogo Lososya and Food.ru media platform. X5 Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). IFRS financial results in this report are presented according to IFRS 16 as well as old pre-IFRS 16 standards. Significant events after the reporting date are also covered in this report.

Alternative performance measures

Alternative performance measures (APMs) that are not defined or specified under IFRS requirements are also used in this report. These APMs provide important insights into our business performance. A glossary with explanations of how each APM is calculated, why we use it and how it can be reconciled to a statutory measure is provided on pages 73–76.

Assurance

The Supervisory Board, with the support of the Audit and Risk Committee, is responsible for X5 Group's internal controls to provide reasonable assurance against material misstatement and loss.

Materiality

The management of X5 Group determined the material issues to address in this report based on its understanding of stakeholder interests, the economic and competitive landscape in Russia, our business model, risks, and opportunities. Significant financial matters and material non-financial topics are all considered material issues.

The tools used to inform decisions about the material issues facing the Company include internal analysis and reporting mechanisms, market research, external polling and research, as well as feedback received directly from key stakeholders. X5's sustainability strategy, which was developed in line with the United Nations Sustainable Development Goals (UN SDGs) and was approved in 2019, was also used to select the Company's material issues.

Management believes that this report accurately covers how X5 Group interacts with and creates value for its stakeholders.

Financial and non-financial information

X5 Group's financial, operating and ESG performance is reviewed on a regular basis by the Company's management and Supervisory Board. Key areas of the Company's non-financial performance include innovation, consumer safety, environmental impact, investments in local communities, the provision of a safe and enriching workplace for our employees, business conduct, and supplier relationships.

Supervisory Board approval

The Supervisory Board of X5 Group has confirmed it believes this report provides a balanced overview of all material issues concerning the Company's performance for the reporting period, as well as an accurate reflection of its updated strategic goals. The Supervisory Board approved the 2022 Annual Report for publication on 31 May 2023.

Our approach, values and goals

Approach

We are confident that X5 Group can create value for a wide range of stakeholders by continuing to grow as a profitable, sustainable business. We believe that the key to success lies in always putting the customer at the centre of our decision-making, and in offering high-quality modern food retail services both online and offline.

We are the market leader by size, and we aim to use this to drive positive change, strengthening and adapting our offline food retail formats, introducing innovative technologies to power digital services, and promoting good practices such as implementing company-wide programmes to support local communities, creating sustainable packaging standards and increasing the use of renewable energy.

Our sustainability strategy is aligned with the UN SDGs that we have identified as being most relevant to our business: Zero Hunger, Good Health and Well-being, Decent Work and Economic Growth, as well as Responsible Consumption and Production.

Values

Our values provide guidance in our professional life and give us a road map for our decision-making. They help us to better understand one another, achieve success and derive satisfaction from working together. All of X5's business divisions share the same values.

Respect

What does respect mean to us? It means acceptance of different opinions and the ability to establish dialogue and cooperation even when we disagree. It means mutual support and gratitude for assistance and effort.

WHAT THIS MEANS IN PRACTICE

- We show respect when we are involved in discussions, solving problems or providing feedback
- We take into account the interests, opinions and feelings of our colleagues when making decisions and when interacting with one another
- We help our colleagues, going beyond the scope of our responsibilities if necessary

Customer-centric approach

This reflects a sincere desire to help, the ability to put oneself in the place of another person and the willingness to ask what would be better for them, what they would like to receive. We look out for one another, and that helps us do our job right the first time.

WHAT THIS MEANS IN PRACTICE

- We look for solutions that meet the customer's[1] needs
- In any situation, we put ourselves in the position of the customer
- We build long-term relationships with customers

Honesty and integrity

When we speak openly and from the heart. We talk about problems and challenges honestly. We're not afraid to make mistakes; instead, we learn from them. We protect our reputation and that of the Company.

WHAT THIS MEANS IN PRACTICE

- We abide by our agreements
- We give our co-workers information in full
- We have zero tolerance for corruption

Desire for achievement

When we see new opportunities and new growth points in everything we do. When we derive satisfaction from bold, ambitious goals.

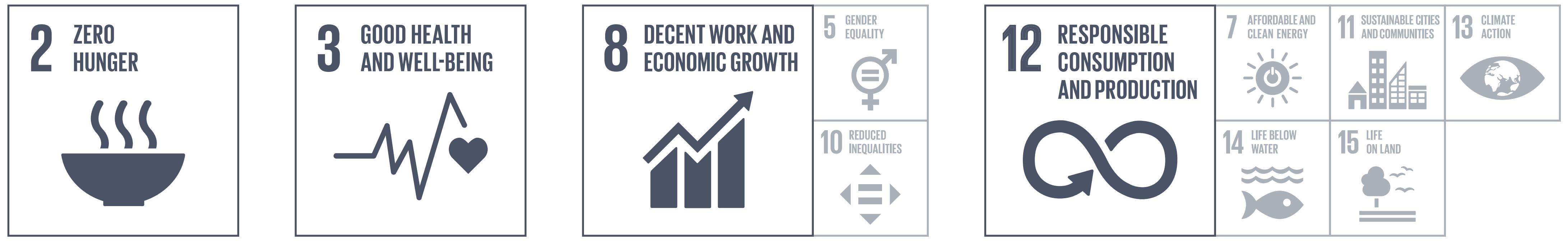
WHAT THIS MEANS IN PRACTICE

- We set ambitious goals for ourselves that require a substantial effort to achieve
- We take responsibility for our actions and do not shift blame onto others
- We commend our co-workers for their achievements and allow them to make mistakes

1 Customers are not just patrons at our stores but also our co-workers.

Sustainability goals

The four core UN SDGs for X5 Group are Zero Hunger, Good Health and Well-being, Decent Work and Economic Growth, and Responsible Consumption and Production. On top of this, we have identified a number of secondary goals that our business contributes to: Gender Equality, Affordable and Clean Energy, Reduced Inequalities, Sustainable Cities and Communities, Climate Action, Life Below Water, and Life on Land.



The larger boxes indicate our primary goals; the smaller boxes – our secondary goals

With these focus areas in mind, the Supervisory Board has approved a detailed set of targets for 2023, as well as a set of ambitious "30×30" goals that we aim to reach by 2030.

PLANET

30%
Reduction in GHG emissions (Scope1+Scope2) intensity per sqm of selling space compared with 2019

30%
Share of renewable energy used in X5's operations

30%
Reduction in ratio of waste generated to retail sales compared with 2019

COMMUNITIES

30%
Increase in the number of families receiving Basket of Kindness support per year

HEALTH

Promotion of responsible programmes and principles across the supply chain

Expansion of healthy lifestyle assortment

EMPLOYEES

#1
Employer in ranking of Russian food retailers

Organization of a safe, healthy workplace for all employees

2022 key highlights

We successfully weathered a turbulent market environment in 2022 thanks to our outstanding performance doubling down on the strengths of X5's core business. X5 Group continues to succeed – even as competition increases from online and some niche players as well as new formats like hard discounters.

+18.2% y-o-y

2,605 RUB BLN

Revenue

2022 financial and operating highlights

+2,202
Net new stores

+10.8 %
Like-for-like sales
y-o-y

7.2 %
EBITDA margin
pre-IFRS 16

70.4 RUB BLN
Digital business sales
+46.6% y-o-y

1.02 x
Net debt/EBITDA
pre-IFRS 16 as at 31 December 2022

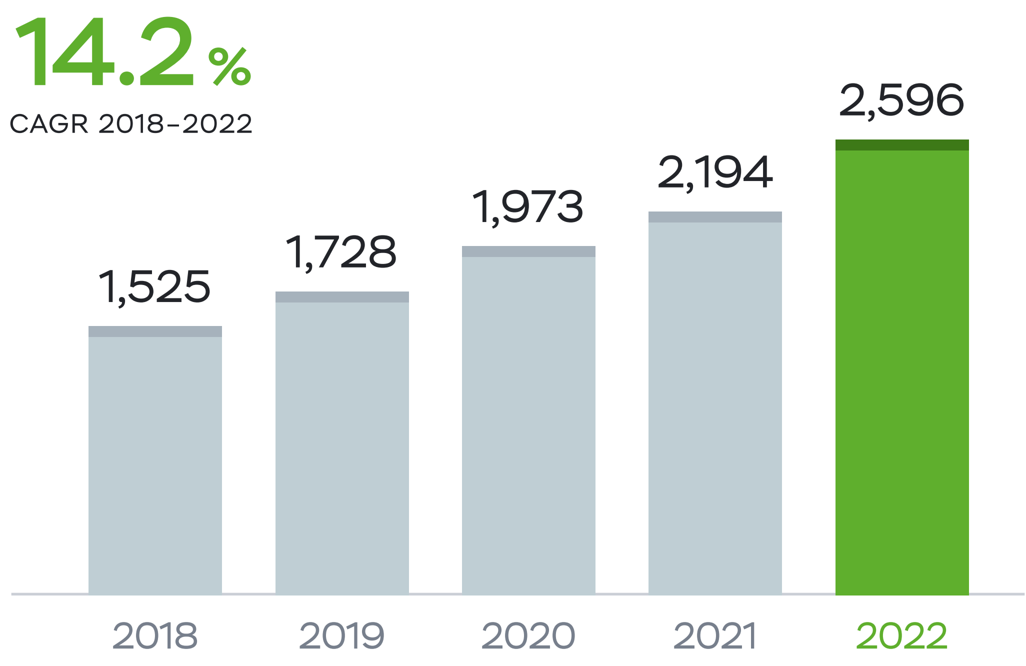
35.9 MLN
Orders delivered by online businesses[1]
+45.6%

1 Including express delivery, Vprok.ru and Mnogo Lososya.

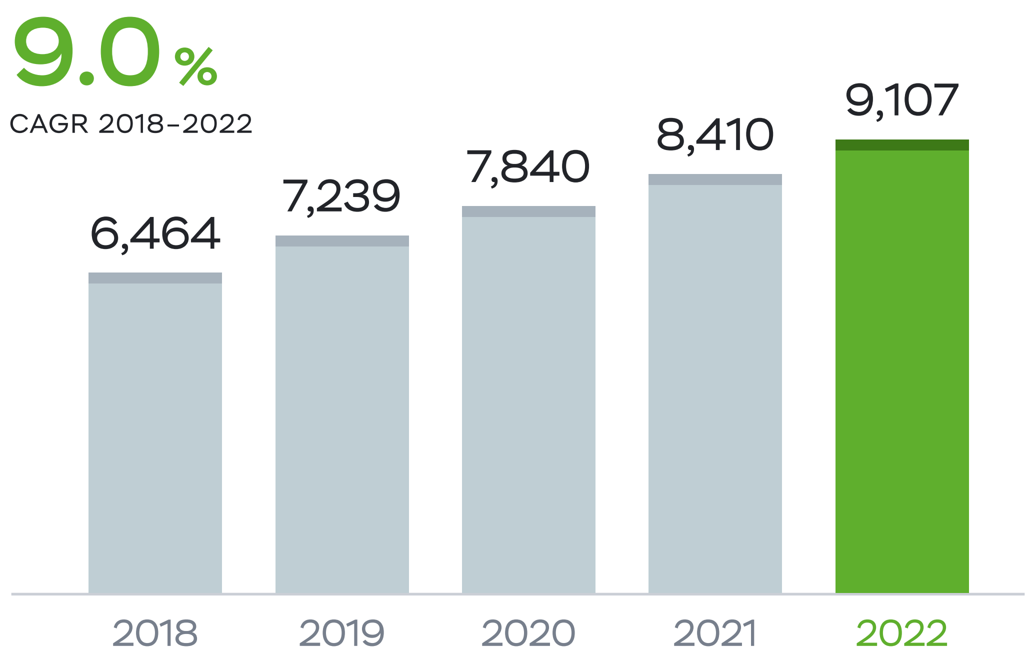
2022 operating and financial performance overview

Operational highlights

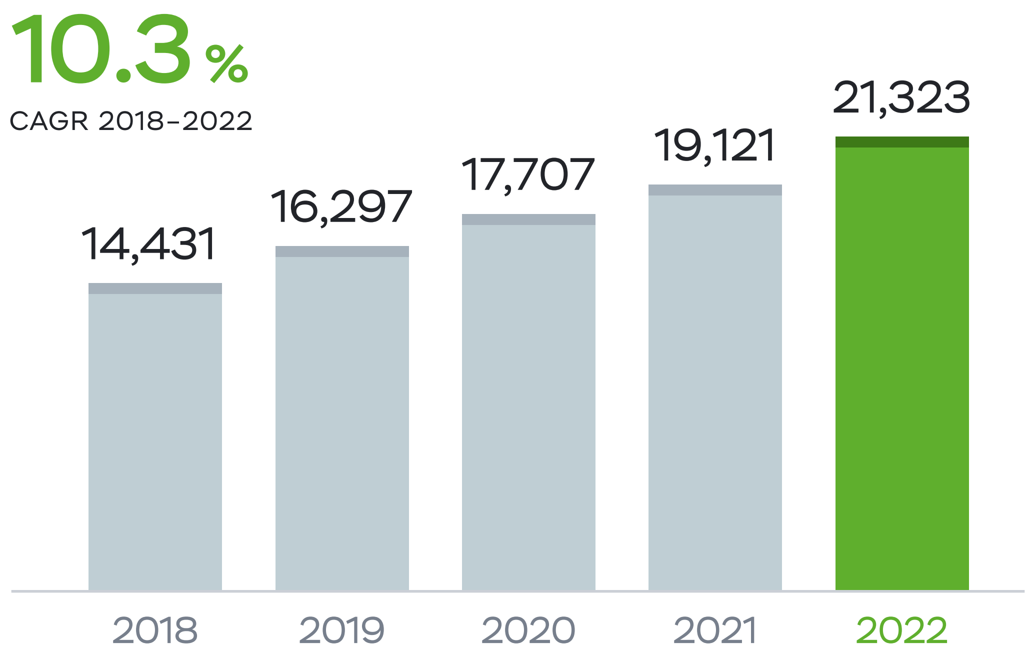
Net retail sales, RUB bln



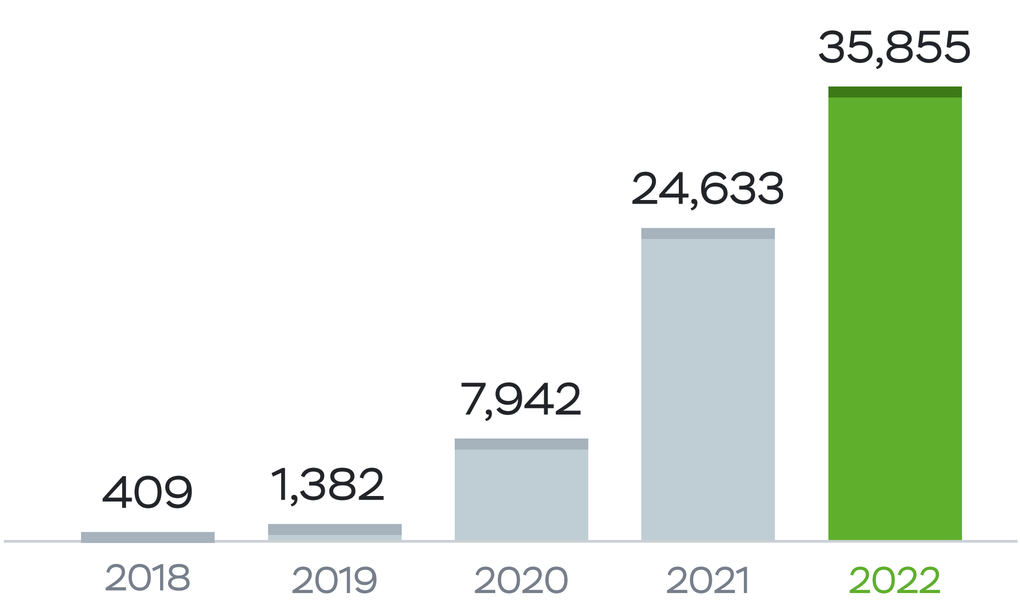
Selling space,[1] ths sqm



Number of stores[1]

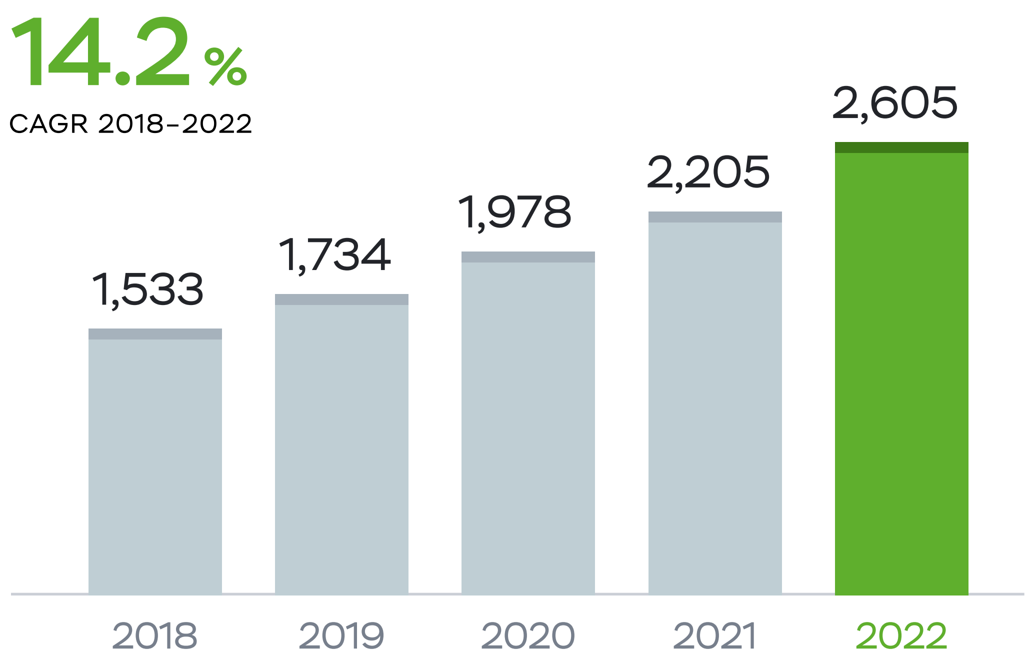


Number of orders in online businesses, ths

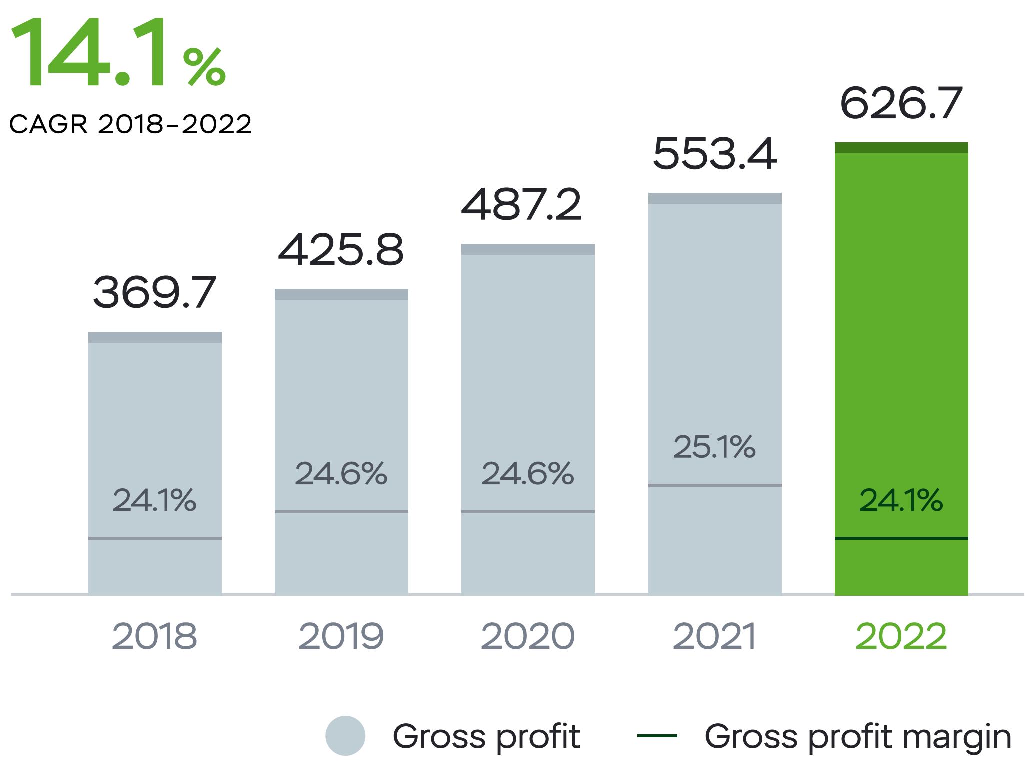


Financial highlights (pre-IFRS 16)

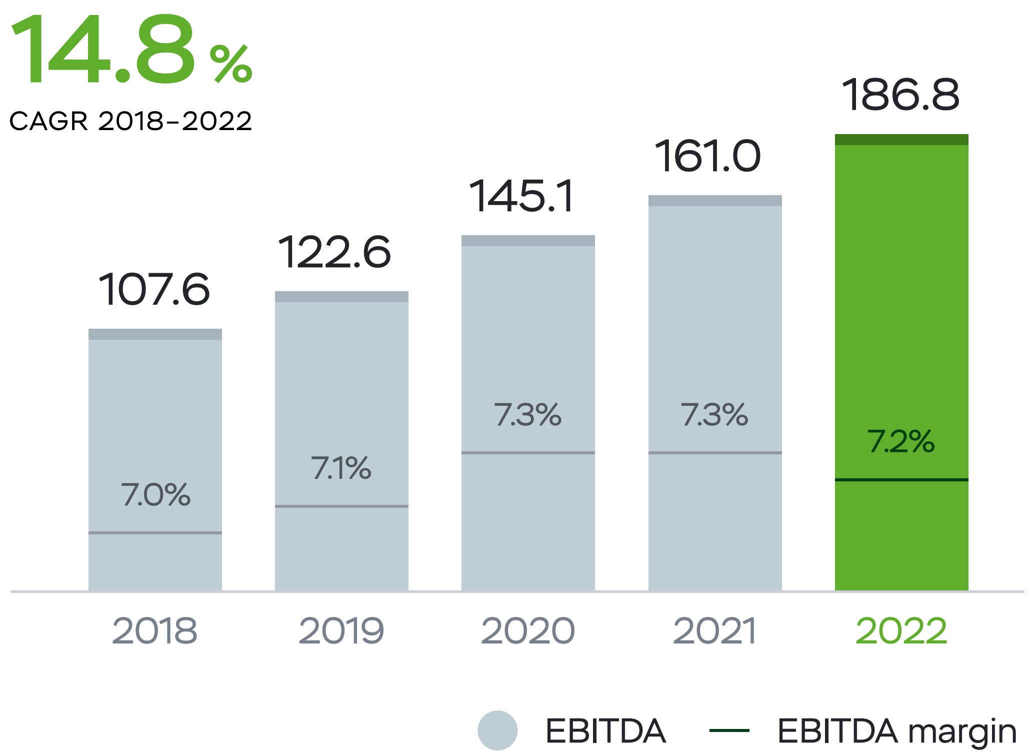
Revenue, RUB bln



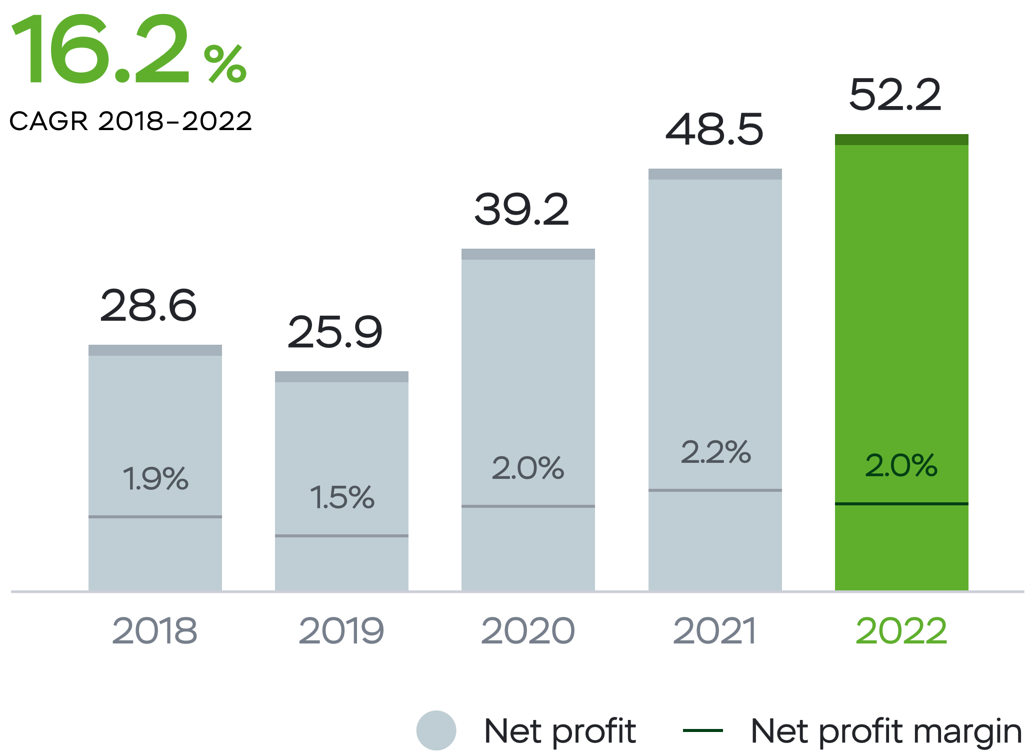
Gross profit, RUB bln



EBITDA, RUB bln



Net profit, RUB bln



1 As at 31 December.

Business model

Our business model is built to unlock value for all stakeholders, from suppliers to the Corporate Centre, to our offline operations and digital businesses. In today's highly volatile and challenging market, it is vital to secure an efficient and effective business model at all stages, and to maintain a constant focus on delivering the very best for consumers.

The management and operations of our offline and online businesses are decentralised to enable the greatest possible degree of agility in responding to customer needs, while also leveraging the advantages of scale in terms of purchasing power, IT and digitalisation, as well as some synergies in logistics.

In terms of logistics, we run our own operations, with centralised supply to stores from Company-operated distribution centres standing at 95.5% in 2022.

Suppliers

All throughout 2022, we continued to develop our approach to planning and collaboration with our suppliers, maintaining our product range and stock levels, and boosting supply chain management performance.

5,184
Suppliers

31 %
Share of top 30 suppliers in revenue

Corporate Centre

X5 Group's Corporate Centre manages shared business infrastructure like Business Support, X5 Technologies and Security functions. Overall strategic guidance and sharing best practices are also handled by the Corporate Centre.

Offline businesses

X5's retail chains are set up to tap our unique CVP in each of the market segments where we operate. Pyaterochka proximity stores target customers who look for value, quality and convenience. Perekrestok supermarkets offer a compelling shopping experience with a greater product range, high level of customer service and ready-to-eat meals. Chizhik, as a hard discounter, is growing aggressively and is winning over customers who are especially price sensitive.

19,164
Pyaterochka proximity stores in 67 regions

971
Perekrestok supermarkets in 46 regions

517
Chizhik hard discounter stores in 13 regions

12
Karusel hypermarkets

Digital businesses

EXPRESS DELIVERY

29 MLN total orders

64 regions

44 dark stores

We continued to be one of the leading players in the market in 2022 thanks to our broad and loyal customer base and X5's ability to quickly roll out our tailored technology solutions. The express delivery service was available from 4,480 stores (3,672 Pyaterochka stores and 808 Perekrestok supermarkets) as well as 44 dark stores covering 64 regions in 2022.

VPROK.RU

5.3 MLN total orders

55 regions

3 dark stores

Vprok.ru is our online hypermarket that offers customers looking to stock up on groceries and FMCG products delivery straight to their doorstep, or in some cases to a nearby 5Post pickup point. The hypermarket offers customers same-day or next-day delivery in its core markets, with service to a wider geography supported by 5Post.

MNOGO LOSOSYA

1.5 MLN total orders

56 dark kitchens

235 cafe points

Mnogo Lososya is a digital service encompassing a network of dark kitchens and cafe points serving ready-to-eat food.

5POST

>300 commercial partners

35 sorting facilities

Almost **24,000** pickup points, including **~5,700** parcel lockers

5Post is X5's last-mile delivery service for Russian and international e-commerce platforms. The business delivers goods to parcel lockers and pickup points operated either by 5Post or by X5 retail staff directly at the checkout in Perekrestok and Pyaterochka stores. Thanks to our extensive nationwide retail infrastructure, 5Post has been able to scale up a low-cost, high-quality service that augments our core businesses by attracting more traffic to stores while also generating additional revenue.

FOOD.RU MEDIA PLATFORM

11 MLN MAUs

Food.ru inspires and informs customers as they discover and plan their food shopping. With recipes and advice, as well as integration with X5 services like Vprok.ru and express delivery, Food.ru provides a seamless entry point to X5's omnichannel shopping experience.

Supply chain infrastructure

Efficient and reliable logistics operations, including optimal inventory levels throughout the supply chain, are critical to delivering the quality products and assortment that our customers expect across our operations, both in offline and online. We are improving operations with advanced route planning technologies and driver awareness monitoring systems, while also leveraging our extensive infrastructure to build new businesses like 5Post, a last-mile parcel delivery service.

4
Direct import hubs

4,386
Company-owned trucks

53
Distribution centres to support offline stores

47
Dark stores to support digital businesses

Our formats

X5's retail chains are set up to tap our unique CVP in each of the market segments where we operate. Our core proximity format – Pyaterochka – targets customers looking for value, convenience and quality at affordable prices. The stores under the Perekrestok banner offer a more vibrant and exciting shopping experience via a wider and unique assortment, superior service proposition, and ready-to-eat food, something that enjoys a strong level of demand in large metropolitan areas. Our newly developed hard discounter, Chizhik, focuses on a rapidly expanding market segment, growing aggressively and winning over the most value-conscious of our customers.

We continue to expand our presence in the e-grocery space: our digital businesses leverage the extensive scale of our operations to further ensure we can be at every stage of the customer journey.

Pyaterochka

Pyaterochka operates conveniently-located proximity stores and is Russia's largest food retailer on a stand-alone basis, with 19,164 stores as at 31 December 2022 and net retail sales of RUB 2.1 trillion for FY 2022. The first Pyaterochka was opened in 1999, and today it has stores spanning 67 regions of Russia. The format's main focus is on being Russia's trusted source for affordable and high-quality food. Pyaterochka served on average 15.1 million customers every day in 2022 and was named the most loved brand among grocery stores by consumers in Russia.

19,164
Number of stores
+6.6% y-o-y

7,497 THS SQM
Selling space
+6.4% y-o-y

2,123 RUB BLN
Net retail sales
+18.3% y-o-y

81.8 %
Share of X5 Group's net retail sales

Perekrestok

Perekrestok is the largest supermarket business in Russia, with 971 stores as at 31 December 2022 and net retail sales of RUB 385 billion for FY 2022. Perekrestok was also Russia's first supermarket chain, established in 1995. Perekrestok offers customers a unique assortment and service and served on average 1.8 million customers every day in 2022.

971
Number of stores
–1.9% y-o-y

1,085 THS SQM
Selling space
–1.2% y-o-y

385 RUB BLN
Net retail sales
+10.5% y-o-y

14.8 %
Share of X5 Group's net retail sales

Chizhik

Chizhik is X5 Group's new hard discounter format and operated 517 stores as at 31 December 2022, with net retail sales of RUB 35.9 billion for FY 2022. The new "every day low price" (EDLP) concept focuses on a limited assortment of essential goods. This customer engagement has helped foster trust in the new low-price brands. Chizhik served on average 178 thousand customers every day in 2022.

517
Number of stores
7x growth y-o-y

152 THS SQM
Selling space
7x growth y-o-y

35.9 RUB BLN
Net retail sales
12x growth y-o-y

1.4 %
Share of X5 Group's net retail sales

Digital businesses

Our digital businesses continue to grow at a rapid pace, making a vital contribution to overall revenue, as well as customer acquisition and retention.

X5 Digital

Express delivery

Express delivery operations were launched in late 2019. The service offers delivery from local Perekrestok and Pyaterochka stores or dark stores within 40–60 minutes. Starting in 2022, the service has also been available on express delivery service aggregators, and has been available from 4,480 Perekrestok and Pyaterochka stores as well as 44 dark stores in 64 regions across Russia. The service handled a total of 29.1 million orders during FY 2022, with peak days seeing up to 152 thousand orders, 1.3x growth year-on-year.

Vprok.ru

Vprok.ru is an online hypermarket that aims to tap into demand from customers looking to stock up on groceries and FMCG from the comfort of their own home. With three large dark stores as at 31 December 2022, Vprok.ru handled 5.4 million orders in FY 2022, 14.4% growth year-on-year.

5Post

5Post is a last-mile delivery service launched in 2019 that enables e-commerce providers and other X5 digital businesses to deliver goods to parcel lockers, tobacco sales desks and/or pickup points located at X5 stores. As at 31 December 2022, 5Post encompassed 23.9 thousand pickup points in 18.4 thousand locations across 64 regions of Russia, delivering a total of 26 thousand orders during FY 2022.

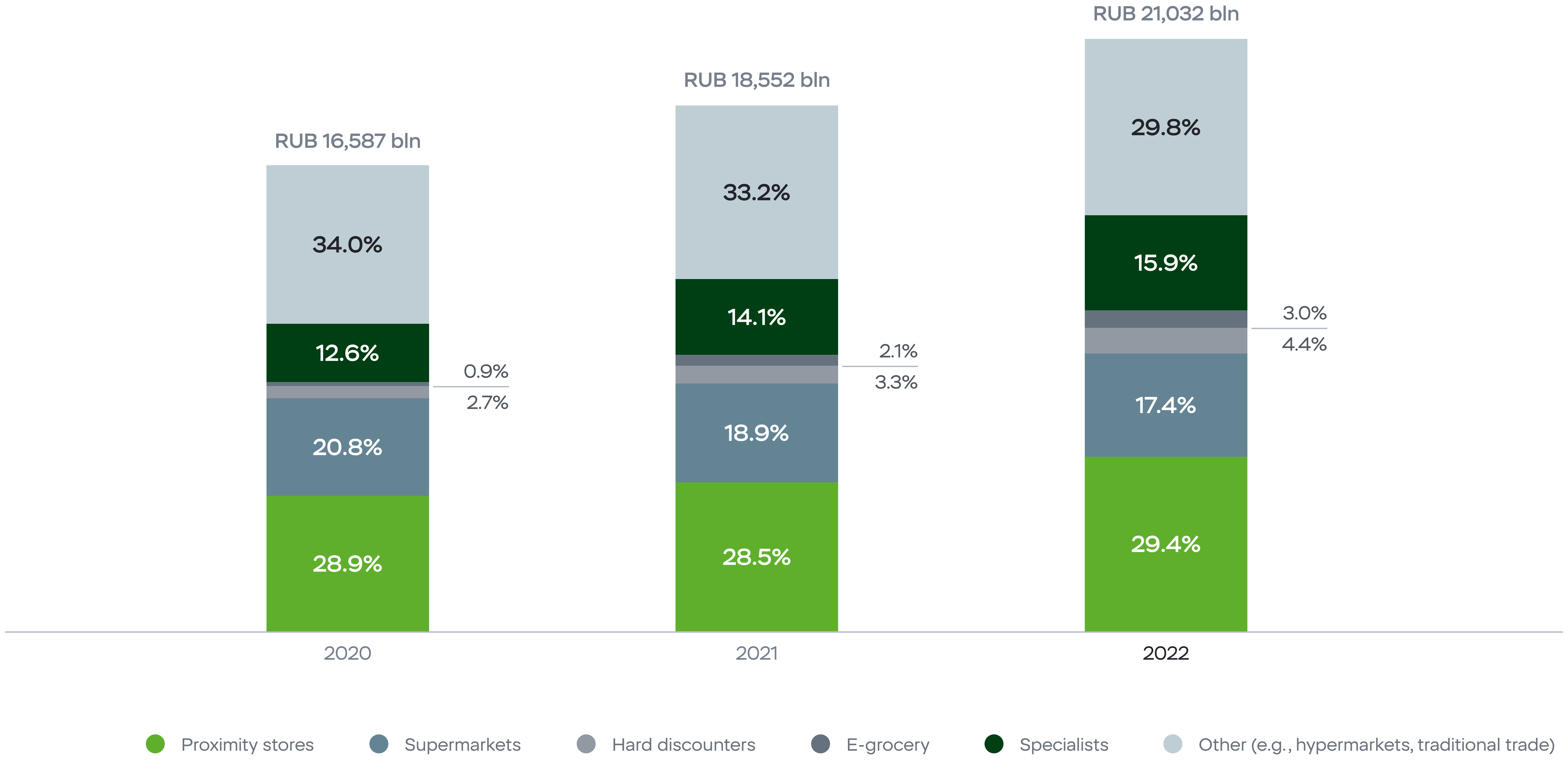
Mnogo Lososya

Mnogo Lososya operates a network of dark kitchens and sushi points at Perekrestok stores. It joined X5 Group in 2021. With 56 dark kitchens (including four franchisees) Mnogo Lososya handled 1.5 million orders in FY 2022 and its total GMV (including sushi points at Perekrestok stores) reached RUB 4.1 billion, 2.8x growth year-on-year.

Russia's food retail market

The Russian food market reached RUB 21.0 trillion in 2022. Over the past two years, the fastest growth was seen in the hard discounter, specialists and e-grocery segments, where we are aggressively growing our business.

Russian food retail market development



X5's position in a changing market

We are the #1 player in the proximity and supermarket segments – our two traditional formats – and X5 Group is the absolute leader in Russia's overall food market. We are also one of the top players in e-grocery. In the hard discounter segment, we are rapidly scaling up the operations of Chizhik, which has shown promising results.

#1
Player with a 13.2% market share in FY 2022

12 x
Hard discounter format revenue growth

69.3 MLN
Active loyalty card users

46.6 %
Digital business revenue growth

Food market trends in 2022

Decreasing real incomes

Consumers increasingly seek value

Growing popularity of hard discounters

Share of online purchases continues to grow

Customers actively switch to private labels as FMCG brands leave the market

Increasing demand for ready-to-eat products

Consumer behaviour continued to evolve in 2022 as a decrease in households' real disposable income paved the way for more rational food shopping and trading down. Price sensitivity rose noticeably and triggered an influx of new customers into the hard discounter segment.

At the same time, the ongoing digital transformation of the economy is driving further rapid growth of online services and the e-grocery business in particular. The share of online food sales continues to grow apace across the retail industry and its major players.

Russian consumers are noticeably switching to private labels as several global FMCG brands have cut or paused operations in Russia. The share of ready-to-eat food is also growing, partially replacing customer spending at HoReCa.

X5 vs Russian food retail in top-line growth

Source: INFOLine, X5 data

In total, X5's formats are present in what accounts for over 50% of the market today.

Top 10 Russian food retailers, % market share

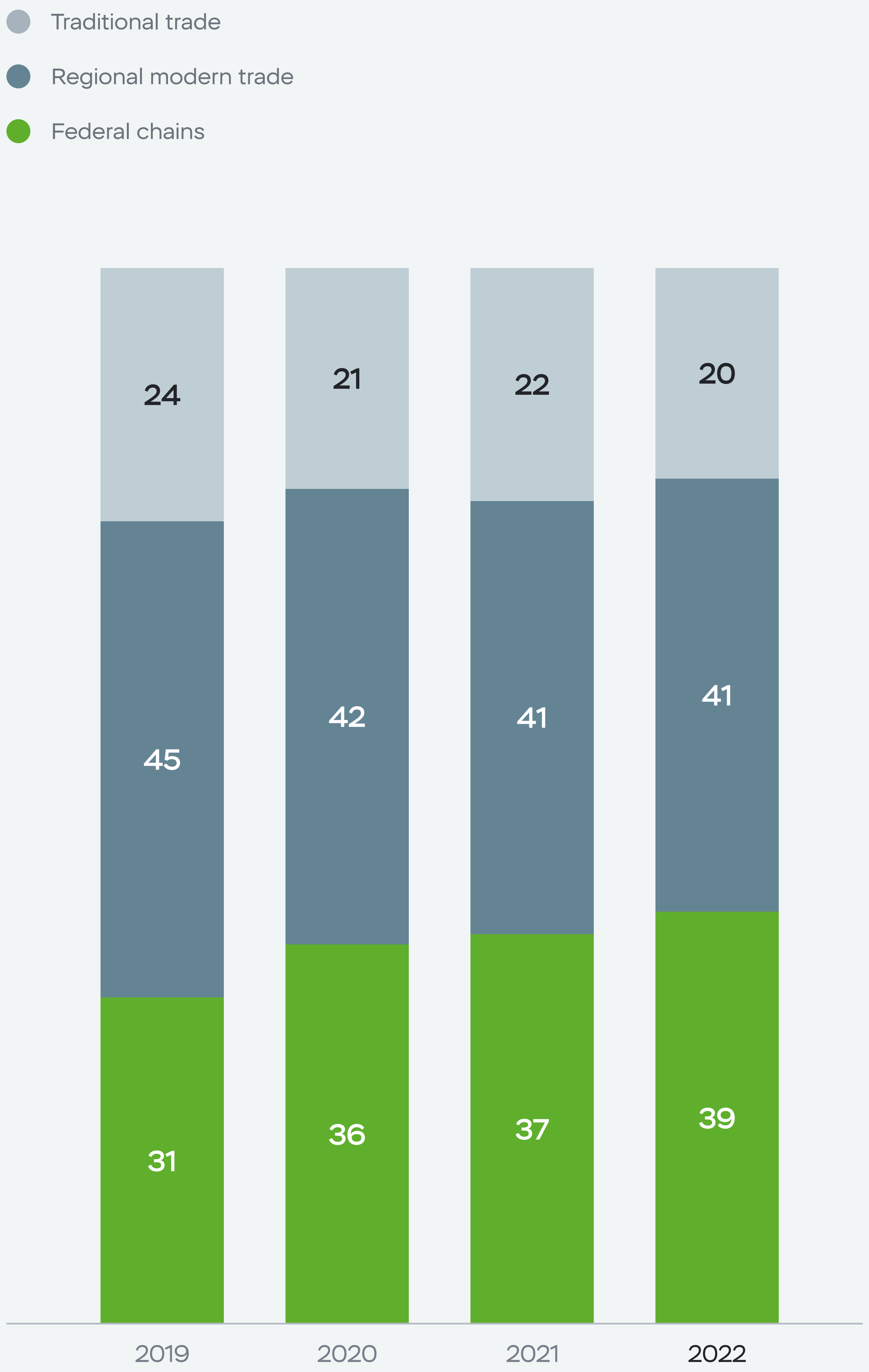
		2021	2022
1	X5 Group	12.6%	13.2%
2	Magnit	9.4%	10.6%
3	Mercury Retail Group	5.7%	5.6%
4	Lenta	2.3%	2.2%
5	Svetofor	1.5%	1.9%
6	Auchan	1.3%	1.2%
7	Vkusvill	1.0%	1.1%
8	O'KEY	1.0%	1.0%
9	METRO	1.1%	1.0%
10	Monetka	0.8%	0.8%
TOTAL TOP 10		36.7%	38.5%

Top 10 Russian online food retailers, % market share

		2021	2022
1	SberMarket	13.7%	14.1%
2	Vkusvill	11.6%	12.8%
3	Samokat	10.5%	12.4%
4	X5 Group	12.7%	10.7%
5	Ozon	7.9%	9.3%
6	Wildberries	7.7%	9.2%
7	Yandex.Lavka	6.7%	6.1%
8	Lenta	2.4%	4.8%
9	Delivery Club	3.3%	4.7%
10	Azbuka Vkusa	0.8%	0.6%
TOTAL TOP 10		77.3%	84.6%

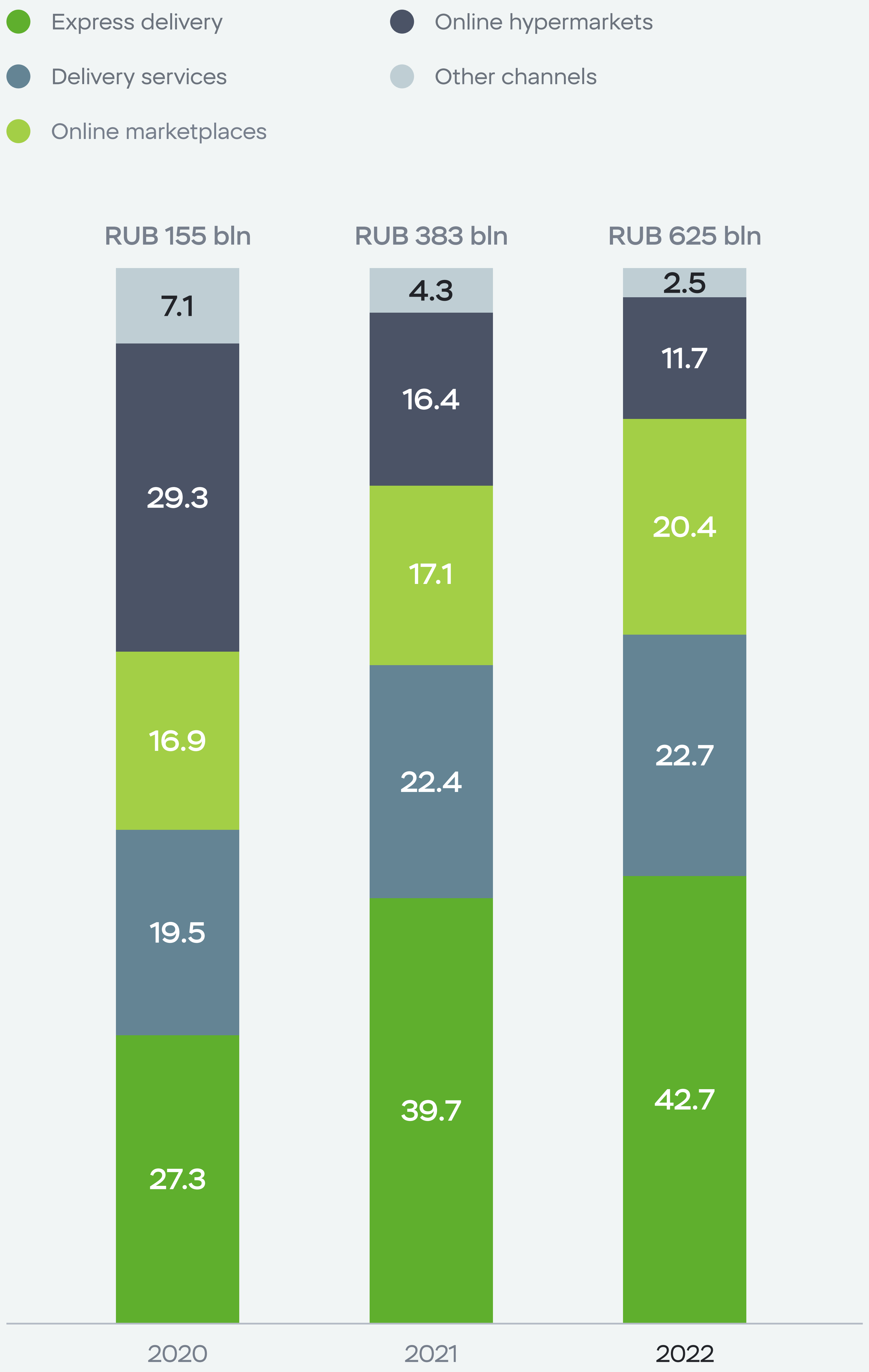
Source: INFOLine

Russian grocery retail market dynamics, %



Source: INFOLine

E-grocery market development, %



Trends in the economy and consumer behaviour

According to preliminary estimates, GDP fell 2.1% in 2022. Average annual inflation rose from 6.7% to 13.8% over the year, with food inflation up from 8.4% to 14.9%. Growth in nominal wages remained unchanged from 2021 at about 12%. Consumer activity slowed on the back of a decline in real disposable income due to rising prices and weaker consumer sentiment. Consumer lending decreased from 25% to 9.5%. The average annual RUB/USD exchange rate was 68.5 in 2022, compared with 73.7 a year earlier.

The labour market remained strong throughout the year. Unemployment steadily declined to 3.7% in 2022, driven by decrease in workforce and growth in demand for labour in most professions. The industries with the strongest demand for workers have not changed compared to 2021: construction, trade and transport. The financial sector also saw a labour shortage due to decreased labour force supply on the market.

The fall in real disposable income had an impact on the food retail market in 2022. Food retail trade turnover decreased by 2.5% in real terms, following a 1.4% drop in real disposable income. Nominal market volumes increased by 13.4%. Rising prices and falling real disposable incomes have strengthened the trend towards rational consumption. The trend towards cutting back has led to a shift in the format mix of food chains. Consumer focus has switched from supermarkets and hypermarkets to more affordable shopping at convenience stores and hard discounters, with growth in the latter segment up more than 50%.

The sharp rise in prices in the first half of the year was a key driver behind the fall in household income. The subsequent strengthening of the exchange rate, the recovery of fruit and vegetable production and a bumper grain harvest led to a steady slowdown in food inflation.

Selected macroeconomic data

Russian macroeconomic indicators, year-on-year comparison, %	Q1	Q2	Q3	Q4	2021 FY	Q1	Q2	Q3	Q4	2022 FY
Real GDP	(0.3)	10.5	4.0	5.0	**5.6**	3.5	(4.1)	(3.7)	(3.4)	**(2.1)**
RUB/USD exchange rate, weighted average for the period	74.3	74.2	73.5	72.6	**73.6**	84.7	66.0	59.4	62.3	**68.1**
CPI	5.6	6.0	6.8	8.3	**6.7**	11.5	16.9	14.4	12.2	**13.8**
Food inflation	7.4	7.3	8.1	10.8	**8.4**	13.5	19.5	15.6	11.2	**14.9**
Real wage growth	1.6	5.5	2.0	2.8	**4.5**	3.1	(5.4)	(1.9)	(1.1)	**(1.2)**
Real income growth	(3.3)	8.4	8.1	1.4	**3.8**	(1.6)	(2.2)	(2.5)	0.4	**(1.4)**
Unemployment rate	5.6	4.9	4.4	4.3	**4.8**	4.2	4.0	3.8	3.7	**3.9**
Nominal retail trade turnover	6.0	33.3	14.7	14.8	**16.5**	17.2	7.9	5.2	2.3	**7.7**
Nominal food retail trade turnover	4.9	16.6	12.1	13.8	**11.8**	16.6	17.1	13.2	8.0	**13.4**

Source: Rosstat, Bank of Russia

Legislative changes

Regulations	Relevant changes in legislation	Effective data
Labelling rules for alcoholic and tobacco products	Administrative liability was increased for the following: • The production of alcoholic products; the production and sale of tobacco products that partially do not comply with labelling and other information requirements • The sale of alcoholic and tobacco products without mandatory labelling or other information For more details, see Federal Law No. 2-FZ dated 28 January 2022	8 February 2022
Labelling rules for bottled water	The requirement for sellers, manufacturers and importers to submit information on retail sales of bottled water to the labelling system was postponed until 1 March 2023. For more details, see Resolution of the Russian Government No. 477 dated 26 March 2022	30 March 2022
Lifting COVID-19 restrictions	Russia lifted its previously introduced COVID-19 restrictions, such as the following: • Mandatory face coverings in public places • Mandatory social distancing • Movement restrictions, including lockdown measures • A ban on mass gatherings • Sick notes for people self-isolating • A mandatory 14-day quarantine for foreign nationals and stateless persons arriving in Russia for work For more details, see Resolution of the Russian Chief Sanitary Doctor No. 18 dated 20 June 2022	2 July 2022

Legislative changes

Regulations	Relevant changes in legislation	Effective data
Requirements for submitting advertising data to the Federal Service for Supervision of Communications, Information Technology and Mass Media (Roskomnadzor)	The data should be submitted to Roskomnadzor via an advertising data operator. The adopted provisions expanded the requirements for advertising market participants to submit information to the single internet advertising information system introduced on 1 September 2022 (Article 18.1 of the Law On Advertising). For more details, see Federal Law No. 286-FZ dated 14 July 2022	14 July 2022
The EAEU technical regulations on alcoholic products	The expiry date for the transitional provisions of the EAEU technical regulations on alcoholic products was postponed. The conformity assessment documents on alcoholic products adopted before the technical regulations come into force (1 January 2024) are effective until the end of their expiry period but no later than 1 January 2027. Should such documents be adopted, alcoholic products may be manufactured and sold until that date. During this period, the CIS countries may also manufacture and sell products that are not subject to mandatory conformity assessment before the technical regulations come in effect, without such documents and national conformity marks. For more details, see Resolution of the Board of the Eurasian Economic Commission No. 99 dated 13 July 2022	19 August 2022
Changes in the Law On Personal Data	Data consent requirements were expanded. Requirements for providing biometric data were changed. Service may no longer be denied if a data subject refuses to provide biometric personal data and/or give consent to data processing, unless, in line with the Federal Law, the data controller must obtain consent to personal data processing. Data controllers and processors now bear joint liability for personal data processing by foreign individuals and legal entities. Data controllers must now immediately report incidents involving their own databases containing personal data to the authorities and ensure data is continuously exchanged with GosSOPKA.[1] For more details, see Federal Law No. 266-FZ dated 14 July 2022	1 September 2022

1 GosSOPKA is the state system of detecting, preventing and responding to cyberattacks.

Legislative changes

Regulations	Main legislative amendments	Effective data
Amendments to the Labour Code of the Russian Federation regarding electronic document management	The Russian Public Services Portal can now be used to exchange documents between employers and employees. On the Portal, job seekers and employees will be able to fill in, electronically sign and send personnel record forms. All electronic personnel records can be found both in the employee's personal account on the Portal and in the organisation's information system. For more details, see Resolution of the Russian Government No. 1192 dated 1 July 2022	1 September 2022
Labelling alcoholic products imported into Russia	From 1 June 2021 to 31 May 2024, the city of Moscow, as well as the Bryansk and Vladimir Regions are trialling the labelling procedure for alcoholic products imported into Russia and stored in bonded warehouses. For more details, see Resolution of the Russian Government No. 1567 dated 6 September 2022	14 September 2022
Requirements for the storage of alcoholic and alcohol-containing products in warehouses were softened	Alcoholic products may now be stored together with any other goods (except for perishables), subject to zoning requirements. These requirements include keeping aisles between zones and having warehouse plans that reflect the zones approved by the head of the organisation. For more details, see Order of the Russian Ministry of Finance No. 133n dated 1 September 2022	11 October 2022
Amendments to dairy labelling rules	Until 31 May 2025 (inclusive), dairy supply chain participants must report the delivery (acceptance) of products subject to labelling by preparing a UTD,[1] signed with advanced electronic signatures by both supplier and customer; within three business days of the acceptance date, a relevant notification will appear in the system. From 1 June 2025, dairy supply chain participants must report products subject to labelling by preparing a UTD, signed with advanced electronic signatures from both supplier and customer; within three business days of the acceptance date but no later than the transfer of products to third parties, a relevant notification will appear in the system. For more details, see Resolution of the Russian Government No. 1733 dated 30 September 2022	31 October 2022

1 Universal Transfer Document.

Legislative changes

Regulations	Relevant changes in legislation	Effective data
Alcoholic products from certain brands were added to the list of goods allowed for parallel import into Russia	The Russian Ministry of Industry and Trade expanded the list of goods allowed for parallel import into Russia to include alcoholic products from certain brands. Imports of such products into Russia are now legal, subject to the following conditions being met: • The trademark holder is the same in Russia and the country where the product was first marketed • The product was first marketed by or with the consent of the trademark holder and is original (not counterfeit) • The supply contract provides for a penalty (fine) and indemnification of losses in the event the supplier's guarantees about the legal first marketing of the product by the trademark holder – or with their consent – or the originality of the product imported to Russia are found to be invalid For more details, see Order of the Russian Ministry of Industry and Trade No. 4456 dated 20 October 2022	3 November 2022
Labelling requirements for e-cigarettes and e-liquids	E-cigarettes and e-liquids are subject to mandatory labelling. The rules apply to disposable e-cigarettes and e-liquids contained in capsules or cartridges. On 15 December 2022, the mandatory registration of manufacturers and importers in the Chestny ZNAK track and trace system began. From 25 December 2022, labelling became mandatory for manufacturers and importers. On 1 March 2023, the registration of wholesalers and retailers in the Chestny ZNAK system will commence. From 1 April 2023, retailers and wholesalers will be required to submit labelled e-cigarettes sales data to Chestny ZNAK. From 1 December 2023, sales of unlabelled goods will be prohibited. For more details, see Directive of the Russian Government No. 3680-r dated 30 November 2022	15 December 2022

Legislative changes

Regulations	Relevant changes in legislation	Effective data
Cancelling certain display requirements for retail sale of wine, cognac and brandy	Retailers no longer have to separately display wines produced or registered in the EGAIS (the state track and trace system for alcoholic products) before or after 26 June 2020. The same applies to cognac and brandy produced before or after 2 July 2021. For more details, see Federal Law No. 633-FZ dated 29 December 2022	1 January 2023
Clarification of the procedure for licensing alcoholic products	The law stipulates that in the event of any breaches, the licensing authority will send the licence applicant a notice requiring them to correct the breaches within 30 days. Such breaches include the following: • Tax arrears over RUB 3,000 as at the first day of the month of application that were still outstanding by the date the information from the tax authority was received • Fines related to alcohol sales discrepancies according to SIS SMP[1] that were still outstanding as at the first day of the month of application • An incomplete set of documents or misleading information • No information about the applicant in the Unified State Register of Legal Entities The licence applicant may request another inspection by the licensing authority after correcting any breaches within a specified period. For more details, see Federal Law No. 329-FZ dated 14 July 2022	1 March 2023

1 The State Information System of Government and Municipal Payments.

Legislative changes

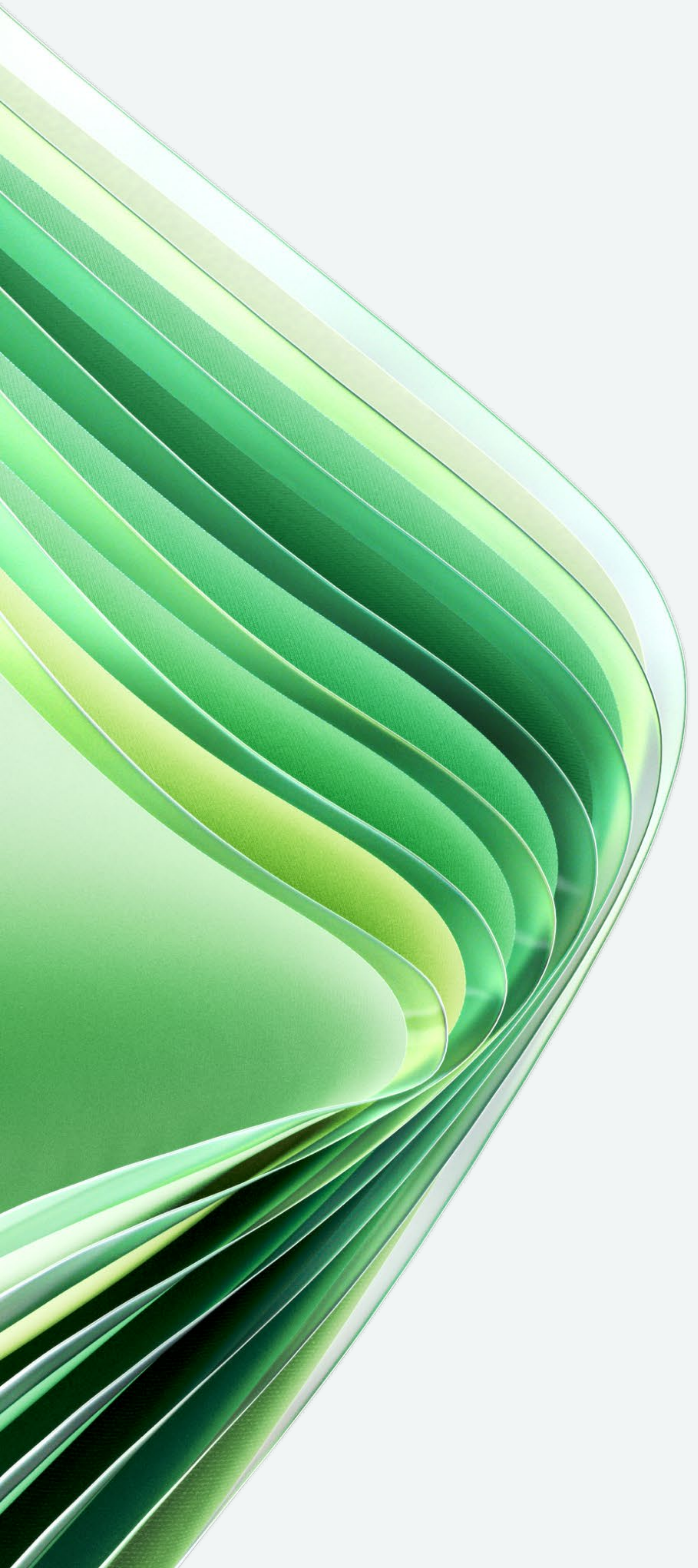
Regulations	Relevant changes in legislation	Effective data
Mandatory beer labelling	From 1 April 2023, labelling will be mandatory for products in kegs; this will extend to drinks in glass or plastic consumer packaging from 1 October 2023 and to goods in other types of consumer packaging from 15 January 2024. Manufacturers and importers may submit information, in particular about marking goods, from 1 March 2023, and must do it starting from the date mandatory registration is launched. Retailers may submit data on sold drinks to the system from 1 March 2023 and must do it starting from the following dates: • 15 January 2024 – for data on the partial sale of products in kegs when sold by the measure • 1 June 2024 – for data on drinks sold in consumer packaging For more details, see Resolution of the Russian Government No. 2173 dated 30 November 2022	1 March 2023
New rules for filling in a vehicle trip ticket	In line with the new rules, the format of a vehicle trip ticket may now be electronic. The paper format remains acceptable. The new vehicle trip ticket will contain information about its validity period, the person who issued it, vehicle, driver(s), mode of transport, and destination type. All notes in electronic trip tickets require a qualified or non-qualified advanced electronic signature. If an electronic trip ticket is used when accepting cargo, the carrier (driver) must send the shipper confirmation that the vehicle trip ticket is electronic, as well as its details, through the operator of the electronic shipping document system. For more details, see Order of the Russian Ministry of Transport No. 390 dated 28 September 2022	1 March 2023

Legislative changes

Regulations	Relevant changes in legislation	Effective data
New excise tax on sugar-containing drinks	A new excise tax was set at RUB 7 per litre of sugar-containing drinks. Sugar-containing drinks in consumer packaging that contain sugar (glucose, fructose, etc.), sugar syrup and honey became liable for excise. The carbohydrate content in the nutritional value of such drinks must exceed 5 g per 100 ml, but the volume percent of ethanol must be 1.2% or lower. The following drinks are not categorised as sugar-containing drinks: • Alcoholic products containing over 0.5% alcohol by volume; grape-, fruit-, honey-, grain-, and other must- and wort-based drinks; and fermented fruit juices and kvass containing less than 1.2% of alcohol • Food products state-certified to Eurasian Economic Union standards, except for tonic drinks and carbonated beverages • Juice, mors, syrup, milk and milk products, kissel, or other plant-based drinks made from cereals, grains, pulses, oil plants, coconuts, nuts, or products thereof, except for tonic drinks and carbonated beverages For more details, see Federal Law No. 443-FZ dated 21 November 2022	1 July 2023
Labelling of organic products	Importers may only use the word “organic” or derivatives thereof on a product label if they have a relevant certificate of conformity – a document confirming that production was compliant with national and international organic standards. The certificate is issued after verification by dedicated certification bodies accredited by the Federal Service for Accreditation (RusAccreditation), such as the Russian System of Quality (RusQuality), among others. Organic producers must mark their products with the standard organic label logo approved by the Russian Ministry of Agriculture. For more details, see Federal Law No. 630-FZ dated 29 December 2022	1 September 2023

Legislative changes

Regulations	Relevant changes in legislation	Effective data
Requirements for telemedicine examinations of drivers	Drivers can now undergo pre-shift and post-shift medical examinations using telemedicine equipment connected to a tonometer, thermometer, breathalyser, and other devices necessary for checking basic physical measurements. Such a medical examination must include: • Mandatory personal identification of the employee to prevent another person being examined in their stead • Mandatory in-person chemical and toxicology testing of drivers for narcotics and psychotropic substances or their metabolites at least twice a year For more details, see Federal Law No. 629-FZ dated 29 December 2022	1 September 2023



CEO and President's statement

Dear stakeholders,

We are pleased to present our 2022 Annual Report and highlight the strong results that X5 achieved amid a year marked by a challenging macro environment.

Despite the market headwinds, our development strategy has not fundamentally changed: our primary focus remains on driving leadership through active growth. Our main goal is to maintain our leading market position, both in terms of growth rates and revenue in the offline and online segments.

In 2022, consumers increasingly turned towards more rational shopping strategies, opting for affordability while keeping an eye out for quality and the availability of products on the shelf.

Igor Shekhterman
X5 GROUP CHIEF EXECUTIVE OFFICER

Ekaterina Lobacheva
X5 GROUP PRESIDENT

CEO and President's statement

That is why the importance of our commitment to communities cannot be underestimated. X5 provides a reliable supply of food to the regions where we operate – in 2022, we undertook tremendous efforts to ensure that all products remained available for our customers despite a number of external challenges. In the reporting year, we also launched a pilot food-sharing project, working with Foodsharing and Foodbank Rus to donate food to people in need. We plan to roll out this initiative across the Russian regions and expand the range of food products donated. In everything we do, we strive to meet the highest standards of corporate citizenship and continue to integrate ESG targets into our business processes while committing to regular, GRI-compliant reporting.

Turning to our business, we delivered excellent operating and financial results in 2022. Notably, we achieved 18.2% revenue growth, 10.8% like-for-like sales growth and maintained a 7.2% EBITDA margin. X5 continues to focus on the largest and fastest-growing market segments – convenience stores and hard discounters – while making further improvements to our customer value proposition, as well as unlocking operational and capex efficiencies to adapt to changes in the market environment and stay ahead of consumer trends. We pay close attention to boosting our sales density, growing our LFL sales above inflation and exploring opportunities for both organic and non-organic market share growth.

Our recently launched hard discounter network, Chizhik, made remarkable progress in expanding its footprint and has performed well above our initial targets. The network's net sales grew 12x year-on-year in 2022 on the back of a 7x increase in the number of stores. The hard discounter format has proven attractive among customers looking for the best price offer, and we plan to accelerate store openings for Chizhik in 2023.

X5 completed a series of notable M&A deals in the reporting period. In St Petersburg, we integrated 15 PRISMA supermarkets previously owned by a Finnish retail group, welcoming those stores under our Perekrestok banner. The Group also acquired a 70% share in Slata and Krasny Yar, two major food retail chains in Eastern Siberia. The deal has paved the way for our expansion into Russia's Far East in 2023, a move that will significantly grow X5's footprint and create new opportunities for customers and suppliers in the region.

Our digital businesses remained a core component of the customer journey in 2022. As we enter the new year, we are well-positioned to lead the industry through our express delivery services from Pyaterochka and Perekrestok stores and the online hypermarket Vprok.ru, which have been consolidated into a newly created entity called X5 Digital. We also secured partnerships with the three major grocery and ready-to-eat meal delivery aggregators, in a bid to unlock the greater convenience that the omnichannel shopping experience has to offer. At the same time, we are focused on achieving strong unit economics by improving express delivery from stores and dark stores, which accounts for the largest and fastest-growing segment in e-grocery.

We additionally completed a full-scale overhaul of our loyalty programme, X5 Club, which numbered nearly 70 million active loyal customers at year-end.

In 2022, X5 continued to bolster its management team with new high-level appointments. We have appointed Vladislav Kurbatov, who previously headed the Perekrestok supermarket network, to the position of General Director of Pyaterochka and appointed Andrey Kalmykov, ex-CEO of Pobeda Airlines, as General Director of Perekrestok. As part of this team-building effort, the Supervisory Board has decided to reshuffle the management structure and create the position of X5 Group President, who acts as the head of the Russian holding company.

On behalf of the entire management team, we would like to thank our employees, business partners and customers for their loyalty and commitment to X5 Group during 2022. We will do all our best to continue to earn this support moving forward.

Igor Shekhterman

X5 GROUP CHIEF EXECUTIVE OFFICER

Ekaterina Lobacheva

X5 GROUP PRESIDENT

Our strategy

Strategic priorities

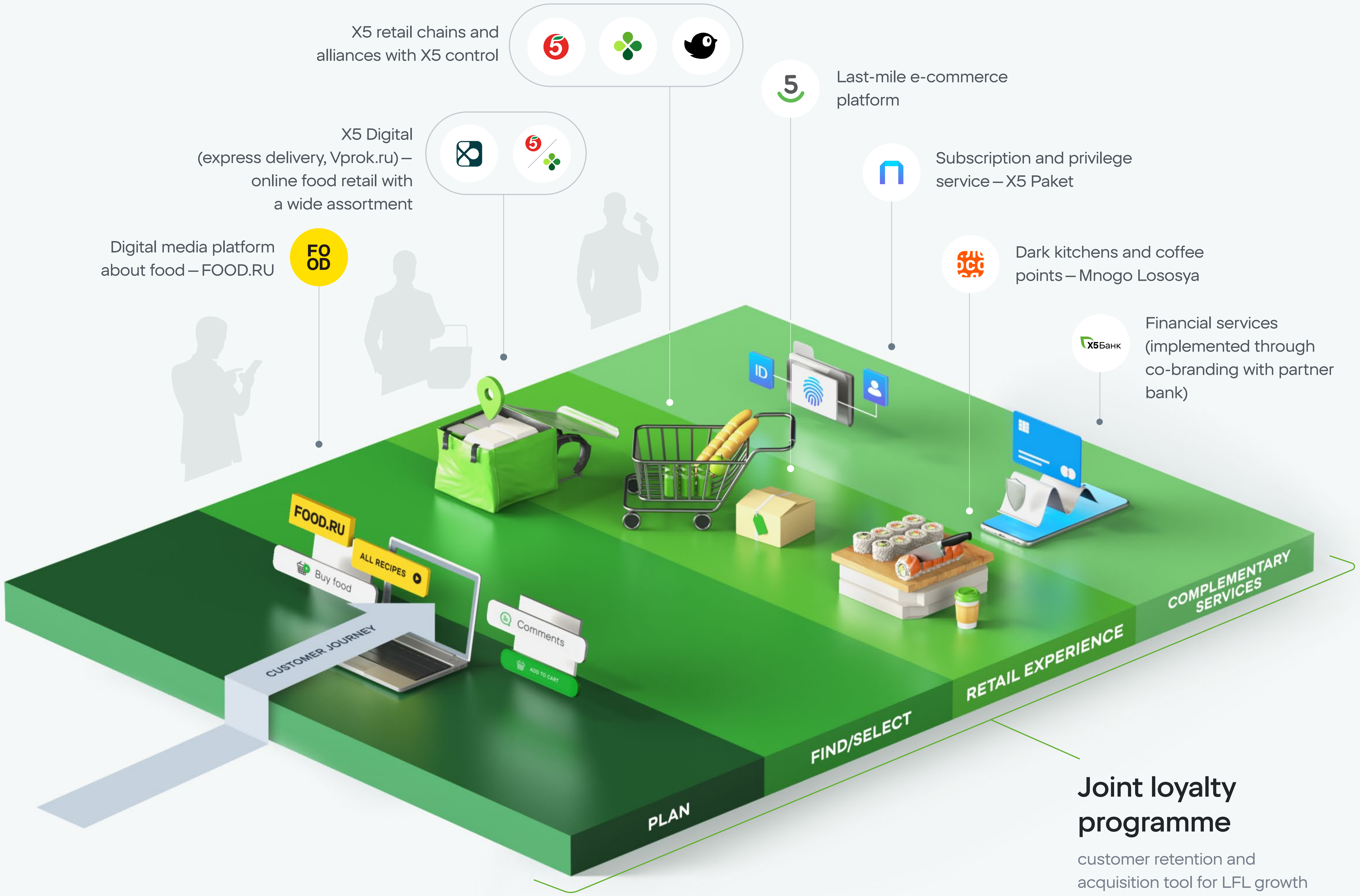
- X5 aims to strengthen its presence across three segments: the proximity store, supermarket and hard discounter
- On the back of a massive expansion drive, X5's hard discounter format is growing aggressively, targeting consumers' needs for low prices and great quality
- Pyaterochka continues to expand its presence, including the launch of operations in its eighth federal district (FD) of Russia, the Far Eastern FD, and demonstrate strong LFL performance, thanks to adaptation of its CVP
- Perekrestok seeks to consolidate the audience of supermarket shoppers and strengthens its presence in large metropolitan areas
- Online business growth is mainly driven by express delivery from stores and dark stores, leveraging the Group's existing in-house platform and partnerships with aggregators
- X5 continues to expand its presence at each step of the customer journey and both retains and attracts traffic to its various businesses by building a joint loyalty programme

#1 POSITION by 2025

- by growth of market share in food retail
- by revenue in the e-grocery segment
- by ESG perception among Russian food retail customers

Strategic vision for X5's presence in the customer journey

We focus our efforts on building X5's presence at each and every step of the customer journey which brings long-term competitive advantages. Our unique value proposition is designed to meet consumers' needs across all our formats and online businesses, creating a tailored and seamless shopping experience underpinned by a superior service offering.



Geography of operations

Our extensive geographical footprint plays a crucial role in enabling X5 Group's leadership in the Russian food market, delivering profitable and efficient growth both offline and online, while constantly improving existing operations. At the end of 2022, X5 was operating 21,323 retail stores, three large dark stores, 44 express delivery dark stores, and 53 distribution centres in 70 Russian regions.

Rapid rollout of digital businesses

We continue to expand our digital businesses, leveraging a robust IT infrastructure and widespread retail operations to deliver agile services – without losing our focus on the bottom line. In 2022, X5 partnered with three major grocery and ready-to-eat meal delivery aggregators to expand its online delivery offering.

As at 31 December 2022, our express delivery service was available from 4,480 stores and 44 dark stores across 64 Russian regions, as compared to 1,611 stores and 50 regions last year. Our last-mile e-commerce delivery service – 5Post – had nearly 24 thousand pickup points in operation, including over 5 thousand multi-parcel lockers at 2022-end, as well as 56 Mnogo Lososya dark kitchens.

NUMBER OF STORES BY FEDERAL DISTRICT

as at 31 December	2018	2019	2020	2021	2022
Central FD	5,822	6,301	6,703	7,181	7,703
North-Western FD	1,668	1,836	1,910	1,998	2,081
Central and North-Western FD	7,490	8,137	8,613	9,179	9,784
Volga FD	3,820	4,306	4,621	4,895	5,256
Ural FD	1,168	1,358	1,535	1,672	1,885
Southern FD	1,222	1,501	1,718	1,951	2,211
North Caucasus FD	252	293	334	388	433
Siberian FD	479	702	886	1,036	1,696
Far Eastern FD[1]					58
Total	14,431	16,297	17,707	19,121	21,323

NET RETAIL SALES BY FEDERAL DISTRICT IN 2022, %

Federal district	Share of net retail sales, %	% of Russian population	RUB mln per 1,000 people
Central FD	47.1%	27.4%	30.3
Volga FD	18.6%	19.6%	16.7
North-Western FD	13.4%	9.5%	25.0
Ural FD	7.5%	8.4%	15.9
Southern FD	7.7%	11.4%	12.0
North Caucasus FD	1.3%	6.9%	3.2
Siberian FD	4.4%	11.4%	6.9
Far Eastern FD[1]	0.04%	5.4%	0.1

21,323
Retail stores
as at 31 December 2022

53
Distribution centres
as at 31 December 2022

44
Express delivery dark stores
as at 31 December 2022

3
Large dark stores
as at 31 December 2022

1 Krasny Yar and Slata.

X5 today

Multi-format presence in 8 federal districts

21,323
Total stores
as at 31 December 2022[1]

19,164
Pyaterochka stores

971
Perekrestok supermarkets

517
Chizhik hard discounters

12
Karusel hypermarkets

595
Krasny Yar and Slata stores

44
Express delivery dark stores

56
Mnogo Lososya dark kitchens

3
Large Vprok.ru dark stores

1 Including 7 joint dark stores.

Express delivery services available from 4,480 stores and 44 dark stores spanning 64 regions

Almost 24 thousand 5Post pickup points, including 5,688 parcel lockers, available from 18,387 stores across 58 regions

Number of stores and distribution centres (DCs)

Format	North Caucasus FD	Southern FD	Central FD	Volga FD	North-Western FD	Ural FD	Siberian FD	Far Eastern FD
Pyaterochka	424	2,149	6,797	4,993	1,913	1,729	1,159	–
Perekrestok	9	61	538	135	161	67	–	–
Chizhik	–	–	302	127	–	88	–	–
Karusel	–	1	9	–	2	–	–	–
Krasny Yar and Slata	–	–	–	–	–	–	537	58
Number of DCs	1	3	20	15	6	6	2	–
Number of dark stores	–	–	2	–	1	–	–	–
Number of dark kitchens	–	2	51	–	3	–	–	–
Number of pickup points/ parcel lockers	494	2,618	9,467	6,255	2,704	2,363	25	–

Leadership team

Our C-level team consists of best-in-class professionals who are in charge of carrying out routine operations as well as executing the long-term Company strategy. The management team reports to the Supervisory Board, which oversees the management's accountability for delivering on the Company's strategic, financial and operating targets.

Igor Shekhterman
Chief Executive Officer, Chairman and Member of the Management Board, Chairman and Member of the Executive Board

Ekaterina Lobacheva
President, Member of the Management Board, Member of the Executive Board

Vsevolod Starukhin[1]
Chief Financial Officer, Member of the Executive Board

Vladislav Kurbatov
General Director of Pyaterochka, Member of the Executive Board

Andrey Kalmykov
General Director of Perekrestok

Ilya Yakubson
Director of Chizhik

Vladimir Salakhutdinov
Director for Strategy and Business Development, Member of the Executive Board

Anton Mironenkov
Managing Director of X5 Technologies, Member of the Executive Board

Tatiana Krasnoperova
Director for Human Resources and Organisational Development, Member of the Executive Board

Elena Konnova
Director for Corporate Communications and Sustainable Development

Dmitry Agureev
Head of Corporate Security

Svetlana Volikova
Director for Business Support, Member of the Executive Board

Larisa Romanovskaya
General Director of X5 Digital

1 Vsevolod Starukhin resigned as CFO at the end of April 2023. The Company is looking for a new candidate.

Pyaterochka

Pyaterochka is Russia's largest food retailer by revenue and number of stores. Today, the proximity store format operates 19,164 stores in 67 regions of the Russian Federation. A typical Pyaterochka store has 380-420 square metres of selling space and offers around 4,000 SKUs. Express delivery is available from over 3,600 stores through both X5's in-house delivery service and aggregators.

AS AT 31 DECEMBER 2022

19,164
Pyaterochka stores in 67 regions

380–420 SQM
Average selling space

Key 2022 highlights

CUSTOMER METRICS

5.5 BLN
Customer visits
+9.9%, 2021/22

441 RUB
Average ticket
+7.9%, 2021/22

40.1 MLN
Active[1] loyalty card users
−0.2%, 2021/22

78 %
Loyalty card penetration in sales

17.8 NPS
+3.7, 2021/22

1 At least one purchase made in December 2022.

OPERATIONAL METRICS

19,164
Stores in operation
+6.6%, 2021/22

7,497 THS SQM
Selling space
+6.4%, 2021/22

11.7 %
LFL sales growth

FINANCIAL METRICS

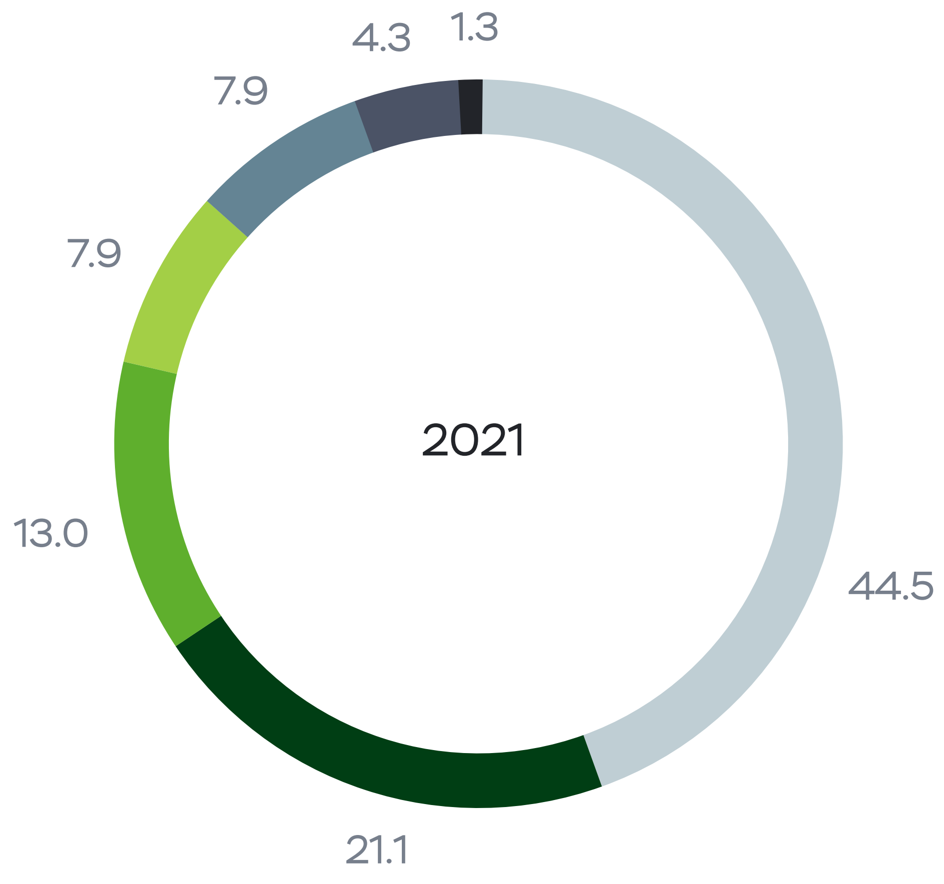
2,125 RUB BLN
Revenue
+18.4%, 2021/22

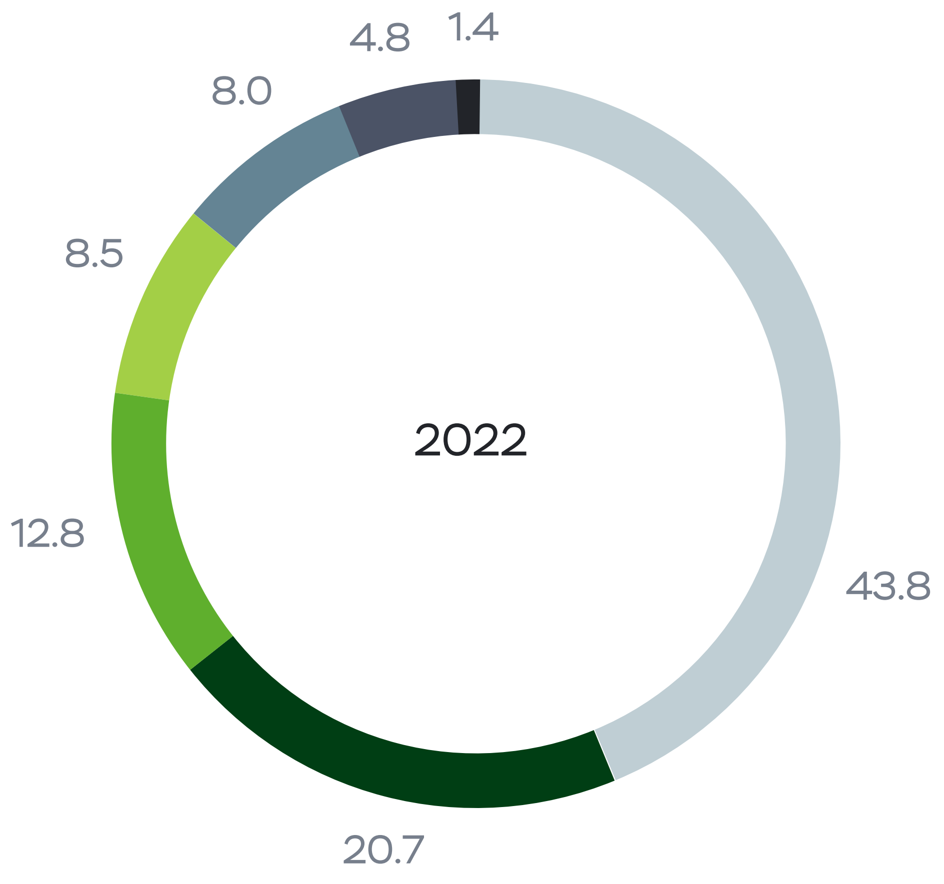
8.0 %
EBITDA margin pre-IFRS 16

Key operating results

	2018	2019	2020	2021	2022	CAGR
Number of stores, eop	13,522	15,354	16,709	17,972	**19,164**	**9.1%**
Selling space, ths sqm, eop	5,291	5,975	6,542	7,048	**7,497**	**9.1%**
Net retail sales, RUB bln	1,198	1,367	1,597	1,794	**2,123**	**15.4%**
Customer visits, mln	3,913	4,460	4,662	5,029	**5,524**	**9.0%**

Net sales by region, %





Central FD | North-Western FD | Ural FD | North Caucasus FD
Volga FD | Southern FD | Siberian FD

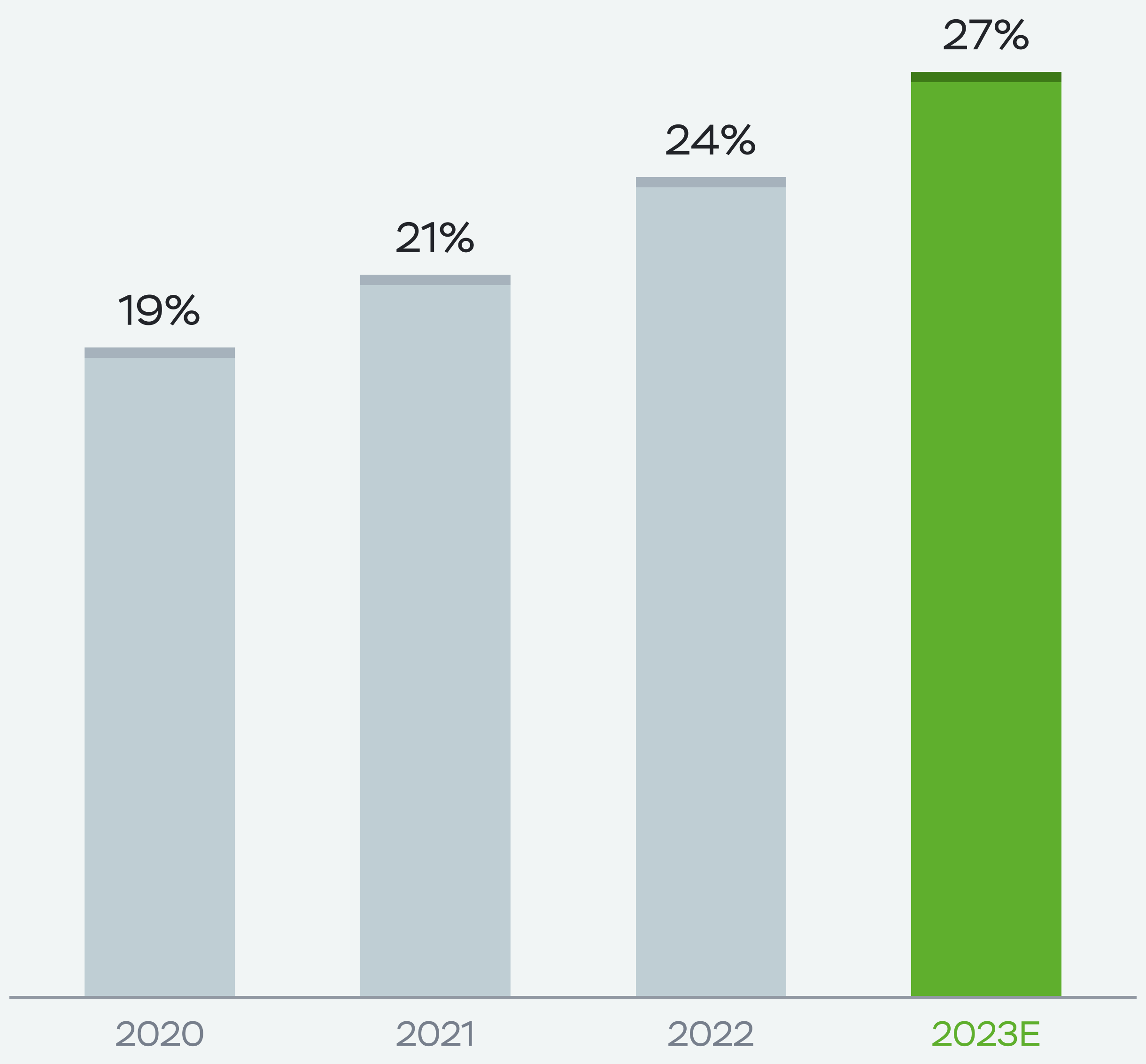
Strategic priorities

- Focus on growth in retail sales and market share by increasing sales density across existing stores and boosting the rate of new openings
- Further implementation of the new CVP
- Optimisation of operational expenses, including improving process efficiency
- Further development of express delivery service to enhance omnichannel experience
- Fostering a partnership culture and strengthening store teams

CVP transformation

Pyaterochka has aligned its CVP with customer demands and transformed its operational model to accelerate decision-making on the ground in support of its long-term sustainable business development.

Share of private labels in sales (year-end)

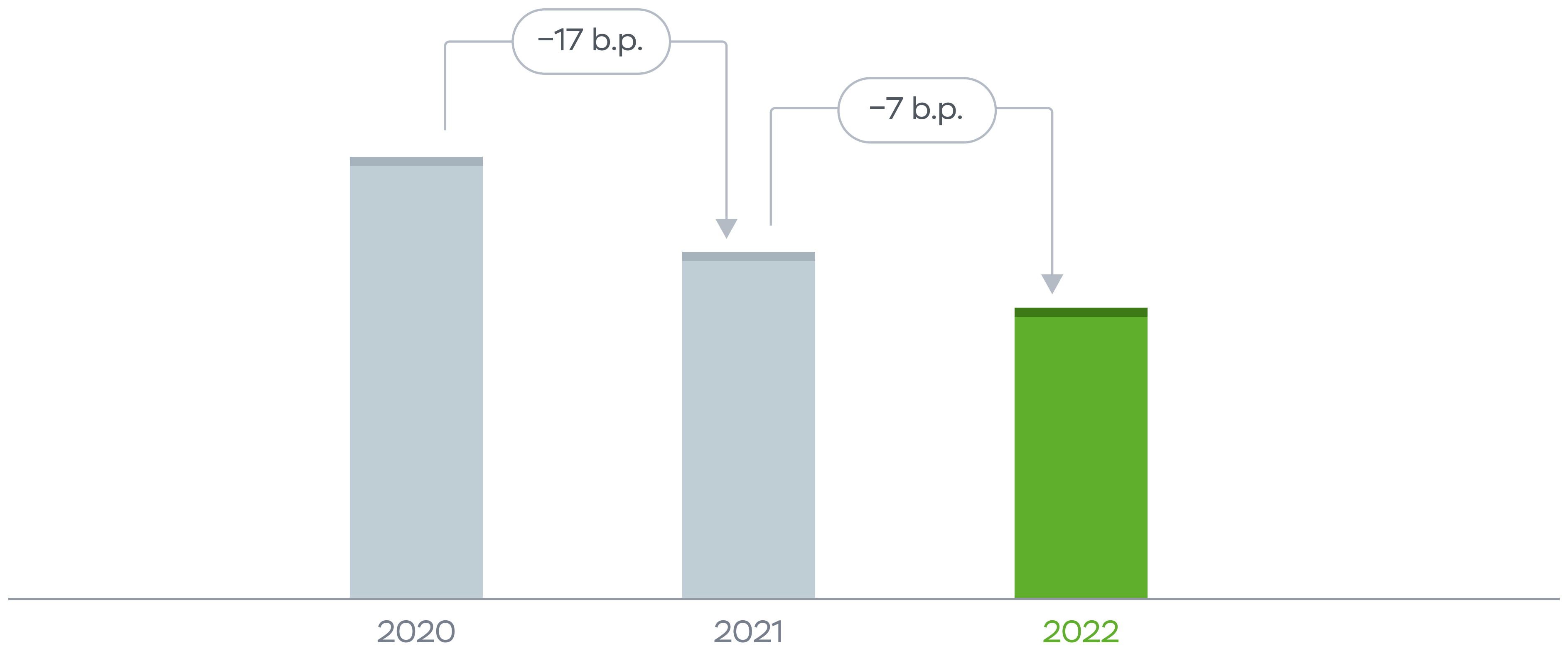


Operational efficiency

The current macro environment has once again focused our attention on efficiency, and we continue to work in several key areas:

LOGISTICS	• Continued development of multilayer logistics infrastructure • Focus on improving transportation efficiency
LABOUR PRODUCTIVITY	• Improved operational efficiency and reduced manual labour in stores • Scaling the Store Director – Partner programme
RENT	• Further optimisation of rent costs with a focus on revenue-linked rent
RANGE EFFICIENCY	• Smart assortment optimisation • Reduced inventory and losses through an end-to-end supply planning process

Shrinkage



Introducing a partnership model for store management

Pyaterochka's key step in further developing its business in 2022 was the Company's shift towards a partnership culture. The flagship initiative in this focus area is the Store Director – Partner project.

This new approach sees store directors as partners; the Company is placing more confidence in key people in the field and giving them more decision-making power and responsibilities.

In autumn 2021, we piloted the Store Director – Partner project across 16 stores in Moscow, the Moscow Region, Kirov and Voronezh. At the end of 2022, the programme covered 1,091 stores (6% of our store network).

The main difference between partner store directors and conventional store directors is that the former have a wider range of tools at their disposal: they can introduce a sales incentive plan with their cluster director, manage the headcount and influence the product mix to increase the share of individual product groups, etc.

By the end of 2022, the Store Director – Partner project had brought the Company solid results. The transformation of the store director's role generated over RUB 200 million in incremental EBITDAR.

The Company plans to turn as many as 25% of store directors across Russia into partners by 2024. Pyaterochka has seen a positive response, as more high-quality candidates are joining the programme with each new wave of enrolments, and the Company is working to roll out best practices for partner managers across the entire chain, boosting the programme's performance.

Social responsibility

Since 2015, X5 has been promoting the Basket of Kindness project, a food drive that helped almost 200 thousand people in 40 regions of Russia, including large families, pensioners, people in need, doctors, and refugees in 2022. The Company has now initiated another food aid project that will see even more people receive food donations. In 2022, X5 partnered with Foodsharing and Foodbank Rus to launch a pilot food sharing project that donates food to individuals in need.

The project collects food from stores that is nearing its expiration date, trains employees in the necessary procedures and establishes efficient logistics to deliver the food to those who need it most. The products are collected by volunteers and distributed within several hours to individuals supported by Foodbank Rus, a food aid charity, and Foodsharing, a non-profit organisation.

In its first stage, the project was introduced to several Pyaterochka stores in Moscow and Chelyabinsk and later expanded to several other Russian cities.

Perekrestok

With 971 stores as at 31 December 2022, Perekrestok is Russia's largest supermarket chain, with a focus on the country's metropolitan cities. The majority of Perekrestok supermarkets have an assortment ranging from 15,000 to 18,000 SKUs depending on store size and format, and the average selling space is 1,117 square metres. Express delivery is available from over 800 stores through both X5's in-house delivery service and aggregators.

AS AT 31 DECEMBER 2022

971
Perekrestok stores in 46 regions

1,117 SQM
Average selling space

Key 2022 highlights

CUSTOMER METRICS

658 MLN
Customer visits
+3.3%, 2021/22

671 RUB
Average ticket
+7.1%, 2021/22

9.5 MLN
Active[1] loyalty card users
−2.8%, 2021/22

84 %
Loyalty card penetration in sales

1 At least one purchase made in December 2022.

OPERATIONAL METRICS

971
Stores in operation
−1.9%, 2021/22

1,085 THS SQM
Selling space
−1.2%, 2021/22

7.1 %
LFL sales growth

FINANCIAL METRICS

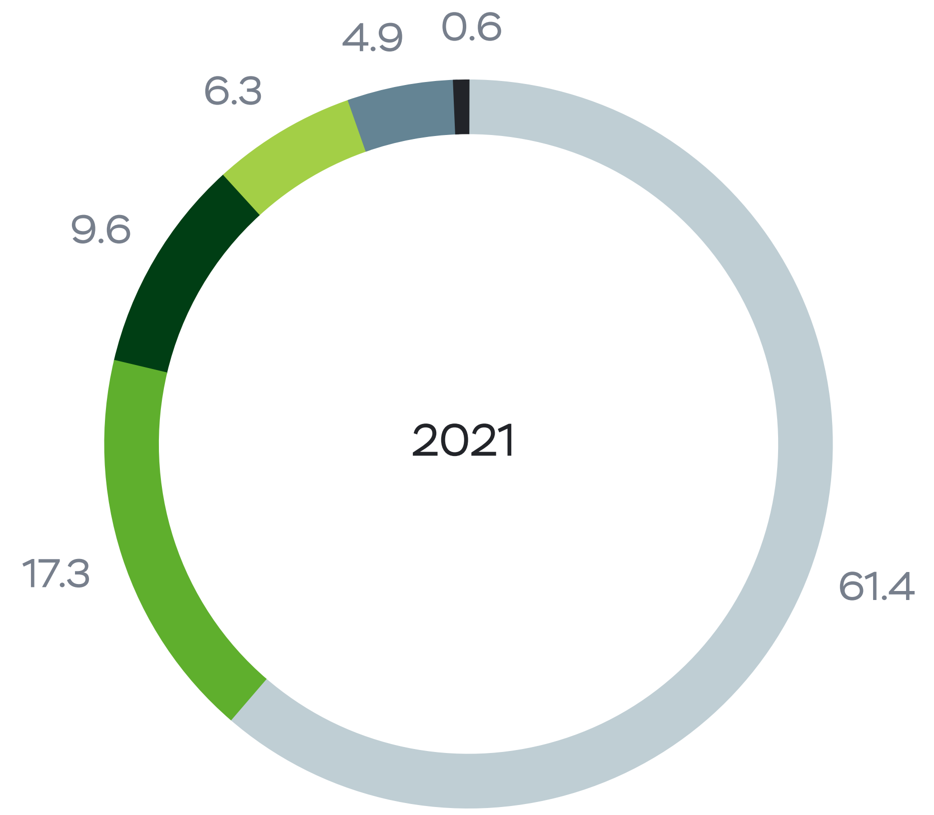
386.2 RUB BLN
Revenue
+10.0%, 2021/22

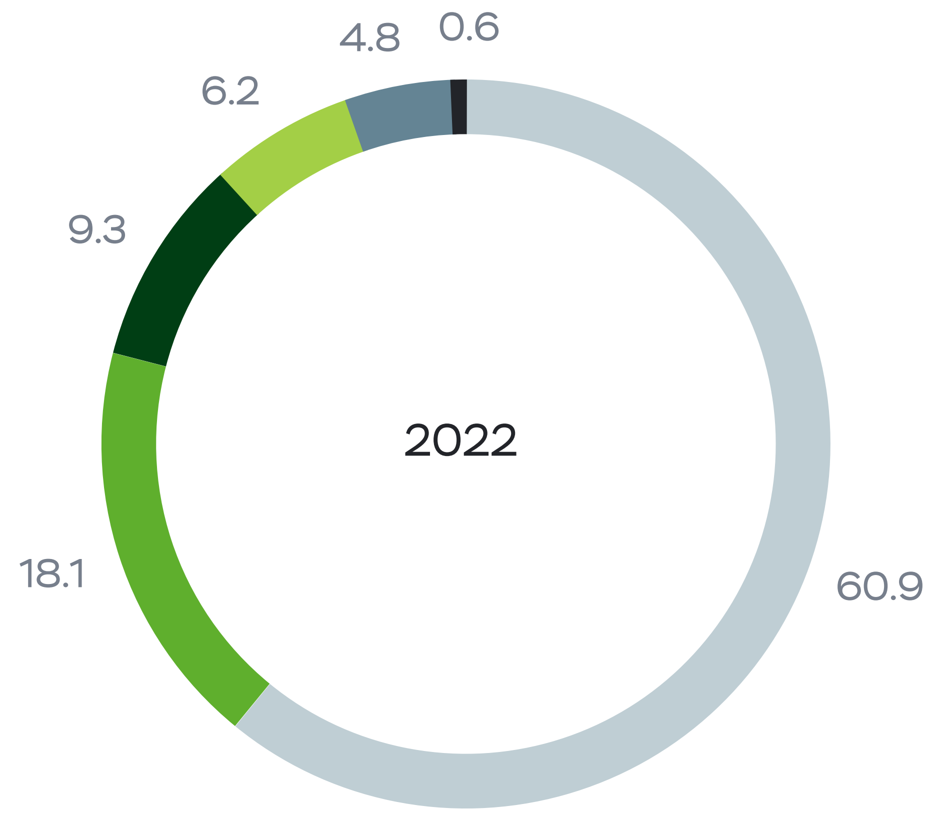
7.3 %
EBITDA margin pre-IFRS 16

Key operating results

	2018	2019	2020	2021	2022	CAGR
Number of stores, eop	760	852	933	990	971	6.3%
Selling space, ths sqm, eop	782	879	1,014	1,099	1,085	8.5%
Net retail sales, RUB bln	231	273	320	349	385	13.7%
Customer visits, mln	505	589	562	636	658	6.8%

Perekrestok net retail sales by region, %





Central FD
North-Western FD
Volga FD
Ural FD
Southern FD
North Caucasus FD

Strategic Priorities

- Updating our CVP to focus on our unique assortment and presence in large cities
- Focus on LFL growth rather than new openings
- Focus on a unique and streamlined assortment, including private labels and ready-to-eat products
- Driving sustainable and profitable growth in online services

Updating the value proposition of Perekrestok supermarkets

With real household incomes on the decline and frugality on the rise, food is becoming the most affordable form of entertainment.

The supermarket format best meets the demand for entertainment and meals:

- High level of service
- A broad and unique assortment
- Ambience and service that are better than at convenience stores and hypermarkets

Adaptation of updated CVP

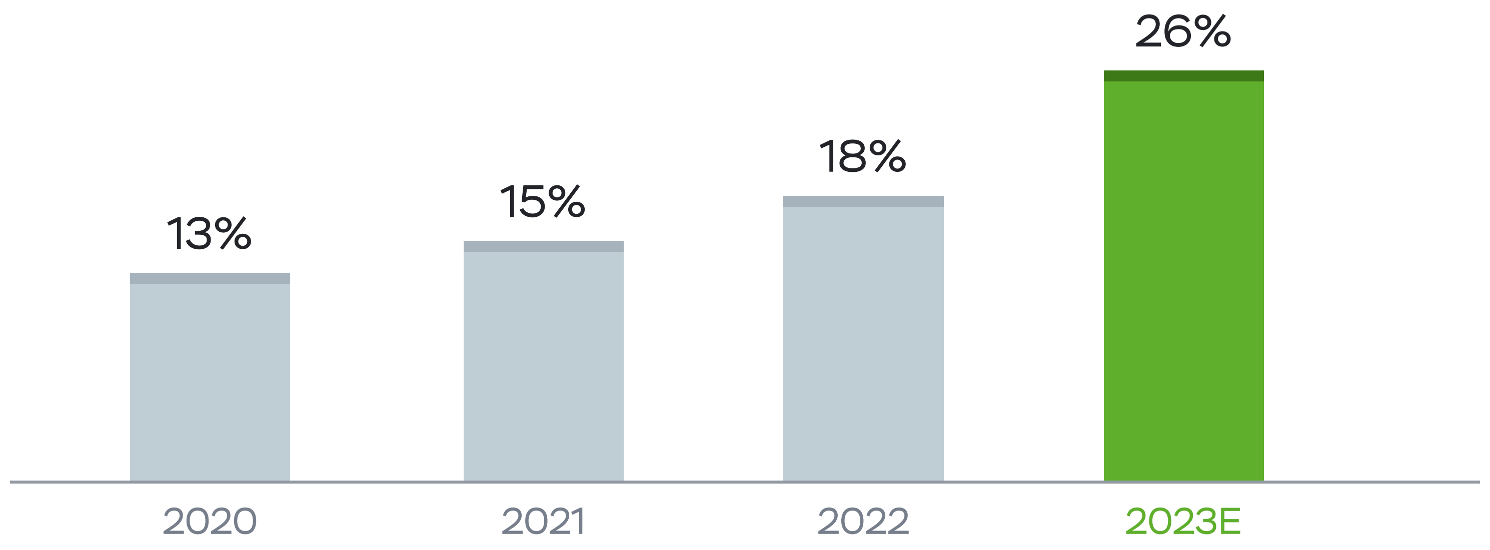
- Focus on quality and freshness in differentiating categories (Ultra-Fresh, Fresh, and Fruit and Vegetables)
- Covers all the needs and shopping missions of the target audience, with private labels and branded products as well as affordable to-go and dine-in ready-to-eat meals
- Focus on expansion of sales via express delivery
- Basic range of products at prices available from soft discounters

Assortment

Private labels

- Consolidating our portfolio of private labels by reducing the number of brands and focusing on key private labels
- Unique assortment centred around private labels and expanding our offering in the premium price segment

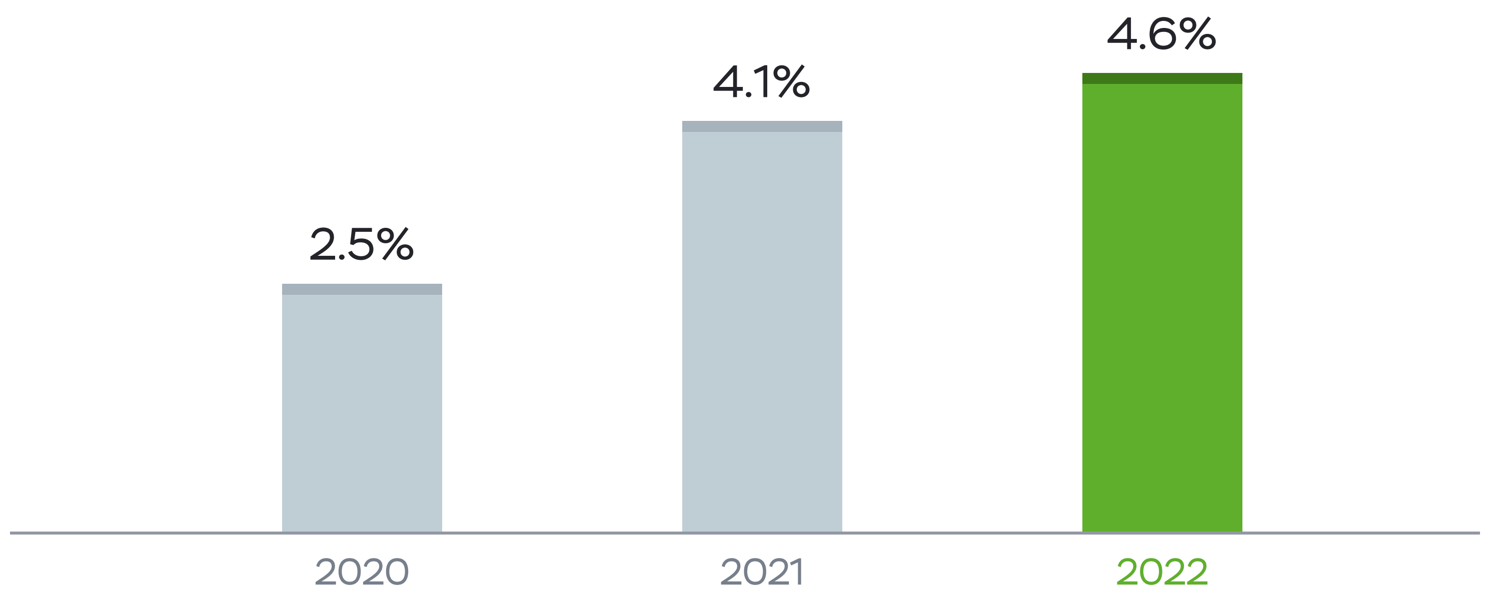
Private label share in sales (year average), %



Ready-to-eat products

- Focusing on stronger performance and higher inventory turnover
- Redesigning the packaging and communication initiatives to improve the perception of Perekrestok's ready-to-eat products
- Focusing on boosting the share of online sales in ready-to-eat meals

Ready-to-eat share in sales, %



Café and open kitchen

- Expanding the open kitchen footprint by teaming up with Mnogo Lososya as a partner and the operator of 235 café points at the end of 2022
- Expanding the footprint of café/coffee points in Perekrestok stores

Personnel

Our employees are one of the keys to our success in providing reliable high levels of service to our customers. We continue to roll out industry best practices for our store staff, from improving staff lounges and developing the Perekrestok employee mobile app to expanding training opportunities and maintaining ways for staff to be more engaged and share in our success.

We are updating our team sourcing strategy to boost inventory turnover through active sales, including via new product recommendations, deals of the day and cross sales. We are also rolling out the Work Force Planning system for more flexible workforce planning, including for part-time employees, as well as a transparent incentive system.

In 2023, we are planning to roll out the Store Director – Partner project to all stores. The main difference between partner store directors and conventional store directors is that the partner store directors have a wider range of tools at their disposal: they can manage headcount, work schedules, and train and motivate their staff.

Express delivery

Perekrestok is continuously working to improve its mobile app and expand its presence in key online food shopping missions, including by making smart use of partner sales channels. Over 95% of orders are delivered on time.

In 2022, Perekrestok's express delivery online business handled 12.2 million orders placed via our in-house delivery service or aggregators.

Perekrestok will ramp up its online sales, including through aggregator websites and new fast delivery options.

Chizhik

In 2022, the hard discounter format proved its relevance as the rational model of consumption continues to gain traction. Chizhik has successfully positioned itself as a provider of high-quality products at reasonable prices, which has resonated well with customers.

Today, the hard discounter format operates 517 stores in 13 regions of the Russian Federation. A typical Chizhik store has 250–300 square metres of selling space and a limited SKU range.

AS AT 31 DECEMBER 2022

517
Chizhik stores in 13 regions

250–300 SQM
Average selling space

Key 2022 highlights

35.9 RUB BLN
Revenue
12x, 2021/2022

517
Stores in operation
7x, 2021/2022

64.8 MLN
Customer visits
11x, 2021/2022

630 RUB
Average ticket
+11.0%, 2021/2022

- Started the process of scaling the format, launched six new regional divisions with over 500 standardised stores in 13 Russian regions
- Launched own logistics operations with six distribution centres at the year-end

Target CVP of the hard discounter format

Our core CVP: Products that meet our quality standards at such low prices are available only at Chizhik

ELEMENTS	MANY STORES ARE BETTER THAN US	WE ARE LIKE ANY OTHER STORE	WE ARE BETTER THAN MANY STORES	WE ARE THE LEADER	DIFFERENTIATORS
I find it attractive PRICE				●	• Price leadership at the given quality level
I find it convenient TIME			●		• Saving time: quick to find and buy • Stable prices and assortment
I can find everything I need ASSORTMENT	●				• Covering 50% to 60% of customer needs • Private label quality that matches that of well-known brands
I find it nice AMBIANCE		●			• Young and friendly staff • A welcoming, streamlined store
I do care SOCIAL RESPONSIBILITY			●		• Caring for the family through quality and price • Caring for the family by saving time

Strategic Priorities

- Accelerated expansion with a plan to enter all key regions of X5 chains' presence
- Continuous focus on operational efficiency while maintaining uncompromised quality of our private labels at reasonable prices
- Creation and development of points of differentiation from the market and strengthening a unique perception of Chizhik

Operational efficiency

Operational efficiency and standardisation are the key elements of the format's model; we intend to become the cost leader. One of Chizhik's key principles is "more of what you need, less of what you don't"; it is embedded across the retail chain's corporate culture. Chizhik strives to cut costs as much as possible, where they have no direct impact on the business or do not contribute to sales growth.

Chizhik is a standard format store with a total area of about 400 square metres, with the sales floor occupying 250–300 square metres. With an optimised assortment matrix and smart pricing, we have achieved higher sales densities compared to convenience stores. The format calls for a target of seven FTEs on average, low shrinkage and high operational efficiency across in-store processes.

Plans for 2023

- Open 1,000 new stores
- Launch new regional business divisions and new DCs
- Launch new private-label brands
- Pilot a mobile app with a home delivery option

Karusel

In 2022, Karusel continued its transformation following the earlier management decision to downsize the format's operations. As at 31 December 2022, twelve Karusel hypermarkets remained in operation.

A total of 21 hypermarkets were closed in 2022, and all lease agreements were successfully terminated, while the remaining stores may be either transferred to Perekrestok, leased or sold in the foreseeable future.

Karusel's team primarily focused on minimising the risks associated with the closures and securing efficiencies and low stock levels in hypermarkets slated for closure. The chain also shut down its loyalty programme in 2022 as we expect many customers to opt for our online shopping tools like Vprok.ru or express delivery.

About 30% of the staff across the closed hypermarkets will continue to work in other X5 Group businesses.

12
Karusel hypermarkets remained in operation
as at 31 December 2022

21
Hypermarkets were closed in 2022

30 %
Staff across the closed hypermarkets will continue to work in other X5 Group businesses

Krasny Yar and Slata

In November 2022, X5 finalised a strategic partnership with Krasny Yar and Slata, two of the leading retail groups in Eastern Siberia. As part of the agreement, X5 acquired a 70% stake in both Krasny Yar and Slata.

Krasny Yar Group operates Krasny Yar and Baton stores in the Krasnoyarsk Territory, Tyva and Khakassia, while Slata Group operates Slata and KhlebSol stores in the Irkutsk Region, Buryatia and the Transbaikal Territory. In addition, both groups are tenants of a total of four distribution centres with a total area of 62.3 thousand square metres: one in Krasnoyarsk, two in the Irkutsk Region and one in the Transbaikal Territory.

In 2023, key drivers will include synergies from the strategic partnership with X5 Group and the partial integration of both retailers' operational processes with those of X5, including in procurement and logistics:

- Combined bargaining power with both federal and regional suppliers unlocking better terms of purchase and the best price for the market leader
- Optimised transport support and the use of best practices across business processes
- Streamlined relationships with banks

Slata retail chain

Слата

Slata supermarket format

With 79 stores at the end of 2022, Slata is the leading supermarket chain in the Irkutsk Region and one of the leaders in Transbaikal Territory. Its stores measure 650 square metres on average, with an average assortment of about 8,000 SKUs.

Slata's positioning is centred around major trends in food retail in the proximity supermarket format – a fast-paced life, changing food shopping habits, stronger demand for premium products, and increasing price sensitivity on the part of consumers:

- A great location and a balanced, although limited, product mix make shopping at Slata fast and easy
- A wide assortment of fresh produce, ready-to-eat and ready-to-cook meals, fewer premium products than in big-box stores and good availability of organic products
- Prices for staples are slightly higher than at discount stores, but no higher than in other supermarkets, remaining generally affordable and attractive for the bulk of shoppers

Slata continued focusing on its key category, its own production, in many cases with unique recipes and guaranteed quality. Each store offers a wide range of its own baked goods along with confectionery and deli products. The chain offers a vast selection of ready-to-eat meals at considerably lower prices than at restaurants, without compromising on quality.

As a result, consumers view Slata as a store that has everything they need, as well as things that cannot usually be found locally. Particular attention is paid to offering an assortment of extra-fresh and affordable fruits, vegetables and greens as one of the format's key mainstay categories. Slata offers its customers convenient services with self-checkouts developed in-house and a loyalty programme.

The chain is expanding its offer from local farmers in its stores, with an emphasis on freshness and local origin. Since 2020, the retailer has been successfully implementing the Local Producers project to support small and medium-sized enterprises through partnerships with regional authorities and, by stocking local suppliers' products on its shelves, the retail chain provides a wide range of consumers with access to local products.

In 2023, Slata will continue to focus on the Fresh category and its own production, as they serve as the key drivers behind the format's customer perception. Slata is planning to develop a new mainstay category – Fish Market – which, coupled with the already strongly performing Meat Market, will sharpen the format's competitive edge. In parallel, the retailer is working to improve its operational efficiency, minimise losses and identify other areas to boost financial performance.

хлеб соль

KhlebSol discount store format

The discount store format has successfully complemented the supermarket segment and, following the overall retail development trend, has become central to the Company's future growth plans. The KhlebSol format is a leading soft discount store in the Transbaikal Territory, with 283 outlets operating in this format as at the end of 2022, offering an average selling space of 280 square metres per store and an average assortment of 1,500 SKUs.

The format focuses on fresh produce, which is currently the focus of its key value proposition, with an emphasis on private labels. Regarding price positioning, the business will maintain its focus on its EDLP strategy, while retaining an emphasis on advertising campaigns and price communications.

The format's strengths include its price-driven image as perceived by its customers, its convenient store locations and the high proportion of fruit and vegetables in its product turnover.

Krasny Yar retail chain

Красный Яр
гастрономы нашего города

Krasny Yar supermarket format

Krasny Yar is among the revenue leaders in the supermarket format in the Krasnoyarsk Territory. As at the end of 2022, the retailer was operating 64 stores. Its stores measure 566 square metres on average, with an assortment averaging from 8,000 to 12,000 SKUs. The retailer has continued improving its key category – its own production – with every Krasny Yar store offering its own hot and fresh baked goods along with confectionery and deli products as at the end of 2022.

In 2022, the chain was focused on enhancing its operational efficiency and becoming more attractive for shoppers. The retailer rapidly responded to fast-paced macroeconomic changes and will continue to do so in future. Its key objective revolves around offering a sufficiently broad assortment at attractive prices at any point in time. The chain will also maintain its focus on the Fresh and Ultra-Fresh categories, including its own production, as the key strategic drivers behind its main competitive advantages. Promotional activities and price positioning remain an area of focus for the format, as it aims for leadership in terms of price perception in the supermarket format across its footprint.

In 2022, the chain made good progress in improving its operational efficiency through workforce time planning and process optimisation, unlocking productivity gains. In 2023, the retailer is planning to increase labour automation to reduce reliance on manual interventions. In 2022, half of the chain's supermarkets were equipped with self-checkouts.

БАТОН

Baton discount store format

The Baton format is a soft discount convenience store with an average selling space of 370 square metres and an assortment of about 1,500 SKUs in the Krasnoyarsk Territory, Republic of Khakassia and Republic of Tyva. The format's strengths include fruit and vegetables as well as bakeries, which operate at half of its stores. The format does not pursue promotional activities, as it is guided by an EDLP strategy. In 2022, the retailer maintained its fast-paced growth and expanded its footprint to a new region, the Republic of Tyva, as well as new communities within the existing footprint in the Krasnoyarsk Territory and the Republic of Khakassia, to reach a total of 169 active stores.

The Baton discount store format uses a robust and effective business model, with its first discount stores launched back in 2015 and annually posting above-market LFL sales growth. The format sets itself apart with its simplified service, limited assortment, as well as pallet and cardboard display. The format is betting on fresh products by ramping up its offering in fresh bakery, fruit and vegetables, meat and dairy products. The chain targets low- to medium-income customers who want to save on everyday shopping without wasting time seeking out the best deals. A high sales density per square metre of selling space combined with operational efficiency are important components of the format's business model. This approach allows for investments in a daily value proposition that is extremely attractive amid declining real household incomes.

The format's value proposition:

- A price leader image across its footprint
- A proposition across the first-price, low-price and medium-price segments
- A strong presence and affordability of fresh and ultra-fresh products
- Covering more customer needs with one or two SKUs per need
- Proximity to consumers
- Developing a joint loyalty programme with supermarkets, improving the understanding of customers through big data

Operational efficiency is pivotal for the discount store format. Every year, the chain makes efforts to simplify its processes and optimise its headcount, with a standard store counting no more than seven employees. The retailer has revised its staffing approach and upgraded store equipment, which is expected to boost its labour productivity in 2023. In 2023, Baton will install self-checkout machines in its discount stores – following the lead of the supermarket format – to reduce the load on checkouts and redirect its workforce to the sales floor. The retailer will continue improving the balance between its costs and customer experience, offering the best price to value at its stores.

X5 Club

In July 2022, X5 combined the separate loyalty programmes at Pyaterochka and Perekrestok under a new processing platform and the new “X5 Club” brand.

This joint loyalty programme with shared bonus points now allows customers to earn and spend points at both chains simultaneously. This offer is one of a kind on the Russian market and has unlocked a mechanism for growing the cross-audience of our businesses.

By 2022-end, over 19,500 stores were connected to X5 Club, with the number of active loyalty programme members hitting 69.3 million people and the programme's sales penetration reaching 78.3%. The average ticket of an active customer using a loyalty card increased twofold versus an active customer not using a loyalty card.

Consumers can now rack up bonus points more quickly by selecting their favourite product categories or reaching a higher membership level. Around 24% of active monthly customers qualify for a higher membership level.

We plan to connect other X5's businesses, including e-grocery to the programme in 2023, and we are considering attracting new partners from the market. In addition, X5 Club is looking to significantly expand its functionality, delivering even greater value for our customers.

KEY 2022 HIGHLIGHTS

19,500 Stores were connected to X5 Club	**69.3 MLN** Number of active loyalty programme members	**78.3%** Programme's sales penetration

Paket

Paket subscription service is a part of the X5 ecosystem that gives access to all the perks and benefits available at the Group's various businesses – both offline and online. The service was piloted in 2021 and then successfully rolled out to all our operations in summer 2022.

Paket supports X5 Club loyalty programme, which allows customers to receive increased cashback in Pyaterochka and Perekrestok stores, free deliveries, category cashback, as well as bonuses from partners. Once subscribed, customers can collect 10x more bonus points versus X5's regular loyalty programme.

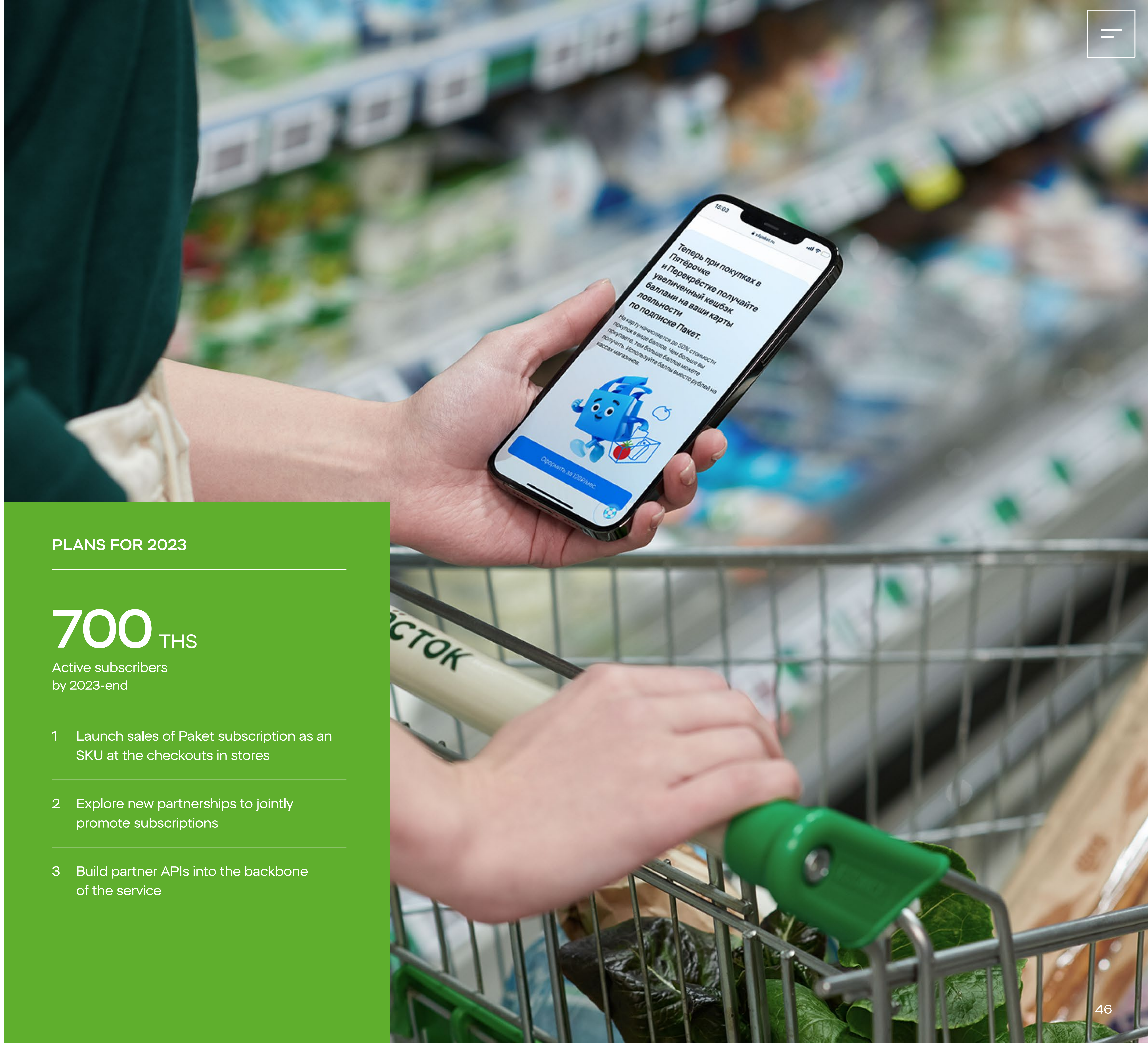
KEY 2022 HIGHLIGHTS

357 THS
Number of subscribers
at the end of 2022

We implemented a partner integration with Yandex Plus, a subscription platform

We partnered with the Perekrestok ready-to-eat service both offline and online

We partnered with Yandex Plus to launch a nationwide promotion across Pyaterochka stores, with attractive offers and prizes



PLANS FOR 2023

700 THS
Active subscribers
by 2023-end

1. Launch sales of Paket subscription as an SKU at the checkouts in stores
2. Explore new partnerships to jointly promote subscriptions
3. Build partner APIs into the backbone of the service

X5 Digital

Express delivery

The rapid expansion of express delivery services from Pyaterochka proximity stores and Perekrestok supermarkets was well underway in 2022 despite sluggish consumer sentiment and overall uncertainty in the Russian economy. The GMV of our express delivery business grew 1.6x to RUB 50.6 billion, and we delivered significant gains in unit economics while maintaining our strong sales momentum. The express delivery service supports customer loyalty and expands our share of customers' wallets.

In 2022, X5 partnered with the leading food aggregator platforms to expand our online delivery offering from X5 stores, which allows us to capture untapped audience segments.

We continue to be one of the leading players in the market thanks to our broad and loyal customer base and X5's ability to quickly roll out tailored technology solutions while maintaining a cost-conscious approach to expanding express delivery services.

KEY 2022 HIGHLIGHTS

50.6 RUB BLN
GMV
+64.2% y-o-y

1,694 RUB
Average ticket
+10.5% y-o-y

29 MLN
Total orders
+51.4% y-o-y

112.8 THS
Average number of daily orders
in Q4 2022

THE EXPRESS DELIVERY SERVICE WAS AVAILABLE FROM:

4,480 Stores and supermarkets in **64** Regions

3,672 Pyaterochka stores

808 Perekrestok supermarkets

44 Dark stores

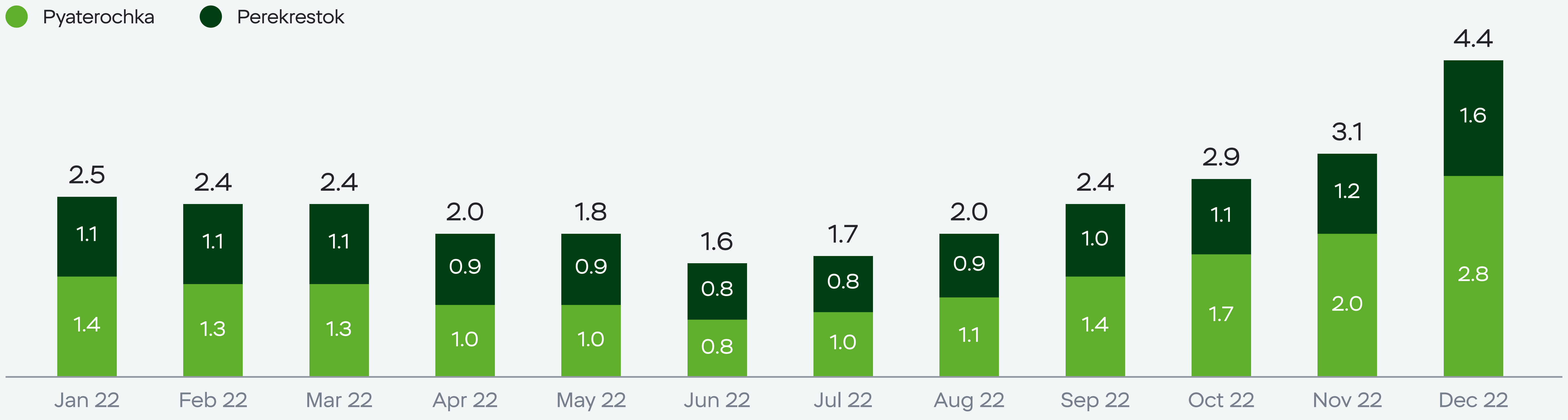
as at 31 December 2022

PLANS FOR 2023

We expect the express delivery segment of the e-grocery market to keep growing. Looking to the year ahead, we aim to remain among the top players in the Russian e-grocery market. We will continue expanding specialised dark store infrastructure, which is foundational for boosting the service's quality in terms of delivery times and order fulfilment accuracy. We also plan on optimising the service's economics by driving customer adoption and improving process efficiency. One of our key priorities will be further developing the underlying technology and the quality of the customer journey.

Having our own express delivery remains X5's strategic edge. At the same time, we continue working closely with aggregators, which serve as an additional channel for generating traffic and sales.

EXPRESS DELIVERY ORDER DYNAMICS, mln



Vprok.ru

Vprok.ru Перекрёсток

Vprok.ru is our online hypermarket, geared towards customers looking to stock up on groceries or FMCG products with delivery to the doorstep, or in some cases to a nearby 5Post pickup point. The hypermarket offers same-day or next-day delivery to customers from its core markets, with service further afield supported by 5Post.

KEY 2022 HIGHLIGHTS

26.2 RUB BLN
GMV
+18.8% y-o-y

4,793 RUB
Average ticket
+5.7% y-o-y

5.4 MLN
Total orders delivered
+14.4% y-o-y

3.4 MLN
MAUs
+2.7% y-o-y

3
Dark stores

55
Regions

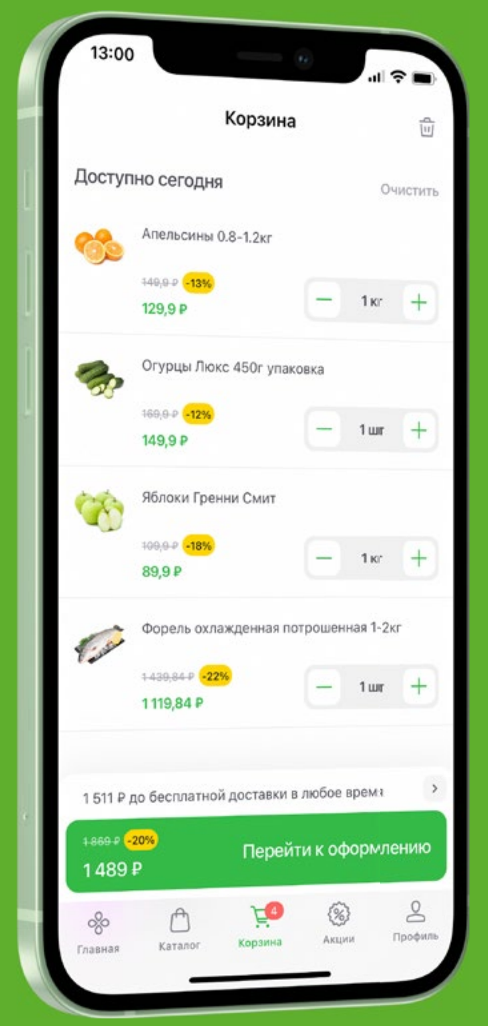
KEY COMPETITIVE ADVANTAGES

- Vprok.ru is a well-known brand in the e-grocery market
- Wide assortment of 52,300 SKUs
- Own logistics infrastructure and in-house last-mile delivery augmented by 5Post for additional regional reach
- A vast addressable market in cities of presence
- Proprietary customer interface: mobile app and website
- Leverages X5's purchasing power and supplier terms
- Total control over assortment, pricing, promotions, and supply chain boosts Net Promoter Score (NPS)

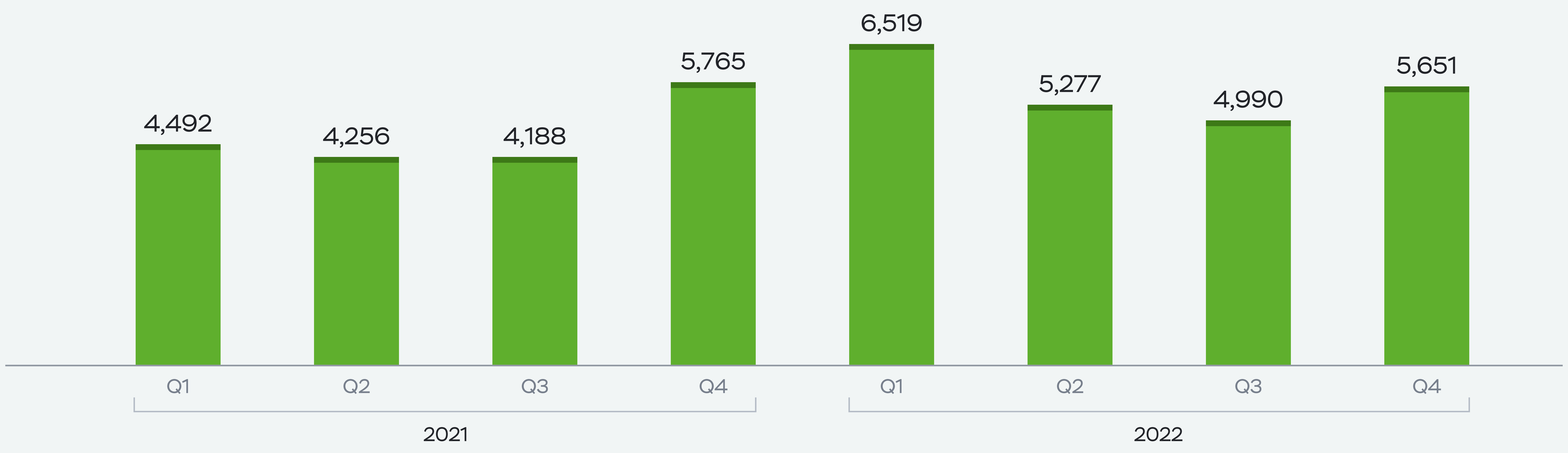
Business model

Same-day / next day delivery

1. Order made by customer via X5 proprietary app or website
2. Order received at the nearest X5 dark store
3. Order assembled at X5 dark store
4. Order picked up by X5 courier for delivery
5. Order delivered



NET SALES, RUB mln



NUMBER OF ORDERS AND AVERAGE TICKET

In 2022 we launched the transformation of the Vprok.ru business model, looking to drive maximum service efficiency:

- We consolidated Vprok.ru and express delivery services under X5 Digital to maximise synergies between the two e-commerce businesses, including in back office operations, IT and development
- We conducted a comprehensive review of the product range in order to eliminate slow moving stock while expanding our fresh and ultra-fresh assortment, primarily in fruits and vegetables
- We fine-tuned our marketing strategy to double down on existing customers, increasing the frequency of their purchases, retention and repeat visits

PLANS FOR 2023

Our focus in 2023 will be on securing further gains in operational efficiency by:

- refining internal processes to accelerate order picking and fulfilment
- strengthening our interaction with the existing customer base while maintaining the inflow of new customers
- reviewing pricing approaches to increase margins while retaining the customer's perception of Vprok.ru as a hypermarket with low prices

Mnogo Lososya

Mnogo Lososya is a digital service encompassing a nationwide network of dark kitchens and café points serving ready-to-eat food. Mnogo Lososya joined the X5 family in early 2021.

As at 31 December 2022, Mnogo Lososya operated 56 kitchens (including four franchisees) and 235 café points in Perekrestok stores. Most of the dark kitchens (49) are located in Moscow and produce more than 200 ready-to-eat SKUs which can be ordered via the service's own Mnogo Lososya app or through delivery aggregators. Café points in Perekrestok stores can be found in 11 cities and offer sushi, pizza, doner, and much more.

Mnogo Lososya grew its business organically in 2022, launching operations in nine new cities (in addition to existing facilities in Moscow and St Petersburg). The service opened over 160 café points in 2022.

KEY 2022 HIGHLIGHTS

4.1 RUB BLN
GMV
+153% y-o-y

1.5 MLN
Delivery orders
+99% y-o-y

56
Dark kitchens in operation
incl. four franchisees

1,915 RUB
Average ticket for delivery
+17% y-o-y

We also focused on improving the efficiency of operations by refining our supply chain, exploring opportunities with third-party logistics (3PL) providers for cooking and delivery, cutting down on shrinkage, and boosting labour productivity.

Mnogo Lososya fine-tuned its marketing strategy in 2022 to increase brand awareness in the market.

PLANS FOR 2023

- Continue to expand with café points across X5's retail chains
- Grow operations in Moscow to encompass 55–60 dark kitchens covering major delivery destinations
- Continue to drive brand awareness
- Focus on developing own sales channel and positive brand recognition in Moscow

5Post

5Post is X5's last-mile delivery service for Russian and international e-commerce platforms, delivering goods across a network of parcel lockers and pickup points operated either by 5Post or by X5 retail staff at the checkout area in Perekrestok and Pyaterochka stores. Leveraging our vast nationwide retail infrastructure, 5Post has successfully scaled up a low-cost, high-quality service that augments our core businesses by driving store traffic while also unlocking additional revenue.

In 2022, 5Post secured positive EBITDA and maintained business volumes despite a downturn in parcels from international vendors. Shipping volumes by vendors that suspended their operations in Russia were successfully replaced through cooperation with some new (e.g. Lamoda, Avon, Gold Apple, etc.) and existing clients.

KEY 2022 HIGHLIGHTS

2.7 RUB BLN
Revenue

~26 MLN
Parcels delivered

>300
Commercial partners

35
Sorting facilities

KEY COMPETITIVE ADVANTAGES

- Nationwide network of conveniently located pickup points
- Leverages X5's existing logistics operations (distribution, logistics and stores)
- Broad and loyal customer base
- Multi-channel pickup options: directly from stores, lockers or pickup points
- High quality last-mile delivery

23,926
Pickup points
including 5,688 parcel lockers

Business model

- Parcel acceptance for delivery from marketplaces – domestic/cross-border
- Parcel delivery to hub – first mile
- Parcel sorting at hub
- Parcel delivery to satellites – interbranch transportation
- Parcel sorting at satellites
- Parcel delivery to X5 stores – last mile
- Parcel pickup by customers – cashier desk, lockers, pickup points

KEY PARTNERS IN 2022

TMALL AliExpress

Shop& Show

М.Видео

ORIFLAME SWEDEN

JOOM

Я Маркет

детский мир

ЧИТАЙ ГОРОД

AVON

Золотое Яблоко

KEYS TO SUCCESS: X5'S LOGISTICS PLATFORM FOR E-COMMERCE

E-commerce is a growing force in the overall retail market, and 5Post offers a way for X5's core businesses to tap into that growth. Our last-mile delivery service partners with top e-commerce platforms to deliver parcels directly to our stores, meaning we are able to better serve our customers while also strengthening X5's position as an active player in the digital market.

We run a nationwide network with a presence in 58 regions. This scale of operations is comparable only to the Russian postal service; but in larger cities, the number of X5 distribution centres (DCs) and stores offering 5Post parcel pickup actually exceeds the density of the postal network.

We have been able to grow the 5Post business with relatively low investment, as we can build directly on X5's existing infrastructure while rapidly scaling up our nationwide logistics network to support our e-commerce platforms.

5POST'S COMPETITIVE ADVANTAGES

Efficiency

X5 is one of the most efficient logistics operators in Russia by cost per order thanks to efficient business processes and our ability to leverage X5's existing logistics infrastructure

Coverage

A nationwide network of convenient pickup points

Accessibility

5Post pickup points are located within just 1 km (10-minute walking distance) of over 70% of the Russian population

Convenience

Parcels can be collected in stores from lockers, pickup points or checkouts

Plans for 2023

We plan to continue to actively grow 5Post on the back of X5's existing infrastructure.

OUR KEY GOALS AND INITIATIVES INCLUDE:

- Accelerate integrations with new partners and increase 5Post's share of deliveries with existing clients
- Develop new services and expand our footprint to new regions
- Focus on business efficiency and achieve profitability targets
- Enter the C2C delivery market
- Further scale return and drop-off services
- Launch 5Post services in Siberia on the back of the Tolmachevo DC (Novosibirsk) and start deliveries to Perekrestok supermarkets in the Republic of Adygea (Adygea DC) and Samara (SLK DC)
- Continue optimising 5Post's warehouse and transport infrastructure processes

Food.ru

Food.ru is a media platform to engage customers at the early stages of their shopping journey by offering online recipes, cooking workshops and advice on topics like healthy eating. Food.ru offers information to customers in the consideration and choice stages, and by integrating with X5 services like express delivery and Vprok.ru, it helps us guide customers towards continuing their shopping journey with X5.

Food.ru is the cornerstone of our strategic goal to build a food market business present across the entire customer journey. By offering consumers a dynamic, engaging media platform that is regularly updated with a wide variety of food-related content, we are able to deliver a seamless customer experience throughout the journey.

Food.ru unlocks a direct communication channel with the target audience, generating traffic and converting clicks to sales at X5's core businesses.

KEY 2022 HIGHLIGHTS

CONTENT

>72 THS
recipes, including recipes with step-by-step photos and/or videos

>39 THS
user-submitted recipes
including 34,500 submitted in 2022

>8 THS
editorials and advice columns
including 2,500 added in 2022

>1.3 THS
marketing integrations successfully launched with Pyaterochka, Perekrestok, Mnogo Lososya, Vprok.ru, and X5 Club

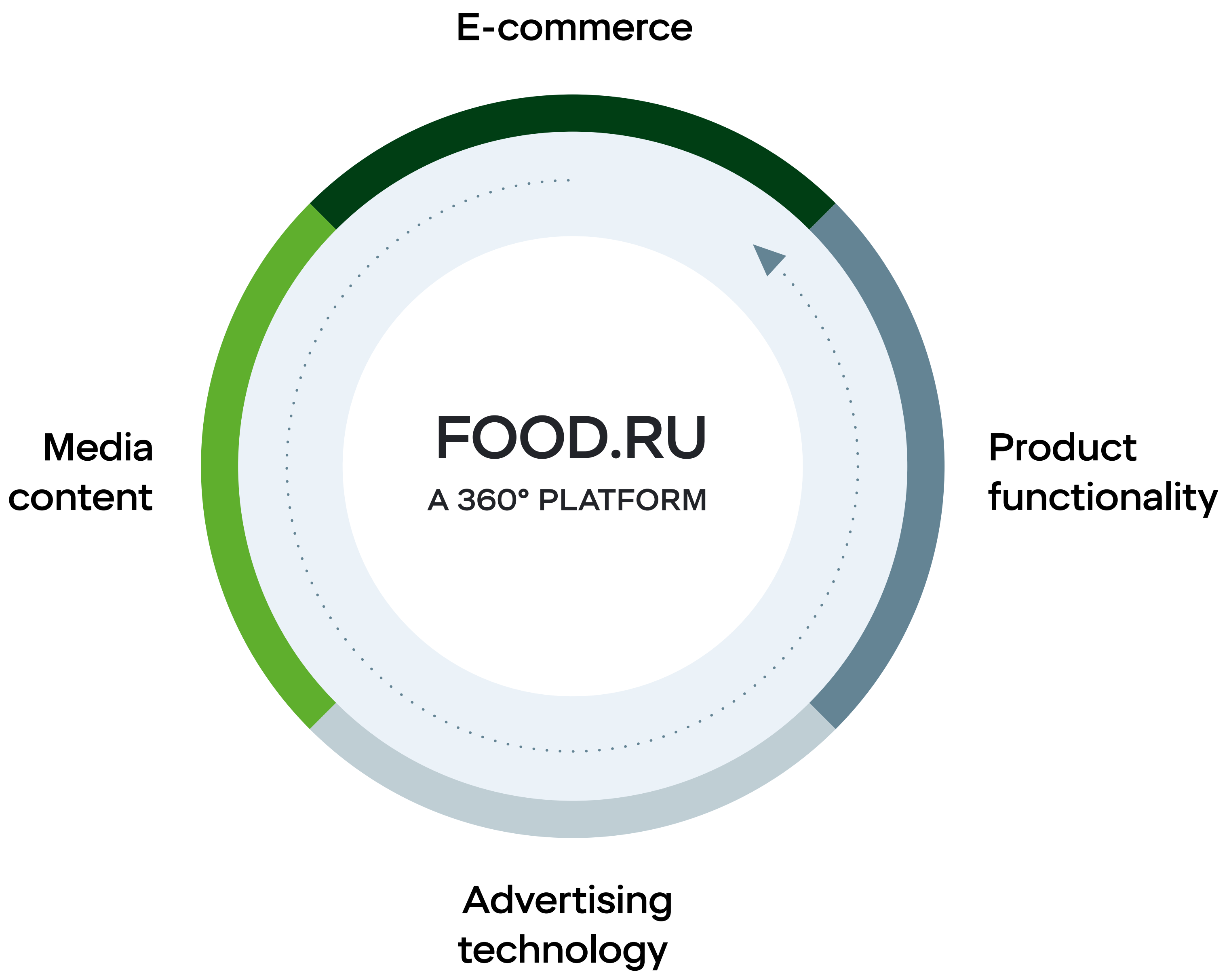
>900
product placements built into our recipes

AUDIENCE

11 MLN
MAUs

1.5 MLN
users downloaded the Food.ru mobile app

FOOD.RU: A 360° PLATFORM



- Content for users (recipes, articles and master classes) with integrations and product placement for X5's retail chains
- An e-commerce asset with full functionality for ordering products from X5's (and partners') e-grocery businesses; a single entry point to all X5's businesses
- E-grocery functionality for users (order products from a recipe, meal plans, a calorie calculator, etc.)
- Opportunities to use different marketing channels to advertise X5's and partners' businesses on the Food.ru advertising platform

Plans for 2023

We aim to keep growing the platform's content while further integrating Food.ru into our core businesses in the year ahead.

MEDIA

15 MLN MAUs +36% y-o-y	**+60 %** Average time spent on the site	Launch of a platform with food bloggers for X5's businesses and suppliers

E-COMMERCE

>90 THS Cumulative total of orders from X5's retail businesses	**>50 THS** New ordering customers	Integration of Pyaterochka into the Food.ru store and direct orders from recipes

Logistics and transport

Pyaterochka

As at 31 December 2022, Pyaterochka's logistics operations encompassed 39 distribution centres (DCs) serving 19,164 stores in 67 Russian regions.

2022 stretched Pyaterochka's suppliers, as a number of foreign brands exited the Russian market and supply chains were disrupted. The company worked closely with partners to develop a joint planning process and expand its assortment. Product availability was at 93.7% in 2022, peaking at 95% in the December high season.

In 2022, specialised surveys revealed that suppliers highly valued the reliability and customer-centricity of the company's supply chain management. In particular, Pyaterochka ranked first in a survey of alcohol sector suppliers (SCM Alco Survey) and fourth in a survey of fresh product suppliers.

Pyaterochka also took first place in the Advantage survey, with its collaborative planning, forecasting and replenishment (CPFR) project rated the best solution in the industry.

In 2022, Pyaterochka launched two new DCs in the Moscow Region and Bryansk, as well as four 3PL sites in Moscow, Izhevsk, Yekaterinburg, and Orenburg.

Expanding digitalisation

- Continued to connect suppliers to the CPFR tool, adding 10 new vendors in each category
- Deployed a rolling order forecasting programme for more than 2,000 PLUs
- Increased direct imports from RVI (X5's importing legal entity), with turnover growth in potatoes (+49%), drupes (+21%), pineapples (+61%), and alcohol (+9%). Continued to scale the end-to-end stock model and sales and operations planning process in conjunction with RVI, helping to make imported goods more affordable while managing inventory across the supply chain. As a result, X5 became the number one alcohol importer in Russia. Also, RVI closed two underperforming 3PL facilities to improve operational efficiency. Kicked off a major cross-format integrated business planning (IBP) project together with RVI in the fruit and vegetables category
- Machine learning–based regular sales forecasting was run before the start of the high season. The solution had been rolled out across all regions of operations
- The roll-out of the JDA Distribution Centre and Store Restocking project continued, supporting the end-to-end movement of goods from DCs to stores and the automation of restocking processes

Process maturity

- Pyaterochka was selected as the winner in the Best Mentor Team category at the Izotov Cup, a national mentoring competition
- The Supply Chain Management Division won the top prize for three of its projects in the Idea Challenge, X5's corporate innovation competition
- Pyaterochka continued to serve as a special partner for the Strong Link: Student League interuniversity competition, with the aim of strengthening the company's talent pipeline
- The Supply Chain Management Division once again participated in the annual Top 100 Dialog supplier conference, where it shared its experience and expertise at around a dozen specialised discussion forums and conferences

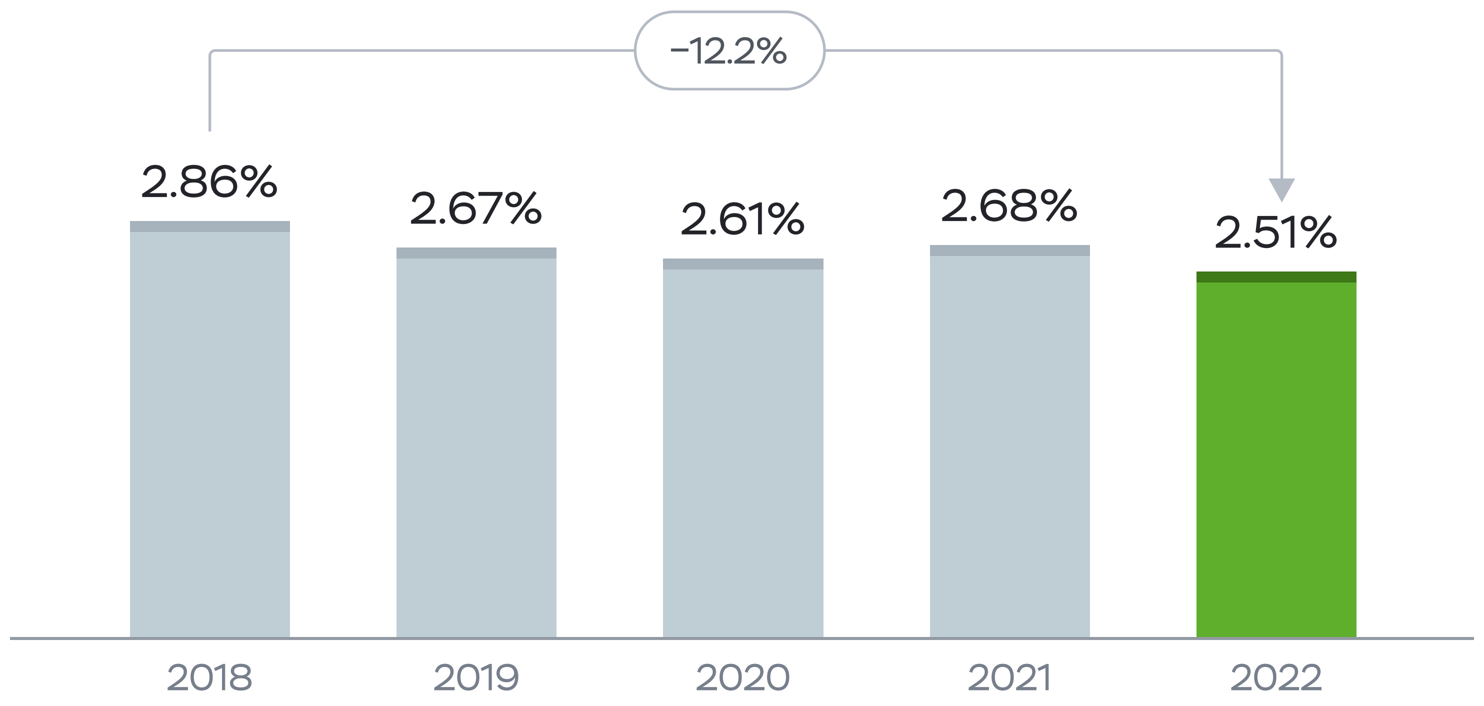
Operational efficiency

In 2022, efficiency gains completely offset earlier capex in warehouse and transport personnel. Pyaterochka was also able to get back on track with reducing logistics costs.

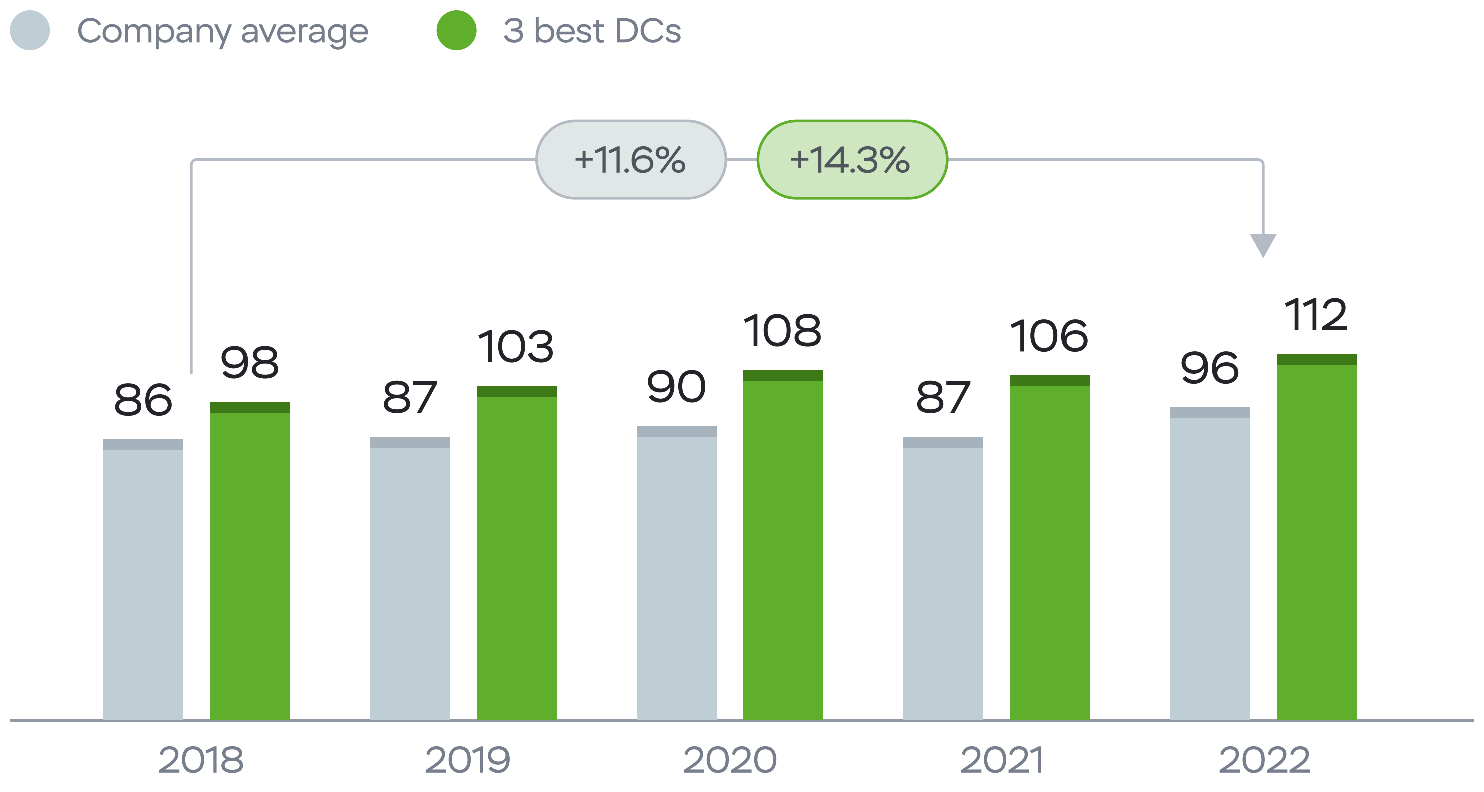
KPIs for warehouse efficiency in terms of DC throughput and overall warehouse performance remained at a consistently high level.

Storage and transport costs

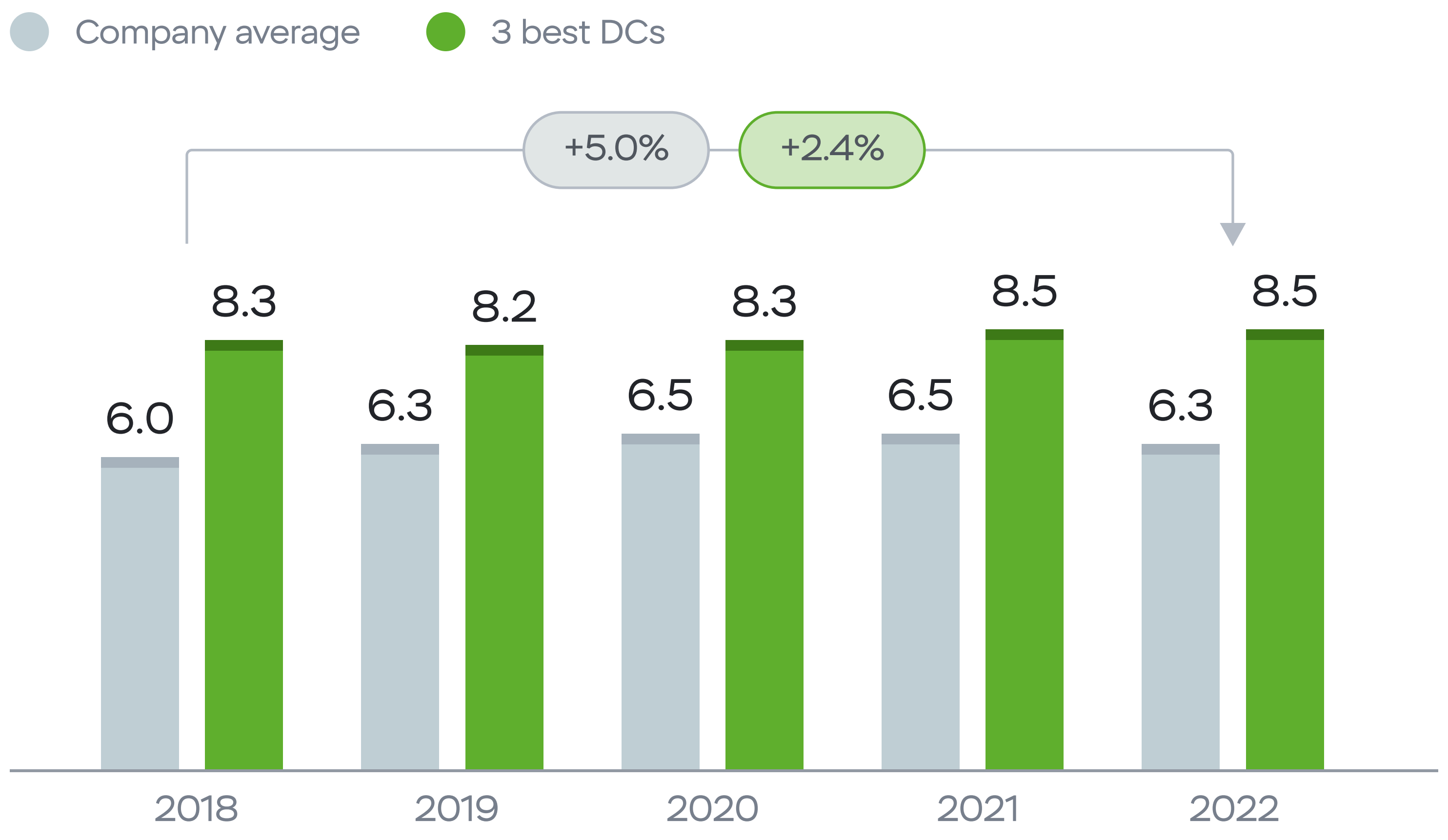
(excl. pickup, incl. recyclable materials), % of sales



OWR, boxes/hour



DC throughput, boxes/sqm



Achieving sustainability goals

- Issued Labour Conditions Standards, which describe further improvements to workplace safety, recreational opportunities, working shifts, communication with personnel, upskilling, training, and professional development at Pyaterochka's DCs. At the end of 2022, 90% of staff gave a positive rating to their working conditions, versus 80% in 2021
- Developed and introduced new guidelines on the collection of recyclables, including daily monitoring and a motivation system. As a result, 549 million tonnes of recyclables were collected in 2022, a 4% increase versus 2021

Plans for 2023

- Expand the IBP project into beverages and groceries
- Further roll out the replenishment solution to facilitate ordering stock from DC suppliers, and use sales forecasts to develop a rolling order forecasting project with vendors
- Launch six new DCs in Volgograd, Krasnodar, Samara, Orenburg, Omsk, Yekaterinburg, as well as one 2PL DC in Khabarovsk

Perekrestok

Perekrestok's logistics operations support the chain's own supermarkets and Karusel hypermarkets. Throughout 2022, the company implemented changes to drive further gains in efficiency, quality and the digitisation of operations. As at 31 December 2022, Perekrestok's logistics encompassed eight DCs, which helped support the operations of 971 supermarkets and 12 Karusel hypermarkets across 47 regions of Russia.

Key 2022 highlights

Launched qualification upgrade centres for warehouse and transport personnel

Launched a Business Intelligence programme for the supply chain, automated smart reporting, a mobile workplace for DCs, and a number of other innovative solutions

Kicked off the Talent Development Centre programme for middle management and paid special attention to improving working conditions at DCs

Planning

- Carried out a collaborative initiative with key suppliers, allowing for the majority of the programme's participants to improve their service level and reduce shrinkage
- Inventories decreased by 1.1 days year-on-year, a result of rolling out the inventory replenishment digital solution
- Improved forecast quality by 1.5%–2%, which secured product availability amid high volatility in demand throughout 2022
- The Customer Service initiative was launched to improve dialogue with suppliers and transport companies, as well as between retail team functions

Physical logistics

- A new, high-performance DC with a total warehousing area of 14,000 square metres opened in Voronezh, supporting the operations of 55 supermarkets in the area
- Developed and implemented the route to market (RTM) service model to improve efficiency in logistics, increase product availability and reduce shrinkage
- Procurement quality for all DCs rose to 99.8%
- Worked with vendors to develop and implement a set of logistics solutions that reduce the supply chain costs
- The Working in a Safe Environment (WISE) programme was launched, which resulted in a 2.4x reduction in the injury rate across the supply chain in 2022
- Launched the Keep Me Cool programme at DCs and in the transport division, aimed at strict monitoring of temperatures for all types of products
- Launched a programme to improve sanitation and pest control at DCs
- Launched Freshmania, a programme to boost the freshness of fresh and ultra-fresh products

Plans for 2023

- Launch a new DC in Nizhny Novgorod
- Deploy new fruit and vegetable packaging technology at DCs
- Implement neural network algorithms in forecasting processes to unlock agile responses to shifting demand and secure a 2x reduction of out-of-stock rates
- Fully automate the AutoOrder tool
- Launch X5's proprietary warehouse management system (WMS) at two pilot DCs
- Implement the Lean DC programme
- Launch the Supply Chain Academy for network management
- Develop initiatives to improve labour safety and reduce injury rates at DCs

Chizhik

In 2022, Chizhik's logistics encompassed six DCs operating in Nizhny Novgorod, Voronezh, Ufa, Yekaterinburg, and the Moscow Region (Litvinovo and Noginsk), providing deliveries to eight regional sales divisions.

In the reporting period, the Centre of Competence and operations teams were created, which enabled the efficient and rapid launch of six distribution centres ready to support network expansion and to ensure the supply of products to 517 stores in 13 Russian regions.

Key 2022 highlights

Launched six new DCs

Construction of new DCs started to support network expansion in 2023–2024

Procured 500+ vehicles for supplies to Chizhik stores in 2022–2023

Drafted procedures and instructions to ensure project scaling

Geared up for the launch of X5's WMS, which looks to streamline and automate DCs' operations

Plans for 2023

- Maintain Chizhik's network growth in existing and new regions and increase DC and transport productivity in the company's current regions of operations
- Hire operational teams and launch new DCs to supply goods for Chizhik stores
- Make preparations for DCs slated for launch in 2024
- Improve the efficiency of DCs launched in 2022–2023

X5 Transport

Efficient and reliable transport operations are key to multiple aspects of the Company strategy, strengthening existing operations by reducing costs and supporting the development of new businesses which leverage existing transport capacity to offer services such as last-mile delivery.

As at 31 December 2022, X5 Transport's fleet comprised 4,386 trucks, which handled about 80% of the Company deliveries during the year.

Key 2022 highlights

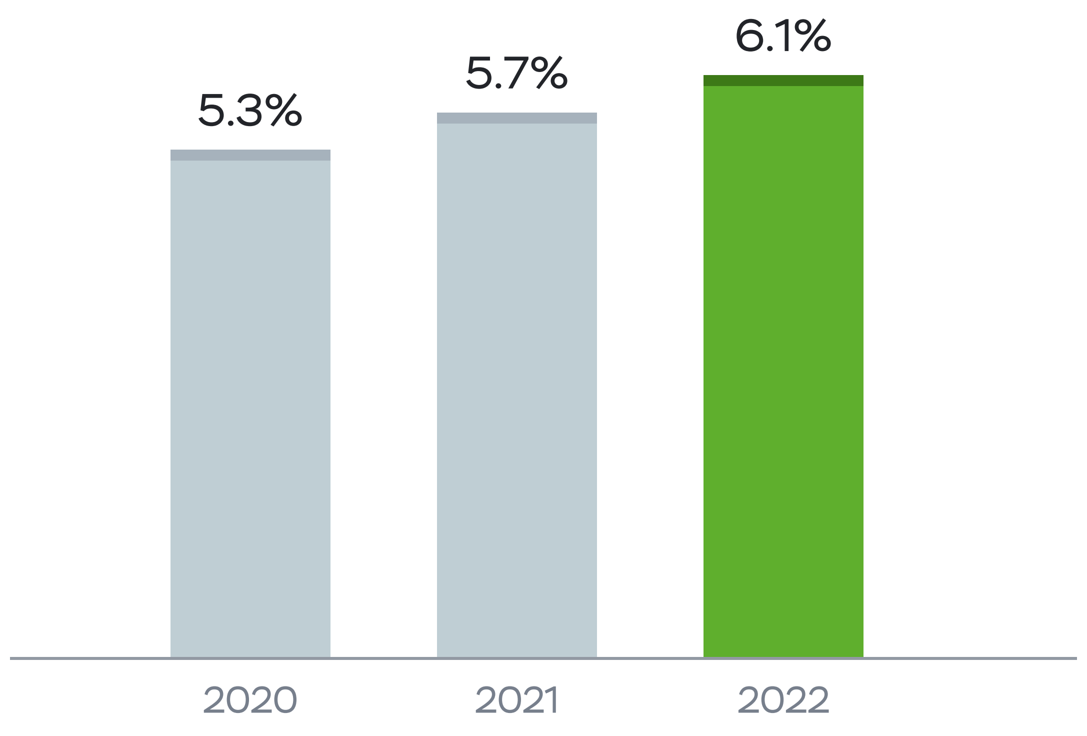
- 459 new trucks were procured to expand and refresh X5's own fleet
- While many suppliers faced a shortage of vehicles for deliveries, X5 actively developed a pickup and commercial delivery service for suppliers. This service expanded by about 60% versus 2021
- The Company improved working conditions for drivers and other employees:
  - X5 launched a road safety portal. Portal data indicates that preventive measures are taken in a timely manner, including additional driver training
  - The Company equipped more than 60% of its fleet with the Antison (anti-sleep) system, which brought down the accident rate by an average of 30% for own trucks. Antison monitors the physical condition of drivers behind the wheel as well as the road conditions
- As part of ongoing efforts to optimise fuel consumption and reduce emissions:
  - about 20% of X5's own fleet has been converted to gas-diesel engines
  - specific greenhouse gas emissions per square metre of selling space decreased by around 6%
  - the share of empty runs, taking into account the return of recyclable materials and returnable packaging, decreased by more than 10%
- The Company continued to develop X5.Transport, a single digital platform that encompasses AI- and big data-enabled solutions
- The Company significantly increased the use of electronic document management in its transport division. Electronic consignment documents for internal shipments undertaken by the Company's own vehicles were used for more than 90% of the total number of trips

Plans for 2023

- Further develop X5.Transport by speeding up processes through automation, expanding channels for fulfilling orders with own and hired vehicles, and deploying convenient services for drivers
- Increase efficiency and build expertise in vehicle maintenance and repair, while expanding the network of own repair stations. Build automated accounting and repair analysis systems for repair costs
- Further develop electronic document management, digitalise the remaining documentation, and create an electronic waybill and electronic service applications
- Continue testing and adopting alternative fuel vehicles and launch a pilot project for the use of electric trucks
- Expand the Company's delivery footprint, including in the Far East of Russia
- Expand strategic partnerships with major transport companies
- Focus on ESG: reducing empty runs and responsibly consuming resources (water, energy and waste)

Direct imports

Total share of direct imports, % of cost of sales



Key achievements for direct imports in 2022

We continued to develop our own infrastructure throughout 2022 by signing contracts with 3PL warehouses to support growing volumes in beverages, groceries and non-food supplies

The overall increase in direct imports in 2022 stood at 25% in rouble terms, mainly driven by growth in spirits and beverages, fresh and ultra-fresh products, as well as related goods and general merchandise

As at the end of 2022, RVI was Russia's number one importer of spirits and canned pineapples by volume

We systematically identified alternative supplies to replace the brands that exited the Russian market in 2022, and X5 managed to optimise most of its line-haul supply routes despite geopolitical headwinds. We became the first and only direct import operator in Russia to deliver a pallet ship full of citrus products from Turkey to St Petersburg

As at 2022-end, our Direct Imports business unit operated four hubs:

- Pulkovo
- Bogorodsk
- Novorossiysk
- Yekaterinburg

and 3PL facilities

Plans for 2023

- Further increase the volume of direct imports by 25% year-on-year driven by growth in general merchandise, fruit and vegetables, spirits/beverages, and dry groceries
- Improve the efficiency of operations by boosting investment into own and 3PL infrastructure
- Explore markets open to trading with Russia amid the changing supplier base
- Develop sales and operations planning (S&OP) process

X5 Technologies

X5 Technologies (X5 Tech) is the key digital partner of X5 Group's retail chains and businesses. X5 Tech offers solutions that help millions of people purchase their favourite food items – fresh and at the best price – every day. IT X5 Technologies LLC is an accredited IT company.

At present, its team is focused on generating proprietary, vendor-agnostic solutions and products. The company's core expertise is in developing software, databases, data assets, and products driven by big data while also enhancing our own IT team.

KEY 2022 HIGHLIGHTS

>26 MLN
Users have registered in X5 ID identification system

+35 %
X5 Tech's attractiveness growth
in the Top 50 IT Brands to Work For ranking compiled by Habr and ECOPSY Consulting

<1 DAY
Average time for capacity allocation
With the rollout of the X5 Cloud platform, the average time for capacity allocation was cut from 21 days to less than a day

+4 THS
Members
The number of users of X5 Group's analytical reporting tools has tripled

3
New platforms enabled by our proprietary solutions and partner technologies have been introduced
a loyalty programme, store and checkout management and SAP BW analytical reporting

X5 Tech: Digital solutions for people and business

X5 Tech's key objective is to ensure business continuity by engineering digital solutions for X5 Group businesses and partners. X5 Tech works to help the Group's businesses offer the best product assortment, quality, prices, and service to customers. To achieve this, X5 designs and enhances integrated digital solutions informed by extensive user experience research. IT solutions for managing the Group's internal processes lead to stronger performance, including in its engagements with partners. X5 Tech also has in place a standalone team that generates IT solutions to support basic processes, accounting and regulatory compliance.

X5 Tech offers a full development cycle for business, from running requirements analysis and building architecture, to commissioning a finished solution and providing support post-delivery.

SIGNIFICANT IMPROVEMENTS IN DATA QUALITY WERE ACHIEVED ACROSS KEY AREAS OF FOCUS

	FROM	TO
Products	6 %	58 %
Customers	59 %	78 %

One of our key objectives for 2022 was to ensure business continuity by maintaining the stable operation of existing technologies and launching import substitution and proprietary technology projects. The Company has created software solutions and services to ensure the continuity of its critical processes around reporting, customer analytics, employee activities, and much more.

In May 2022, X5 Group launched a proprietary cloud platform. The private-cloud platform, known as Salt, was enabled by open source and proprietary solutions. This cloud platform reduces the total cost of ownership for our IT infrastructure while cutting time-to-market for digital projects and reducing their carbon footprint by leveraging green energy-efficient technologies at state-of-the-art data centres operated by X5 and Selectel.

Salt is much more than a collection of infrastructure and platform management services: it also offers a set of automated processes that allow digital projects to quickly launch in the cloud with all the necessary security settings. Salt relies on a new approach to data security, which ensures a high level of data protection without sacrificing convenience and efficiency for the user. Certain components of the platform are provided to X5's internal customers as a service, including data centre as a service for data storage and processing, offering up to 99.9% availability.

By launching Salt and hosting its cloud at our partners' high-tech data centres, X5 is building a new approach to infrastructure operation.

We have launched an integration platform and developed high-load services that are used in more than 60 products/projects.

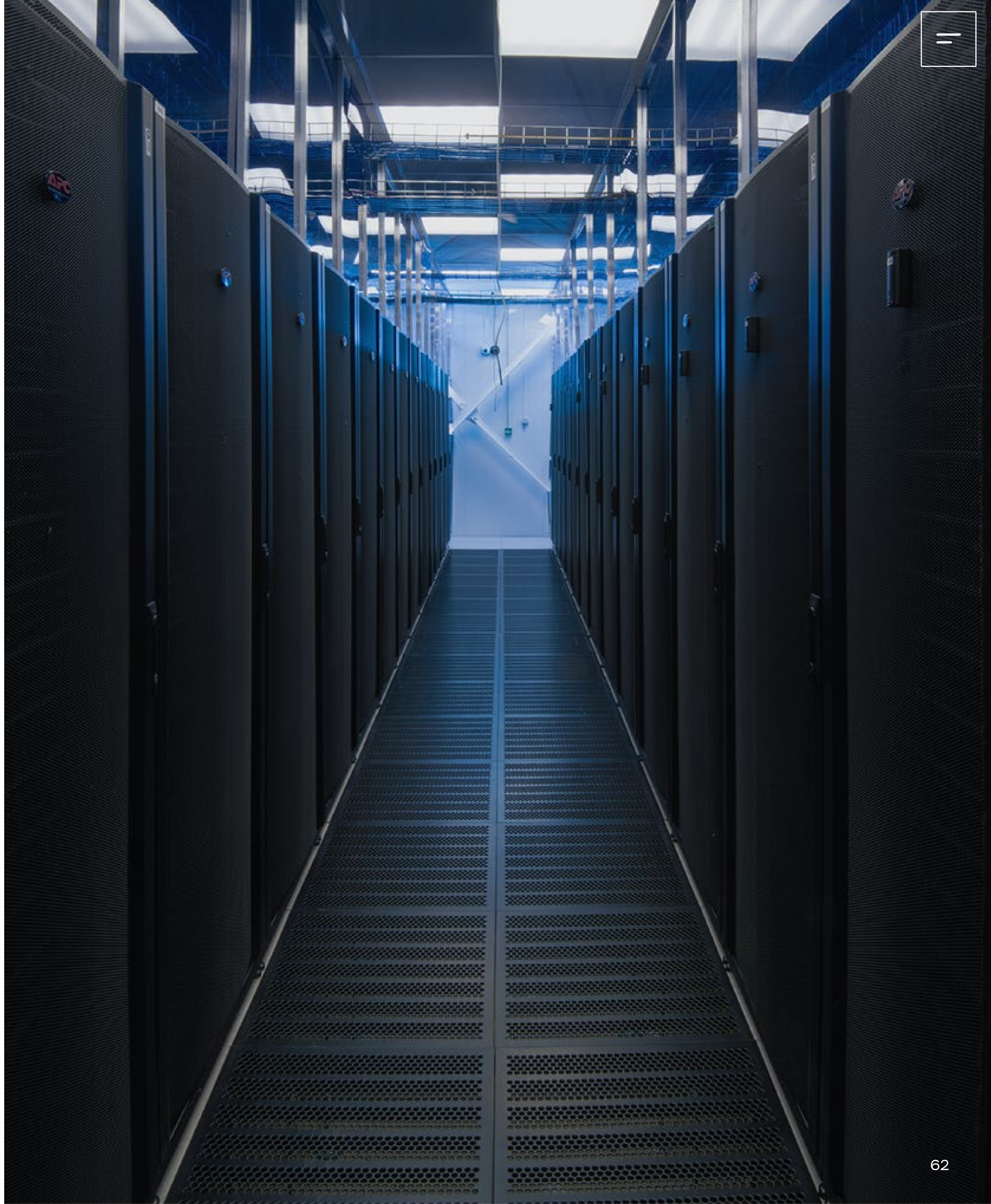
In June 2022, X5 Group launched a new processing system for its loyalty programme based on home-grown technologies. By late 2022, over 19,500 stores had migrated to the new processing system while the number of active loyalty programme members hit 70 million.

The new loyalty programme processing system was launched by X5's technology team on a platform developed by a Russian company. The platform offers new opportunities to enhance the customer experience, including by introducing uniform customer authorisation standards that remove data overlaps and a proprietary crisis-monitoring system with instant alerts. The new processing system relies on X5's infrastructure, which ensures the loyalty programme operates seamlessly and protects customer data effectively.

In late 2022, we developed a personal analytics service based on X5 ID for loyalty programme members, enabling customers to analyse their spending at Pyaterochka and Perekrestok retail chains for the whole year.

The product is X5's proprietary solution, with unprecedented analytics depth for the Russian grocery market. For the first time, X5's retail chain customers have access to an individual breakdown of their annual spending, as well as statistics on specific items: for example, items that were purchased most often or how many kilos of bananas the customer bought during a certain period. The product's page also offers information on bonus points earned during the year and how they can be used. The service also helps customers track their spending, savings on promotions and the value they got from bonus points.

In 2023, X5 Technologies will continue overseeing the smooth operation of X5 Group's businesses by rolling out and enhancing digital solutions and innovations.



Innovations

Despite all the challenges of 2022, X5 Group has maintained its focus on consistently embedding new innovations to enhance its business performance. We have continued strengthening our innovation-driven culture, rolling out advances – whether off-the-shelf products available in the market or proprietary ideas and solutions generated by X5 businesses and teams.

Between 2019 and 2022, the introduction and scaling of innovations delivered RUB 8.6 billion in incremental EBITDA for the Company.

In 2022, we paid particular attention to protecting intellectual property rights to X5's proprietary solutions. As a result, in 2022, the Company obtained over 20 patents for inventions and utility models, both in Russia and abroad, maintaining its competitive edge.

Import substitution and support for Russia-made solutions were a key priority in 2022. For innovations, this involved us exploring new approaches to replacing process equipment to maintain our business process continuity. Over 1,800 technological equipment units were analysed between March and August 2022. For the majority of our equipment, we also found alternative technologies by Russian and Asian manufacturers, testing and incorporating them into our standards. Our existing innovation policy and fast-track process enabled us to resolve these issues in the shortest possible time.

Innovation scouting

External innovations remain an important source in X5's drive for new ideas and technology. Scouting areas are selected in partnership with X5's retail chains, business units and their various functions. Over 2022, technological innovations were scouted out across nine areas: HR, logistics, transport, sustainability, food waste recycling, fruit and vegetable quality, store operations, loyalty programme, and CVM.

Our scouting function also set up a system to engage with Russia's leading research institutes, universities and technology transfer centres. As a result, over 40 projects for extending the storage life of fruit and vegetables were proposed by research institutes and higher education institutions, with 23 projects selected for future pilot.

In 2022, X5 worked with Internet Initiatives Development Fund (IIDF) to launch Russia's first and largest sustainability scouting programme. The programme scouted out innovations in carbon reduction, food waste minimisation, sustainable packaging, and social programmes. A total of 156 startups entered the programme funnel. Following a granular analysis, 10 sustainability startups were shortlisted for piloting.

As far as international scouting is concerned, we have built relationships with major accelerators such as Asian LeanSpark and Latin American Liquid Ventures.

Joint innovations

The Retail Innovation Tech Alliance (X5 Group, Beeline, M.Video-Eldorado Group, Hoff, and Magnum Cash & Carry) has also seen considerable changes in ways of working. In early 2022, ROLF, Russia's leading car dealer, joined the Alliance's ecosystem as a partner. The Alliance has grown significantly through new partnerships in technology (VK and Yandex Cloud) and venture capital (Syndicate Venture Club and United Investors) as well as with the Moscow Innovation Cluster and research communities across the country's research institutes and universities (Technovery). The Alliance's expansion was focused on creating a supportive environment for retail tech startups to emerge and develop. The New Horizons programme was developed in the summer of 2022 to scout out technologies for the Alliance in new markets. Instead of wider scouting initiatives, the programme offers tech-watching and trend-watching across the greatest focus areas for the Alliance's functional teams.

For tech-watching, the Alliance has selected Russia's leading scouting partners: GoTech Innovation, IIDF, LOGA Group, Startech.vc, Dsight, and SOLYANKA, with 23 scouting areas assigned among them. In this way, the Alliance is supporting and enhancing Russia's innovation ecosystem.

Today, the Retail Innovation Tech Alliance is a major source of external solutions for X5.

Fostering intrapreneurship and working with students

Our internal innovation engine, the X5 Idea Challenge programme, has become a key tool for boosting our business performance. In 2022, the Company began to reap the results of pilots launched in 2021. A third of the Innovation Department's impact on X5's EBITDA was generated by this programme.

Despite last year's challenges, in September, we launched a third wave of internal innovations, X5 Idea Challenge 3.0, gathering 309 ideas. The total audience of the programme's three waves exceeded 1,000 people. Over 450 employees from various units of X5 Group took part in the acceleration programme. Different Russian regions are strongly involved in the project, with most participants coming from Moscow, St Petersburg, Nizhny Novgorod, Voronezh, Yekaterinburg, Chelyabinsk, and Omsk.

A total 897 ideas were generated from the programme's three waves. Sixteen projects were piloted after the first two waves. Eight pilots have already been successfully completed, confirming they make a positive impact and are ready to be rolled out across our retail chains. Successful teams each received a bonus of RUB 1 million.

X5 Idea Challenge is also a career enhancement programme, identifying, upskilling and training internal candidates – proactive, promising talents with an entrepreneurial mindset. On completion of the programme, almost 40% of participants are promoted, with many of them expanding their competencies and achieving horizontal growth within the Company as experts. We have built a community of internal innovators who now act as change agents across the Company.

Financial review

The financial and operational information contained in this financial review comprises information about X5 Group N.V. and its consolidated subsidiaries (hereinafter jointly referred to as "we", "X5" or the "Company"). The following is a review of our financial condition and results of operations as at 31 December 2022 and for the years ended 31 December 2022 and 31 December 2021. The consolidated financial statements and related notes thereto are available on pages 148–239 of this document and were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Key 2022 highlights

REVENUE
2,605 RUB BLN
+18.2%, 2021/22

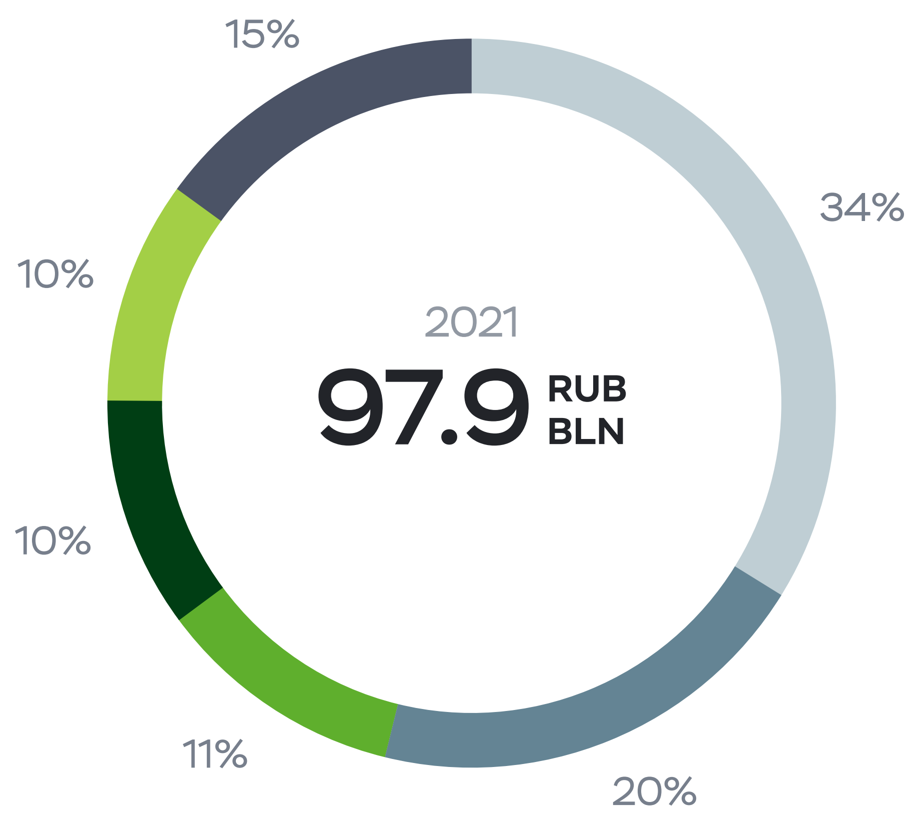
GROSS PROFIT MARGIN
24.4% IFRS 16, −108 b.p., 2021/22
24.1% pre-IFRS 16, −104 b.p., 2021/22

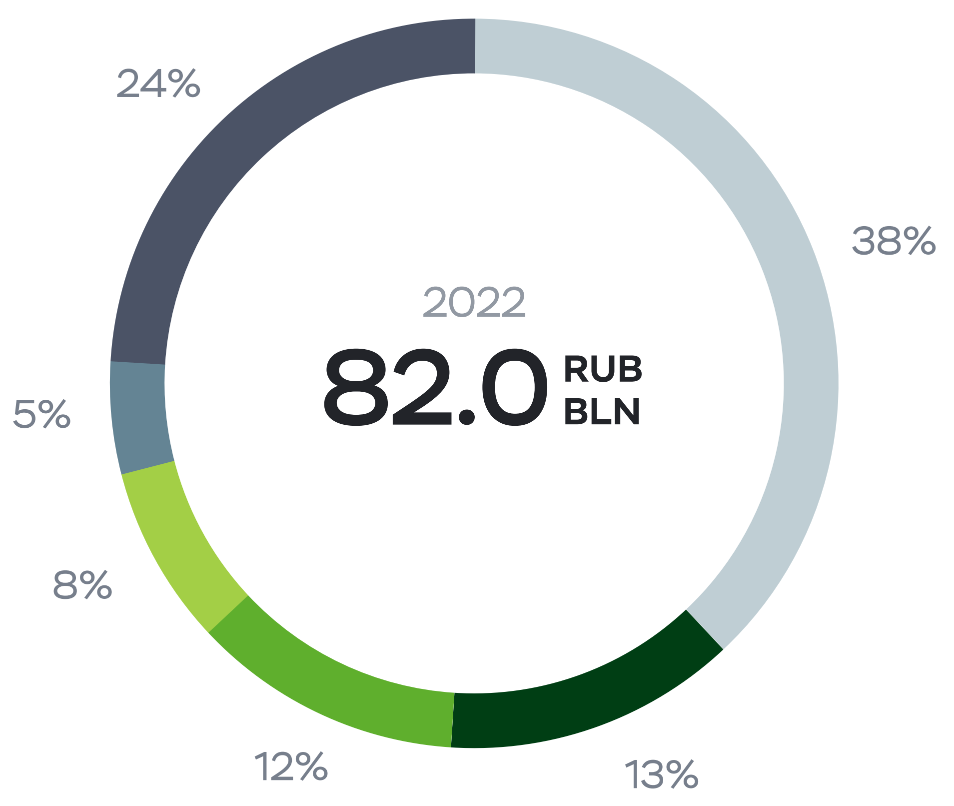
NET DEBT/EBITDA
2.58x IFRS 16
1.02x pre-IFRS 16

CAPITAL EXPENDITURE
82.0 RUB BLN
−16.2%, 2021/22

ADJUSTED EBITDA MARGIN
11.7% IFRS 16, −56 b.p., 2021/22
7.3% pre-IFRS 16, −17 b.p., 2021/22

Capital expenditure structure, %





New store openings · IT · Maintenance · Logistics · Refurbishments · Other, including new businesses

Results of operations for the year ended 31 December 2022 compared with the year ended 31 December 2021

The following table and discussion provide a summary of our consolidated results of operations for the years ended 31 December 2022 and 31 December 2021.

Profit and loss statement: highlights

	IFRS 16			pre-IFRS 16		
Russian roubles (RUB), millions[1]	2022	2021	% change, y-o-y	2022	2021	% change, y-o-y
Revenue	2,605,232	2,204,819	18.2	2,605,232	2,204,819	18.2
incl. net retail sales[2]	2,596,086	2,194,477	18.3	2,596,086	2,194,477	18.3
Pyaterochka	2,122,793	1,793,676	18.3	2,122,793	1,793,676	18.3
Perekrestok	385,495	348,941	10.5	385,495	348,941	10.5
Karusel	15,693	31,742	(50.6)	15,693	31,742	(50.6)
Chizhik	35,893	2,940	12x	35,893	2,940	12x
Gross profit	635,196	561,317	13.2	626,744	553,363	13.3
Gross profit margin, %	24.4	25.5	(108) b.p.	24.1	25.1	(104) b.p.
Adj. SG&A[3]	(352,346)	(314,017)	12.2	(457,640)	(410,205)	11.6
Adj. SG&A, % of revenue	13.5	14.2	(72) b.p.	17.6	18.6	(104) b.p.
Adj. EBITDA	305,529	271,023	12.7	189,468	164,197	15.4
Adj. EBITDA margin, %	11.7	12.3	(56) b.p.	7.3	7.4	(17) b.p.
EBITDA	302,849	267,850	13.1	186,788	161,024	16.0
EBITDA margin, %	11.6	12.1	(52) b.p.	7.2	7.3	(13) b.p.
Operating profit	138,118	117,572	17.5	97,632	84,359	15.7
Operating profit margin, %	5.3	5.3	(3) b.p.	3.7	3.8	(8) b.p.
Adj. net profit[4]	47,210	44,613	5.8	54,270	50,323	7.8
Adj. net profit margin, %	1.8	2.0	(21) b.p.	2.1	2.3	(20) b.p.
Net profit	45,188	42,738	5.7	52,248	48,513	7.7
Net profit margin, %	1.7	1.9	(20) b.p.	2.0	2.2	(19) b.p.

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

2 Net of VAT and revenue from wholesale operations and revenue from franchise services and other services. Including Mnogo Lososya, Krasny Yar and Slata.

3 Adjusted SG&A is SG&A before depreciation, amortisation and impairment costs as well as costs related to the LTI programme, share-based payments and other one-off remuneration payments and the one-off impact of the Karusel transformation. For more information on alternative performance measures, see pages 73–76.

4 Adjusted net profit is net profit before the effect of the Karusel transformation and tax accruals related to previous periods, including X5's reorganisation.

Revenue and net retail sales

In 2022, X5's revenue increased by 18.2% year-on-year to RUB 2,605 billion. Net retail sales for 2022 grew by 18.3% year-on-year, driven by a 10.8% increase in like-for-like (LFL) sales and a 7.5% sales growth contribution from an 8.3% rise in selling space.

The Company's proximity store format, Pyaterochka, was the main growth driver in 2022: Pyaterochka's net retail sales rose by 18.3% year-on-year, driven by a 11.7% increase in LFL sales and a 6.6% contribution to sales growth from a 6.4% expansion in selling space. LFL traffic increased by 3.5% year-on-year, while the LFL basket grew by 7.9% year-on-year.

Perekrestok's net sales increased by 10.5% in 2022, driven by a 7.1% increase in LFL sales on the back of 7.1% LFL basket growth.

Karusel experienced a 50.6% decline in net retail sales, driven by downsizing as part of the format's transformation programme.

In 2022, Chizhik's net sales rose 12x year-on-year. The number of stores reached 517 as at 31 December 2022.

Gross profit

The Company's gross profit margin under IFRS 16 in 2022 decreased by 108 b.p. year-on-year to 24.4% (decreased by 104 b.p. to 24.1% pre-IFRS 16). The decline was mainly driven by a reduction in commercial margin due to price investments and the aggressive expansion of Chizhik. This is in line with the strategy of hard discounters, which typically operate with lower commercial margins, thus contributing to the overall reduction.

Summary of operating results

2022 net retail sales and sales drivers

% change, y-o-y	Average ticket[1]	Number of customers[1]	Net retail sales
Pyaterochka	7.9	9.9	18.3
Perekrestok	7.1	3.3	10.5
Karusel	5.3	(53.1)	(50.6)
Chizhik	11.0	11x	12x
X5 Group	7.2	10.4	18.3

Selling space (end of period)

square metres	31-Dec-22	31-Dec-21	% change, y-o-y
Pyaterochka	7,497,056	7,048,488	6.4
Perekrestok	1,085,496	1,098,905	(1.2)
Karusel	49,225	128,063	(61.6)
Chizhik	152,370	20,327	7x
X5 Group[2]	9,107,479	8,409,757	8.3

2022 LFL[3] results

% growth, y-o-y	Sales	Traffic	Basket
Pyaterochka	11.7	3.5	7.9
Perekrestok	7.1	0.0	7.1
Karusel	(14.3)	(16.0)	2.1
X5 Group	10.8	3.1	7.5

Sales of offline and digital businesses

RUB mln	2022	2021	% change, y-o-y
Pyaterochka	2,100,019	1,779,567	18.0
Perekrestok	365,283	337,391	8.3
Karusel	15,693	31,723	(50.5)
Chizhik	35,893	2,940	12x
Offline net sales[4]	2,531,369	2,151,621	17.7
Digital businesses' net sales	70,354	47,943	46.6
Total net sales	2,601,723	2,199,564	18.3

1 Excluding Vprok.ru.
2 Including Vprok.ru, Mnogo Lososya, Krasny Yar and Slata, and joint dark stores.
3 LFL comparisons of retail sales between two periods are comparisons of retail sales in the local currency (including VAT) generated by relevant stores. The stores that are included in LFL comparisons are those that have operated for at least 12 full months. Their sales are included in the LFL calculations starting from the day of the store's opening. We include all stores that fit our LFL criteria in each reporting period.
4 Including Krasny Yar and Slata.

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

	IFRS 16			pre-IFRS 16		
RUB mln	2022	2021	% change, y-o-y	2022	2021	% change, y-o-y
Staff costs	(209,940)	(185,572)	13.1	(209,940)	(185,572)	13.1
% of revenue	8.1	8.4	(36) b.p.	8.1	8.4	(36) b.p.
incl. LTI and share-based payments	(2,517)	(3,011)	(16.4)	(2,517)	(3,011)	(16.4)
staff costs excl. LTI, % of revenue	8.0	8.3	(32) b.p.	8.0	8.3	(32) b.p.
Lease expenses	(19,624)	(14,452)	35.8	(117,825)	(105,451)	11.7
% of revenue	0.8	0.7	10 b.p.	4.5	4.8	(26) b.p.
Utilities	(51,309)	(45,539)	12.7	(51,309)	(45,539)	12.7
% of revenue	2.0	2.1	(10) b.p.	2.0	2.1	(10) b.p.
Other store costs	(23,685)	(22,568)	4.9	(24,573)	(23,418)	4.9
% of revenue	0.9	1.0	(11) b.p.	0.9	1.1	(12) b.p.
Third-party services	(20,187)	(22,016)	(8.3)	(19,796)	(21,718)	(8.8)
% of revenue	0.8	1.0	(22) b.p.	0.8	1.0	(23) b.p.
Other expenses	(30,118)	(26,881)	12.0	(36,714)	(31,518)	16.5
% of revenue	1.2	1.2	(6) b.p.	1.4	1.4	(2) b.p.
SG&A (excl. D&A&I and impact from Karusel transformation)	(354,863)	(317,028)	11.9	(460,157)	(413,216)	11.4
% of revenue	13.6	14.4	(76) b.p.	17.7	18.7	(108) b.p.
Adj. SG&A (excl. D&A&I, LTI, share-based payments and impact from Karusel transformation)	(352,346)	(314,017)	12.2	(457,640)	(410,205)	11.6
% of revenue	13.5	14.2	(72) b.p.	17.6	18.6	(104) b.p.

Analysis of selling, general and administrative (SG&A) expenses

In 2022, adjusted SG&A expenses under IFRS 16 as a percentage of revenue decreased year-on-year by 72 b.p. to 13.5% (decreased by 104 b.p. to 17.6% pre-IFRS 16) mainly due to lower staff costs, utilities, other store costs, and third-party services.

Staff costs (excluding LTI and share-based payments) in 2022, as a percentage of revenue, decreased year-on-year by 32 b.p. to 8.0% due to the operating leverage effect as well as a balanced approach to targeted salary increases.

Lease expenses under IFRS 16 as a percentage of revenue in 2022 increased year-on-year by 10 b.p. to 0.8% (decreased by 26 b.p. to 4.5% pre-IFRS 16) mainly due to a higher number of revenue-linked leases and reverse franchising agency fees. The decrease in pre-IFRS 16 lease expenses by 26 b.p. to 4.5% was caused by a positive operating leverage effect and measures taken to reduce lease expenses, partially compensated by a higher number of revenue-linked leases.

Utility costs, as a percentage of revenue in 2022, decreased year-on-year by 10 b.p. to 2.0% driven by operating leverage effect as well as improved control of climate equipment settings and optimisation initiatives.

In 2022, other store costs under IFRS 16 as a percentage of revenue decreased year-on-year by 11 b.p. to 0.9% (decreased by 12 b.p. to 0.9% pre-IFRS 16) mainly due to positive operating leverage effect.

In 2022, third-party services under IFRS 16 as a percentage of revenue decreased year-on-year by 22 b.p. to 0.8% (decreased by 23 b.p. to 0.8% pre-IFRS 16) mainly due to lower marketing expenses.

Other expenses under IFRS 16 as a percentage of revenue decreased year-on-year by 6 b.p., totalling 1.2% (decreased by 2 b.p., totalling 1.4% pre-IFRS 16) mainly due to positive operating leverage effect and measures taken to reduce expenses.

Long-term incentive (LTI) programme

The consolidated financial statements for the year ended 31 December 2022 included accruals for liabilities related to deferred conditional payouts for the LTI programme covering 2018–2020, the new LTI programme for 2021–2023, as well as the new LTI programme for new businesses (Mnogo Lososya, Chizhik and 5Post). In total, RUB 2,517 million was accrued in 2022 for the LTI programme and share-based payments.

The LTI programme is a cash incentive programme over a three-year period until 31 December 2023, with an extension component of deferred and conditional payouts in order to maintain the focus on long-term goals and to provide for an effective retention mechanism.

The LTI programme's targets are designed to align the long-term interests of shareholders and management. They focus on maintaining leadership in terms of revenue and enterprise value multiple relative to peers (for 2021), as well as free cash flow relative to revenue (for 2022 and 2023). Additionally, the programme aims to achieve specific ESG targets.

In 2022, the Company re-assessed its strategic priorities and corresponding long-term performance measures and targets. Starting from 2022, the enterprise value multiple is no longer considered a meaningful leadership indicator for X5. Instead, Free Cash Flow is used as a key indicator of the Company's financial health and effective financial management. Additionally, the LTI programme includes triggers relating to the EBITDA margin pre-IFRS 16 and to the net debt/EBITDA ratio pre-IFRS 16 to retain focus on prudent financial and balance sheet management.

The accruals have been made for all three targets in 2022 and 2023 and for the market share and ESG targets only in 2021.

All LTI accruals and attributable social taxes are summarised in the table below.

LTI programme expense (including social security contributions (SSC))

RUB mln	2022	2021	2020	2019	2018	2017	2016	2015
LTI 2015–2017	–	–	(541)	327	1,552	2,875	3,053	3,607
LTI 2018–2020	68	1,055	830	2,444	619	–	–	–
LTI 2021–2023	2,122	1,350	–	–	–	–	–	–
New businesses	314	515	–	–	–	–	–	–
Total LTI	2,504	2,920	289	2,771	2,171	2,875	3,053	3,607

EBITDA and adjusted EBITDA

	IFRS 16			pre-IFRS 16		
RUB mln	2022	2021	% change, y-o-y	2022	2021	% change, y-o-y
Gross profit	635,196	561,317	13.2	626,744	553,363	13.3
Gross profit margin, %	24.4	25.5	(108) b.p.	24.1	25.1	(104) b.p.
Adj. SG&A (excl. D&A&I, LTI, share-based payments, and impact from Karusel transformation)	(352,346)	(314,017)	12.2	(457,640)	(410,205)	11.6
% of revenue	13.5	14.2	(72) b.p.	17.6	18.6	(104) b.p.
Net impairment losses on financial assets	(346)	(154)	124.7	(346)	(154)	124.7
% of revenue	0.01	0.01	1 b.p.	0.01	0.01	1 b.p.
Lease/sublease and other income	23,025	23,877	(3.6)	20,710	21,193	(2.3)
% of revenue	0.9	1.1	(20) b.p.	0.8	1.0	(17) b.p.
Adj. EBITDA	305,529	271,023	12.7	189,468	164,197	15.4
Adj. EBITDA margin, %	11.7	12.3	(56) b.p.	7.3	7.4	(17) b.p.
LTI, share-based payments and other one-off remuneration payments expense and SSC	(2,517)	(3,011)	(16.4)	(2,517)	(3,011)	(16.4)
% of revenue	0.1	0.1	(4) b.p.	0.1	0.1	(4) b.p.
Effect of Karusel transformation	(163)	(162)	0.6	(163)	(162)	0.6
% of revenue	(0.01)	(0.01)	(0) b.p.	(0.01)	(0.01)	(0) b.p.
EBITDA	302,849	267,850	13.1	186,788	161,024	16.0
EBITDA margin, %	11.6	12.1	(52) b.p.	7.2	7.3	(13) b.p.

Lease/sublease and other income

As a percentage of revenue, the Company's income from lease, sublease and other operations under IFRS 16 decreased by 20 b.p. year-on-year, totalling 0.9% (decreased by 17 b.p. year-on-year, totalling 0.8% pre-IFRS 16), driven by lower income from sales of recyclables, lower fixed sublease fees as percentage of revenue and absence of depositary service fee income under the GDR programme.

EBITDA analysis

EBITDA under IFRS 16 in 2022 grew year-on-year by 13.1% and totalled RUB 302,849 million (grew by 16.0% and totalled RUB 186,788 million pre-IFRS 16), while EBITDA margin under IFRS 16 decreased by 52 b.p. year-on-year to 11.6% (decreased by 13 b.p. to 7.2% pre-IFRS 16).

EBITDA analysis by segment

Upon adoption of IFRS 16, the Management Board continued to assess the performance of the Company's operating segments based on a measure of sales and adjusted EBITDA pre-IFRS 16, as it more accurately reflects the true nature of the Company's business and retail formats.

Pyaterochka (pre-IFRS 16)

RUB mln	2022	2021	% change, y-o-y
Revenue	2,124,617	1,795,018	18.4
EBITDA	170,538	145,495	17.2
EBITDA margin, %	8.0	8.1	(8) b.p.

Pyaterochka's EBITDA margin decreased by 8 b.p. to 8.0% due to lower commercial margin on the back of price investments partially compensated by positive operating leverage effect in logistics and staff costs as well as optimisation of marketing expenses.

Perekrestok (pre-IFRS 16)

RUB mln	2022	2021	% change, y-o-y
Revenue	386,199	351,100	10.0
EBITDA	28,251	24,241	16.5
EBITDA margin, %	7.3	6.9	41 b.p.

Perekrestok's EBITDA margin increased by 41 b.p. year-on-year in FY 2022 to 7.3% mainly due to increased profitability of own production.

Other segments: Chizhik, Karusel, Vprok.ru, 5Post, Mnogo Lososya, and Krasny Yar and Slata (pre-IFRS 16)

RUB mln	2022	2021	% change, y-o-y
Revenue	94,416	58,701	60.8
EBITDA	(5,963)	(4,369)	36.5
EBITDA margin, %	(6.3)	(7.4)	113 b.p.

Negative EBITDA of Other segments improved by 113 b.p. year-on-year in FY 2022 to –6.3% driven by increasing efficiency of 5Post, Vprok.ru and Mnogo Lososya and consolidation of positive EBITDA of Krasny Yar and Slata.

Corporate Centre (pre-IFRS 16)

RUB mln	2022	2021	% change, y-o-y
EBITDA	(6,038)	(4,343)	39.0

Corporate expenses increased by 39.0% year-on-year in 2022 due to the absence of depositary service fee income under GDR programme and investments into information security.

Depreciation, amortisation and impairment costs

Depreciation, amortisation and impairment costs under IFRS 16 in 2022 totalled RUB 164,731 million (RUB 89,156 million pre-IFRS 16), decreasing as a percentage of revenue by 49 b.p. year-on-year to 6.3% (decreasing by 5 b.p. to 3.4% pre-IFRS 16). The change was primarily driven by a decrease in the depreciation of right-of-use assets, which resulted from an increased discount rate, as well as a positive operating leverage effect.

Non-operating gains and losses

	IFRS 16			pre-IFRS 16		
RUB mln	2022	2021	% change, y-o-y	2022	2021	% change, y-o-y
Operating profit	138,118	117,572	17.5	97,632	84,359	15.7
Operating profit margin, %	5.3	5.3	(3) b.p.	3.7	3.8	(8) b.p.
Net finance costs	(68,417)	(57,229)	19.5	(18,439)	(16,569)	11.3
Net FX result	(2,032)	399	n/a	(2,699)	175	n/a
Profit before tax	67,669	60,742	11.4	76,494	67,965	12.5
Income tax expense	(22,481)	(18,004)	24.9	(24,246)	(19,452)	24.6
Net profit	45,188	42,738	5.7	52,248	48,513	7.7
Net profit margin, %	1.7	1.9	(20) b.p.	2.0	2.2	(19) b.p.
Effect of Karusel transformation and tax accrual related to X5's reorganisation in previous periods	2,022	1,875	7.9	2,022	1,810	11.7
% of revenue	0.1	0.1	(1) b.p.	0.1	0.1	(0) b.p.
Adj. net profit	47,210	44,613	5.8	54,270	50,323	7.8
Adj. net profit margin, %	1.8	2.0	(21) b.p.	2.1	2.3	(20) b.p.

Analysis of non-operating gains and losses

Net finance costs under IFRS 16 in 2022 amounted to RUB 68,417 million, a 19.5% increase from 2022 (RUB 18,439 million, a 11.3% increase from 2020 pre-IFRS 16) driven by increasing interest rates in Russian capital markets and increasing interest on lease liabilities partially compensated by interest income on short-term financial investments. Under pre-IFRS 16, the increase is driven by increasing interest rates partially compensated by interest income on short-term investments.

The net FX result reflects the volatility of the rouble exchange rate.

Income tax expenses under IFRS 16 increased by 24.9% in 2022. In 2022, X5's effective tax rate under IFRS 16 increased to 33.2% from 29.6% in 2021 (increased to 31.7% from 28.6% in 2021 pre-IFRS 16), due to one-off effects.

Net profit in 2022 under IFRS 16 included one-off adjustments totalling RUB 2,022 million (RUB 2,022 million pre-IFRS 16) related to the Karusel transformation and a tax accrual related to X5's reorganisation in prior periods.

Consolidated cash flow

	IFRS 16			pre-IFRS 16		
RUB mln	2022	2021	% change, y-o-y	2022	2021	% change, y-o-y
Net cash from operating activities before changes in working capital	300,768	265,528	13.3	187,026	161,387	15.9
Change in working capital	5,924	32,415	(81.7)	4,088	32,244	(87.3)
Net interest and income tax paid	(85,768)	(70,481)	21.7	(35,887)	(29,919)	19.9
Net cash flows generated from operating activities	220,924	227,462	(2.9)	155,227	163,712	(5.2)
Adj. net cash used in investment activities	(75,978)	(89,435)	(15.0)	(76,295)	(90,295)	(15.5)
Short-term financial investments	–	(50,000)	n/a	–	(50,000)	n/a
Net cash used in financing activities	(127,655)	(81,890)	55.9	(61,641)	(17,280)	256.7
Effect of exchange rate changes on cash and cash equivalents	(98)	(83)	18.1	(98)	(83)	18.1
Net increase/(decrease) in cash and cash equivalents	17,193	6,054	184.0	17,193	6,054	184.0

Cash flow analysis

In 2022, the Company's net cash from operating activities before changes in working capital under IFRS 16 increased by RUB 35,240 million, or 13.3%, year-on-year, totalling RUB 300,768 million (increased by RUB 25,639 million, or 15.9%, totalling RUB 187,026 million pre-IFRS 16) and reflecting the overall business growth. Changes in working capital under IFRS 16 totalled RUB 5,924 million in 2022 compared with RUB 32,415 million in 2021. Under pre-IFRS 16, changes in working capital in 2022 totalled RUB 4,088 million compared with RUB 32,244 million in 2021. The decrease in the positive change in working capital was mainly caused by a higher increase in inventories resulting from business growth. Additionally, the lower increase in accounts payable was due to earlier stockpiling and payments before the New Year season. This was partially offset by a higher increase in other accounts payable. Net interest and income tax paid under IFRS 16 in 2021 increased year-on-year by RUB 15,287 million, or 21.7%, totalling RUB 85,768 million (increased by RUB 5,968 million, or 19.9%, totalling RUB 35,887 million pre-IFRS 16), driven by a higher profit before tax, lower available prepayments made in previous periods and higher interest paid due to increasing interest rates in the Russian capital markets. This was partially offset by interest income from short-term financial investments. As a result, in 2022 net cash flows generated from operating activities increased to RUB 220,924 million under IFRS 16 (RUB 155,227 million pre-IFRS 16), compared with RUB 227,462 million under IFRS 16 (RUB 163,712 million pre-IFRS 16) for the same period in 2021.

Net cash used in investing activities under IFRS 16, which generally consists of payments for property, plant and equipment, totalled RUB 75,978 million in 2022, compared with RUB 89,435 million (RUB 76,295 in 2022 compared with RUB 90,295 million in 2021 pre-IFRS 16) in 2021.

Net cash used in financing activities under IFRS 16 totalled RUB 127,655 million (RUB 61,641 million pre-IFRS 16) in 2022, compared with RUB 81,890 million under IFRS 16 (RUB 17,280 million pre-IFRS 16) in 2021.

Liquidity analysis

As at 31 December 2022, the Company's total debt pre-IFRS 16 amounted to RUB 234,532 million, 37.2% of which was short-term debt and 62.8% was long-term debt. The Company's debt is 100% denominated in Russian roubles. As at 31 December 2022, the majority of X5's debt had fixed interest rates.

As at 31 December 2022, the Company had access to RUB 475,020 million in available credit limits with major banks.

Liquidity update

RUB mln	31-Dec-22	% of total	31-Dec-21	% of total	31-Dec-20	% of total
Total financial debt	234,532		294,338		261,947	
Short-term borrowings	87,146	37.2	87,767	29.8	77,026	29.4
Long-term borrowings	147,386	62.8	206,571	70.2	184,921	70.6
Net debt (pre-IFRS 16)	191,277		268,276		241,939	
Net debt/EBITDA (pre-IFRS 16)	1.02x		1.67x		1.67x	
Lease liabilities (IFRS 16)	591,160		577,363		548,501	
Net debt/EBITDA (IFRS 16)	2.58x		3.16x		3.24x	

Information on alternative performance measures

In this report and other public disclosures, X5 Group presents certain alternative performance measures (APMs) that it believes provide readers with a more detailed and accurate understanding of the Company's financial and operating performance. In accordance with European Securities and Markets Authority (ESMA) guidelines, a list of definitions, explanations of the relevance of APMs, comparatives, and reconciliations are provided below.

EBITDA (including EBITDA margin)

Earnings before interest, tax, depreciation, and amortisation (EBITDA) is a measure of the Company's operating performance. It is a way to evaluate X5 Group's performance exclusive of financing, accounting and taxation factors. X5 believes that showing EBITDA and EBITDA margin performance provides greater detail about the Company's performance.

	IFRS 16		pre-IFRS 16	
RUB mln	**2022**	**2021**	**2022**	**2021**
Operating profit	138,118	117,572	97,632	84,359
Depreciation, amortisation and impairment	164,731	150,278	89,156	76,665
EBITDA	**302,849**	**267,850**	**186,788**	**161,024**

	IFRS 16		pre-IFRS 16	
RUB mln	**2022**	**2021**	**2022**	**2021**
Revenue	2,605,232	2,204,819	2,605,232	2,204,819
EBITDA	302,849	267,850	186,788	161,024
EBITDA margin, %	**11.6**	**12.1**	**7.2**	**7.3**

Adjusted EBITDA (including adjusted EBITDA margin)

Adjusted EBITDA is a measure of the Company's operating performance. It is a way to evaluate the Company's performance exclusive of financing, accounting and taxation factors, and also excluding the effects of the long-term incentive (LTI) programme and the impact of the Karusel transformation, which do not represent ongoing costs of doing business. X5 believes that showing adjusted EBITDA and adjusted EBITDA margin performance provides a more accurate reflection of the Company's sustainable performance.

	IFRS 16		pre-IFRS 16	
RUB mln	**2022**	**2021**	**2022**	**2021**
EBITDA	**302,849**	**267,850**	**186,788**	**161,024**
Adjustments:				
LTI, share-based payments and other one-off remuneration payments expense and SSC	2,517	3,011	2,517	3,011
Effect of Karusel transformation	163	162	163	162
Adj. EBITDA	**305,529**	**271,023**	**189,468**	**164,197**

	IFRS 16		pre-IFRS 16	
RUB mln	**2022**	**2021**	**2022**	**2021**
Revenue	2,605,232	2,204,819	2,605,232	2,204,819
Adj. EBITDA	305,529	271,023	189,468	164,197
Adj. EBITDA margin, %	**11.7**	**12.3**	**7.3**	**7.4**

Adjusted net profit (including adjusted net profit margin)

Adjusted net profit is a measure of the Company's profitability. It is a way to evaluate the Company's performance exclusive of one-off factors, including the effect of the Karusel transformation and a tax accrual related to X5's reorganisation in prior periods, which do not represent ongoing costs of doing business. X5 believes that showing adjusted net profit and adjusted net profit margin performance provides a more accurate reflection of the Company's sustainable performance.

	IFRS 16		pre-IFRS 16	
RUB mln	**2022**	**2021**	**2022**	**2021**
Net profit	45,188	42,738	52,248	48,513
Adjustments:				
Effect of Karusel transformation and tax accrual related to X5's reorganisation in previous periods	2,022	1,875	2,022	1,810
Adj. net profit	**47,210**	**44,613**	**54,270**	**50,323**

	IFRS 16		pre-IFRS 16	
RUB mln	**2022**	**2021**	**2022**	**2021**
Revenue	2,605,232	2,204,819	2,605,232	2,204,819
Adj. net profit	47,210	44,613	54,270	50,323
Adj. net profit margin, %	**1.8**	**2.0**	**2.1**	**2.3**

Adjusted SG&A (including adjusted SG&A as % of revenue)

Selling, general and administrative expenses (SG&A) are reported on the income statement as the sum of all direct and indirect selling expenses and all general and administrative expenses of the Company. X5 Group reports adjusted SG&A, which excludes the effects of the LTI programme and share-based payments, the impact of the Karusel transformation as well as depreciation, amortisation and impairment. The Company believes that adjusted SG&A provides additional detail regarding the long-term SG&A costs of the business.

	IFRS 16		pre-IFRS 16	
RUB mln	**2022**	**2021**	**2022**	**2021**
SG&A	**519,757**	**467,468**	**549,476**	**490,043**
Adjustments:				
LTI, share-based payments and other one-off remuneration payments expense and SSC	(2,517)	(3,011)	(2,517)	(3,011)
Effect of Karusel transformation	(163)	(162)	(163)	(162)
Depreciation, amortisation and impairment	(164,731)	(150,278)	(89,156)	(76,665)
Adjusted SG&A	**352,346**	**314,017**	**457,640**	**410,205**

	IFRS 16		pre-IFRS 16	
RUB mln	**2022**	**2021**	**2022**	**2021**
Revenue	2,605,232	2,204,819	2,605,232	2,204,819
Adjusted SG&A	352,346	314,017	457,640	410,205
Adjusted SG&A expenses as % of revenue	**13.5**	**14.2**	**17.6**	**18.6**

Adjusted net cash used in investing activities

Adjusted net cash used in investing activities is a measure of the Company's cash generation or spending from various investment-related activities in a specific period. It is a way to evaluate the change in a company's cash position from investment gains/losses and fixed asset investments. X5 believes that showing adjusted net cash used in investing activities provides a more accurate reflection of the Company's performance.

	IFRS 16		pre-IFRS 16	
RUB mln	**2022**	**2021**	**2022**	**2021**
Net cash used in investing activities	**75,978**	**139,435**	**76,295**	**140,295**
Adjustments:				
Short-term financial investments	–	(50,000)	–	(50,000)
Adjusted net cash used in investing activities	**75,978**	**89,435**	**76,295**	**90,295**

Adjusted FCF

Adjusted free cash flow is a measure of the Company's cash generation. It is a way to evaluate the Company's cash generation after taking into consideration cash outflows that support its operations and maintain its capital assets. X5 believes that showing adjusted free cash flow provides a more accurate reflection of the Company's performance.

	IFRS 16		pre-IFRS 16	
RUB mln	**2022**	**2021**	**2022**	**2021**
FCF	**144,946**	**88,027**	**78,932**	**23,417**
Adjustments:				
Payments for financial assets	–	50,000	–	50,000
Adjusted FCF	**144,946**	**138,027**	**78,932**	**73,417**

ROIC

ROIC is a measure of the Company's efficiency at allocating the capital under its control to profitable investments. It is a way to evaluate how well a company is using its capital to generate profits.

	IFRS 16		pre-IFRS 16	
	2022	**2021**	**2022**	**2021**
NOPAT	92,232	82,724	66,686	60,215
Invested capital (average equity + net debt)	874,378	884,229	360,029	384,793
ROIC	**10.5%**	**9.4%**	**18.5%**	**15.6%**

Adjusted ROIC

Adjusted ROIC is a measure of the Company's efficiency at allocating the capital under its control to profitable investments adjusted for one-off effects and tax on investments. It is a way to evaluate how well a company is using its capital to generate profits excluding one-off effects. X5 believes that showing adjusted ROIC provides a more accurate reflection of the Company's performance.

	IFRS 16		pre-IFRS 16	
	2022	**2021**	**2022**	**2021**
NOPAT	92,232	82,724	66,686	60,215
Adjustments:				
Effect of Karusel transformation, tax on investments and tax accrual related to X5's reorganisation in previous periods	3,721	7,739	2,502	5,439
Adjusted NOPAT	**95,953**	**90,462**	**69,188**	**65,654**
Invested capital (average equity + net debt)	874,378	884,229	360,029	384,793
Adjusted ROIC	**11.0%**	**10.2%**	**19.2%**	**17.1%**

Net debt/EBITDA

The net borrowings to earnings before interest depreciation and amortisation (EBITDA) ratio is a measurement of leverage. It is calculated as the Company's long-term and short-term borrowings, minus cash and cash equivalents, divided by EBITDA. The net debt to EBITDA ratio is a commonly used indicator that provides additional clarification regarding the Company's debt burden.

	IFRS 16		pre-IFRS 16	
	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21
Total debt, incl.:	234,532	294,338	234,532	294,338
Short-term borrowings	87,146	87,767	87,146	87,767
Long-term borrowings	147,386	206,571	147,386	206,571
Lease liabilities	591,160	577,363	–	–
Cash and cash equivalents	43,255	26,062	43,255	26,062
Net debt	**782,437**	**845,639**	**191,277**	**268,276**
EBITDA	302,849	267,850	186,788	161,024
Net debt/EBITDA	**2.58x**	**3.16x**	**1.02x**	**1.67x**

Net retail sales

Net retail sales show the amount of sales generated by the Company after the deduction of revenue from franchise services, wholesale operations and other services. Because food retail is X5 Group's core business, net retail sales is provided to give a clearer picture of the performance of the Company's core business activity.

RUB mln	2022	2021
Revenue	**2,605,232**	**2,204,819**
Adjustments:		
Revenue from wholesale operations and other services	(9,136)	(10,335)
Revenue from franchise services	(10)	(7)
Net retail sales	**2,596,086**	**2,194,477**

Like-for-like (LFL)

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

%	2022	2021
Net retail sales growth	18.3	11.2
Less contribution from an increase in selling space	7.5	6.1
LFL	**10.8**	**5.1**

Sustainability strategy

Our approach

We aim to develop X5 Group as a profitable, sustainable enterprise that is able to satisfy the needs and demands of Russian shoppers by bringing them the top products on the market and best-in-class service in user-friendly online and offline food retail formats.

Throughout 2022, we embedded a sustainability-led approach into our business strategy by focusing on objectives linked to the United Nations Sustainable Development Goals (UN SDGs) that we consider most relevant to our operations: these include Zero Hunger, Good Health and Well-being, Decent Work and Economic Growth, as well as Responsible Consumption and Production. Our sustainability goals also align with the national development goals of the Russian Federation: Goal 12 correlates with the national goal of developing a comfortable and safe living environment; Goals 2 and 3 correlate with the national goal of preservation of the population, health and welfare of people; and Goal 8 correlates with the national goal of decent, efficient labor and successful entrepreneurship. We are also mindful of the UN SDGs indirectly related to the Company's activities, and we pursue targeted actions to achieve them.

Long-term sustainability is the prime factor in shaping our ESG framework, and we have taken into consideration the interests of stakeholders and our potential risks first and foremost.

X5 aspires to make its food products available to everyone. We analyse our food supply chain to explore how we can make it more cost-efficient and less harmful in terms of food and solid waste generation, greenhouse gas emissions and air pollution. We pay particular attention to supplier accountability and recognise our vital role in promoting responsible practices among SMEs.

This vision is reflected in the agendas for our Supervisory Board meetings and the Company's decisions, including those made regarding annual investments in achieving sustainability goals and other related activities.

X5 Group has already published two GRI-compliant Sustainability Reports – which are available online – and intends to release its third report in the first half of 2023.

At X5's regular Supervisory Board meetings, the Supervisory Board and the Executive Board discuss strategy execution, progress on sustainability goals and the main associated risks.

To hit our sustainability objectives more rapidly and effectively, we keep a close eye on emerging technologies and business models. Before tapping into innovations, we check if they are worthwhile and launch pilot projects. Notably, we analyse the trends in AI and technologies designed to reduce waste, carbon footprint, and product losses on the way to customers. Improvements in our digital platforms and online retail, coupled with our new hard discounter chain Chizhik, clearly evidence the Company's ongoing strategic efforts to achieve its sustainability goals.

Our approach to sustainability management leans upon the recommendations of the Corporate Sustainability Reporting Directive (CSRD). Going forward, key Company disclosures will be based on this Directive, and all disclosures will be fully CSRD-compliant by 2025.

This Directive should allow for more thorough and standardised ESG disclosures, independent verification and auditing.

This year, the Company kicked off work to prepare for disclosures under the EU Taxonomy for Sustainable Activities (Regulation (EU) 2020/852 of 18 June 2020).

To be classified as a sustainable economic activity according to the EU Taxonomy Regulation, a company must evaluate its business activities and prove that it:

- contributes to one of the six environmental objectives;
- does 'no significant harm' (DNSH) to any of the six environmental objectives;
- meets 'minimum safeguards', such as the UN Guiding Principles on Business and Human Rights, to not exert a negative social impact, and
- complies with the technical screening criteria developed by the EU Technical Expert Group

X5 Group disclosed activities that contribute to one of the six environmental objectives in its – 2021 Sustainability Report.

The Company found the following activities eligible:

- Freight rail transport
- Freight transport services by road
- Renovation of existing buildings

The Company is also working on disclosures on the other Taxonomy objectives.

Changes in our strategic goals through 2022

The Supervisory Board meeting held in September 2022 took a decision to revise the sustainability goals in light of the changes in business practices:

- It was decided to alter our 2023 food waste goal (to send wasted merchandise for disposal or recycling) and to revise the 40% target down to 20% due to the low availability of food waste recycling technology
- The quantitative goal for supply chain responsibility was replaced with a qualitative one, as most international certification has been suspended in Russia

Sustainability strategy and UN SDGs

Throughout 2022, X5 Group expanded its efforts to contribute to the 17 UN SDGs in line with its Sustainability Strategy. We remain committed to our sustainable development framework and consider it critical for achieving our short- and long-term business goals.

The Company's ambitious 30x30 agenda aims at lowering greenhouse gas emissions per square metre of retail space, as well as the ratio of waste generated to retail sales by 30%, respectively, while increasing renewable energy use in X5 operations to 30%. This is our straightforward goal by 2030.

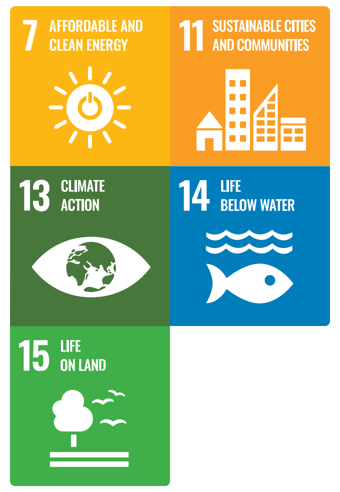
The following section provides an overview of our key goals and achievements over the course of 2022. Further information, including an ESG Databook, is available at https://esg.x5.ru.

Priority	Relevant UN SDGs primary and secondary goals	Goals for 2023	Goals through 2030	Initiatives throughout 2022
HEALTH	Focus 3 GOOD HEALTH AND WELL-BEING	Increase the share of fresh produce, fruits and vegetables in our assortment to 44% at Pyaterochka and to 50% at Perekrestok	Develop principles and practices for monitoring suppliers' responsible sourcing of goods	Expanding the Green Line product mix by 148 SKUs at Perekrestok, including healthy products like gluten-free bread, milk alternatives, healthy sweets, and more.
		Continue to develop the product quality control system	Develop principles and practices for monitoring suppliers' responsible sourcing of goods	Auditing Pyaterochka's private label manufacturers (PLMs) and fruit and vegetable suppliers. Establishing independent third-party quality control in Chizhik stores. Adopting the Corrective Action Plan at Chizhik stores based on the audit recommendations for production compliance with X5 checklist requirements.
		Increase the share of customers who believe that X5's retail chains help them lead a healthy lifestyle	Expand our range of products for a healthy lifestyle	**Our eco-activities:** • Three health and wellness festivals with healthy food offerings at Perekrestok stores: over 100,000 people visited the festivals, where they could buy healthy products and win prizes. • Perekrestok, Bite, and Epica's nationwide Champion Marathon: people all over Russia had the opportunity to take up running or working out under special fitness programmes developed by professional trainers. • Pyaterochka's healthy lifestyle awareness-raising campaign (in collaboration with Rospotrebnadzor and the Federal Research Centre of Nutrition, Biotechnology and Food Safety) promoted healthy eating habits on our social media. Launching and supporting Food.ru, an edutainment media platform dedicated to healthy eating and lifestyle.
		Expand the range of products for a healthy lifestyle	Expand our range of products for a healthy lifestyle	Launching a pilot category – Farm – at Perekrestok stores. Eight Perekrestok stores in Moscow filled sections of an aisle with farm products such as cottage cheese, dairy products, and meat. Installing special aisles with healthy offerings in Perekrestok stores.

Sustainability strategy and UN SDGs

Priority	Relevant UN SDGs primary and secondary goals	Goals for 2023	Goals through 2030	Initiatives throughout 2022
PLANET	Focus: 12 Responsible consumption and production Indirect: 7 Affordable and clean energy; 11 Sustainable cities and communities; 13 Climate action; 14 Life below water; 15 Life on land	Reduce GHG emissions (Scope 1 and Scope 2) intensity per sqm of selling space by 10% compared with 2019	Reduce GHG emissions (Scope 1 and Scope 2) intensity per sqm of selling space by 30% compared with 2019	Converting 20% of the vehicle fleet to gas and diesel hybrid engines. Using light-duty trucks and optimising mileage per journey. Deploying a standard for opening and refurbishing distribution centres and retail chains with climate-neutral equipment.
		Reduce the ratio of waste generated to retail sales by up to 10% compared with 2019	Reduce the ratio of waste generated to retail sales by 30% compared with 2019	Returning some pallets to the supplier and repairing pallets in DCs for reuse by Pyaterochka, Perekrestok and Chizhik. Launching the centralised collection of recyclables from Perekrestok stores back to DCs. Deploying projects for donating wasted products to farms and expiring-but-still-fit products to charities. Collecting recyclable items from consumers (batteries, aerosol cans, PET bottles, aluminium cans, and plastic caps). Introducing paperless receipts at Perekrestok and Pyaterochka.
		Increase the share of recyclable solid waste generated by our retail chains that is sent for recycling to up to 95%		Evaluating the Waste Minimisation Policy against new laws. Getting on the innovation track to seek various waste recycling solutions. Changing workflows to accept and collect recyclables at Pyaterochka and Perekrestok; automated accounting.

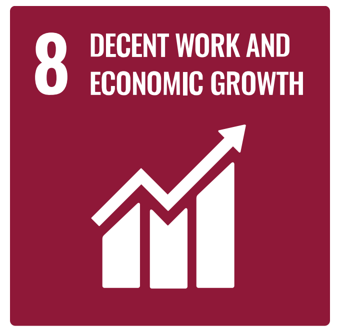
Sustainability strategy and UN SDGs

Priority	Relevant UN SDGs primary and secondary goals	Goals for 2023	Goals through 2030	Initiatives throughout 2022
PLANET	Focus  Indirect 	Increase the share of non-expired food waste sent for reprocessing to up to 20%		Launched Foodsharing, a new aid programme integrated into Pyaterochka and Perekrestok retail chain stores and covering several cities, such as Moscow, Saint Petersburg, Chelyabinsk, Ryazan, Yekaterinburg, and Tomsk. Deploying Regional Food Aid Centres to streamline the infrastructure for allocating the necessary food volumes and develop an effective system for delivering food to people in need in collaboration with regional authorities, NGOs and charities. Developing a project for transferring non-expired products that is no longer saleable to farms. Developing new projects and identifying potential food waste recycling contractors (sending waste for composting, worm composting, fertilisation, etc.)
		Increase the share of private label goods in environmentally friendly packaging to 50% or more		Shifting Green Line products (Perekrestok's private label) to sustainable packaging; for example, lemonades were repackaged from Tetra Pak and PET into glass containers (similar to Tetra Pak milk). Using sustainable packaging for Chizhik private label goods. The share of such packaging amounted to about 70% in 2022, almost flat on 2021 despite an increase in packaging types.
		Increase the use of renewable energy in our operations	Increase share of renewable energy used in our operations to 30%	Connecting 13 facilities to Pyaterochka's renewable energy programme in the Republic of Karelia. A total 39 out of 115 facilities (about 34%) in the Karelia Division are powered by renewable energy sources. Operating 11 Company DCs using low-carbon energy sources.
		Develop principles and practices for tracing suppliers' responsible sourcing of goods		Co-developing a voluntary sustainable packaging standard. Sharing sustainability ideas with suppliers through an ever-improving tool – the supplier platform – as well as communicating with them at events, seminars and webinars.

Sustainability strategy and UN SDGs

Priority	Relevant UN SDGs primary and secondary goals	Goals for 2023	Goals through 2030	Initiatives throughout 2022
COMMUNITY	**Focus** 2 ZERO HUNGER	Double the number of families receiving food aid through the Basket of Kindness project compared with 2019	Increase the annual growth rate in the number of families receiving assistance through the Basket of Kindness programme up to 30% per year	Collecting and distributing food to people in need across the country under the Basket of Kindness project. We distributed over 518 tonnes of products in 2022, almost 1.5x more than in 2021.
		Engage all stores in Help for Lost People programme		Helping around 1,200 lost or disoriented people get back home thanks to the actions of Pyaterochka and Perekrestok store employees and volunteers from the LizaAlert search and rescue team. Running the Adventure Zones class at Pyaterochka, Centre to Search for Missing People and LizaAlert under the Safety Zones programme.
		Develop community care programmes		Growing Chizhik to help more people buy high-quality and affordable food. Elevating Pyaterochka's Local Community Centres project. Our stores held workshops, lectures, creative competitions, and charity events for locals. Throughout 2022, Local Community Centres averaged over 2,500 events per month, totalling about 60,000 participants. Supporting a Pyaterochka social impact project to prevent obesity among 6–9 year-olds in the Sverdlovsk Region under the Care for the Community programme. The project was backed by the regional government, VEB.RF and the Ministry of Health of the Sverdlovsk Region.
		Develop partnership programmes with small and medium-sized businesses, farmers and local producers		Launching the Farmer Zones project in collaboration with RSMB Corporation. Several regions feature more than 20 zones with over 200 farmers supplying their products.

Sustainability strategy and UN SDGs

Priority	Relevant UN SDGs primary and secondary goals	Goals for 2023	Goals through 2030	Initiatives throughout 2022
EMPLOYEES	Focus  Indirect 	Achieve an employee engagement rate above 75%		In 2022, engagement was not measured, but in 2021 the indicator was higher than the stated goal and totalled 82.5%. In 2023, the Company plans to measure the indicator again. In 2022, the Company conducted an eNPS measurement: the indicator reached 40.9%, which is 11 p.p. higher compared to the previous period.
		Become the leading food retailer in rankings of Russian employers	Maintain our #1 position among food retailers in rankings of Russian employers	Running programmes to make the Company more attractive to young people. Received Platinum status in Forbes rating of the best employers in Russia in 2022. Increasing the Company's average salary by 11%.
		Create a safe, healthy workspace for all employees	Ensure the introduction of an appropriate standard for a safe, healthy workspace for all employees	The Company redeveloped and launched a health and safety induction course (mandatory for office workers) following changes in Russian laws and regulations. Training, holding external and internal occupational safety events, and auditing relevant courses. Rethinking the way goods are moved from the warehouse to the ramp at Vprok.ru, reducing the total weight loaded on the trolley so that two people can move it. Implementing the WISE programme (a series of interactive events and videos on health and safety in common areas) at Perekrestok DCs to raise the occupational safety culture. Piloting a project at Pyaterochka to introduce electric warehouse trolleys in stores, significantly reducing the effort needed to unload vehicles and meeting female labour regulations.

Learn more on progress towards our strategic targets over the reporting year in the 2022 Sustainability Report.

The Company's verified and audited Sustainability Report details the Company's approach to its sustainability strategy and provides quantitative data for the reporting period.

Sustainability management

Our approach

Sustainability remains our strategic priority year after year. We assessed new constraints and opportunities, as well as how we delivered on our goals for 2023 to set targets for 2025 in line with our updated strategy.

A long-term value creation model

This model helps articulate our business metrics, providing risk awareness through sustainability and enabling business continuity and agile reprioritising.

Value creation stage	Procurement	Delivery to distribution centres and stores	Sales	Consumption
Our impact	Engaging with suppliers in: • product quality control; • using eco-friendly packaging; • respect for human rights in production through supplier training initiatives and introducing sustainability guidelines.	Optimising supply chain legs to minimise losses	Reducing food waste	Providing quality products to all demographics
At all value creation stages	• Respect for human rights • Minimising our waste • Lower energy and water consumption	• Reducing our carbon footprint • Caring for our people and preventing injuries • Engaging in dialogue with stakeholders using feedback tools		

Sustainable investing

In 2022, we expanded our investment strategy with a separate category of projects poised to achieve our strategic goals. This category of non-commercial procurement projects, each with their own payback periods and terms, is used to invest in sustainability projects.

X5 Group assesses key risks that may serve as obstacles to it meeting strategic and operational goals and compliance regulations, along with sustainability risks related to climate change, responsible supply chains, respect for human rights, and business ethics. We have an assessment framework in place, with each ESG risk reviewable at the Management, Executive Board and Supervisory Board levels.

The year of 2022 highlighted our focus on climate change and human rights, and we are now assessing potential human rights risks using OECD methods.

This covers key stakeholders, whose rights could potentially be affected by the Company's operations, namely our customers, employees, logistics and delivery services, and suppliers.

Every year we assess risks and opportunities to make our business strategy more tolerant of climate change risk and disclose information in our annual Sustainability Report in line with TCFD guidelines.

In 2022, the Company faced the following sustainability challenges:

- Declining living standards and a surge in demand for affordable products and charity programmes
- Climate change
- The need to reduce waste by increasing the share of recyclable packaging
- The need to work with suppliers on sustainability issues, including SMEs

For major risk assessment procedures and outcomes, see the Risk Management section of this Annual Report. Our TCFD report is available in our Sustainability Report.

Governance

The Supervisory Board reviews issues related to sustainable development two times per year – this includes approval of the strategy, setting targets, monitoring the implementation of goals by responsible persons, and amending goals as needed. At this the Supervisory Board also discusses climate issues and risks associated with sustainable development. The Executive Board reviews and develops sustainability goals and monitors their achievement across the Group. More detailed information on ESG governance structure will be available in 2022 Sustainability report.

The Supervisory Board oversees the Executive Board's activities, both in terms of strategy development and the implementation of ESG projects, including climate action initiatives.

The Company also has a cross-format sustainable development committee, which was created to make key decisions on achieving the targets of X5 Group's sustainable development strategy. This includes monitoring progress towards each goal, prioritising tasks for the structural divisions of X5 Group business units, as well as coordinating the overall work to achieve set targets. The cross-format Sustainability Committee also has an ESG Innovation Subcommittee and a GR ESG Committee. There are teams in each business unit and retail chain who implement sustainability programmes and represent their subdivisions in the drive for X5's corporate goals. They gauge progress towards targets, while our Corporate Centre works with the Executive Board to review the broader implementation of the Group's strategy.

We have centralised strategic sustainability decision making along with a platform for business units and retail chains with specific competence to propose and implement strategy-driven initiatives.

Learn more on our governance structure in the Corporate Governance section of this Annual Report.

Performance benchmarking of governance

Our long-term ESG KPIs designed for Company management have a positive impact on our investment decisions and sustainability goals. These KPIs include recognition by customers, employees and shareholders. We are on the verge of integrating them into each of our new investment projects.

X5 Group has introduced climate change KPIs for managers to drive progress on its 30x30 agenda. For example, our long-term incentive programme targets a 10% cut in carbon emissions by 2023 versus a 2019 baseline. There are also other sustainability metrics, including more recyclable packaging and waste management projects crucial to reducing Scope 3 emissions. Overall, 5% of all management KPIs are related to climate change.

Key regulation-related policies

The Company seeks to build a culture driven by shared values, ethics, mutual respect, and rigorous compliance.

The Code of Business Conduct and Ethics, along with relevant policies, constitute X5's across-the-board values and standards of conduct.

These documents are designed to help our people comply with laws and act ethically. They are available on our website and our corporate digital hub for all X5 employees. We constantly scrutinise and update the Code and related policies to adapt to changing laws or internal processes.

Key documents	Highlights
Code of Business Conduct and Ethics	The Code regulates employees' interactions with customers, suppliers and other staff, and sets out the Company's basic business principles. It encompasses fair competition, anti-corruption and anti-bribery, conservation, personal data and asset protection, conflicts of interest, equal opportunities, and a safe working environment, plus interactions with customers, suppliers and competitors. The Code applies to all employees, regardless of their position or role. We regularly assess its performance at our training sessions based on examples and real cases. We have a hotline for ethics matters staffed by our managers.
Declaration on Human Rights Protection	The Declaration specifies the principles and rules for complying with and promoting international human rights protection practices at all levels: • Zero tolerance of discrimination and forced labour • Zero tolerance of harassment • Respect for diverse cultures and their values • Respect for the rights to freedom of assembly and association • Occupational health and safety The year of 2022 saw updates to the Declaration and a full transformation of the Human Rights Policy. The Policy will be approved in 2023.
Inside Information and Dealing Code	The Code is designed to prevent the unauthorised use of insider information by employees, as well as the suspicion of such use, and to ensure that employees operate following regulations on insider information and securities transactions.
Code of Interaction with Business Partners	The Code covers compliance with trade, anti-trust, and anti-corruption legislation, as well as goods and service quality control, conservation, occupational health and safety, communication standards, data protection, conflicts of interest, etc. Violations of the Code are reviewed by the Conciliation Commission.
Policy on Countering Misconduct Including Fraud and Corruption	The Policy is focused on building a culture of integrity as well as preventing employees acting illegally and minimising the Company's exposure to corruption. The anti-corruption framework encompasses mechanisms, procedures and tools for preventing, identifying, investigating, and dealing with potential abuses. It also assigns anti-corruption roles and responsibilities to units and management bodies. As we only partner with those who share our zero-tolerance approach to corruption and fraud, we added relevant clauses on this to our supplier contracts and other partnership agreements.
Personal Data Processing Policy	Aligned with Russian data protection laws and other relevant legislative acts, the Policy applies to all employees and data-handling procedures, including the collection, recording, systematisation, accumulation, storage, clarification, extraction, use, transfer, anonymisation, blocking, deletion, and destruction.
Compliance Policy	To comply with regulatory and stakeholder requirements, internal standards, and our Code of Code of Business Conduct and Ethics, we have adopted the Compliance Policy in line with ISO-based GRC standards and management systems.
Equal Opportunities Policy	We understand that equality, diversity and inclusion – both internally and when we interact with stakeholders – influence business availability and performance. Thus, the Policy encompasses the following four principles: • Decent work environment • Equal opportunities for growth • Promoting diversity • Mutual respect To implement these principles, we drafted a set of rules to follow: it is mandatory to read the Policy and receive sustainability training, continuously monitor and enforce the Policy, and use a dedicated hotline to report violations. The Policy appoints people to roles and responsibilities and spans all Company employees.
Charity Policy	The Policy outlines basic principles and rules, as well as our priorities in this area, along with the roles and responsibilities of employees involved in corporate philanthropy. These are the basic principles for charitable activities we adhere to: • focus and scale; • responsibility and agility; and • transparency and accountability.

Stakeholder engagement

We maintain regular communication with stakeholders to create value and ensure sustainable and profitable growth in the years ahead.

X5 Group's key stakeholders are its customers, employees, shareholders, investors, suppliers, local communities, regulatory bodies, and state authorities. As 2022 witnessed regulatory changes and a green lending surge, the Company began interacting with banks in various areas to drive up the sustainability agenda.

This and the following pages review measures, forms and objectives of the Company's stakeholder engagement.

X5 Group keeps dialogue between several stakeholder groups on specific sustainability aspects top-of-mind:

- Informing suppliers of sustainable packaging trends among customers
- Collaborating with state authorities to analyse local community needs; engaging suppliers and business partners to meet them

Learn more on stakeholder engagement methods and outcomes in our 2022 Sustainability Report.

How we engage

Customers

- Using big data analytics on customer transactions to unlock better decision-making when it comes to customer demand
- Maintaining various consumer interaction channels, from messenger chatbots to a hotline. Using Food.ru (an edutainment media platform) and sending its subscribers sustainability digests
- Monitoring consumer feedback and evaluations to collect and analyse their preferences
- Measuring customer satisfaction on the federal level using NPS

Employees

- Enabling a meaningful career journey along with an attractive, fair, and transparent compensation and motivation system. Leveraging enhanced feedback mechanisms to improve labour practices, remuneration, governance, and corporate culture across the Company
- Developing our corporate university, called Polka ("Shelf"), which combines training activities offered within the Company with external training opportunities in a single educational marketplace
- Championing our corporate human rights policy and making sure our employees have all the freedoms they are entitled to
- Introducing rigorous occupational health and safety regulations and communicating relevant requirements to employees
- Supporting employees through hardship; e.g., due to a long-term illness, an accident or the loss of a family member or property
- Incentivising employees to boost the Company's success
- Encouraging employees to participate in corporate social responsibility programmes and help those in need

How we engage

Shareholders and investors

- Disclosing updates and changes to our strategic priorities on a timely basis. Constantly enhancing our ESG disclosure methods to align with global best practice
- Communicating how we view the food market and competitive landscape as well as their trends. Improving our corporate governance system to follow the world's leading research
- Regularly updating the investor website with timely, accurate and relevant information on the Company's performance, including annual and sustainability reports, financial statements, press releases, and presentations
- Ensuring direct stakeholder and investor engagement through virtual and face-to-face roadshows, investor conferences, conference calls, and group meetings with analysts and investors

Suppliers and counterparties

- Tapping into big data to offer our suppliers comprehensive analytics on market demand and trends. Delivering high, trustworthy and respect-based standards of supplier engagement to properly tackle consumer feedback and complaints. Reaching out to regional producers to raise the share of local goods across X5's retail chains
- Ensuring both large federal and small local suppliers can access and leverage our transport and logistics infrastructure
- Conducting regular surveys and other activities to obtain supplier feedback, as well as elevating the Company's own X5 Dialog platform to raise awareness of sustainability and other topics

Engaging with suppliers on sustainable development issues has become even more relevant in 2022. In particular, this includes issues related to sustainable packaging due to the reduction of import solutions and the need for localisation. We closely interacted with our suppliers on this and other topics in 2022, including organising webinars for suppliers with an overview of current challenges and localised packaging solutions.

Society and local communities

- Extending initiatives to better the well-being of local communities, including cooperation with the Basket of Kindness food bank and LizaAlert search and rescue team
- Collaborating with municipal, regional and federal authorities to forward projects for the vulnerable, usually pensioners and families with children in hardship
- Spotlighting programmes for X5 customers to donate
- Hosting events to make life better for local communities: tree planting, clean-up days and Victory Day celebrations. Aligning the Company's operations with environmental laws. Assessing and disclosing X5's sustainability achievements and informing local communities about our efforts to reduce consumption, emissions and waste

Government / regulators

- Cooperating with governing bodies industry associations representing the retail business on state regulation and legislation (e.g. the National ESG Alliance)
- Interacting with government officials at important Company events (e.g. DC openings) to showcase X5's efforts to create jobs and back up local producers
- Participating in federal and regional task forces
- Testing new technology; for example, labelling for various goods, electronic document flow and signatures
- Promoting an open dialogue with the Retail Companies Association (RCA) and communicating X5's position on relevant industry issues (environmental protection, sanitary regulations, etc.)

Community

Our approach

X5 Group provides local communities with charitable and social projects and partners with local producers.

Rolling out the Farm category is a key programme at X5. Various regions feature this category in retail chain stores, with over 200 farmers supplying their products.

X5 Group's Charity Policy covers all business units, outlines the charity framework and describes its priority areas. It also sets out the roles and duties of responsible employees.

The Company's charitable activities are focused on providing food aid, a comfortable and safe environment, wellness, and healthy lifestyle. Conscious of these priority areas, the Company implements community-oriented projects to carefully protect health and well-being.

We do our best to promote and encourage corporate volunteering, engaging our employees in charitable and volunteer projects.

We identified key target groups of beneficiaries that include children, the elderly, people experiencing hardship, local communities, and refugees.

We work with non-profit organisations (NPOs) that release feedback after each project.

The National Development Goals, NPO experts and global best practice also guide us on the way.

Plans for 2023

- Achieving the targets for our charitable projects:
  - Increase the number of families covered by Basket of Kindness support by 30%
  - Maintain the Safety Zones programme across all Pyaterochka and Perekrestok stores to help lost people
- Scale up the food sharing project
- Providing people in need with food aid under the new Regional Food Aid Centres (RFAC) programme among other things
- Fast-tracking inclusion initiatives
- Boosting current programmes for local communities

X5 Group's 2022 Sustainability Report contains more details on our charitable and volunteering efforts.

STRATEGIC GOALS FOR 2023

- Double the number of families receiving food aid through the Basket of Kindness project compared with 2019
- Develop partnership programmes with small and medium-sized businesses, farmers and local producers
- Develop community care programmes
- Engage all stores in Help for Lost People programme

STRATEGIC GOALS THROUGH 2030

UP TO

30 %

Annual increase in the number of families receiving support through the Basket of Kindness project

Planet

Our approach

In December 2019, X5 approved the Sustainability Strategy that enables us to embed proper principles and thus achieve the Company's priority UN SDG 12 (Responsible Consumption and Production). For steady performance growth in this area, we are also testing and adopting novel and innovative ways of optimising resource consumption across the Company, and promoting prudent use, reuse and recycling among our customers.

In late 2021, X5 reaffirmed its sustainability commitment, adopting a decarbonisation plan and aspiring to become carbon-neutral by 2050. In 2022, we expanded efforts to reduce greenhouse gas emissions per square metre of retail space by 30% by 2030.

Governance

The Company's environmental management is based on clear role allocation among responsible employees and departments. The Company has guiding policies and procedures in place. However, each division or business unit is mature enough to take its own management approach.

The Company is implementing a project to automate non-financial reporting and monitor data. Automated data recording systems have replaced manual ones. They rely on our proprietary product – WRS (Web Request System) – web forms or checklists for engineers to better monitor the use of various resources.

In 2022, we launched an ESG innovation track to work with partners and source new solutions in the market that could help overcome technological constraints as part of our food waste, climate and sustainable packaging targets for 2023.

STRATEGIC GOALS FOR 2023

10 %
Reduction in GHG emissions (Scope 1 and Scope 2) intensity per sqm of selling space compared with 2019

UP TO
10 %
Reduce the ratio of waste generated to retail sales compared with 2019

UP TO
95 %
Increase the share of recyclable solid waste generated by our retail chains that is sent for recycling

UP TO
20 %
Increase the share of non-expired food that is no longer saleable sent for reprocessing

UP TO
50 %
Share of private label goods in environmentally friendly packaging

- Increase the use of renewable energy in our operations
- Develop principles and practices for tracing suppliers' responsible sourcing of goods

STRATEGIC GOALS THROUGH 2030

30 %
Reduce GHG emissions (Scope 1 and Scope 2) intensity per sqm of selling space compared with 2019

30 %
Reduction in ratio of waste generated to retail sales

UP TO
30 %
Increase share of renewable energy used in our operations

Reducing energy consumption

STRATEGIC GOALS FOR 2023

10 %

Reduce GHG emissions (Scope 1 and Scope 2) intensity per sqm of selling space compared with 2019

Increase the use of renewable energy in our operations

STRATEGIC GOALS THROUGH 2030

30 %

Reduce GHG emissions (Scope 1 and Scope 2) intensity per sqm of selling space compared with 2019

UP TO

30 %

Increase share of renewable energy used in our operations

In 2019, a GHG emission assessment programme was launched across the Company under the Corporate Greenhouse Gas Emissions Protocol's Accounting and Reporting Standard. In 2020, we introduced the Energy Efficiency and Climate Change Prevention Policy, contributing to our ongoing decarbonisation efforts and energy efficiency. We put in place a set of practices to improve our GHG emission reduction and energy performance by cutting energy consumption and switching to renewable energy.

To achieve our goals, we launched multiple initiatives, such as green distribution centres and stores. In the reporting year, we connected 11 DCs to low-carbon power. Our Smart Store system is rolled out to all new stores and those slated for renovation. With sensors, monitoring devices and software, the system seamlessly integrates into ongoing operations, helping to save energy and manage electricity consumption.

For more initiatives under our strategic energy-saving goals, go to our 2022 Sustainability Report.

Reducing waste and developing sustainable packaging

STRATEGIC GOALS UNTIL 2023

UP TO

10 %

Reduce the ratio of waste generated to retail sales compared with 2019

UP TO

20 %

Increase the share of non-expired food that is no longer saleable sent for reprocessing

UP TO

95 %

Increase the share of recyclable solid waste generated by our retail chains that is sent for recycling

UP TO

50 %

Share of private label goods in environmentally friendly packaging

STRATEGIC GOALS THROUGH 2030

30 %

Reduce the ratio of waste generated to retail sales compared with 2019

Waste prevention

One of our overriding priorities is optimising waste management.

In the year under review, X5 revised its Waste Minimisation Policy in light of legislation changes. Our Waste Management Procedure, featuring training for dedicated staff, is also now in place.

Improving the accuracy of stock management is an important tool to reduce waste generation, but X5 Group is taking further steps to minimise waste. These include big data-enabled demand modelling, increasing product supplies, tailoring products to meet customer needs, lowering minimum order quantities, and temperature control during transportation.

Waste management is part of our innovation track aimed at finding various recycling solutions. In 2022, X5 Group started working on an accessible map of recycling solutions in the regions. We will post the map on our official website as soon as it is finished. On top of all this, we are piloting new solutions to prevent waste generation.

We introduced an intuitive feature to submit a request for pallet return on our supplier platform, promoting the reuse of materials in logistics operations. Pyaterochka stores already return a portion of pallets to the supplier and make repairs in DCs for further reuse. Perekrestok launched a project in 2022 to centralise the transportation of recyclables from stores to DCs: two centres joined the project in all areas, while a further two joined it partially.

The Company's retail chains remain busy assessing and improving their waste management, all while training dedicated employees. In this regard, Pyaterochka and Perekrestok have sales-linked recycling standards tailored to each store. We also advanced the system to control the volume of store-to-DC recyclables and equipped DCs with scales and incoming control to leverage actual measurements.

For more initiatives under our strategic waste reduction goals, refer to X5 Group's 2022 Sustainability Report.

Guidelines for suppliers

STRATEGIC GOALS FOR 2023

Develop principles and practices for monitoring suppliers' responsible sourcing of goods

OTHER KEY GOALS

Develop a responsible supply chain

Promote the principles of responsible sourcing of raw materials across the supply chain

UP TO

50%

Share of private label goods in environmentally friendly packaging

In June 2020, X5 Group drafted and published sustainability guidelines for its suppliers, based on Company analysis of publicly available research, data from authorities or public environmental NPOs, and the findings of the supplier survey and public expert hearings.

These guidelines:

- outline voluntary environmental and social certifications for diverse product categories, highlighting responsible production practices;
- formalise X5's vision for sustainable packaging: reusable packaging materials that are recyclable in Russia, the use of mono-materials and reusable containers and design streamlining; and
- comprise particular examples of the most and least suitable raw materials for packaging.

In 2021, X5 disclosed thorough sustainable packaging guidelines for 13 product categories, developed in conjunction with manufacturers, suppliers, industry associations, and the expert community. We obtained feedback from 23 partners and 16 experts on the recommendations. X5 also held a public project discussion that brought together 100 stakeholders. The document enlists specific examples of most preferred and least preferred raw materials for packaging. We are constantly brushing up our guidelines and are open to dialogue with each of our partners to share our insights for the benefit of the whole market.

X5 has updated its internal procurement regulations to adjust to new supplier instructions. In August, we designed a sustainability training course for our suppliers. It is publicly available on the Company's website.

X5 Group continued screening sustainable suppliers through a dedicated survey on its supplier portal (the Company's official supplier interface) by expanding it with mandatory fields dedicated to sustainability. These fields give us insights into packaging and voluntary certification.

Our efforts in supplier awareness and feedback include our sustainability guidelines and supplier co-marketing programmes.

The reporting year saw our selective ESG verification for private label suppliers come into force, and we plan to carry this practice into the future covering more suppliers.

To read about all supplier engagement initiatives, please refer to X5 Group's 2022 Sustainability Report.

TCFD disclosure

Throughout 2022, X5 Group has upheld its focus on incorporating climate-related risks into its business operations as well as expanding the scope and improving the transparency of the Company's climate reporting. The following TCFD disclosure is a thorough review of the Group's performance amid the political, legal and economic environment of the prior year. The information in this section is correct as at 31 December 2022, unless stated otherwise.

Governance

As the Company is committed to proactively managing its climate footprint and mitigating the risks associated with it, X5 has developed a decarbonisation strategy that emphasises conscious consumption of resources while building resilience to external challenges. Our corporate governance framework is set up to ensure that the highest levels of management reinforce our long-term strategy for addressing climate change. Supervisory Board members are in charge of developing and monitoring our sustainable development strategy, ensuring that executive management implements sustainability- and climate-related measures quickly and efficiently. In 2022, we also introduced the President position to further strengthen our operational decision-making in line with the Group's strategic priorities in a fast-changing external environment.

Corporate governance structure

Supervisory Board

The Company's overall course of affairs, strategy, and operational performance, including on climate action and climate risk response, are overseen by the Supervisory Board. The Supervisory Board supervises the Management Board which is supported by the Executive Board – the Company's senior management – and delegates essential responsibilities to the standing committees in accordance with their areas of responsibility. See more on the Supervisory Board on pages 130–136.

Our sustainable development strategy was approved by the Supervisory Board and has become an integral part of our long-term business strategy. At least once per quarter, the Supervisory Board meets to review and approve the process for assessing corporate risks, including climate risk assessments within it. Regular detailed reports from the relevant committees allow the Supervisory Board to monitor performance across all key projects and activities, including advances in climate risk mitigation measures, progress against the sustainable development strategy, and the impact of environmental projects. Each year, the Board approves the budget for the Company and its projects in line with the Group's strategic priorities, including ESG- and climate-related initiatives.

Executive Board

The Executive Board is in charge of handling day-to-day strategic and operational decisions that drive progress against the Company's overall strategy as well as its sustainable development strategy. As part of its activities, the Executive Board is involved in identifying and appropriately addressing risks that threaten the achievement of the Company's business objectives and the continuity of its operations, which includes regularly monitoring climate-related risks and opportunities. The Executive Board holds monthly meetings and provides regular progress updates regarding ongoing projects and climate-related findings to the Supervisory Board. To keep close track of environmental performance and the risks and opportunities associated with climate change, the Executive Board receives regular reports from representatives of the Company's business units.

Sustainable Development and Innovation Committee

On 16 March 2022, the authority and duties formerly held by the Sustainable Development and Innovation Committee were returned to the broader Supervisory Board amid recent events.

Strategy

Our sustainable development strategy is driven by cost-effective decarbonisation measures that are set to increase the long-term value of the Group. The strategy is directly updated with the results of our ever-evolving risk assessment processes and by measuring our climate impact against the Group's targets. By analysing how climate risks affect us, we gain a more comprehensive understanding of how the Group's strategy should be designed as well as of how we should mitigate the consequences of potential issues in the future. We continuously assess the possible financial implications of climate-related issues and changes in climate scenarios on our strategy to ensure we deliver on our sustainability goals and business objectives despite any external challenges.

The sustainable development strategy is integrated into the Group's broader strategy and is aligned with Russia's decarbonisation goals. As part of this vision, X5 has introduced the 30x30 agenda, which aims to reach the following medium-term targets by 2030:

30%
Reduction in GHG emissions intensity (Scope 1 and Scope 2) per square meter of selling space against a 2019 baseline

30%
Share of renewable energy in X5 operations against a 2019 baseline

30%
Reduction in the ratio of waste generated to retail sales against a 2019 baseline

ESG and climate considerations are not only an integral part of the Group's long-term strategic vision, they are also being incorporated into its short-term corporate strategy until 2025, which is currently under development. The update will include a sustainable development section as one of the Company's strategic priorities.

Climate-related issues are taken into account at various levels in the Group's decision-making processes as X5 Group continues to expand its awareness of, and commitment to, environmental and climate responsibility in its strategy:

Investment decisions

When making decisions on investment initiatives, X5 considers the financial impact that transitional and physical risks may have as well as the potential impact on the Group's GHG emissions. Furthermore, in 2022, some changes were made to the investment policy to integrate special conditions into ESG projects, including climate-related projects designed to soften the climate impact of the Company's operations. According to the new investment policy, ESG- and climate-related projects have lower approval requirements than the regular standards set for the Group

Operational planning

Decarbonisation and energy efficiency opportunities have been incorporated into the decision-making process concerning the launch of new business units. From 2022 onwards, new Pyaterochka and Chizhik distribution centres have had a particular set of building requirements to ensure more climate-conscious operations, such as the installation of energy-saving equipment and making other efficiency gains, where possible

Budget considerations

Climate risks are also taken into account when making budgeting decisions. The regularly updated climate risk register and an assessment of financial impact (e.g. an analysis of changes in refrigerant prices and the cost of replacing equipment) are incorporated into capital expenditure decision-making

Climate-related risks

In order to efficiently identify and manage climate-related issues and develop effective decarbonisation measures, the Group analyses and monitors its climate risks. Our risk assessment process is informed by the following climate scenarios from the IPCC's Sixth Assessment Report (AR6) and IEA's annual outlooks, including its most recent edition.

1.5 °C scenario (scenario SSP1-2.6)

The most challenging scenario, involving considerable adjustments to the Company's activities; yet one that would help to greatly lessen the impact of physical climate risks for the Company and, on a larger scale, for society. This scenario ensures that the goals of the Paris Agreement are met. The world moves towards a low-carbon development path and a greener economic model, and away from its current resource- and energy-intensive practices. Both developed and developing countries strive to achieve net zero as soon as is practically possible and adopt relevant policies. On top of lowering GHG emissions in hard-to-abate sectors, carbon capture technologies are developed. The share of fossil fuels in the global energy mix declines in the mid-2020s and flattens out in the 2030s as a result of the worldwide contribution to a rapid reduction in the use of such energy sources.

2.0 °C scenario (scenario SSP2-4.5)

Though less drastic than the 1.5 °C scenario, this scenario would nonetheless require significant adjustments in the way the Company operates. The impact of physical climate risks on the Company and the global economy as a whole would be partially reduced. Compared to the 1.5 °C scenario, this path leads to worsening climate change and more dangerous consequences. However, it does see the world's energy mix shift in favour of more sustainable sources. It also assumes that, despite the challenges posed by climate change and declining use of energy sources like oil and gas, economic growth will continue. The overall energy consumption is also reduced, although in a less efficient and environmentally friendly way than in the first scenario. The share of fossil fuels in the global energy mix declines around 2030 and flattens out around the 2040s, as both developed and developing economies strive for net zero. The decarbonisation initiatives undertaken by developed nations and subsequent similar actions introduced by emerging economies several decades later result in a reduction in the resource and energy intensity of the global economy.

4.0 °C scenario (scenario SSP5-8.5)

Under this scenario, the Company's activities do not need to change significantly, and operations would proceed as usual. Physical climate risks would have a greater effect on the Company as well as the world economy. Both developed and emerging nations experience fast economic growth. Oil and gas remain the key energy sources, and there is still a tremendous demand for natural resources and materials. While some economies seek to implement decarbonisation initiatives, these efforts are not enough to materially impact the global economy, development, or energy intensity. As the share of fossil fuels in the global energy consumption remains unchanged or potentially increases, GHG emissions continue to grow until the end of the century.

X5 Group considers the SSP2-4.5 scenario to be the primary one for our industry. Therefore, we pay particular attention to materiality scores within the SSP2-4.5 scenario (the 2.0 °C scenario), as we believe it to have a long-term effect on the Group's strategic resilience and estimated financial impacts.

Physical and transition risks

The Company's approach to climate risk assessment considers both physical and transition risks in line with global best practice. Physical climate-related risks are associated with the physical impacts of climate change, such as storms, droughts and forest fires. The Group identified extreme weather events and changes in precipitation amounts and patterns as the most significant risks in this category as they pose the biggest threat to the supply chain and, therefore, to X5's retail activities. As per the IPCC's Sixth Assessment Report (AR6), extreme weather events are expected to increase in frequency by 2050, which corresponds to the long-term horizon within the Company's risk assessment framework and strategy. Therefore, the impact of physical risks will be more significant in the long term.

X5 Group is closely monitoring environmental changes that may affect the severity of risks associated with the transition to a low-carbon economy, also known as transition risks, as the Company's financial performance is more likely to be significantly impacted by such risks due to an increase in expenditures arising from subsequent operational transformations. Hence, X5 pays special attention to this category of climate risks, as they are more volatile and present a more immediate threat to its operations.

2022

In 2022, the Company continued its efforts in operating an efficient and up-to-date risk identification and assessment system, while continuously enhancing it. As such, a thorough review and revaluation of the entire climate risk register was conducted to incorporate the most recent developments in both national and international regulations, stock exchange requirements, methodological frameworks as well as other relevant events. The key changes in risk scores and materiality compared to their 2021 values, as well as the reasons for the adjustments made, are summarised below. While the results of the qualitative analysis and expert assessment reflect the average materiality results for the Group in the reporting year, X5 analyses each business unit separately in order to have a comprehensive understanding of the risk exposure across business activities and geographies.

In 2021, X5 conducted a comprehensive quantitative assessment of climate-related risks and opportunities, the results of which were presented in the form of a detailed risk register, reflecting both physical and transitional risks. A full and complete disclosure of the risks analysed, their materiality estimates and potential consequences, as well as the corresponding mitigation activities, can be found in our 2021 Sustainability Report on pages 68–72.

A comprehensive revaluation and recalculation was carried out in 2022, with the materiality scores of each risk within a specific climate scenario and time horizon colour-coded in the table below and arrows showing the direction of change for each score (compared to their values in 2021).

2022

Risk	Risk component	Consequences	Scenario SSP1-2.6 (~1.5 °C)	Scenario SSP2-4.5 (~2.0 °C)	Scenario SSP5-8.5 (≥ 4.0 °C)	Commentary	Risk management initiatives
Changes in regulation Regulatory risks arise from governmental requirements for compliance with national climate goals and international commitments to combatting climate change	Payments for GHG emissions	Payments for GHG emissions would increase logistics costs	2025 ↗ (lowest–medium impact) 2030 (medium impact) 2050 (highest impact)	2025 ↗ (lowest–medium impact) 2030 (medium impact) 2050 (medium impact)	2025 ↗ (lowest–medium impact) 2030 (medium impact) 2050 (medium impact)	A score increase in the short-term across all three scenarios is due to the recent developments in national legislation. While there is currently no fee for GHG emissions in Russia, on 2 July 2021, Federal Law No. 296-FZ On Limiting Greenhouse Gas Emissions came into force, laying down the regulatory framework for mandatory carbon reporting. Although retail trade is not listed among the regulated industries, fuel combustion in Company transport falls under the new regulations. Further amendments and additions to the law are to be expected. As such, there is a planned introduction of administrative penalties for failure to submit mandatory carbon reporting. A respective bill has already been submitted to the State Duma. Furthermore, on 1 September 2022, a GHG quota trading system was piloted in the Sakhalin Region. The experiment is likely to be scaled to other regions in the future, and then rolled out across the whole country.	Monitoring the volume of emissions (Scope 1, Scope 2 and Scope 3) Regular reporting on GHG emissions and other climate-related and ESG issues in compliance with the current national legislation and international standards Continuously monitoring relevant regulatory and legislative developments and disclosure trends Conducting a climate-related risk assessment in line with TCFD and other relevant frameworks Reducing overall GHG emissions across the value chain Completing a comprehensive cost analysis of the shift to low-carbon operations, including the shift to more environmentally friendly equipment Developing GHG emission-reduction initiatives, including the transition to refrigerants with a lower GWP Increasing the share of on-site renewable energy generation Using an internal carbon price at the project discussion

● Lowest impact ● Medium impact ● Highest impact

↗ Score increase ↘ Score decrease — No score change

2022

Risk	Risk component	Consequences	Scenario SSP1-2.6 (~1.5 °C)	Scenario SSP2-4.5 (~2.0 °C)	Scenario SSP5-8.5 (≥ 4.0 °C)	Commentary	Risk management initiatives
	Changes in climate disclosure requirements of stock exchanges for public companies	Stock exchanges may suspend the Group's listings for failure to disclose climate-related aspects of its operations	2025 ↘ 2030 2050	2025 ↘ 2030 2050	2025 ↘ 2030 2050	A downgrade in the short-term score across all three scenarios is driven by the suspension of Russian companies' (including X5) listings by the London Stock Exchange in 2022. Medium- and long-term estimates remain unchanged, as trading activities are likely to resume in the future; therefore, the risk of non-compliance with the mandatory climate-related disclosure requirements in the medium and long term remains. Furthermore, on top of the UK, a number of other jurisdictions have either adopted or announced their intentions to introduce requirements or recommendations for the disclosure of climate-related information by 2025 at the latest.	Monitoring the volume of emissions (Scope 1, Scope 2 and Scope 3) Regular reporting on GHG emissions and other climate-related and ESG issues in compliance with the current national legislation and international standards Continuously monitoring relevant regulatory and legislative developments and disclosure trends Conducting a climate-related risk assessment in line with TCFD and other relevant frameworks Reducing overall GHG emissions across the value chain Completing a comprehensive cost analysis of the shift to low-carbon operations, including the shift to more environmentally friendly equipment Developing GHG emission-reduction initiatives, including the transition to refrigerants with a lower GWP Increasing the share of on-site renewable energy generation Using an internal carbon price at the project discussion

Lowest impact · Medium impact · Highest impact

↗ Score increase · ↘ Score decrease · — No score change

2022

Risk	Risk component	Consequences	Scenario SSP1-2.6 (~1.5 °C)	Scenario SSP2-4.5 (~2.0 °C)	Scenario SSP5-8.5 (≥ 4.0 °C)	Commentary	Risk management initiatives
Changes in investor behaviour Investors may have more exacting requirements regarding a company's climate strategy and actions, particularly in terms of the scope of climate disclosures. Since ESG scores may influence investors' decision-making, a low ESG score alerts investors to increased climate risks and poor quality of management	A potential loss of investor interest, should insufficient information be disclosed about: • the Company's activities in response to climate change • the impact of climate change on the Company's financial performance • GHG emissions, carbon intensity of production and other climate-related metrics and targets	An increase in the cost of borrowing and required rate of return on equity as well as the implementation of strict financial and non-financial covenants	2025 2030 ↗ 2050	2025 ↘ 2030 2050	2025 ↗ 2030 2050	In the mid-term, the risk score increases, as in the 1.5 °C scenario, investors and financial regulators are expected to have the most stringent requirements, while exchanges actively impose tighter restrictions on climate disclosures. The short-term risk estimate under the 2.0 °C scenario has been slightly lowered, since investor expectations towards climate-related disclosures are likely to be less exacting than in the 1.5 °C scenario, although not as liberal as in the 4.0 °C scenario. Finally, in the 4.0 °C scenario, the short-term risk score is adjusted upwards because this scenario does not exclude a negative assessment by potential investors, especially considering that the time horizon has been revised to 2025.	Monitoring developments in the reporting requirements of international stock exchanges and best practice for climate-related disclosures Implementing best practices in responsible business and decarbonisation methods Articulating the Company's decarbonisation strategy and explaining what challenges the Company may face during the transition Providing a third-party assurance of climate-related data Improving climate-related disclosures for key ESG ratings

Lowest impact · Medium impact · Highest impact

↗ Score increase · ↘ Score decrease · — No score change

Risk assessment

Our climate risk assessment process aligns with the Group's general risk assessment and is closely reviewed on a regular basis during the Supervisory Board's strategy sessions. Additional information on the Group's risk management can be found on pages 119–126.

The results of climate risk and opportunity assessments help the Group develop a more comprehensive understanding of the changes necessary to transition to a low-carbon economy business model. Our decarbonisation initiatives closely align with the results of climate risk assessments, especially with the proposed measures to mitigate such risks, to ensure the effectiveness and resilience of the Group's sustainability strategy.

Both physical and transition climate risks are incorporated into the general risk register and are subject to annual review.

The climate risk assessment complies with the Group's risk assessment procedures and includes the following steps:

1. Risk identification
2. Risk assessment
3. Risk response (avoidance, mitigation, transfer, or acceptance)
4. Development and implementation of measures to reduce risks
5. Control and monitoring
6. Risk management reporting

The Group's strategy and climate risk assessment is structured across three time horizons:

- Up to 2025, the short-term horizon[1]
- 2025–2030, the medium-term horizon
- 2030–2050, the long-term horizon

The Group uses uniform approaches to assessing climate risks, utilising a scale to gauge risk impact, which classifies risks from the lowest to the highest possible impact to estimate the materiality of climate threats. Risks are identified and scored for each business unit separately. This assessment includes the impact of risks on the market share, financial performance, investor relations, interactions with regulators, operational processes, and employees. If a new risk becomes apparent and material at a business unit level, it will be escalated for further analysis as per the Group's corporate risk assessment process.

The Group assesses the impacts of climate-related risks and opportunities on X5's financial performance through 2030. The financial consequences of physical and transition risks have been assessed, taking into account the potential effects on the Group's key financial performance indicators. Financial estimates are subject to periodic review and reassessment to ensure accurate and climate-informed decision-making. The results of the financial assessment conducted in 2020 were reviewed in 2022, and no changes identified were significant enough to require a full reassessment.

The process of evaluating climate risks evolves on a yearly basis: in 2022, X5 expanded its climate risk analysis by proceeding with geographically mapping climate risks in order to determine the degree of the Company's exposure and vulnerability to climate change in its areas of presence.

Risk mapping tool

In 2022, X5 introduced a new climate risk analysis tool, which builds on the previous quantitative and qualitative climate risk assessments and augments them with a geographical dimension. The new climate risk mapping tool takes the form of a dashboard that visualises climate change data in combination with related socio-economic factors to help identify and analyse the Group's climate-related risks and opportunities.

The tool includes the climate scenarios used in the previous quantitative and qualitative climate risk assessments (1.5 °C, 2.0 °C and 4.0 °C) and their effects on the Company's stores, distribution centres and transportation hubs as well as the pathways plotted for the 2022–2050 time horizon. The dashboard allows us to select a climate scenario for physical and transition risks and estimate its financial impact on specific assets within the selected timeframe, based on a range of physical, social and economic indicators (e.g. the cost of refrigerants, changes in diesel prices, changes in per capita disposable income, and precipitation patterns, among other factors).

Thus, the previously completed quantitative assessment, combined with a qualitative scenario analysis within the risk register and geographical considerations of the climate risk mapping tool constitute a comprehensive system designed for rapid and effective risk identification, assessment and mitigation, while also informing the Company's budgeting and investment decisions as well as its strategic and operational planning.

1 Strategy 2025 is currently under development.

Metrics

The Group has been measuring GHG emissions in accordance with the Corporate Accounting and Reporting Standard of the GHG Protocol since 2019. The 2022 GHG emissions calculation results and a full description of the calculation methodology will be published in our 2022 Sustainability Report.

When developing the decarbonisation pathway, X5 established a feasible internal carbon price to support its strategic decision-making. The internal methodology and quantitative estimates are still contingent on continuous regulatory changes, therefore the instrument is still under review.

X5 Group has also established climate-related KPIs for management to motivate the implementation of the 30x30 agenda. KPIs include the LTI programme, which has a 10% decarbonisation target by 2023 vs a 2019 baseline. Other sustainability metrics rank among the KPIs, such as an increase in the share of recycled packaging and waste management initiatives that are crucial for decreasing Scope 3 emissions. Overall, climate-related KPIs hold a 5% weighting among management's KPIs.

In December 2020, X5 Group announced its commitment to the Science Based Targets initiative (SBTi). While we have significantly advanced our understanding of the specific measures needed to reach the objectives set, the Group's efforts in submitting its GHG emission reduction targets was limited due to unforeseen circumstances, with formal recognition by the SBTi coalition remaining as the last step. X5's GHG reduction targets are based on the methodology and requirements of the initiative and include considerations of achieving net zero by 2050.

Despite the challenges of 2022, our efforts to follow the trajectory of the Company's 30x30 agenda continued:

- In 2022, an innovative track was launched as a tool for discovering new cutting-edge projects, including those in alternative refrigerant solutions, amid a better recognition of the importance of harnessing greener and climate-friendly refrigeration options. Hence, the Group started researching alternative non-ozone-depleting refrigerant solutions, which culminated in a piloting air conditioners that use water as a cooling agent at a Pyaterochka distribution centre. Furthermore, building on the success of last year's project to install a transcritical CO_2 refrigeration system at a Company distribution centre, in 2022, X5 started exploring the potential and strategy for scaling this technology. Most notably, X5 conducted a comprehensive financial assessment of the cost of transitioning to alternative refrigeration equipment, covering the majority of distribution centres, which aids in planning and budgeting;

- Decarbonisation and energy efficiency considerations have been incorporated into the technical building requirements for new Chizhik distribution centres. From 2022 onwards, project plans will require consideration of a number of climate-related issues, including optimising the operation of energy-intensive equipment and exploring more environmentally friendly technologies (e.g. CO_2 refrigerants). Furthermore, X5 has developed a WRS accounting form for monthly monitoring of freon levels and plans to launch it in 2023. These ambitions translated to updates in standard agreements with contractors who service refrigeration equipment – under the new conditions, contractors must send us data on the amount of freon refilled each month. This initiative will allow us to track and manage the environmental impact of our business units and curb their future GHG emissions, where possible.

Additional information on X5's other environmental initiatives will be provided in our 2022 Sustainability Report.

Plans for 2023

In 2023, Pyaterochka and Perekrestok will continue deploying the Smart Store system while upgrading existing stores and increasing control over heat and electricity consumption.

We plan to install a pilot supply ventilation system at Perekrestok stores, with air coolers that use water as the refrigerant instead of Freon.

Pyaterochka keeps scaling up its solar panel project and is now preparing for a pilot: one of the stores will have solar panels installed on its windows to help reduce electricity consumption.

Turning to waste management, Pyaterochka and Perekrestok will expand their projects to send products that needed to be wasted early to farms.

Perekrestok will participate in recycling projects (composting and fertilisation) and government-sponsored recycling programmes, as well as nationwide online bidding with eco-industrial parks.

Pyaterochka is going to set up composters for food waste disposal.

In 2023, Pyaterochka and Perekrestok aim to establish a food sharing scheme, encompassing four Perekrestok distribution centres.

To promote responsible consumption, Perekrestok is going to further roll out its brush and battery drop-off points in partnership with GP, as well as to raise the number of recycling kiosks for PET bottles and aluminium cans in its stores.

The Company will further ramp up renewable energy use across its operations and work with partners to reduce indirect non-energy GHG emissions (Scope 3).

For more information on our environmental activities, achievements and plans for 2023, see our 2022 Sustainability Report.

Health

The quality of our products

To ensure all the products offered by its retail chains are of the highest quality, X5 Group works with its suppliers to closely monitor compliance with product safety and quality criteria.

All X5 stores have a clear set of rules and regulations in place regarding product quality and safety. Our quality control framework pivots around both supplier audits and monitoring, along with checking products on shelves.

To ensure that all products are safe for people's health and the environment and meet retail standards and customer requirements, we use a hazard analysis and critical control points (HACCP)-based approach.

Products for health-conscious customers

The recent turn to a healthy lifestyle[1] is a major market-wide trend. More and more consumers are increasingly paying much more attention to tailored nutrition, founded on natural, superior-quality products with clear ingredients and origins, as well as organic and functional food and gluten-free and sugar-free products.

X5 is doing its best to satisfy this customer need by constantly widening its range of fresh, organic and farm-to-table products. We are promoting our Green Line brand and healthy aisles in Perekrestok stores, which have several hundred healthy food SKUs for sale.

STRATEGIC GOALS FOR 2023

Increase the share of fresh produce, fruits and vegetables in our assortment to 44% at Pyaterochka and to 50% at Perekrestok

- Continue to develop the product quality control system
- Increase the share of customers who believe that X5's retail chains help them lead a healthy lifestyle
- Expand the range of products for a healthy lifestyle

STRATEGIC GOALS THROUGH 2030

- Develop principles and practices for monitoring suppliers' responsible sourcing of goods
- Expand our range of products for a healthy lifestyle

Our sustainability strategy promotes a healthy lifestyle as part of our value propositions by increasing the share of healthy products and highlighting healthy products at stores.

1 Our healthy product range includes gluten-free, sugar-free, organic, farm-grown, naturally sourced, high-protein, low-calorie, and vegan products.

Key projects

PRODUCTS FOR A BALANCED DIET

Perekrestok expanded its Green Line product range by 148 items. These encompassed healthy products like gluten-free bread, milk alternatives, healthy sweets, and more.

Over ten Green Line SKUs are certified organic.

FARM

In late 2022, we piloted the Farm category. Eight Perekrestok stores in Moscow opened farm aisles with products such as cottage cheese, dairy products and meat.

HEALTH AND WELLNESS FESTIVALS

Perekrestok, in partnership with its health product suppliers, held three wellness festivals in 2022, where shoppers could buy healthy products and win prizes. Over 100,000 people took part in the festivals, which had a total reach of over 20 million people.

CHAMPION MARATHON

Perekrestok, Bite and Epica held the nationwide Champion Marathon: people all over Russia had the opportunity to take up running or working out under special fitness programmes developed by professional trainers. The grand finale was a marathon for 500 people held in Moscow on 28 August. This project won Perekrestok an award for Best PR Campaign for Corporate Sports and Healthy Lifestyle.

HEALTHY LIFESTYLE AWARENESS CAMPAIGN

Pyaterochka's healthy lifestyle awareness-raising campaign (in collaboration with Rospotrebnadzor and the Federal Research Centre of Nutrition, Biotechnology and Food Safety) promoted healthy lifestyles and eating habits on our social media.

Plans for 2023

In 2023, Perekrestok plans to scale up Farm.

Pyaterochka will develop and launch a comprehensive healthy eating programme and continue introducing healthy food labelling and health signs on price tags.

Among other plans is an on-site lab to test goods and detect quality defects on the spot. This project will automate the laboratory testing process, cut costs and expand the study area to meet the chain's growing needs.

To encourage healthy eating habits among children, Pyaterochka will run two pilot healthy cooking lessons at schools.

Chizhik will expand its supplier engagement efforts and implement the Corrective Action Plan based on the recommendations of a previous audit for production compliance with X5 checklist requirements.

Employees

2022 performance highlights

In 2022, we focused our efforts on securing business stability and strong growth. By gearing up for internal and external change, supporting the team and introducing management innovations, X5's HR team helped the Company to cope successfully with challenges, remain sustainable and be a reliable partner for customers, suppliers and employees throughout the whole year.

Our first half of the year was dedicated to maintaining business stability and we concentrated on bolstering our market position in the second half. Cost efficiency, team performance and cross-functional cooperation cut through all our efforts to transform the overall management model at X5 Group, in particular at Pyaterochka and Perekrestok.

Thanks to systematic work to improve working conditions, evolve career opportunities, create new jobs, and respect people and their needs, X5 has upheld its reputation as a stable and dependable employer in the Russian market. Employee turnover stands at 33.4%, which is 2.6 p.p. below the 2021 level.

STRATEGIC GOALS FOR 2023

>75 %

An employee engagement rate

- Become the leading food retailer in rankings of Russian employers
- Create a safe, healthy workspace for all employees

STRATEGIC GOALS THROUGH 2030

- Maintain our #1 position among food retailers in rankings of Russian employers
- Ensure the introduction of an appropriate standard for a safe, healthy workspace for all employees

Key highlights

One of our priorities for 2022 was to maintain the ability of the team and the Company to operate amid a turbulent external environment.

We continued our efforts to transform X5's governance model, which emphasises collegial bodies, the role of each business in the Group, and improving centralised functions and services.

Partnership is becoming a core pillar for interacting within X5 and supporting synergies. It is why we are striving to transform our governance model Group-wide, including at X5's retail chains; boost interaction between X5's offices, stores and assets; and make our organisational structure flatter; etc.

We launched transformation of the organisational structure of the Pyaterochka retail chain, to base it, among other things, on a partnership culture. Our system is built around store operations, with everyone around helping stores deliver results.

For more information on the Company's performance and activities, see the Employees section of our 2022 Sustainability Report.

HR management

The HR management model across our retail chains and business units mirrors our approach to managing the organisation as a portfolio of independent businesses composing, and contributing to, the whole Group.

Single centres of excellence in key HR areas develop common approaches and cross-format programmes, methodologies, and implementation rules at the unit level. Each retail chain and major business unit of the Group, including X5 Technologies, X5 Digital, X5 Business Support, and others, has a dedicated HR function to recruit and onboard talent while managing and organising operations.

Support for new or smaller business units is based on the HR Business Partner model. Strategic HR management takes place at chain head offices, where key HR agendas also take shape. Regional units are responsible for the full spectrum of HR operations required in their jurisdictions and comply with international and local norms and standards.

This unlocks a tailored approach to each category of employees within the broader team, all while fostering an environment that facilitates people's growth and better performance.

For more information on changes in the management system, see the Employees section of our 2022 Sustainability Report.

Code of Business Conduct and Ethics

People of different ages, professions and ethnic backgrounds come to X5 and work well together. To deliver on its commitment to equal opportunities, the Company strives to comply with all requirements and standards around disability employment. As we advance on our continuous improvement journey, we engage employees in creating a comfortable environment for all people in society, which is reflected in our Code of Business Conduct and Ethics.

The Code of Business Conduct and Ethics defines standards of conduct that employees should observe in interactions with customers, suppliers and colleagues, and also lays out basic principles that guide our business practices.

The Code applies to all employees regardless of their position or role, and they are informed of its content through regular interactive training.

X5's corporate values

Our values guide our work and decision making, help us understand each other better and communicate more effectively.

X5's four values were developed in 2018. Each value is defined through behavioural indicators.

Our values are reflected in the Company's HR-related business processes.

Values	Behavioural indicators
Honesty and integrity	• We abide by our agreements • We give our co-workers reliable information in full • We have zero tolerance for corruption
Respect	• We show respect when we are involved in discussions, solving problems or providing feedback • We take into account the interests, opinions and feelings of our colleagues when making decisions and when interacting with one another • We help our colleagues, going beyond the scope of our responsibilities if necessary
Desire for achievement	• We set ambitious, stretching goals • We take responsibility for our actions and do not shift blame onto others • We commend our co-workers for their achievements and allow them to make mistakes
Customer-centric approach	• We look for solutions that meet the customer's needs • In any situation we put ourselves in the position of the customer • We build long-term relationships with customers

Corporate culture

X5 Group is a modern, multicultural Company that sets industry standards and shapes best practice in business conduct, teamwork and community care. The Company's assets are united by a common strategy and purpose, mission, values, and leadership and engagement practices. Partnership is a core pillar. Together we are building a long-term successful business that is adaptable to change – a permanent market leader with an open partner environment where every asset and employee knows their value and can showcase their contribution to the Company.

The year of 2022 saw the launch of our X5 Support programme for business continuity. It combines communication tools, workshops with psychologists, Q&A for employees, regular executive statements as well as support measures, such as a mental health hotline, additional insurance programmes for X5 staff in border regions, etc.

HR Galaxy Awards 2022

X5 Group placed second in the Corporate Social Responsibility category.

Feedback

X5 Group has developed an effective system for gathering feedback, both from subordinates to managers and from employees to the Company, whether anonymously or not.

The Company promotes and encourages honest feedback from employees on any matters relating to their employment or work at the Company, including corporate culture, values and ethics. We foster an open information space with a single intranet portal where users can post news and leave comments. As part of this initiative, we organise regular town halls with senior executives and fireside chats, enabling employees to ask questions and get answers.

There is also an ethics hotline available to all employees.

The Company works to ensure that employees can feel comfortable giving feedback: reports can be made anonymously, information received via the hotline is kept confidential, and whistleblowers are protected from retaliation, discrimination and other potential consequences.

In 2022, we launched a regular Company-wide eNPS measurement that will take place every six months as part of the Your Voice engagement survey. All units communicate survey results to employees for the whole unit and for each function/area/department, write up action plans for underperforming areas and work on improving performance.

HR Tech Award's Digital Pyramid 2022

X5 Group's intranet portal won the second prize in the HR Tech Product of the Year category.

HR Galaxy Awards 2022: X5 Group (Perekrestok retail chain) came second in the Digital Leader category

We created an internal service that combines the functions of a messaging app, a social network, a knowledge portal, an employee's personal account, a benefits system, and a gift store.

For more information on feedback initiatives, see the Employees section of our 2022 Sustainability Report.

Motivation and fair compensation

X5 Group operates a remuneration and incentive system with common corporate rules that takes into consideration the specifics of each of our retail formats, digital businesses and rapidly developing assets. As part of our policy on equal opportunities, we strive to always treat our employees equally, offering fair remuneration for their labour in accordance with their qualifications and skills, the time and effort spent at work, the difficulty of their role, and the quantity and quality of their work. Company-wide principles and approaches towards personnel rewards are outlined in X5's Policy on Remuneration.

All X5 business units constantly monitor the wage market for line personnel to ensure that X5 remains competitive. In 2022, the average wage across the Company increased by 11%.

In 2022, the Company set two rounds of semi-annual targets. For the first half of the year, two Company-wide KPIs were set for all employees: ensuring business continuity and OPEX/CAPEX optimisation. For the second half of the year, five Company-wide KPIs were set, each with an equal weight of 20%: X5's market share, Pyaterochka's LFL performance (gap vs peer), X5's EBITDA margin, X5's CAPEX as a percentage of revenue, and X5's NPS.

As part of our social measures to support employees, we offer financial assistance and discounts in the Company's stores and on partners' goods, flexible work schedules, including hybrid work arrangements, COVID-19 vaccinations and annual flu vaccinations for targeted employees, reimbursement of mobile internet costs, gym memberships, life and health insurance, and other benefits.

Training and development

A major benefit that X5 Group employees enjoy is a wide range of opportunities for professional development and career growth. Our employees can develop within their units as well as at other Company assets. We welcome internal mobility and strive to create an environment where everyone can develop their skills and competencies, and gain knowledge and experience.

As part of annual performance appraisals, each X5 employee undergoes a comprehensive evaluation of their performance, including against KPIs and X5's capabilities and values. We build a funnel of talent and high-potential employees and draw up employee development plans based on the appraisals.

A system of HR committees enables us to identify succession pool candidates for key positions and determine areas for growth for incumbent managers on an annual basis. This uniform approach ensures a talent pool at all levels of management and supports the sustainable management of the Company in the long term.

Our training system is constantly evolving to become more technology-driven and better adapted to the needs of specific groups of employees. The system is also adapted to the pace of change in the Company and in employee demands.

In 2022, X5 consolidated all its existing training programmes into its X5 Shelf online corporate university / development portal, which we are developing as an education marketplace. The portal currently features more than 900 pieces of content, with over 30,000 employees registered and over 5,500 unique users visiting the portal every month. In 2023, we will continue shifting existing training and development processes to the Shelf portal. Our plans include launching cross-format training programmes, namely Management Culture at X5, Partnership Culture at X5 and Developing Leadership Potential.

For details on the Company's motivation and compensation measures and initiatives, see the Employees section of our 2022 Sustainability Report.

HR Galaxy Awards

The Nature of Code or IT Camp for Developers project won first place in the DevRel of the Year category. The X5 Tech School of Team Leaders project won second place in the Best Training Programme category.

bema!

X5's Speak Up School placed second in the Best B2B Training/Education Project category. The Nature of Code or IT Camp for Developers project placed second in the Best Employer Brand Project category.

Silver Mercury

Third place in the Education category for X5's Speak Up School; a special prize for the Most Original Initiative to Promote and Build the Employer Brand for X5's Speak Up School.

Employer brand, recruitment and onboarding

One of the key objectives of X5's HR function is to support the Company's growth and development by promptly and fully meeting its needs for new talent across all regions of operation. To do this, all X5 units make consistent efforts to enhance their attractiveness as employers. In 2022, the Company hired 145,099 new employees.

Also in 2022, X5 updated its employee value proposition. Each unit can build on X5's Group-wide benefits to attract candidates in line with the unit's needs and taking into account specific target audiences.

In 2023, we will focus on developing programmes aimed at enhancing the Company's appeal to young people. Each unit within the Company undertakes its own efforts in this area, selecting educational institutions that match its profile and fit with business needs. Several units offer internships and vacancies for young specialists, while university students are involved in solving business cases and are welcome to bring to X5 their ideas and projects for the retail industry.

For more information on recruitment and onboarding activities and initiatives, see the Employee section of our 2022 Sustainability Report.

X5 Group's Creating a Shared Services Centre for HR Operations project won an ABPMP Russia Community Award. The BPM Project of the Year is an annual contest of projects to enhance performance through business process management methods and technologies, run by the ABPMP Russian Chapter and supported by the IT cluster of the Skolkovo Foundation and the Analytical Centre of the Russian Government.

X5's Personal Account project to automate HR processes won a **Crystal Pyramid** at the national Best HR Departments contest in the Digital Leader category.

Occupational health and safety

At-work health and safety is one of the most controversial and hot-button matters for a healthy workforce, as the average employee spends eight hours a day at work.

Our approach

In occupational health and safety (OHS), we aim to identify and build a sustainable safety culture. The Company has adopted an Occupational Health and Safety Policy. Being a responsible employer, X5 guarantees every employee is entitled to a comfortable working environment in line with state regulations. In this regard, we adhere to the following principles:

- Being a safety leader: all employees are involved in maintaining and improving the Company's OHS, while all-level managers lead by example.
- Identifying threats and managing risks: we take action on threats, assess OHS risks and analyse incident causes to prevent them.
- Ensuring safe working conditions: the Company's equipment and workplaces comply with applicable national OHS standards.
- Upskilling: the Company aligns employee qualifications with their duties and verifies knowledge according to up-to-date OHS requirements.
- Investing in people: we reward employees for OHS compliance and encourage them to voice their ideas and suggestions for OHS management system improvements.
- Promoting a safe working environment for suppliers and contractors: we establish uniform OHS requirements for our staff and contractor employees working on the Company's premises and/or for the Company's benefit.

The Company's Occupational Health and Safety Management System (OHSMS) is OHSAS 18001-compliant and can be applied at all management levels. It helps to rapidly identify potential dangers, take remedial actions to bring working conditions up to the required standards and make prudent management decisions.

In X5's business unit, which numbers over 50 full-time employees, an OHS specialist is a must (as per the Russian Labour Code).

In 2022, we updated a number of documents regulating occupational safety.

The OHSMS applies to all X5 employees. In line with X5's Occupational Health and Safety Policy, we urge employees to develop the OHSMS and consult them on it if requested.

Plans for 2023

The year of 2023 will usher in a further revamp of the Company's management models and corporate culture, including updating our operating principles, to contribute to a partnership culture and fruitful cooperation between businesses, all while achieving our ambitious goals.

X5's HR function will continue to support change and growth ambitions under the new development strategy for each priority as a valued partner. The focus will remain on delivering better operations, cost efficiency, and internal processes by digitising and automating key services, development and training with an emphasis on leadership skills and competencies.

HR plans for 2023:

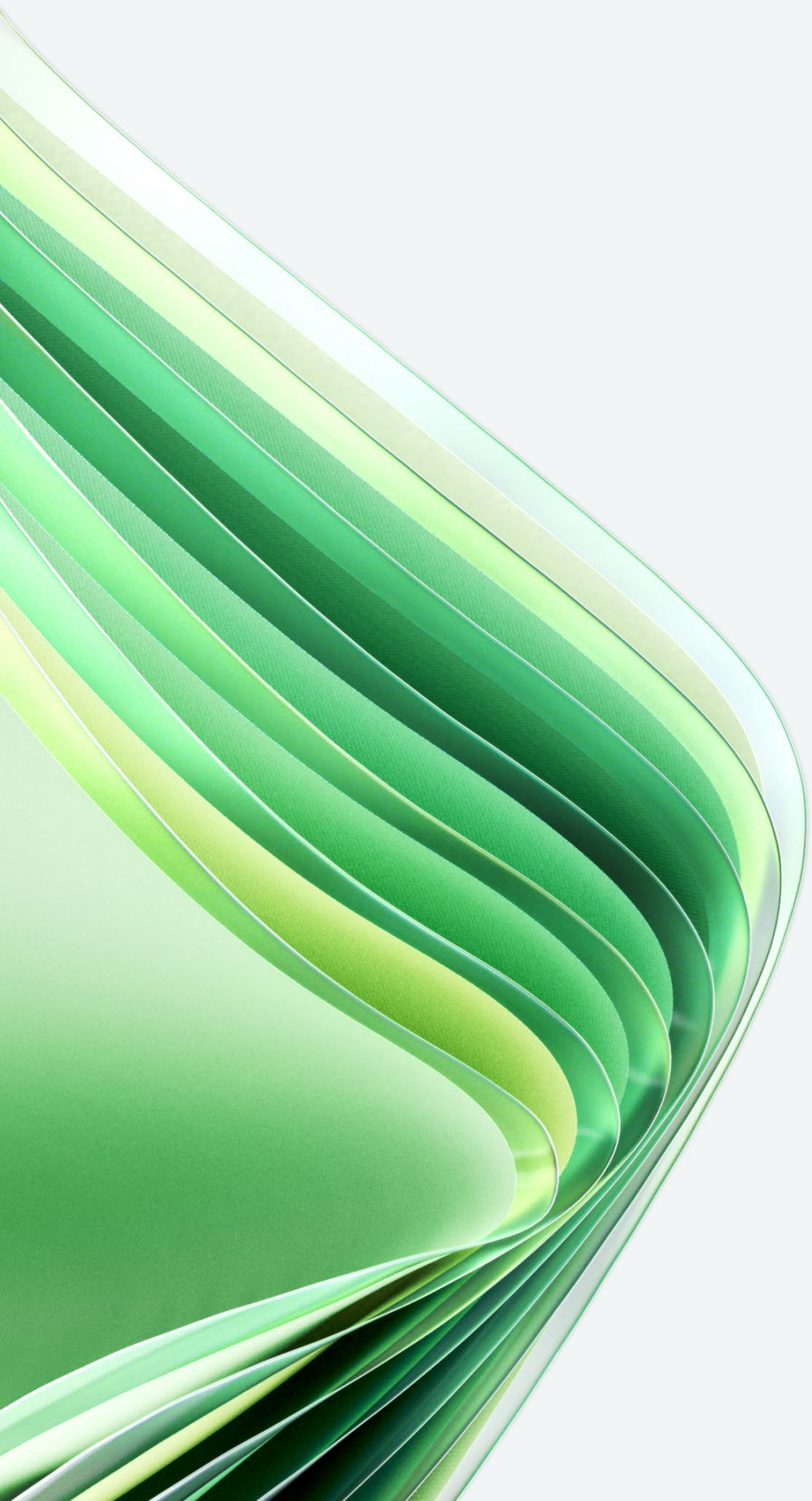
- Launching the Shelf corporate university and onboarding retail staff
- Create a single recruitment system, elevate the succession and talent pool programme, and scale up the Partner Director programme
- Update the onboarding programme for all X5 employees
- Launch new projects for young people
- Proceed with the centralisation of HR services under X5 Business Support and move to a service model
- Continue the transformation of governance and culture models, including by updating values and work practices to foster a culture of partnership and high-quality interaction between businesses and to support X5's ambitious plans

Key 2023 OHS goals:

- Launch electronic checklists for internal audits (WRS2 system) – aligning and analysing violations for prompt decisions on better working conditions
- Transition in-house health and safety training from text-based courses to a live, engaging format (using actual photos and videos showing the specific equipment use)
- Move some retail chains / business units to a service OHS model, which will formalise occupational safety processes and reduce labour costs, ensuring quality of service
- Automate personal protective equipment (PPE) distribution
- Automate health and safety training, use EDS in training protocols
- Automate the review of OHSMS results

Learn more on how we are developing human capital and safeguarding employee rights and safety in X5 Group's 2022 Sustainability Report.

02 Corporate Governance



Letter from the Chair of the Supervisory Board

Dear Reader,

Looking back on my second year as Chair of the Supervisory Board, I am immensely proud of, and grateful to, all the employees at X5. The complexity of the challenges that society faced in another turbulent year – with macroeconomic conditions deteriorating from late February 2022 and a new wave of sanctions that resulted in restrictions on businesses – required a new level of teamwork and focus from all employees at our Company.

The Supervisory Board remained connected, deeply focused and carried out stringent oversight of the Company's contingency planning and the impact on X5's corporate structure and operational activity in order to ensure business continuity in the interest of all of our stakeholders, including our employees, customers and shareholders.

We maintained our commitment to X5's long-term strategy, which aims to strengthen our existing businesses while growing our digital capabilities and omnichannel presence.

The Company continued to grow in 2022, and I am proud to say that through the strength of our operations and our customer-focused approach, we maintained profitability margins in line with our strategic targets.

Meanwhile, as mentioned above, the Supervisory Board is conscious of the challenging and changing circumstances the Company is facing, as well as the impact of those circumstances on X5's corporate structure. These include the suspended trading of Company shares on the London Stock Exchange, as well as new regulatory restrictions to the payment of dividends in the Company's operating environment. While there is a diverse set of issues to be resolved, we are constantly reviewing potential solutions to improve our corporate structure in the long-term sustainable interest of the Company, its shareholders and all other stakeholders. That being said, in view of the current market conditions, ongoing regulatory constraints, and consistent with last year's profit allocation, we will recommend to X5's General Meeting of shareholders not to distribute a dividend for 2022.

As a key strategic priority under these circumstances, the Supervisory Board extensively reviewed the operational performance of our key retail banners – Pyaterochka and Perekrestok – as well as measures and initiatives to strengthen their position in key regions of operation by adapting our CVP, driving organic growth and building strategic partnerships. The Supervisory Board closely monitored the development of Chizhik, X5's hard discounter format. Encouraged by Chizhik's strong performance, the Board fully supports management in its strategic objective to operate more than 4,000 Chizhik stores by 2025. Meanwhile, driven by the clear shift in consumer preference towards online shopping, X5's digital businesses continued to gain momentum, resulting in a 46.6% net sales growth year-on-year. By the end of the year, more than 4,400 stores and 44 dark stores in 64 regions of Russia offered express delivery.

Letter from the Chair of the Supervisory Board

ESG matters are increasingly important to us, as well as to all our stakeholders. Across the Supervisory Board and the entire Company, there is a growing awareness of the role that all our businesses must play in society. The Supervisory Board spent considerable time evaluating and discussing the Company's sustainability strategy and is fully supportive of the decisions that management has made. X5 is committed to pursuing ESG leadership in all of its business activities and continues to contribute to the transition to a low-carbon economy. Our shift to more sustainable business practices is an ongoing process guided by our sustainability strategy and long-term targets. Despite the rapidly changing environment, emerging challenges and the steady growth of the Company's businesses, I am proud to say that X5 is on track with its sustainability strategy goals.

As a Supervisory Board, we maintained a strong focus on management development and succession planning. We are working hard with the Executive Board to identify and develop the talent we need to ensure that we have qualified successors in both middle and senior management to deliver continued growth and meet market demand for our existing and new retail concepts. At the same time, the Supervisory Board focuses on stability within X5's leadership team, particularly in the face of fierce competition and an increased shortage of qualified executives. I am particularly pleased that we could strengthen our Management Board with the appointment of Ekaterina Lobacheva as President, and also announce the Supervisory Board's recommendation to extend Igor Shekhterman's term as CEO for another two years starting in 2023. We are confident that the continuity of X5's leadership in the current volatile environment will benefit the Company and all its stakeholders.

My role as Chair is to maintain high standards of corporate governance and ensure that the Supervisory Board is properly equipped to discharge its duties, as well as spending sufficient time on key areas that support our strategic priorities. Our corporate governance framework clearly defines responsibilities and ensures that the Group has the right systems and controls in place to enable the Supervisory Board and its committees to oversee the business effectively, offering challenges to the status quo where necessary.

That being said, 2022 was another year of significant change in the composition of the Supervisory Board: as described in the Supervisory Board Report, most of my fellow Supervisory Board members had to step down following the geopolitical turbulence in the beginning of the year. My profound gratitude goes out to each of these highly valued individuals who contributed so much to X5's impressive growth over so many years. While I sincerely regret their resignation and the external circumstances that led to this, I am pleased to say that we were able to close the year with a new team of highly qualified new Supervisory Board members, all of whom are introduced in this report on pages 127–128.[1] I look forward to working with this team to support the Company and its leadership during these times of profound change and to capitalise on the opportunities presented by evolving trends in our markets. To that end, the Supervisory Board unanimously supports the focus on the strategic priorities that will enable X5 to build on its unique strengths and to stay competitive, accelerate growth and generate free cash flow. Further details on our strategic priorities can be found on page 28.

Our approach to doing business and the performance of all employees across the Group are of vital importance to the Supervisory Board. We recognise that culture plays a fundamental role in delivering on our strategic priorities, and the Supervisory Board is ultimately responsible for ensuring that our activities reflect the culture we wish to instill to drive the right behaviours among all our staff members and stakeholders.

One of my goals as Chair is to build a culture where we fully understand our stakeholders and what matters most to them – whether customers, employees, suppliers, shareholders or our communities – and then act on these insights by driving change and innovating to meet their needs. Within the Supervisory Board, there is a clear emphasis on setting the right tone from the top and leading by example.

As we look ahead to 2023, the current volatile environment remains a challenge in our markets and will bring continued uncertainty. However, I believe that our commitment to delivering on X5's strategic objectives will guide and support our teams in all areas of the business, as we live our shared values and help our customers to eat healthy, save time and live better.

In conclusion, I would like to extend a word of thanks to the Executive Board and all X5 employees, whose hard work and resilience enabled the Company once again to fulfil its vital role in society during this challenging year.

On behalf of the Supervisory Board,

Peter Demchenkov

CHAIRMAN OF THE SUPERVISORY BOARD

31 May 2023

1 Fedor Ovchinnikov stepped down as member of the Supervisory Board on 8 March 2023.

Corporate Governance Report

X5 Retail Group N.V. is a public limited liability company incorporated under the laws of the Netherlands, with global depositary receipts listed on the London Stock Exchange.[1]

The Company is required to comply with, among other regulations, the Dutch Corporate Governance Code (the "Code"). The full text of the Code can be viewed on X5's website at www.x5.ru.

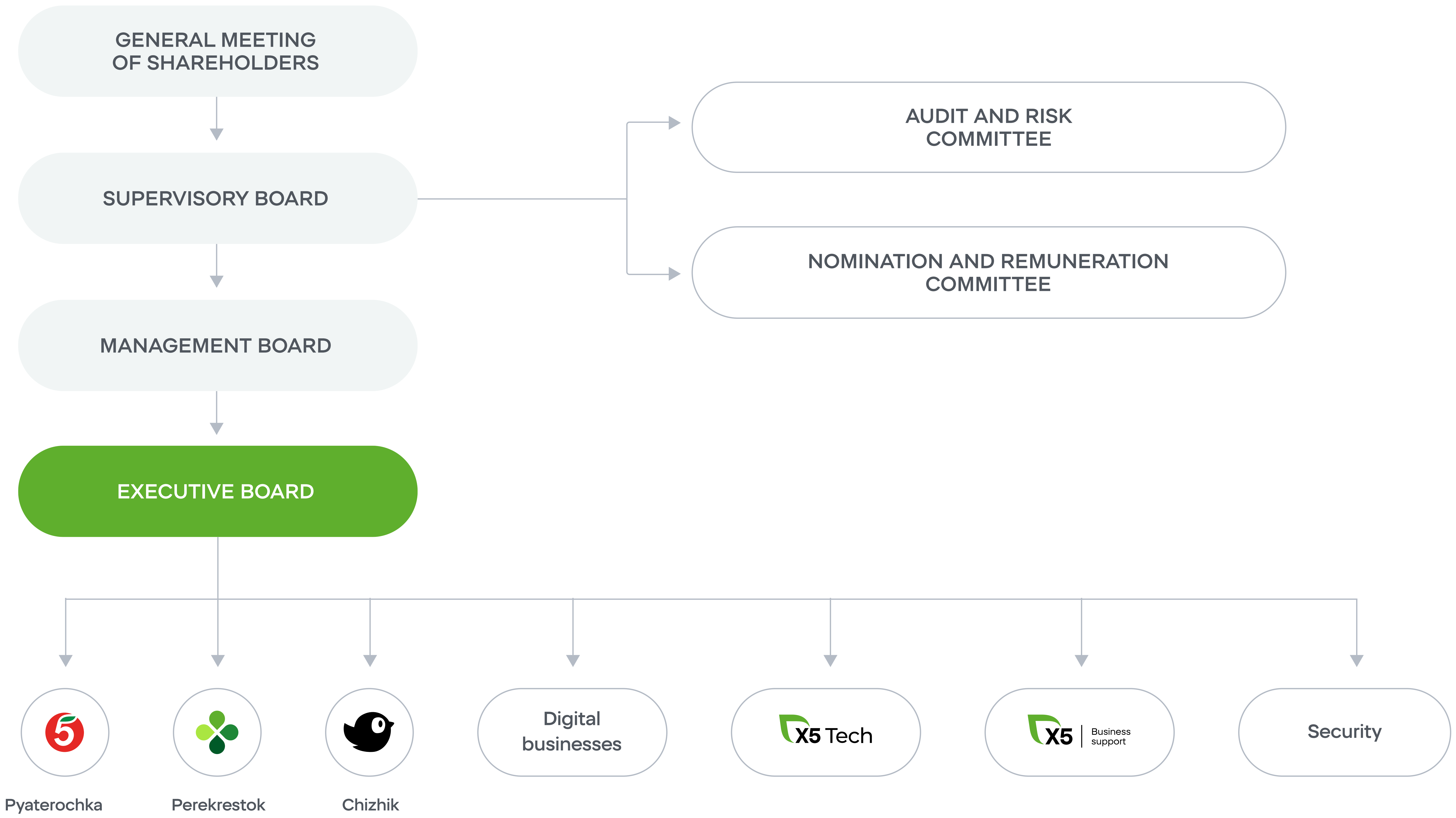
In accordance with the Code, a broad outline of the Company's corporate governance structure is presented in this section, including any deviations from the Code's principles and best practices. X5 aspires to high standards of corporate governance and is committed to a corporate governance structure that best supports its business, meets the needs of its stakeholders and complies with applicable rules and regulations.

Since 2022, the United States, the European Union, the United Kingdom, and other countries have imposed wide-ranging economic sanctions and trade restrictions, which have had an effect on the corporate governance of X5 and are reflected in this report.

1 In light of unprecedented market conditions and in order to maintain orderly markets, the London Stock Exchange suspended the admission to trading of X5 global depository receipts as of 3 March 2022.

Governance structure

The Company has a two-tier board structure, comprising a Management Board and a Supervisory Board. The Management Board and the Supervisory Board are independent of one another and are accountable to the General Meeting of Shareholders. The overview below shows the governance structure of X5.



Management Board

The Management Board has ultimate responsibility for the overall management of the Company and oversees all corporate governance activities. 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 laws and regulations, for managing the risks associated with the Company's activities and for financing and external communication.

When managing X5's general affairs and its day-to-day operations, the Management Board is supported by the Executive Board, which was established to serve as a leadership team for the Company's operating subsidiaries in Russia in order to best support X5's strategy and businesses at the local level.

The current members of the statutory Management Board and the Executive Board (the broader management team that handles day-to-day strategic, operational and financial issues), including their biographies, can be found on pages 31 and 129.

Composition and reappointment schedule of the Management Board

Name	Year of birth	Year of first appointment	End of current term of appointment
Igor Shekhterman	1970	2015	2023
Frank Lhoëst	1962	2007	2023
Quinten Peer	1974	2019	2023
Ekaterina Lobacheva	1982	2022	2025

Supervisory Board

The Supervisory Board is responsible for supervising and advising the Management Board and overseeing the general course of affairs, strategy and operational performance of X5 and its businesses. It ensures that external experience and knowledge are embedded in the Company's operations. When performing its duties, the Supervisory Board takes into account the relevant interests of the Company and all its stakeholders, and, to that end, considers all appropriate interests associated with the Company and its affiliated businesses, including corporate responsibility issues that are relevant to the Company. Major business decisions require the approval of the Supervisory Board. The Supervisory Board is responsible for monitoring and assessing its own performance.

The Supervisory Board determines its number of members. X5's Supervisory Board currently consists of six members, with a majority of four independent members. The current members, including their biographies, can be found on pages 127–128.

The Supervisory Board has prepared a profile of its 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 and composition annually. Due to the new composition of the Supervisory Board, a relatively light assessment was conducted in 2022. For further details, please refer to the Supervisory Board Report on pages 130–136.

Starting in 2020, the Supervisory Board resolved to reduce the term of (re-)appointment for Supervisory Board members to a maximum of three years, to promote agility and diversity and to create more flexibility in view of rapidly changing skill requirements at the Supervisory Board level. The total term of office may not exceed 12 years. The Supervisory Board has prepared a retirement and reappointment schedule to, as far as possible, prevent simultaneous reappointments. The Supervisory Board's profile and rotation plan can be viewed on the Company's website.

Composition and reappointment schedule of the Supervisory Board

Name	Year of birth	Year of first appointment	End of current term of appointment
Peter Demchenkov (Chair)	1973	2015	2023
Olga Vysotskaya[1]	1961	2022	2025
Vadim Zingman[1]	1970	2022	2025
Dmitry Alekseev[2]	1974	2022	2025
Vassilis Stavrou[2]	1970	2022	2025
Leonid Afendikov[2]	1978	2022	2025

1 Olga Vysotskaya and Vadim Zingman were appointed on 30 June 2022.

2 Dmitry Alekseev, Vassilis Stavrou and Leonid Afendikov were appointed on 30 November 2022.

Committees of the Supervisory Board

The Supervisory Board currently has two standing committees: the Audit and Risk Committee and the Nomination and Remuneration Committee. The members of each committee are appointed by the Supervisory Board from among its members. 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 of Procedure of the Supervisory Board, which can be viewed on X5's website. As of 16 March 2022, the duties and responsibilities of the Sustainable Development and Innovation Committee were included in the remit of the full Supervisory Board.

COMPOSITION OF THE SUPERVISORY BOARD COMMITTEES

Name	Audit and Risk Committee	Nomination and Remuneration Committee
Peter Demchenkov	Member	Chair
Olga Vysotskaya	Chair	
Vadim Zingman		
Dmitry Alekseev		
Vassilis Stavrou		Member
Leonid Afendikov	Member	Member

Audit and Risk Committee

The Audit and Risk Committee assists the Supervisory Board in overseeing the integrity of X5's financial statements, system of internal business controls and risk management, financing and finance-related strategies, taxation, the Company's compliance with legal and regulatory requirements, as well as the qualifications, performance and independence of the external auditor and the performance of the internal audit function. Furthermore, the Audit and Risk Committee advises the Supervisory Board on handling and deciding on reported (potential) conflicts of interest and/or related party transactions involving members of the Supervisory Board or members of the Management Board.

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 for 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, the Management Board and the Executive Board.

Diversity

The Supervisory Board operates a Leadership Diversity Policy that aims for a diverse composition of both the Management Board and the Supervisory Board in particular areas of relevance for X5. This includes diversity of experience, nationality and background. Appointments to the Management Board and the Supervisory Board are evaluated against the candidate's profile; the existing balance of skills, knowledge and experience on the respective board; and the need for the relevant board to be prepared for disruption and change. Management Board and Supervisory Board members are prompted to be mindful of diversity, inclusiveness and meritocracy when examining and proposing nominations to the Management Board and the Supervisory Board. In the selection and appointment of new Management Board or Supervisory Board members, the Supervisory Board will consider a diverse range of candidates. This will also include diversity of gender and age so that, when the final appointment is made, the Supervisory Board can be confident that the most effective candidate has been selected.

Each year, the Supervisory Board conducts an evaluation of its performance and the performance of the Management Board. In this context, the Supervisory Board gives careful consideration to its own diversity, as well as to diversity on the Management Board, for them to be effective in performing their roles.

On 1 January 2022, the Gender Diversity Act came into force in the Netherlands. The law introduced a requirement to set ambitious gender balance targets for management boards and senior management of large listed Dutch companies and a plan which outlines the actions needed in order to meet these gender diversity targets. The Gender Diversity Act also calls for companies to report to the Dutch Social and Economic Council (Sociaal Economische Raad) with regard to diversity.

While the Management and Supervisory Boards are currently not gender balanced, the Executive Board meets the one-third gender balance target. X5 recognises the importance of diversity, including gender, at all levels of the Group and has a very strong track record of developing a critical executive layer of female business leaders. Across all of the Group's operations, specific diversity targets are taken into account in recruitment, talent development, appointments, retention of employees, mentoring and coaching programmes, succession planning, training, and development.

Appointment, suspension and dismissal

The General Meeting of Shareholders appoints the members of the Management Board and the Supervisory Board based on binding nominations made by the Supervisory Board. The recommended candidate is 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.

In principle, members of the Supervisory Board may serve for a maximum term of four years from the date of their appointment or a shorter period if determined upon their appointment by the General Meeting of Shareholders or as per the Supervisory Board's rotation schedule. A Supervisory Board member can be reappointed after their first term of four years for one additional term of four years, followed by two additional terms of two years. Starting in 2020, the Supervisory Board resolved to reduce the term of (re-)appointment for Supervisory Board members to a maximum of three years, to promote agility and diversity and to create more flexibility in view of rapidly changing skill requirements at the Supervisory Board level. A Supervisory Board member may not serve more than 12 years.

Members of the Management Board are elected for a period of four years or a shorter period if determined upon their nomination for appointment by the General Meeting of Shareholders. Neither the Articles of Association nor the Code limits the total term of office for Management Board members.

Each member of the Supervisory Board and the 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 lifted by the General Meeting of Shareholders at any time.

Remuneration

In line with the current 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 upon the recommendation of its Nomination and Remuneration Committee.

The remuneration policy for members of the Supervisory Board has also been adopted by the General Meeting of Shareholders. The remuneration policies can be found on the Company's website.

Reporting on conflicts of interest

A member of the Management Board or the Supervisory Board is required to immediately report and provide all relevant information to the Chair of the Supervisory Board (and to the other members of the Management Board if it concerns a member of that board) on any conflict of interest or potential conflict of interest that they may have with the Company and that may be of material significance to them 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, that member may not participate in the discussions or decision-making process on subjects or transactions relating to the conflict of interest. A decision taken by 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 them or the Company requires the approval of the Supervisory Board.

The Audit and Risk Committee advises the Supervisory Board on handling and deciding on (potential) conflicts of interest and prepares resolutions of the Supervisory Board in relation thereto.

The Supervisory Board has a conflict of interest protocol to identify and handle conflicts of interest of Supervisory Board members, due to the increased risk of conflicts of interest of Supervisory Board members as the scope of activities of the Group is becoming broader while it increasingly operates as an omnichannel retailer.

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 of the end of the financial year in order to, among other things, adopt the financial statements, decide on any proposal concerning profit allocation and discharge the members of the Management Board and the Supervisory Board from their responsibility for the performance of their respective duties for the previous financial year.

Extraordinary meetings are held as often as the Management Board or the Supervisory Board deems necessary. In addition, shareholders and holders of global depositary receipts (GDRs) jointly representing 10% of the outstanding share capital may ask the Management Board and the Supervisory Board to hold a General Meeting of Shareholders, stating their proposed agenda in detail when doing so.

The powers of the General Meeting of Shareholders are specified in the Articles of Association. Apart from the decisions taken at the Annual General Meeting of Shareholders, the main powers of the General Meeting of Shareholders are to appoint (subject to the Supervisory Board's right to make binding nominations), suspend and dismiss members of the Management Board and the Supervisory Board; to appoint the external auditor; to adopt amendments to the Articles of Association; to issue shares and grant subscriptions for shares; to authorise the Management Board or the Supervisory Board to issue shares and grant subscriptions for shares; to authorise the Management Board or the Supervisory Board to restrict or exclude pre-emptive rights of shareholders upon the issuance of shares; to authorise the Management Board to repurchase outstanding shares in 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 no later than 42 days 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 set at least 28 days prior to the date of the meeting.

Shareholders and/or holders of GDRs are entitled to propose items for the agenda of a General Meeting of Shareholders provided that they hold at least 3% of the issued share capital. Proposals for agenda items for a General Meeting of Shareholders must be submitted at least 60 days prior to the date of the meeting.

All shareholders and other persons who, pursuant to Dutch law or the Articles of Association, 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 bank for X5's GDR facility (the "Depositary"), 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, GDR holders 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 legalised 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 the Articles of Association, on the rights of non-residents of the Netherlands or foreign owners to hold shares or to vote, other than those also imposed on residents of the Netherlands. Resolutions of the General Meeting of Shareholders are 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 no later than four weeks following the first meeting. At the second meeting, no quorum requirement will apply. However, the General Meeting of Shareholders can only resolve on (1) a merger or demerger, (2) the authorisation to limit or exclude pre-emptive rights and (3) cancellation of shares with a majority of at least two-thirds of the votes cast if less than 50% of the issued share 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. 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 be maintained pursuant to Dutch law.

The Company's dividend policy was approved in 2017 and amended in 2020. The Company intends to pay a full-year dividend per share that will remain stable or grow over time in absolute Russian rouble-denominated terms.

The dividend payout will be based on operating cash flow and a target consolidated net debt[1] to adjusted EBITDA[2] ratio of below 2.0x as at the end of the year for which the dividend is proposed, taking into account considerations including but not limited to the Company's growth profile, capital requirements and return on capital. Since 2020, X5 has been committed to semi-annual dividend payments. The interim dividend will be announced following the release of the third-quarter results.

In view of the current market conditions, ongoing regulatory constraints, and consistent with last year's profit allocation, the Supervisory Board will recommend to X5's General Meeting of shareholders not to distribute a dividend for 2022. While the Company remains committed to its long-term goal of returning company profits to shareholders, the Supervisory Board believes it would be in the Company's best interest to temporarily deviate from its dividend policy as long as current uncertainties and regulatory conditions prevail.

Further information on the Company's dividend policy and dividend history is available on the Company's website.

1 Calculated based on the Company's full-year consolidated financial statements or information in accordance with IFRS 16 as of the end of each reporting period as the sum of short-term borrowings and long-term borrowings less cash and cash equivalents.

2 EBITDA shall be adjusted (decreased) by the amount that would have been recognised as operating lease, other store costs, third-party services, and other expenses payable during the period but which is not recognised as such under IFRS 16, as well as the amount of the net effect from the decrease in the scope of the lease and lease terminations recognised under IFRS 16.

Substantial shareholdings

According to the UK Disclosure Guidance and Transparency Rules, 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 Company and the Financial Conduct Authority (FCA) 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: 5%, 10%, 15%, 20%, 25%, 30%, 50%, or 75%.

The table below lists the shareholders on record on 20 April 2023 in the FCA's public register that hold an interest of 5% or more in the share capital of the Company.

Name	Date of disclosure[3]	Capital interest[4]	Voting rights[4]
CTF Holdings S.A.	1 January 2021	47.86%	47.86%
The Axon Trust	1 January 2021	11.43%	11.43%

Securities owned by Board members

The members of the Management Board and the Supervisory Board and X5's other senior management are subject to the Company's Inside Information and Dealing Code. This Code contains rules of conduct to prevent trading in X5's GDRs of shares or other financial instruments when holding inside information or during blackout periods when trading is not permitted (for instance, prior to the publication of quarterly financial results). The Inside Information and Dealing Code can be viewed on the Company's website.

Under the Inside Information and Dealing Code, members of the Management Board and the Supervisory Board must notify the FCA of X5 securities and voting rights at their disposal. These positions can be viewed on the FCA's public register.

3 Following Brexit, all notifications regarding the Company need to be made to the FCA in the UK; such notifications were made on 1 January 2021.

4 In accordance with filing requirements, the percentages shown include both direct and indirect capital interests and voting rights. The percentages may differ from the actual shareholders' interests due to the fact that changes within the thresholds mentioned above do not require a notification to the FCA. Further details can be found at www.fca.org.uk.

Repurchase by the Company of its own shares

The Company may acquire fully paid shares, or GDRs thereof, in its capital for a consideration only following authorisation by 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; and
- X5 and its subsidiaries would not, as a result, hold shares or GDRs thereof with an aggregate nominal value exceeding half of the issued share capital.

In 2021, the Management Board was authorised to acquire up to 10% of the Company's shares or GDRs thereof. This authorisation was valid through 12 November 2022. In addition, the Supervisory Board resolved that, in the event a purchase of shares or depositary receipts thereof by X5 would lead to X5 holding more than 5% of shares or GDRs thereof, the Management Board would require the Supervisory Board's prior approval for such a purchase.

Shares or GDRs 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.

In order to fulfil the Company's obligations under the Restricted Stock Unit Plan, the Company from time to time acquires GDRs under a restricted buyback programme pursuant to an authorisation of the General Meeting of Shareholders in accordance with Article 9 of the Company's Articles of Association. The Company did not repurchase any GDRs in 2022.

Articles of Association

X5's Articles of Association contain rules on the Company's organisation and corporate governance.

Amending the Company's Articles of Association requires a resolution of the General Meeting of Shareholders. A proposal to amend the Articles of Association, including the text of the proposed amendment, must be made available to the holders of shares or GDRs for inspection at the offices of X5 as of the date of the notice convening the General Meeting of Shareholders until the end of the General Meeting of Shareholders at which the proposed amendment is voted on.

The current text of the Articles of Association is available on the Company's website.

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 X5 corporate body to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. In 2021, 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 12 November 2022.

Upon the issue of new shares, holders of X5 shares have a pre-emptive right to subscribe for shares in proportion to the aggregate amount of their existing holdings of X5 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 X5 corporate body to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. The General Meeting of Shareholders had 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 12 November 2022.

Anti-takeover measures and change-of-control provisions

According to provision 4.2.6 of the Code, the Company is required to provide an overview of its actual or potential anti-takeover measures and to indicate in what circumstances it is expected that they may be used.

There are no agreements to which the Company is a party that will automatically come into force or be amended or terminated under the condition of a change of control over the Company as a result of a public offer. However, the contractual conditions of most of X5's important financing agreements and notes issued (potentially) entitle the banks and noteholders, respectively, to claim early repayment of the amounts borrowed by the Company in the event of a change of control over the Company (as specified in the respective agreements).

Auditor

The General Meeting of Shareholders appoints the Company's external auditor. The Audit and Risk Committee makes 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 and Risk Committee evaluates and, where appropriate, recommends the replacement of the external auditor. The Audit and Risk Committee also pre-approves the fees for audit and permitted non-audit services to be performed by the external auditor. The Audit and Risk Committee will not approve the engagement of an external auditor to render non-audit services prohibited by applicable laws and regulations or that would compromise the independence of the auditor. Specific rules relating to non-audit work performed by the external auditor are included in X5's Rules on External Auditor Independence and Selection. This document is available on the Company's website.

2021 was the last year of Ernst & Young Netherlands' engagement term as external auditor of the Company. The current geopolitical environment presented a challenge for the Company to extend the mandate with Ernst & Young Netherlands or to engage a new external auditor to audit the financial statements of the Company for the financial year 2022 and beyond. Therefore, on 30 June 2022, the General Meeting of Shareholders delegated the authority to appoint an external auditor for the financial year 2022 to the Supervisory Board, in order to allow more time for the external auditor selection and appointment process. Subsequently the Supervisory Board approved the nomination of TSATR – Audit Services LLC ("B1") and Reanda Audit & Assurance B.V. as X5's external auditors in Russia and the Netherlands, respectively, for the audit of the Company's 2022 consolidated financial statements and Annual Report.

Compliance with the Dutch Corporate Governance Code

X5 applies the relevant principles and best practices of the Code in the manner described in this Corporate Governance Report. Committed to a corporate governance structure that best serves the interests of all stakeholders, including shareholders, 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:

2.1.7–2.1.8: Independence of the Supervisory Board and its Members

In accordance with best practice provisions 2.1.7 and 2.1.8, at most one Supervisory Board member may represent, or be affiliated with, a shareholder who directly or indirectly holds more than 10% of shares in the Company.

Supervisory Board members Vadim Zingman and Leonid Afendikov are both affiliated with CTF Holdings S.A., which has a capital interest of 47.86% in X5. Therefore, they are not considered independent under the Dutch Corporate Governance Code.

X5 believes that the non-independent members of its Supervisory Board have in-depth knowledge of the Company's footprint and business, particularly retail, and a strong track record in the markets in which X5 operates. This is of particular benefit to X5 and its shareholders.

It is Company policy that a majority of the members of the Supervisory Board must be independent at all times. At the time of writing, a majority of four members of the Supervisory Board, which currently consists of six members in total, qualifies as independent within the meaning of the Dutch Corporate Governance Code.

2.3.2: Supervisory Board Committees

The Code states: "If the Supervisory Board consists of more than four members, it should designate […] a Remuneration Committee and a Selection and Appointment Committee." As it is felt that issues related to selection, appointment and remuneration are interlinked, the Supervisory Board decided that all these activities should be dealt with by one committee: the Nomination and Remuneration Committee.

2.3.4: Composition of the Committees

The Code prescribes that the remuneration committee should not be chaired by the chair of the Supervisory Board. Currently the Chair of the Supervisory Board is also the Chair of the combined Nomination and Remuneration Committee, which constitutes a deviation from the Code. However, it is not uncommon for a Supervisory Board chair to also chair the selection and appointment or nomination committee. In view hereof and the fact that the Supervisory Board safeguards its statutory responsibilities in remuneration matters, as reflected in the Supervisory Board Rules of Procedure, X5 believes that the Chair, being an independent Supervisory Board member, is the right person to chair the Nomination and Remuneration Committee.

3.3.2: Award of Shares and/or Rights to Shares to Members of the Supervisory Board

The Code prescribes that Supervisory Board members may not be awarded remuneration in the form of shares and/or rights to shares ("phantom stock units" or "PSUs"). The number of PSUs awarded annually equals 100% of a Supervisory Director's fixed base fee in the calendar year of the award, divided by the average market value of an X5 GDR on the relevant award date. PSU awards to members of the Supervisory Board are not subject to performance criteria.

X5 acknowledges that the PSU awards to members of the Supervisory Board constitutes a deviation from the Code. However, in order to attract and reward experienced individuals with the necessary track record for the Company, X5 believes it is necessary to allow members of the Supervisory Board to receive equity-based remuneration in addition to their fixed board fee. This structure aligns the interests of Supervisory Board members with those of shareholders and strengthens their commitment to, and confidence in the future of, the Company.

The equity-based awards to members of the Supervisory Board are not performance-based and are calculated based on the fixed board fee of each member. X5 believes that the level and structure of the remuneration of the Supervisory Board members safeguard their independence of thought and judgement, and adequately reflect the time commitment and responsibilities of the role. All equity awards to Supervisory Board members are subject to approval by the General Meeting of Shareholders.

Moreover, with a three-year vesting followed by a three-year claw-back period after vesting in the event of a material misstatement of the Company's financial results or any other condition deemed appropriate by the Supervisory Board, the equity award programme is in line with the spirit of the Dutch Corporate Governance Code, which states that shares held by Supervisory Board members should be long-term investments.

How we manage risk

The Management Board, supported by the Executive Board and the Risk Management team, is responsible for designing, implementing and operating an adequately functioning risk management system for the Company. The aim is to ensure that the Company understands the extent to which its strategic and operational objectives are being achieved, that the Company's reporting is reliable, and that the Company complies with relevant laws and regulations.

Risk management

X5's risk management activities seek to identify and appropriately address any significant threat to the achievement of the Company's strategy and business objectives, its reputation or the continuity of its operations. X5's risk management system enables management to continuously and systematically identify, assess, prioritise, and manage risks, and covers all businesses and corporate functions within X5 Group. Ongoing identification and assessment of risks, including for new risks arising through an early-warning system of key risk indicators, form X5's planning, performance and risk management cycles.

Management teams at all levels of the Group are responsible for identifying, managing and monitoring relevant risks. The Risk Management team facilitates a Company-wide view of risk-relevant issues, helps to develop risk management activities at both business and functional units, and ensures that the Management Board is promptly informed of important risk management developments as they arise.

Throughout the year, the management teams at all levels of the Group, supported by the Risk Management team, review X5's risks, develop mitigation plans and allocate appropriate resources to risk mitigation. The outcomes of risk mitigation efforts are monitored and reported to the Audit and Risk Committee on a quarterly basis, with a focus on strengthening the design and effectiveness of the risk management and internal control systems to ensure:

- a comprehensive review of both internal and external risks is carried out at least once a year
- a review and confirmation of the Company's risk appetite is carried out periodically
- key risk indicators are reviewed periodically
- risk assessments for both strategic and short-term objectives are conducted
- ongoing monitoring of emerging risks
- adequate risk responses and risk mitigating activities
- accurate and reliable reporting
- full compliance with relevant laws and regulations

Risk appetite

X5's risk appetite is set by the Management Board and approved by the Supervisory Board, and is integrated into Company businesses through the Group's strategy, procedures, controls, and budgets. X5's risk appetite is expressed in qualitative or quantitative terms:

- Qualitative risk appetite determines the attitude to risk for key critical risks and is then used as the basis for the design and effectiveness of control procedures by business units and risk owners.
- Quantitative risk appetite consists of high-level metrics that highlight the potential risks of not achieving strategic goals. They are monitored on a quarterly basis against set thresholds (see the table below).

Risk appetite is cascaded to the level of retail chains and business units and integrated into the decision-making process and control environment of business processes.

	GREEN ZONE	YELLOW ZONE	RED ZONE
Risk level	Low	Medium	High
Target state for key risk indicators	Target zone for all risks	Acceptable for a short period	Unacceptable
Measures taken to achieve strategic goals	Monitoring of key risk indicators	Development of risk mitigation measures	Critical measures to decrease risk

X5 applies a "three lines of defence" model to ensure the Company's risk management and internal control system is both effective and comprehensive:

	First line	Second line	Third line
Team	Business unit / risk owners	Risk Management, Internal Control and Compliance	Internal Audit
Role	Day-to-day management of risks, providing assurance regarding the effectiveness of controls	Steering, monitoring and supporting line management in (1) managing risks and (2) developing and maintaining an adequate framework for control and compliance	Conducting audits and testing the internal control and compliance framework for assurance of control effectiveness

Monitoring and assurance

A key element of X5's risk management framework is monitoring and assurance. The Company leverages a comprehensive business planning and performance review process to monitor its performance. This process covers the adoption of strategy, budgeting and the reporting of current and projected results. The Company's business performance is gauged against both financial and non-financial (including sustainability) targets.

X5's internal control activities aim to provide reasonable assurance as to the accuracy of financial and non-financial disclosures, the Company's compliance with applicable laws and internal policies, and the effectiveness of internal processes. Internal controls have been established for operating entities and across all functions. Compliance with Company policies is periodically assessed. The Company's policies, procedures and controls are periodically updated to reflect both the Company's key risks and the extent to which the Company is willing and able to mitigate them.

The Internal Audit Department (IAD) performs reviews of key processes, projects and systems across the Group, based on X5's strategic priorities and most significant risk areas. The IAD provides independent, objective assurance and value-adding advisory services that assist the Company in achieving business objectives and improving its operations. Based on a systematic assessment of the design and effectiveness of the Company's risk management and internal control systems, the IAD reports its audit findings to the Management Board and the Audit and Risk Committee and makes recommendations to improve the effectiveness of the risk management and internal control systems and better integrate them into the Company's business processes.

Ethics and compliance

X5 recognises that ethics and integrity are key components in driving X5's sustainable health and long-term value creation. Our Code of Business Conduct and Ethics reflects our values and principles, which, coupled with underlying policies and procedures, are promoted and embedded across the Group through learning and training programmes.

Further information on these objectives can be found in the Sustainability management section on pages 83–85 and Risk Profile below.

2022 ESG performance

X5 Group is committed to pursuing ESG leadership in all of its business activities and continues to participate in the transition to a low-carbon economy. Our shift to more sustainable business practices is an ongoing process, guided by our sustainable development strategy and long-term targets.

Despite a rapidly changing environment, emerging challenges and the steady growth of the Company's business units, X5 is on track with its sustainable development strategy goals. X5 closely monitors its environmental footprint by continuing to calculate its annual greenhouse gas emissions, implementing decarbonisation measures and improving its awareness of climate-related issues and risks.

Issues related to climate change are reviewed regularly at the most senior levels of management. Climate-related risks are integrated in the Group-wide risk assessment and management process and are categorised as "principal risks". The process of evaluating such risks evolves each year; in 2022, X5 expanded its climate risk analysis by geographically mapping its climate risks to identify the Company's exposure and vulnerability to climate change across its footprint.

The Company's sustainability strategy, as well as initiatives implemented by business units, are designed to address the following challenges:

- The unsustainable use of natural resources, environmental pollution caused by waste, the impact of waste on natural ecosystems, and the entry of waste into water bodies;
- The decline in the standard of living across the Company footprint and the increasing need for affordable products and charity work;
- The reduction of food waste by optimising the production process, logistics and product sales.

The Company is also currently working to assess its impact on human rights in the context of key stakeholders: customers, employees, suppliers, and delivery services.

The Company's principal risks

X5's principal risks – those that may prevent X5 from achieving its objectives regarding strategy, operations, compliance, and reporting – are addressed below. It should be noted that there are additional risks which management considers immaterial or common to companies in the same industry.

Principal risks	Risk movement in 2022	Key controls and mitigating factors
Strategy		
Market and macroeconomics Major changes in the macroeconomic environment may challenge the existing business strategy or have a material impact on financial performance.	In 2022, the economy faced a structural change in prices as a result of restrictions on foreign trade. Exchange rate volatility and rising costs led to CPI acceleration in the first half of the year. Meanwhile, the strengthening of the exchange rate and a bumper harvest mitigated the impact of acute inflation in the second half of the year. The labour market remained strong and mitigated a decline in real disposable incomes.	• We constantly monitor and forecast the economic environment and make adjustments to our strategy as needed. • We are actively developing a hard discounter format (Chizhik) and taking other steps to address the pressure on individual incomes. • We are revising our CVP in the proximity format to favour low-price segment products and private labels, increasing their share of the assortment and sales. • We are revising our CVP in the supermarket segment to favour affordable ready-to-eat food, focus on product quality and freshness, and increase the number of coffee points and ready-to-eat food outlets in the stores.
Governance and ownership structure • X5's strategy to optimize shareholder recognition may be at risk by laws or regulations that could adversely affect value, return and liquidity of global depositary receipts (GDRs) held by X5's shareholders. If we pursue a restructuring of the Group's ownership and governance and are unable to implement such steps on acceptable terms, the interests of our shareholders could be materially adversely affected. • If sanctions were to be imposed directly on X5 Retail Group N.V., our operating subsidiaries and members of our governing bodies, our operations as well as our corporate ownership structure, may be materially adversely affected.	The government of the Russian Federation imposed temporary restrictions on cross-border payment of dividends or similar capital distributions to a number of countries including the Netherlands. under these restrictions such payments are subject to a preliminary government of Russian Federation authorisation, leading to significant uncertainties with respect to future dividend distributions from Russian operations. It is not clear when such restrictions will be lifted. Whilst the admission to trading of X5's GDRs on the London stock exchange remains suspended and such suspension may remain in place for an indefinite period of time, X5's shareholders currently have limited or no liquidity in our stocks.	• While we are closely monitoring sanctions and their impact on our operations, governance and ownership structure, we are analysing all available options to improve our corporate structure and safeguard the long-term interests of our shareholders and other stakeholders. • We are taking appropriate measures to conserve cash, consider our capital allocation and budget appropriately during this period of uncertainty.
Competitive environment Actions taken by competitors or new entrants to the market affect the Company's competitive edge and performance.	Hard discounters and specialist segments benefitted from the macroeconomic environment and customer behaviour trends. Competition in the proximity segment increased because of the rising importance of price for consumers.	• We constantly analyse customer behaviour and adjust our strategy accordingly. • We continue to roll out new concepts and CVPs in our proximity and supermarket formats. • We sustain our lead over traditional and new competitors by building a digital infrastructure around the core business that covers all stages of the customer journey in food and complementary categories. • We are developing a new hard discounter format (Chizhik).

Principal risks	Risk movement in 2022	Key controls and mitigating factors
Business development investments Insufficient return from investments in new business lines, and capital costs for the development of X5's retail formats.		• We follow strong investment control procedures. All new business initiatives are subject to validation through pilot projects. • We implement action plans for underperforming stores to increase their efficiency and profitability.
Operations		
Retail and customer service Inconsistent and ineffective operational management may affect X5's ability to provide its customers with an attractive shopping experience.		• We use commercial and research data to gauge our performance against customer priorities and expectations regarding price, product range, availability and service. • Every year we assess and, where required, strengthen our regional management teams to ensure our stores are well supported across all locations.
Supply chain Gaps in X5's retail infrastructure and inventory management, as well as external shocks, may lead to an inability to maintain effective inventory management and ensure a reliable supply of goods for our customers at an acceptable level of shrinkage and overstocking.	Sanctions are having a material impact on Russia's suppliers and on cross-border supply chains, as well as on imports of goods, spare parts and other items.	• We run comprehensive supply chain operations through decentralised logistics networks, enabling our retail formats to effectively manage their inventories across the supply chain. • We are strengthening our supply chains in order to meet the elevated demand for staple goods. • We continue to develop X5's direct import business to establish long-term and stable business relationships with major producers in other countries. This is especially important in light of international sanctions regimes and their impact on Russian supply chains. We are better positioned to adapt to the new normal and rebuild logistics processes in the case of a disruption. • We are optimising operations across the Company's supply chain and are constantly reviewing ways to further leverage X5 Group's purchasing power and the scale of its infrastructure. See the Retail Infrastructure section on pages 56–63.
Human resources A failure to recruit, retain and develop people with the required skills or to instil a culture that reflects our values could impact business performance.	One of the key challenges in 2022 was a growing labour shortage caused by a decrease in migration, coupled with significant growth in demand for labour from the growing construction, retail and e-grocery segments.	• We monitor the labour market and regularly assess X5's employer value proposition to ensure that we offer employee benefits in line with the market. • We have a system in place for employee onboarding, training and development, and have built a sizeable talent pool. • We create a culture that enables us to recruit, retain and promote top industry talent, and to foster an environment that stimulates professional growth, collaboration and accountability, as well as ensuring safety and flexibility. • We have a health and safety policy in place to cover workplaces across various functions. We are committed to promoting the highest health and safety standards by implementing advanced safety technologies and techniques, and through ongoing risk monitoring, analysis and mitigation.

Principal risks	Risk movement in 2022	Key controls and mitigating factors
Business continuity performance • Interruptions to business processes due to crises and emergencies. • Disruptions of business continuity due to emergencies that may lead to a situation where core business operations and resources are unavailable. • Whereas X5 is not subject to sanctions, the current environment may have an impact on the due diligence and client acceptance of suppliers and service providers outside of Russia, leading to operational constraints both in Russia and at holding company level in the Netherlands.	Foreign policy tensions had a complex impact on business continuity in 2022. Sanctions continue to affect the Company as a whole and IT as one of its key components. A significant number of critical hardware and software suppliers are freezing their operations or exiting the Russian market. International sanctions and export restrictions affecting businesses and individuals in Russia, and countermeasures implemented by the Russian authorities remain in place; at holding level in the Netherlands, the Company is confronted with enhanced scrutiny and due diligence by its service providers.	• New logistics and international activity arrangements are under development. • We constantly monitor and control business processes. • We have in place business continuity plans for our key business processes and disaster recovery plans for our critical IT systems (including import substitution). • We are building our knowledge base in business continuity management measures and spread awareness of this topic among Company employees. • We are closely monitoring international sanctions and export control developments and the macroeconomic climate in the Company's operational environment and we are assessing contingency plans to address potential developments. See the X5 Technologies section on pages 61–62.
IT • Inability to support existing and supported solutions. • Inability to implement and develop state-of-the-art IT solutions on a timely basis. • Lack of infrastructure capacity to maintain the required level of service.	Sanctions continue to affect our IT systems and infrastructure. A significant number of critical hardware and software suppliers are freezing their operations or exiting the Russian market.	• We audit the necessary and critical IT systems and constantly explore alternative solutions to ensure business continuity, including through import substitution. • We operate controls to maintain the integrity and efficiency of our IT systems, including detailed recovery and contingency plans. • We maintain or improve our internal expertise in IT systems in order to maintain the necessary availability and service level of IT services. • We ensure that our IT resources are able to meet current and future business requirements in a cost-effective manner.
Cybersecurity External and internal threats to information security, including cyberattacks, viruses and other malicious actions aimed at, for instance, infiltrating our IT systems or corrupting data.	Sanctions have decreased the availability of vendors and cybersecurity solutions. A significant number of critical hardware and software suppliers are freezing their operations or exiting the Russian market.	• We operate all necessary policies and procedures, and use all necessary tools, hardware and software, to ensure the confidentiality, integrity and availability of our information assets. • We strengthened our cybersecurity team to increase our protection in the current environment. See the X5 Technologies section on pages 61–62.
Compliance		
Fraud and corruption The inability to set and foster a Company-wide culture of integrity and the failure to detect or prevent corruption and fraud can lead to a decline in economic value and significant reputational damage.		• We uphold a zero-tolerance policy for non-compliance with the principles of business ethics and regularly run anti-bribery and corruption trainings within the Company. • We implement automated and manual controls in business processes and segregate rights to access information systems. • We require that all employees complete a conflict of interest declaration to monitor any potential conflicts.

Principal risks	Risk movement in 2022	Key controls and mitigating factors
Legislation and litigation • An inability to identify, quickly respond to and attempt to modify proposed changes to applicable laws that may negatively impact the business. • Concluding contracts with unfavourable terms for the Company and the failure to comply with or monitor contract terms to protect the Company from financial losses.	There are significant risks of state regulation of the retail market in the current macroeconomic and political environment. International sanctions and export restrictions affecting businesses and individuals in Russia, and countermeasures implemented by the Russian authorities, may have a material adverse impact on X5's business operations, governance and corporate structure.	• Our legal team participates at every stage of important business negotiations and analyses business terms and conditions to minimise risk. • Contracts are largely standardised to ensure our rights are consistently and uniformly protected. • We are strongly committed to complying with all applicable laws and regulations.
Data privacy and security Failure to identify and prevent non-compliance with privacy rules, regulations and standards, resulting in the improper disclosure of confidential customer information.		• We regularly report on the progress of our security and privacy programmes to management and oversight committees. • Ongoing monitoring of Company processes, including risk assessment and monitoring, continues to drive compliance across our business.
Reporting and financing		
Financial risks X5 could be affected by a number of industry-wide financial risks: • Increases in interest rates and/or banking fees • Significant volatility in foreign exchange rates • Liquidity risk and credit risk • Dollar/euro clearing and bank correspondence	The increasing volatility of the rouble exchange rate and interest rates adversely affect our financial performance.	• We plan and monitor our budget and performance, and introduce changes where needed, to achieve financial targets. • We monitor repayment schedules for long-term and short-term accounts receivable, and oversee the use of short-term lending via available credit lines to manage liquidity. • We manage the effective financing rate as well as undrawn credit limits in banks.
ESG		
All ESG-related risks	X5 Group strives for ESG leadership in all areas of its activities and continues to participate in the transition to a low-carbon economy while upholding human rights.	See Sustainable Development on pages 77–107.

Statement of the Management Board

Over the course of 2022, the Management Board reviewed and analysed the strategic, operational, compliance, and reporting risks to which the Company was exposed, as well as the effectiveness of the Company's risk management and internal control systems. The outcome of this review and analysis has been shared with the Audit and Risk Committee and the Supervisory Board and has been discussed with X5's external auditor.

The Management Board reviewed the effectiveness of X5's internal risk management and control systems based on:

- internal audit reports on reviews performed throughout the year, with observations and measures to address issues discussed with management and the Audit and Risk Committee;
- a systematic review of scoping, control execution and control assessments in the context of the internal control strategy;
- periodic risk reports provided by the management teams of corporate functions and main business segments;
- ongoing monitoring of key risk management initiatives aimed at mitigating risks and keeping risks at an acceptable level;
- the external auditor's ongoing reflections on the control framework, and the management letter from the external auditor with observations and remarks regarding internal controls. This letter has been discussed with the Audit and Risk Committee and the Supervisory Board.

For more information on X5's risk management activities, internal control, risk management systems, and key risks, see the How We Manage Risk section above. The purpose of X5's risk management and internal control systems is to adequately and effectively manage the significant risks to which the Company is exposed. Such systems can never provide absolute assurance that the Company will achieve its operational and strategic business objectives, nor can they fully prevent instances of misstatements, inaccuracies, errors, fraud, and non-compliance with legislation, rules and regulations.

Based on the annual evaluation and discussion of X5's risk management and internal control systems and identified risk factors, the Management Board confirms that, based on the current state of affairs and to the best of its knowledge:

- X5's risk management and internal control systems provide reasonable assurance that the Company's financial reporting does not contain any material inaccuracies;
- there have been no material failings in the effectiveness of X5's risk management and internal control systems;
- there are no material risks or uncertainties that could reasonably be expected to have a material adverse effect on the continuity of X5's operations in the coming 12 months;
- it is appropriate for financial reporting to be prepared on a going concern basis, based on the Management Board's review of the strategic plan, the 2023 budget and the Management Board's estimate of the economic outlook.

In view of all of the above, the Management Board confirms that, to the best of its knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company and its consolidated subsidiaries, and the management report includes a fair review of the Company position on the date of the balance sheet, the growth and performance of the business over the financial year and a thorough description of the principal risks and uncertainties that the Company faces.

31 May 2023

THE MANAGEMENT BOARD

Supervisory and Management Boards

Supervisory Board

Peter Demchenkov

CHAIR OF THE SUPERVISORY BOARD, CHAIR OF THE NOMINATION AND REMUNERATION COMMITTEE

Peter Demchenkov, a Russian national (1973), between 2006 and October 2021 served as the CEO of ALIDI, a leading provider of distribution and logistics services in Russia. From 2004 to 2005, he was Development Director of KIT Finance Investment Bank, and from 1997 to 2004, Peter worked in Procter & Gamble's Business Development Department in Eastern Europe. Peter graduated from St Petersburg Polytechnic University with a degree in Technical Cybernetics.

Olga Vysotskaya

MEMBER OF THE SUPERVISORY BOARD, CHAIR OF THE AUDIT AND RISK COMMITTEE

Olga Vysotskaya, a Russian national (1961), previously served as partner in the audit and assurance practice of KPMG, PricewaterhouseCoopers and Deloitte. In addition, Olga has more than 13 years of board-level experience including at NIS (Naftna Industrija Srbije), Samolet, Irkutsk Oil Company, and SUEK. She is a member of the Association of Independent Directors and a Chartered Director and Fellow at the Institute of Directors in London. Olga graduated from St Petersburg University with honours and holds an MBA degree from the University of Bristol.

Vadim Zingman

MEMBER OF THE SUPERVISORY BOARD

Vadim Zingman, a Russian national (1970), is currently President of Alfa Group. From 2009 to 2019, Vadim held senior positions at Aeroflot, including as Deputy General Director and Customer Service Director. He also has extensive expertise in the banking sector, having served as Vice President of Inkombank (1992–1998), Chair of the Management Board of Baltonexim Bank (1992–1998) and President of Interregional Clearing Bank (2000). He graduated with honours from the St Petersburg University of Economics and Finance.

Supervisory and Management Boards

Supervisory Board

Dmitry Alekseev

MEMBER OF THE SUPERVISORY BOARD

Dmitry Alekseev, a Russian national (1974), is the founder, co-owner and President of DNS (Digital Network System) Group, a retail network specialising in digital and household appliances as well as computer manufacturing. Dmitry holds degrees in engineering and law from Far Eastern Federal University in Vladivostok and has an MBA from Moscow State University's Higher School of Business.

Vassilis Stavrou

MEMBER OF THE SUPERVISORY BOARD

Vassilis Stavrou, a Greek national (1970), worked for almost 30 years at Ahold Delhaize, were he served in various roles throughout the group, ultimately being appointed as Brand President at Alfa Beta in Greece in 2018. Vassilis Stavrou holds an MSc in Food Science and Technology from the Aristotle University of Thessaloniki and has a postgraduate diploma in Business Administration from the Hellenic Management Association.

Leonid Afendikov

MEMBER OF THE SUPERVISORY BOARD

Leonid Afendikov, a Russian national (1978), is currently Director of Group Portfolio Management at CTF Consultancy Ltd. From 2012 to 2021, he held senior positions at Alvarez & Marsal, including as Managing Director, and has extensive legal, financial, and tax and accounting experience, including work for McKinsey and private shareholders. Leonid graduated with honours from Financial Academy under the Government of the Russian Federation (now named Financial University under the Government of the Russian Federation).

Supervisory and Management Boards

Management Board

Igor Shekhterman

X5 CHIEF EXECUTIVE OFFICER, CHAIR AND MEMBER OF THE MANAGEMENT BOARD

Igor Shekhterman, a Russian national (1970), has served on X5's Supervisory Board since 2013. He was previously the Managing Partner and CEO at RosExpert, which he co-founded in 1996 and subsequently successfully developed into the Russian partner of Korn Ferry International. Igor started his career as Finance Manager at the Russian branch of Beoluna, the Japanese jewellery producer. Igor holds a degree in Economics from Kaliningrad Technical Institute (1992) and degrees in Business Administration from Institut d'Administration des Enterprises (France, 1994) and Danish Management School (1995).

Frank Lhoëst

COMPANY SECRETARY, MEMBER OF THE MANAGEMENT BOARD

Frank Lhoëst, a Dutch national (1962), joined X5 in 2007, having previously held several positions at Intertrust Group. Frank graduated from Leiden University in the Netherlands with a degree in Law.

Quinten Peer

MEMBER OF THE MANAGEMENT BOARD

Quinten Peer, a Dutch national (1974), joined X5 in 2018. Previously, he worked for Gazprom in the Netherlands, where he managed Gazprom's 50% interest in the Sakhalin II project. He lived in Russia from 2012 to 2016, where he managed international business development and the expansion of a major capital project as COO for Sakhalin Energy. Quinten holds a degree in Law from the University of Groningen in the Netherlands.

Ekaterina Lobacheva

PRESIDENT, MEMBER OF THE MANAGEMENT BOARD

Ekaterina Lobacheva, a Russian national (1982), joined X5 in October 2016 as the Head of the Corporate Law and X5's Corporate Structure Department. She has more than 15 years of successful managerial and practical experience, including various positions at Evraz Holding, where she implemented a number of large-scale projects focused on legal support for the business, and MDM Bank. Ekaterina has an MBA degree from IMD Business School, a degree in Law from the Russian Academy of State Service and a degree in Finance and Credit from the Plekhanov Russian University of Economics.

Report of the Supervisory Board

The Supervisory Board is responsible for supervising and advising the Management Board and overseeing the general course of affairs, strategy and operational performance of the Company. In performing its duties, the Supervisory Board acts in accordance with the interests of the Company and its affiliated businesses, taking into consideration the overall good of the Company and the relevant interests of all its stakeholders. In X5's two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independently of the Management Board.

Composition and profile of the Supervisory Board

X5's Supervisory Board determines its number of members. The Supervisory Board currently consists of six members, with a majority of four independent members. On an ongoing basis, the Supervisory Board reviews its size and composition profile, 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.

2022 was a year of significant change in the composition of the Supervisory Board. The Supervisory Board deeply regrets that, following unexpected developments early in the year, Stephan DuCharme, Mikhail Fridman, Richard Brasher, Geoff King, Michael Kuchment, Alexander Tynkovan, and Marat Atnashev stepped down during the first half of the year. In addition, at the 2022 Annual General Meeting of Shareholders, the term of Nadia Shouraboura expired in accordance with the Supervisory Board's retirement and reappointment schedule, and she was not eligible for reappointment. The Supervisory Board thanks each of them for their invaluable and significant contribution to the Company over many years.

The Supervisory Board immediately initiated the search process to fill these vacancies. At the 2022 Annual General Meeting of Shareholders, Olga Vysotskaya, Fedor Ovchinnikov[1] and Vadim Zingman were appointed as new members of the Supervisory Board. Olga Vysotskaya was appointed due to her proven track record and extensive expertise in corporate finance, audit and assurance, and risk management, as well as her in-depth board-level experience.

Vadim Zingman was appointed for his strong financial expertise combined with in-depth experience in, and strong aptitude for, customer service.

Later in the year, we were proud to announce the nomination of Dmitry Alekseev, Vassilis Stavrou and Leonid Afendikov. All three individuals were appointed to the Supervisory Board at the Extraordinary General Meeting of Shareholders held on 30 November 2022. Dmitry Alekseev strengthens the Supervisory Board with his proven track record and extensive expertise managing large retail companies, as well as his rich board-level experience. Vassilis Stavrou was appointed for his impressive track record and leadership experience at a major global grocery retailer, while Leonid Afendikov brings to the Supervisory Board his strong financial expertise combined with in-depth experience in customer-focused businesses.

Recognising the value and increasing importance of having different perspectives at the table, the Supervisory Board aims for a diverse composition in particular areas of relevance for X5. Supervisory Board candidates are evaluated against the Supervisory Board's profile, existing balance of skills, knowledge and experience, and the need for the Supervisory Board to be prepared for disruption and change. Supervisory Board members are prompted to be mindful of diversity, inclusiveness and meritocracy considerations when examining and nominating Supervisory Board candidates.

While the Supervisory Board is currently not gender balanced, it recognises the benefits of gender diversity and aims to achieve this. The Supervisory Board is conscious of the public debate and regulatory developments in this respect, in particular the new act on gender diversity on the boards of Dutch companies which entered into force on 1 January 2022, and takes this into account in its succession planning, in line with the Group's Leadership Diversity Policy. Meanwhile, faced with the need in 2022 to rebuild the Supervisory Board to a meaningful level within a relatively short time frame, the Supervisory Board compromised on its gender diversity targets with only one newly appointed female Supervisory Board member. Conscious of this, the Supervisory Board is committed to improve its gender balance in line with international best practice.

1 On 8 March 2023 Fedor Ovchinnikov stepped down as member of the Supervisory Board.

Composition of the committees

While retaining overall responsibility, the Supervisory Board assigns certain tasks to two committees: the Audit and Risk Committee and the Nomination and Remuneration Committee.

In light of the rapidly changing composition of the Supervisory Board during the year, the Supervisory Board resolved to reduce the number of committees by integrating the responsibilities of the Sustainable Development and Innovation Committee into the functions of the full Supervisory Board and to subsequently dissolve that committee.

When Olga Vysotskaya took office in June, she was appointed Chair of the Audit and Risk Committee, while Fedor Ovchinnikov[1] joined the Nomination and Remuneration Committee. As of 1 January 2023, Vassilis Stavrou and Leonid Afendikov also were appointed to the Nomination and Remuneration Committee, while Leonid Afendikov joined the Audit and Risk Committee.

An overview of the current composition of the Supervisory Board and its committees can be found in the Corporate Governance Report.

Induction and ongoing education

Induction and permanent education are key elements of good governance. Following their appointment, new Supervisory Board members go through X5's strategic, financial, legal, and reporting affairs with senior executives of the Company. In addition, prior to their appointment, they are invited to meetings of the Supervisory Board and its committees. On a regular basis, and with members of senior management, members of the Supervisory Board visit stores, distribution centres and other operational facilities to gain a more in-depth understanding of local operations, opportunities and challenges.

As an additional source of informal learning, external guest speakers with expert knowledge of topics that are of particular relevance to the Company are regularly invited to plenary Supervisory Board meetings.

The Supervisory Board remains committed to the ongoing education of its members in order to comply with the highest standards of excellence and governance.

1 On 8 March 2023 Fedor Ovchinnikov stepped down as member of the Supervisory Board.

Meetings of the Supervisory Board

In 2022, the Supervisory Board held four regular meetings and one additional meeting in May to approve the 2021 Annual Report and to convene the Annual General Meeting of Shareholders. In addition, resolutions in writing were taken when necessary during the year. Each of the four meetings of the Supervisory Board was preceded by meetings of the Audit and Risk Committee and the Nomination and Remuneration Committee.

The plenary Supervisory Board meetings also included a half-day strategy session, thus ensuring sufficient time for the meetings and discussions on specific themes, such as operational performance, digital transformation and new businesses, sustainability, and management development. The CEO and CFO attended all meetings, and other members of senior management were regularly invited to present.

In 2022, the Supervisory Board held regular private sessions without members of the Management Board present to independently discuss matters related to the performance, functioning and development of members of the Executive Board. The external auditor attended the meeting in May at which the unaudited 2021 Annual Report and financial statements were recommended for adoption by the Annual General Meeting of Shareholders.

At this meeting, the external auditor briefed the Supervisory Board on its decision to suspend audit services based on their interpretation of the EU sanctions regime. In between Supervisory Board meetings, several informal meetings and telephone calls took place among Supervisory Board members, members of the Management Board and other members of Company management, enabling consultations on various topics and ensuring that the Supervisory Board remained well informed about the running of the Company's operations.

The Supervisory Board confirms that all of its members have adequate time available to give sufficient attention to the Company's affairs. In 2022, the attendance rate was 100% for both Supervisory Board and committee meetings.

Activities in 2022

2022 was marked by significant changes to the macroeconomic environment due to geopolitical tensions, supply chain disruptions and a number of restrictions imposed on businesses in Russia. The Supervisory Board closely monitored the situation based on regular updates from the CEO, and intensified contacts with the management team to oversee the impact on X5's businesses and strategic priorities.

In response to the volatile and unpredictable environment, the Supervisory Board monitored contingency planning to ensure business continuity, with particular attention placed on supply chains and product availability, continuity of IT systems and liquidity management. As part of its regular risk management review prepared by the Audit and Risk Committee, the Supervisory Board particularly monitored emerging risks, risk mitigating measures and compliance with new sanctions. Meanwhile, the Supervisory Board's rapidly changing composition was a challenge in itself, threatening the continuity of the Supervisory Board's work and oversight responsibilities.

As a key strategic priority under these circumstances, the Supervisory Board extensively reviewed the operational performance of its key banners – Pyaterochka and Perekrestok – and measures and initiatives to strengthen their position in key regions of operation through organic growth or strategic partnerships. In July, the Supervisory Board approved one such strategic partnership with Krasny Yar Group and Slata Group, both among the leading retailers in Eastern Siberia. Furthermore, in support of X5's strategy to gain market share by continuously adjusting to market trends and changing customer needs, the Supervisory Board continued to monitor new store concepts and refurbishments, and how these translate into improved customer ratings and increased traffic and sales.

In addition, amid a downward trend in customers' disposable income and severe price competition, the Supervisory Board reviewed performance and strategic objectives of Chizhik (the hard discounter format), along with the implementation of the Company's private label strategy across all formats.

The Supervisory Board's strategy session in September focused on the Group's long-term leadership strategy, including target portfolio of assets and businesses, human resource requirements to support the growth plan and market share leadership, as one of the Group's key strategic objectives. Conscious of the uncertainties in the rapidly changing macroeconomic environment, particular attention was paid to the shifting balance between growth and profitability. In December, the leadership strategy for Perekrestok was reviewed, with a particular stress placed on tailored customer value propositions, staff training and entrepreneurship at the store level.

An ongoing focus during 2022 was the Company's digital strategy, including e-commerce and its operational efficiencies. With the continued surge in online sales and the persistent food-at-home trend following the COVID-19 pandemic of recent years, the Supervisory Board had several discussions with management concerning opportunities to improve the customer experience and accelerate growth. As part of these discussions, the Supervisory Board extensively reviewed the Group's mobile applications and dark store operations.

On various occasions throughout the year, the Supervisory Board discussed corporate governance requirements to support an agile, entrepreneurial culture in the increasingly competitive omnichannel retail environment. In this context, the Supervisory Board monitored the effectiveness of the Group's operating model launched in 2021.

Twice during the year, the Supervisory Board reviewed X5's progress against the medium- and long-term goals set out in X5's sustainability strategy, encouraging management to set ambitious targets and making sure that they were integrated into the Company's overall business strategy. The Supervisory Board acknowledged that in the new macroeconomic environment the social component of the sustainability plan gained in significance.

Throughout the year, the Supervisory Board continued to closely monitor external developments and reviewed necessary adjustments to both executive and non-executive remuneration policies through the work of its Nomination and Remuneration Committee.[1] Furthermore, through the Audit and Risk Committee, the Supervisory Board closely engaged with management on the consequences of the suspension of services by the Company's external auditor in the Netherlands.

At its meetings in 2022, the Supervisory Board reviewed reports from its various committees and discussed the following (regular) topics:

- the financial reporting process, including a review of the 2022 half-yearly and quarterly financial reports;
- the agenda and explanatory notes for the Annual General Meeting of Shareholders held in June and the Extraordinary General Meeting of Shareholders held in November;
- reports by the internal and external auditors;
- the composition of the Executive Board and the evaluation of its individual members, including talent management and succession planning;
- the annual evaluation of the Supervisory Board, including its profile and performance (described in more detail below);
- the composition and profile of the Supervisory Board and its committees, particularly following the resignation of seven Supervisory Board members during the first half year, as described in the Composition and Profile of the Supervisory Board section in this report;
- periodic review of the financing strategy;
- updates on X5's risk management and risk appetite, as well as risk mitigation measures and internal controls; and
- the annual budget for 2023.

1 See the Remuneration Report on pages 137–147.

Supervisory Board evaluation

X5 undertakes an annual review of the Supervisory Board, its committees and its individual members. The objective is to provide a framework for discussion on the performance of the Supervisory Board and its members and committees, and to come up with an updated Board Development Plan with specific actions to facilitate improvement.

In light of the unprecedented sequence of Supervisory Board member resignations during the year, the evaluation in 2022 was conducted via a questionnaire focusing on the profile and composition of the Supervisory Board, expertise and contribution of individual Supervisory Board members, quality of the induction programme for new Supervisory Board members, and priorities and work processes of the Supervisory Board. In addition to the self-assessment by the Supervisory Board members, input was also solicited and received from members of the Executive Board. The evaluation resulted in a set of key priorities for the Supervisory Board going forward, including strengthening the Supervisory Board's expertise in the field of product retail and e-commerce, enhanced risk management oversight at plenary Supervisory Board level, and increased focus on executive retention, incentives and succession planning taking into account the rapidly changing macro-economic environment.

The Supervisory Board attaches great value to these evaluations as they ensure a continued focus on the quality of its, and its committees, activities, composition and functioning, as well as its relationship with the Executive Board.

Meetings of the committees

Audit and Risk Committee

The role of the Audit and Risk Committee is described in its charter, which is available on the Company's website. On 31 December 2022, the Audit and Risk Committee consisted of Olga Vysotskaya (Chair) and Peter Demchenkov. In 2022, the Committee held four regular meetings. As a matter of course, all meetings were attended by the CFO, the external auditor and the internal audit director; the CEO was invited to, and attended, all meetings. Other members of the Supervisory Board and senior management were invited when necessary or appropriate. The Committee met once with the external auditor without the presence of management.

The Audit and Risk Committee assists the Supervisory Board in its responsibility to oversee X5's financing, financial statements, financial reporting process, and system of internal business controls and risk management.

Throughout the year, the Committee reviewed the Company's annual and interim financial statements, quarterly results and related press releases, as well as the outcomes of the year-end audit. A particular area of concern in 2022 was the suspension of services by the Company's group auditor in the Netherlands, Ernst & Young Accountants LLP, following the conflict in Ukraine and sanctions imposed by the United Kingdom and the European Union. In order to maximise both transparency and assurance over the Company's financial reporting under these circumstances, the Company engaged TSATR – Audit Services LLC (formerly Ernst & Young LLC, Russia, operating as B1 since July 2022) to issue its auditor's report on X5's 2021 consolidated financial statements published in July.

Meanwhile, the Committee closely engaged with management to identify a new external auditor in the Netherlands to act as group auditor for the year 2022.

As part of its ongoing risk and risk management oversight in 2022, the Committee closely monitored new risks emerging from the unexpected external circumstances that impacted the Company as of late February, including the timely follow-up on high-priority actions and risk mitigation measures based on quarterly progress updates. As part of this effort, the Committee received several updates regarding the impact of new sanctions on the risk profile of the Company and its financial position. As risks in this respect increased, the Committee particularly discussed financing and liquidity risks, the risk of non-availability of goods, IT and cybersecurity risks, and the risk of staff shortages and its inherent impact on operational capacity.

The Committee also periodically reviewed financial provisions, key movements in the balance sheet and any contingent liability movements. Furthermore, as part of its ongoing review cycle, the Committee closely monitored the effectiveness of the capital investment process, the appraisal methodology and the safeguarding of core assets. Twice during the year, the Committee reviewed an assessment of the returns from recent investments, as well as management actions addressing underperforming stores and assets whose carrying value was impaired.

Each quarter, the agenda included a discussion of current control topics, including internal audit findings and the external auditor's reflections on the control framework. These discussions guided management and the internal audit function to focus on the right priorities throughout the year, to mitigate any significant risks or weaknesses and to build a relevant internal audit plan for 2023.

The Committee also discussed other issues and recurring topics, including:

- quarterly interim financial reports and trading updates;
- accounting and audit matters linked to the external auditor's report, as well as internal control recommendations in their audit of the 2021 consolidated financial statements;
- audit plans from the internal and external auditors, and the approval thereof;
- the annual assessment of the functioning and independence of the external (component) auditor;
- X5's financing strategy;
- tax matters;
- IT infrastructure, cybersecurity and data protection;
- ethics and compliance, including updates to the Company's whistleblower programmes, as well as activities and initiatives relating to detecting and preventing misconduct and irregularities, and risk mitigating measures to protect the Company in these areas.

Audit and Risk Committee

The Audit and Risk Committee and its Chair held several private meetings with the CFO, the Internal Audit Director and the external independent auditor.

With respect to the external auditor's management letter regarding the 2021 financial year, the Audit and Risk Committee confirms that the management letter contained no significant items that need to be mentioned in this report.

Related party transactions

The Company operates a Related Party Transaction Policy, which prescribes the internal reporting and approval mechanism for related party transactions. Under this policy, review and approval of related party transactions is delegated to the Audit and Risk Committee, whereby related party transactions exceeding a certain threshold remain subject to the approval of the Supervisory Board. The policy requires that the Audit and Risk Committee or the Supervisory Board approve a related party transaction only if it is agreed on competitive terms customary in the market and in the best interest of X5 Group.

During the year, the Audit and Risk Committee reviewed and/or approved related party transactions which, by their nature or materiality, could potentially have constituted a conflict of interest for members of the Supervisory Board and the Management Board.

In 2022, the following related party transactions were of material significance to the Company and/or members of the Management Board or Supervisory Board:

- Alfa Bank: foreign exchange agreements, bond issues, revolving credit facilities, and other bank products; advertising and marketing agreements; and a payroll service agreement;
- AlfaStrakhovanie: insurance services;
- Alfa Bank, VimpelCom and AlfaStrakhovanie: the hologram project;
- Alfa Capital Holdings Limited: lease agreements;
- IDS Borjomi Group: the procurement of goods for resale;
- Home Interior: agreements for the lease of retail and warehouse space;
- VimpelCom: telecommunication services; the development, purchase and maintenance of online cash registers; and retail space lease agreements;
- RusBioTrade: the procurement of goods for resale; and
- Alidi-Nord: the procurement of goods for resale.

These transactions were discussed and/or approved by the Audit and Risk Committee and the Supervisory Board with due observance of provisions 2.7.3 to 2.7.5 of the Corporate Governance Code, the Related Party Transactions Policy and the Rules of Procedure of the Supervisory Board, available on the Company's website. While members of the Supervisory Board who have a conflict of interest in relation to a certain matter do not participate in the Supervisory Board's deliberations and decision-making on such matters, the Supervisory Board assessed that, to the extent that any of the listed transactions constituted a conflict of interest for certain members of the Supervisory Board, such conflict did not undermine the independent judgement of these Supervisory Board members while performing their duties for X5.

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 2022, the Nomination and Remuneration Committee consisted of Peter Demchenkov (Chair) and Fedor Ovchinnikov. In 2022, the Nomination and Remuneration Committee held four regular meetings. The CEO and the Director for HR and Organisational Development were invited to attend every meeting, and other members of the Supervisory Board and senior management were invited when necessary or appropriate.

The Nomination and Remuneration Committee focused on managing the impact of the rapidly unfolding events from late February. First and foremost, this included the identification, nomination and induction of six new Supervisory Board members through a formal and transparent process, following the unprecedented sequence of Supervisory Board member resignations during the first six months.

In a further response to new developments and their impact on the Company's strategic priorities, the Nomination and Remuneration Committee closely engaged with management on a thorough review of both the short- and long-term incentive plans. The Remuneration Report on pages 137–147 describes how this review resulted in necessary deviations from the Management Board remuneration policy.

In 2022, the Committee continued to monitor the performance of the Group's operating model towards the Company's strategic objectives to strengthen its key formats while growing e-commerce and improving omnichannel productivity. As part of this effort, the Committee took a deep dive in the organisational structure of the Company's key banner – Pyaterochka – with a particular focus on the format's shift towards a partnership model for store managers. Furthermore, the Committee reviewed and recommended organisational changes to strengthen the ready-to-eat business unit.

Throughout the year, the Nomination and Remuneration Committee monitored succession planning, management development and human resource needs in relation to the Company's sustainable growth objectives. Amid the volatile macroeconomic environment, the Committee particularly focused on measures to maintain stability within X5's leadership team and closely monitored human resource challenges to ensure that the risk of staff shortages was adequately addressed throughout all levels of the Group.

As part of its regular review of variable remuneration principles, the Committee continued to review tailored incentive schemes for key employees across the Group, ranging from store managers to key executives at the Company's new businesses. Meanwhile, taking into account heightened macroeconomic uncertainties and their impact on the retail environment, the Committee assessed and evaluated options to restructure the Company's incentive plans for 2023 and beyond.

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:

- Annual evaluation of the Executive Board and its individual members, and changes in the composition of the Executive Board, including the appointment of Vladislav Kurbatov as General Director of Pyaterochka in January, the nomination of Ekaterina Lobacheva as President and member of the Management Board in May, the appointment of Andrey Kalmykov as General Director of Perekrestok in August, and the appointment of Andrey Pisarev as Chief Customer Officer in December
- Nomination of Igor Shekhterman for reappointment as CEO for an additional two-year term starting in 2023
- Proposals on fixed and variable remuneration for the members of the Executive Board following the annual remuneration benchmarking performed in March 2022
- Remuneration policy for the Executive Board, adjusted in line with the updated LTI 2021–2023 programme, as proposed to, and approved by, the Extraordinary General Meeting of Shareholders in November 2022
- Profile and performance of the Supervisory Board in the context of the annual Board evaluation
- Review of X5's Leadership Diversity Policy and diversity levels across the Group

Finally, confronted with the need to attract new Supervisory Board members, the Committee initiated a restructuring of the Supervisory Board's equity-based remuneration following the admission to trading suspension of X5 GDRs by the London Stock Exchange in March. Details of actual remuneration in 2022 can be found in notes 8 and 44 to the financial statements.

Independence

The Supervisory Board endorses the principle that the composition of the Supervisory Board shall be such that its members are able to think and act critically and independently of one another and of the Management and Executive Boards and any particular interests. It is Company policy that a majority of the members of the Supervisory Board must be independent at all times. At the time of writing, a majority of four members of the Supervisory Board, which currently consists of six members in total, qualify as independent.

According to best practice provisions 2.1.7 and 2.1.8 of the Dutch Corporate Governance Code, there can only be one Supervisory Board member who can be considered to be affiliated with or representing a shareholder who directly or indirectly holds more than 10% of the shares in the Company.

Supervisory Board members Vadim Zingman and Leonid Afendikov are both affiliated with CTF Holdings S.A., which has a 47.86% interest in X5. Therefore, Vadim Zingman and Leonid Afendikov are not independent under the Dutch Corporate Governance Code.

Remuneration

The General Meeting of Shareholders sets the remuneration of the members of the Supervisory Board in accordance with the remuneration policy for members of the Supervisory Board. The current remuneration policy for the Supervisory Board, as amended, was approved by the 2022 Extraordinary General Meeting of Shareholders.

Remuneration details are reflected in the Remuneration Report on pages 145–147, as well as notes 29 and 44 to the consolidated financial statements.

Financial statements

This unaudited Annual Report, including the 2022 consolidated financial statements, was presented to the Supervisory Board in the presence of the Management Board. On 17 March 2023 the Group released its 2022 audited consolidated financial statements together with the audit report issued by TSATR – Audit Services LLC (“B1”).

The Supervisory Board recommends that shareholders adopt these financial statements, together with the 2022 Annual Report and Annual Accounts. For the explanation on the absence of the independent auditor's report please refer to “Other information” on page 240.

In March 2022, the Supervisory Board decided to deviate from its dividend policy in light of the prevailing market situation and uncertainty. Consequently, it was considered to be in the best interest of the Company not to distribute a dividend for the full year 2021. While the Company remains committed to its long-term goal of returning Company profits to shareholders, any decision regarding future dividend payments will be made taking into account relevant regulatory constraints at the time thereof. For 2022, the Supervisory Board also recommends, in the best interest of the Company and as proposed by the Management Board, to add an amount of RUB 45,188 million, representing the amount of the profit in the financial year 2022, to the retained earnings of the Company.

The Supervisory Board furthermore requests that the Annual General Meeting of Shareholders grant discharge to the members of the Management Board for their management and to the members of the Supervisory Board for their supervision in 2022.

The Supervisory Board is really proud of the results achieved during another challenging year and would like to thank all X5 employees for their continued dedication and hard work in 2022.

Supervisory Board
31 May 2023

Remuneration Report

Statement from the Chair of the Nomination and Remuneration Committee

On behalf of the Nomination and Remuneration Committee, I am pleased to present the Remuneration Report for 2022 with a summary of the remuneration policies for the Management Board and the Supervisory Board and an account of how these policies were implemented in 2022.

On the back of the challenges caused by COVID-19 over the past two years, 2022 was another turbulent year for X5 amid a difficult macroeconomic environment, with a new wave of sanctions stemming from the geopolitical events of late February imposing restrictions on businesses in Russia. In response to these developments and their impact on the Company's strategic priorities, the Nomination and Remuneration Committee closely engaged with management on a thorough review of both the short- and long-term incentive plans. This report describes how this review resulted in inevitable deviations from our remuneration policies for both the Management Board and the Supervisory Board.

As an immediate priority during the first half of the year, it was imperative for the Company to focus on the Group's businesses as a going concern with enhanced control over operational and capital expenses. For the second half of the year, the Supervisory Board could approve the short-term performance criteria initially set for the full year in line with the remuneration policy for the Management Board as described in this report. Meanwhile, actual target levels were adjusted to reflect the new macroeconomic realities impacting X5's businesses.

It was not only the short-term incentive plan that required adjustments. The sharp fall in X5 GDRs and the subsequent trading suspension by the London Stock Exchange on 1 March 2022 forced us to review the long-term performance measures supporting the Company's strategy of sustainable growth. One of these measures – the enterprise value multiple – is no longer considered a meaningful leadership indicator for X5 and was replaced by free cash flow as indicator of the Company's financial health and efficient financial management.

The necessary adjustment to the long-term incentive plan was submitted to shareholders in the Extraordinary General Meeting held on 30 November. Conscious of the principle that performance criteria and targets should not be adjusted during their performance period, the Supervisory Board remains confident that the current long-term incentive (LTI) programme remains adequately designed to support the Company's goal of strengthening its leadership, addressing the strategic imperatives that contribute to the Company's sustainable long-term value creation.

The external environment in 2022 also called for changes to the remuneration policy for the Supervisory Board. Confronted with an unprecedented number of Supervisory Board vacancies and the need to attract new Supervisory Board members, it was particularly important to have an adequate remuneration policy in place. When the trading of X5 GDRs on the London Stock Exchange was suspended in March, the Nomination and Remuneration Committee initiated a restructuring of the Supervisory Board's equity-based remuneration into a phantom stock plan with comparable terms and size of awards but based on the GDR trading value on the Moscow Exchange. The necessary adjustment to the remuneration policy for the Supervisory Board was also submitted to, and approved by, the Extraordinary General Meeting of Shareholders in November. While I regret the resignation of our Supervisory Board members during the first half of the year and the external circumstances that led to this, I am pleased to say that we could close the year with six highly qualified new Supervisory Board members.

Throughout the year, the Committee remained focused on stability within X5's leadership team, particularly in the face of fierce competition and an increased shortage of qualified executives. The Committee's annual remuneration benchmark review performed in March 2022 was the basis for salary adjustments necessary to safeguard the continuity of the senior management team. Early in the year, the leadership team was strengthened with the appointment of Ekaterina Lobacheva to the role of President. I am also pleased that we could announce the Supervisory Board's recommendation to extend Igor Shekhterman's term as CEO for another two years starting in 2023. We are confident that continuity of X5's leadership in the current volatile environment will be to the benefit of the Company and all its stakeholders.

Despite all operational challenges, strong competition and inflationary pressures on consumers, the Company continued to grow in 2022, and I am proud to say that through the strength of our operations and by remaining customer-focused at all times, we maintained profitability margins in line with our strategic targets. Total revenue rose by 18.2% year-on-year, while EBITDA pre-IFRS 16 margin for FY 2022 was 7.2%. Digital businesses continued to gain momentum, resulting in 46.6% net sales growth year-on-year.

In 2023, against the backdrop of ongoing macroeconomic uncertainties, the Committee shall continue to revisit executive remuneration to ensure that it effectively supports the Company's strategy of long-term sustainable value creation. In doing so, I look forward to keeping an open dialogue with our shareholders and other stakeholders to ensure maximum alignment on our remuneration policies.

Peter Demchenkov

CHAIR OF THE NOMINATION AND REMUNERATION COMMITTEE

Remuneration of the Management Board

The Supervisory Board resolved that the remuneration policy for the Management Board shall serve as the basis for the remuneration policy for the Executive Board. In view of the relative size and composition of both boards, this Remuneration Report refers to the Executive Board, unless specific provisions apply to members of the Management Board only, which will be clearly indicated.

Objectives

The remuneration policy of the Management Board is aligned with the Company's strategy and supports the long-term development of the Company, while aiming to be effective, transparent and simple. The objective of the remuneration policy is twofold:

- to create a remuneration structure that supports a healthy corporate culture and allows the Company to attract, reward and retain the best talent to lead the Company towards its strategic objectives; and
- to provide for a balanced remuneration package that is focused on achieving sustainable financial results in line with the Company's long-term strategy and will foster an alignment between the interests of management and those of shareholders and other stakeholders, including customers, employees and wider society.

When developing the remuneration policy, the Nomination and Remuneration Committee conducted scenario analyses to identify the risks to which variable remuneration may expose the Company.

Remuneration in context

The table below reflects the total remuneration of Management Board members and the average remuneration of all other X5 employees (on a full-time equivalent basis), set against the Company's performance over the five most recent financial years.

	2018	2019	2020	2021	2022
Group performance					
Revenue, RUB bln	1,533	1,734	1,978	2,205	2,605
Selling space, ths sqm	6,464	7,239	7,840	8,410	9,107
Number of stores	14,431	16,297	17,707	19,121	21,323
Net profit (pre-IFRS 16), RUB bln	29	26	39	49	52
Share price (LSE), USD, eop	24.8	34.5	36.1	26.5	–
Share price (MOEX), RUB, eop	–	–	–	–	1,500.5
Management Board remuneration, RUB mln	380	304	357	442	824
Average employee remuneration, RUB	701,192	754,990	782,079	799,555	895,644
Internal pay ratio (CEO vs employee remuneration)[1]	209	211	198	273	290

1 The pay ratio is calculated by dividing the total remuneration of the CEO (base salary and short-term incentives) by the average remuneration of all X5 employees. Given the irregular nature of awards under the LTI programme, LTI awards are not included in the pay ratio for fair and consistent presentation purposes. The average remuneration per employee is calculated as the total labour costs derived from note 28 on page 206 divided by the number of employees on an FTE basis. In 2021, the internal pay ratio increased due to the increase of the CEO's base salary upon his re-appointment at the 2021 Annual General Meeting.

Benchmarking

The remuneration of Executive Board members is benchmarked against a labour market peer group every year. As a company with operations mainly in Russia, the reference group selected for benchmarking is composed of Russian companies comparable in terms of the size of business and complexity of operations, as well as international, non-Russian retail companies. In total, the reference group is composed of 58 companies in various sectors including retail (26%), digital and tele-communications (21%), industrial (19%), financial (10%), FMCG (9%), transportation and logistics (9%), and other sectors (6%).

Although external market data provide useful context, it is ultimately the responsibility of the Supervisory Board to set remuneration packages at an appropriate level that reflects the skills, level of responsibility and performance of each individual. As we aim to recruit and retain the most qualified talent available, the target Total Direct Compensation level for Management and Executive Board members is set between the 50th and 75th percentile.

For the current CEO, the Supervisory Board resolved to make an exception in recognition of the size and complexity of X5. Following his re-appointment for a two-year term at the 2021 Annual General Meeting, the CEO's Total Direct Compensation was set, for on-target performance, at the 90th percentile.

Internal pay ratio

As is commonly understood, pay ratios are specific to a company's industry, geographical footprint and organisational model. As a major food retail company, the relatively small number of executive staff vs operational staff in stores and warehouses across eight federal districts in Russia adds to the variety of pay within the Company and substantially differentiates the average employee's compensation with the compensation levels of Management Board members. For companies in other industries, this will be different. Furthermore, pay ratios can be volatile over time, as they can be heavily dependent on the Company's annual performance since that performance impacts the remuneration of the Management Board (and Executive Board) much more than that of all other employees.

Summary of remuneration elements and implementation in 2022

	Policy summary	Application in 2022 summary	
Base salary	Base salaries are in line with compensation levels at peer group companies based on the salary benchmarking survey conducted annually		
Short-term incentive	Annual cash bonus Target payout for CEO: 100% Target payout for Management Board members based in the Netherlands: 60% Maximum amount: 140% of target payout per quantitative target and 120% of target payout per qualitative target The total STI payout may be adjusted up- or downwards by up to 20% of the target payout at the discretion of the Supervisory Board	**Igor Shekhterman:** • Group targets: 100% • Actual payout: 90.6% of base salary **Frank Lhoëst:** • Group targets: 100% • Actual payout: 65.2% of base salary	**Quinten Peer:** • Group targets: 100% • Actual payout: 60% of base salary **Ekaterina Lobacheva:** • Group targets: 100% • Actual payout: 97.3% of base salary
Long-term incentive	Cash incentive programme over a three-year period from 1 January 2021 until 31 December 2023 Payout thresholds: EBITDA margin and net debt to EBITDA ratio to ensure business efficiency and retain focus on prudent financial and balance sheet management In 2024, 50% of the total award will be paid subject to maintaining achieved targets through the end of 2023, while the other 50% is deferred to 2025 with a profitability threshold as a condition for deferred payout	**Igor Shekhterman:** Stage 1 targets (2021) • Enterprise value/EBITDA multiple: 50% • Market share: 45% • Sustainability targets: 5% Stage 2 targets (2022–2023) • Free cash flow, % of revenue: 35% • Market share: 60% • Sustainability targets: 5% **Frank Lhoëst:** N/A	**Ekaterina Lobacheva:** Stage 1 targets (2021) • Enterprise value/EBITDA multiple: 50% • Market share: 45% • Sustainability targets: 5% Stage 2 targets (2022–2023) • Free cash flow, % of revenue: 35% • Market share: 60% • Sustainability targets: 5% **Quinten Peer:** N/A

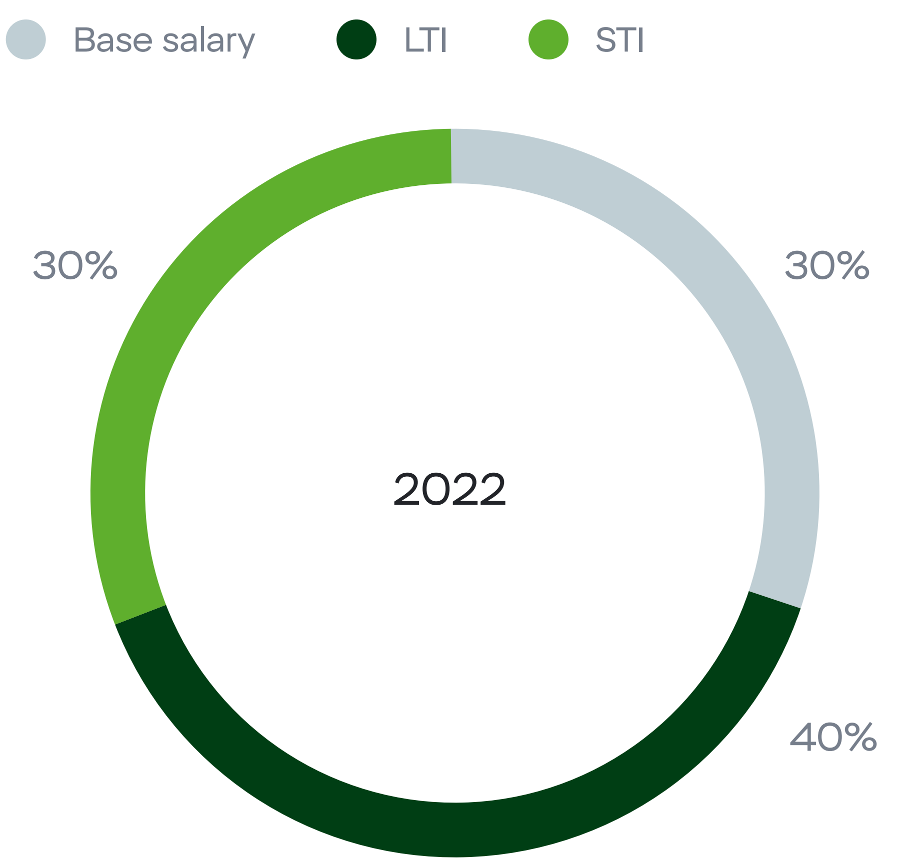
Elements of remuneration

The remuneration provided to Executive Board members consists of the following fixed and variable components (Total Direct Compensation): a base salary, an annual or short-term cash incentive (STI) and a long-term cash incentive (LTI). Both STIs and LTIs are built around performance measures, both financial and non-financial, to support the Company's strategic objective to achieve long-term value creation through sustainable leadership in customer, employee and shareholder recognition.

The Executive Board's Total Direct Compensation is equally balanced between the fixed and annual variable remuneration components and is more heavily weighted on the LTI to strengthen the focus on long-term goals. The ratio between fixed and variable pay components for members of the Executive Board is as follows in the event of on-target performance.

In addition to the Total Direct Compensation, members of the Executive Board are entitled to other benefits as described in "Other remuneration components" and "Contractual arrangements" below.

TOTAL DIRECT COMPENSATION



2022 Management Board remuneration

The following table provides an overview of the Management Board's remuneration in 2022 (in millions of Russian roubles).

Name	Year	Base salary[1]	Short-term incentive[2]	Long-term incentive[3]	Extension bonus[4]	Social security cost[5]	Total
Total	2022	208	162	129	229	96	824
	2021	155	119	122	–	46	442

Ad (1) Base salary

The base salary of the CEO and other members of the Management Board is determined by the Supervisory Board and derived from compensation levels at peer group companies based on the salary benchmarking survey conducted annually.

For Igor Shekhterman and Ekaterina Lobacheva, the total remuneration includes remuneration paid in the Netherlands and Russia: as Russia-based members of the Management Board, Igor Shekhterman and Ekaterina Lobacheva also have a contract of employment with an operational subsidiary in Russia. Under this contract, 75% of their total base salary as well as their variable remuneration components are paid in Russia. No other remuneration has been granted or allocated to members of the Management Board by subsidiaries or other companies whose financials are consolidated by the Company.

Ad (2) Short-term incentive (STI)

The short-term incentive is an annual cash bonus ensuring Management Board members focus on achieving performance targets over the financial year. It drives desired behaviour and reflects the key priorities for the year. At the beginning of each financial year, the Supervisory Board selects the performance measures and their relative weight and the targets to be achieved for each performance measure, based on X5's business priorities for that year. For each measure, performance ranges are set, i.e. the value below which no payout will be made (the threshold), the on-target value and the maximum payout level.

Performance measures are aligned with the Company's objective to deliver sustainable value to shareholders and other stakeholders and include:

- financial measures related to the Company's operational performance, consisting of key financial metrics which typically reflect X5's goal to expand market share while focusing on margins to increase profitability and prudently managing capital spending and expenses; and
- measures that reflect specific strategic and key business priorities of the Company.

All performance measures contribute to the Company's success in the short term, while also securing the Company's long-term objectives. X5 does not disclose the actual targets as this is considered commercially sensitive information.

Ad (2) Short-term incentive (STI)

In March 2022, following the sudden changes to the macroeconomic environment that started in late February, the Supervisory Board reviewed the STI programme for 2022 and determined that the situation called for an immediate adjustment of performance criteria for the first half year of 2022 based on key goals in maintaining business as a going concern and enhanced control over OPEX and CAPEX.

For the second part of 2022, the Supervisory Board approved performance criteria and targets initially determined for the full year, as reflected in the table below.

The total STI payout may be adjusted up- or downwards by up to 20% of the target payout at the discretion of the Supervisory Board. The target payout as a percentage of base salary is 100% for the CEO and other members of the Executive Board and 60% for Management Board members based in the Netherlands, contingent on targets being met.

For the reporting year 2022, the achievement of performance targets was assessed and determined by the Supervisory Board for each Management Board member individually.

1 For each performance measure, a threshold, target and maximum performance level is set with the following STI payout, as a percentage of target payout:
· Threshold performance: varies per performance measure, starting from 50% of target payout
· Target performance: 100% of target payout
· Maximum performance: 120% of target payout
For each measure, payout between performance levels is on a straight line basis; payout is zero for below threshold performance, whereas payout for performance above maximum is capped at 120% of payout at target.

The following table reflects the performance against STI targets and payouts for 2022.

	Performance measure[1]	Weight	Realised performance	Resulting payout as % of target	Actual bonus (% of payout[1] weight)
Igor Shekhterman Chief Executive Officer	Business continuity	25%	100%	100%	25%
	OPEX/CAPEX optimisation	25%	100%	100%	25%
	Total H1	**50%**	**100%**	**100%**	**50%**
	Market share	10%	0%	0%	0%
	X5 LFL sales	10%	100%	100%	10%
	X5 EBITDA margin	10%	103.8%	110.7%	11.07%
	X5 CAPEX	10%	119.8%	120%	12%
	NPS	10%	74.9%	74.9%	7.49%
	Total H2	**50%**	**79.7%**	**81.1%**	**40.6%**
	Total FY	**100%**	**–**	**–**	**90.6%**
	Discretionary +/–20%				
Frank Lhoëst Company Secretary	Business continuity	25%	100%	100%	25%
	OPEX/CAPEX optimisation	25%	100%	100%	25%
	Total H1	**50%**	**100%**	**100%**	**50%**
	Market share	10%	0%	0%	0%
	X5 LFL sales	10%	100%	100%	10%
	X5 EBITDA margin	10%	103.8%	110.7%	11.07%
	X5 CAPEX	10%	119.8%	120%	12%
	NPS	10%	74.9%	74.9%	7.49%
	Total H2	**50%**	**79.7%**	**81.1%**	**40.6%**
	Total FY	**100%**	**–**	**–**	**90.6%**
	Discretionary +/–20%				**+20%**

	Performance measure[1]	Weight	Realised performance	Resulting payout as % of target	Actual bonus (% of payout[1] weight)
Quinten Peer Chief Operating Officer (X5 Retail Group N.V.)	Business continuity	25%	100%	100%	25%
	OPEX/CAPEX optimisation	25%	100%	100%	25%
	Total H1	**50%**	**100%**	**100%**	**50%**
	Market share	10%	0%	0%	0%
	X5 LFL sales	10%	100%	100%	10%
	X5 EBITDA margin	10%	103.8%	110.7%	11.07%
	X5 CAPEX	10%	119.8%	120%	12%
	NPS	10%	74.9%	74.9%	7.49%
	Total H2	**50%**	**79.7%**	**81.1%**	**40.6%**
	Total FY	**100%**	**–**	**–**	**90.6%**
	Discretionary +/–20%				**+10%**
Ekaterina Lobacheva President	Business continuity	25%	100%	100%	25%
	OPEX/CAPEX optimisation	25%	100%	100%	25%
	Total H1	**50%**	**100%**	**100%**	**50%**
	Market share	10%	0%	0%	0%
	X5 LFL sales	10%	100%	100%	10%
	X5 EBITDA margin	10%	103.8%	110.7%	11.07%
	X5 CAPEX	10%	119.8%	120%	12%
	NPS	10%	74.9%	74.9%	7.49%
	Total H2	**50%**	**79.7%**	**81.1%**	**40.6%**
	Total FY	**100%**	**–**	**–**	**90.6%**
	Discretionary +/–20%				**+20%**

Ad (3) Long-term incentive (LTI)

Igor Shekhterman, Ekaterina Lobacheva and other members of the Executive Board participate in the Company's long-term incentive programme. Under the LTI programme, performance is assessed and cash awards are paid after a revolving three-year performance period, with a 50% deferred payout subject to maintaining achieved targets in the fourth year, and a profitability threshold as a condition for deferred payout. This creates a focus on long-term goals throughout the programme and provides an effective mechanism for motivating and retaining members of management who are critical to the Company's continued success.

2018–2020 LTI programme

For Igor Shekhterman the expense recognised in 2022 under 2018–2020 LTI programme represent the final deferred payout.

The following table reflects the LTI performance for the 2018–2020 LTI programme.

LTI 2018–2020	Performance measure	Weight	Target payout	Achievement
Igor Shekhterman	Revenue	50%	100%	100%
	EV/EBITDA multiple	50%	100%	100%

2021–2023 LTI programme

The current 2021–2023 LTI programme was approved by the 2021 Annual General Meeting of Shareholders. Performance measures under the programme have a one- or three-year vesting period, with payouts in 2024 and 2025 as described above. Following the unexpected developments since February 2022 and their severe impact on the Company's market capitalisation, the Company reviewed its strategic priorities and corresponding long-term performance measures and targets. As a result, the Supervisory Board had to use its discretionary authority to deviate from the remuneration policy by adjusting LTI measures and their weights as of 2022, as described below.

Targets under the LTI reflect the overall strategy of the Company to achieve leadership in customer recognition by continuously transforming value propositions in the food market while setting the industry standard in digital transformation and omnichannel growth. Throughout the three-year cycle of the programme, the long-term performance measure to support this strategy is sustained leadership in terms of market share, with profitability and net debt/EBITDA thresholds to remain focused on margins, business efficiency and prudent financial and balance sheet management. With the enterprise value multiple no longer being a meaningful leadership indicator for X5 as of 2022, it was replaced by free cash flow in stage 2 of the programme and will serve as an indicator of the Company's financial health and efficient financial management. In both stages of the programme, the LTI includes sustainability targets to support the Company's ESG strategy.

The size of each individual cash award is based on the participant's annual base salary and LTI scale reflecting his/her role and position, contribution towards the LTI targets at both the individual and team level and a cap of 133% per year of the participant's base salary during the three-year programme.

For Igor Shekhterman and Ekaterina Lobacheva the expense recognised in 2022 under the 2021–2023 LTI programme is the accrual based on the probability of achieving the targets, payable in 2024–2025.

Ad (3) Long-term incentive (LTI)

LTI STAGE 1 (JANUARY–DECEMBER 2021)

Performance measure	Weight	Definition	Thresholds	Link to strategy	Payout
EV/EBITDA multiple	50%	EV/EBITDA multiple leadership, calculated and accrued on an annual basis	• Net debt to EBITDA • EBITDA margin	Long-term shareholder value creation through sustained leadership in the Russian food market, with a 15% share in grocery and a 20% share in e-grocery by 2023-end	In 2024 (50%) and 2025 (50%, subject to EBITDA threshold)
Market share	45%	X5 market share relative to competition in the Russian food retail segment throughout the programme, with an annual revenue growth threshold. If the threshold is not achieved in the first year, 1/3 of the target payout is not accrued. The minimum payout level is 60%, and the maximum is 140%, dependent on performance			
Sustainability	5%	2023 targets: 1) Reduce CO_2 emissions by 10% 2) Boost the share of recycled solid waste to 95% 3) Achieve an over 50% share of private label goods sold in sustainable packaging		Achieving the ESG targets in X5's 30x30 Sustainability Plan	

LTI STAGE 2 (JANUARY 2022–DECEMBER 2023)

Performance measure	Weight	Definition	Thresholds	Link to strategy	Payout
Free cash flow (FCF), % of revenue	35%	Value to reflect financial management performance The minimum payout level is 80%, and the maximum is 120%, dependent on performance	• Net debt to EBITDA • EBITDA margin	Creating long-term shareholder value by striking the right balance between sustained leadership in the Russian food market, new business models and prudent financial management	In 2024 (50%) and 2025 (50%, subject to EBITDA threshold)
Market share	60%	X5 market share growth relative to competition in the Russian food retail segment throughout the programme. The minimum payout level is 80%, and the maximum is 120%, dependent on performance			
Sustainability	5%	2023 targets: 1) Reduce CO_2 emissions by 10% 2) Boost the share of recycled solid waste to 95% 3) Achieve an over 50% share of private label goods sold in sustainable packaging		Achieving the ESG targets in X5's 30x30 Sustainability Plan	

Ad (4) Extension bonus

On 22 September 2022 the Company announced the Supervisory Board's recommendation to extend Igor's contract for another two-year term ending on the day of the Annual General Meeting in 2025. On 30 November 2022 the General Meeting of Shareholders approved to substitute 75% of Igor Shekhterman's discretionary USD 5,000,000 termination bonus (see below under 'Legacy arrangements') for a contract extension bonus, in recognition of his commitment to extend his CEO mandate, as such protecting the continuity of the Company and its leadership in an increasingly challenging environment.

Ad (5) Social security cost

For the year ended 31 December 2022, the social security costs include statutory pension contributions in the amount of RUB 62 (2021: RUB 29).

Other policy information and contract terms

Other remuneration components

Members of the Executive Board may be offered a number of other arrangements, such as an expense allowance, medical insurance, accident insurance, and life insurance, in accordance with Company policy. This policy does not allow personal loans or guarantees to members of the Executive Board, nor does the Company provide pension arrangements for members of the Executive Board.

Contractual arrangements

Members of the Management Board are engaged on the basis of a Management Services Agreement with a maximum four-year term, to be extended upon reappointment by the General Meeting of Shareholders. The CEO and the President, as Russia-based members of the Management Board, also have a contract of employment with an operational subsidiary in Russia. The fixed and variable salary components stipulated in each contract reflect the relevant responsibilities of the CEO and the President in the Netherlands and in Russia.

Severance payment is generally limited to six months' base salary; however, the Supervisory Board may increase this to a maximum of one year's base salary if required under individual circumstances. For the CEO, severance pay is structured as a non-competition reward payable in quarterly instalments following contract termination, subject to compliance with non-competition conditions. For the President, severance pay is structured as a non-competition reward payable after six months after contract termination, subject to compliance with non-competition conditions. Accordingly, the non-competition period for the CEO is 12 months and six months for other Executive Board members. In case of breach of the non-competition obligations, the contract provides for a penalty in the amount of two annual base salaries for the CEO and one annual base salary for other Executive Board members. No severance pay will be awarded if the agreement is terminated at the initiative of the Executive Board member, or in the event of seriously culpable or negligent behaviour on his/her part.

Agreements with members of the Management Board may be terminated by either party with a notice period of two months or, in the case of the CEO, three months.

Legacy arrangements

As disclosed when Mr Shekhterman took office in 2015, he is entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration through its fixed and variable components, Mr Shekhterman will be entitled to the difference upon completion of his full term as CEO. Furthermore, Mr Shekhterman is eligible to a termination compensation of up to USD 5,000,000 at the discretion of the Supervisory Board.

Clawback

The Supervisory Board may recover from Management Board members all or part of a paid bonus derived from the STI or LTI if such bonus is based on incorrect information regarding the targets or conditions of the bonus. Furthermore, the Supervisory Board has the discretionary authority to adjust an unpaid bonus to an appropriate amount if the payment of the bonus is considered unreasonable or unfair.

Insurance and indemnity arrangements

Members of the Management Board as well as certain senior management members are insured under X5's Directors and Officers Insurance Policy.

Although the insurance policy provides broad coverage, X5's directors and officers may incur uninsured liabilities. Under the Company's Articles of Association, members of the Management Board are indemnified by the Company against any claims arising out of, or in connection with, the general performance of their duties, provided that such claim is not attributable to gross negligence, wilful misconduct or intentional misrepresentation by the director or officer in question.

Remuneration of the Supervisory Board

Objectives and benchmarking

Supervisory Board fees are set at an appropriate level to attract individuals with the necessary experience, knowledge and ability to make a significant contribution to the Company's strategy, long-term development and sustainability. As such, the remuneration policy supports the long-term development of the Company, while aiming to meet all stakeholders' requirements.

The level and structure of remuneration for members of the Supervisory Board is periodically benchmarked against a reference group of Dutch and other European companies that are comparable in size and complexity, as well as leading Russian and international retailers. In order to attract the most talented individuals with the necessary experience, knowledge and ability, the cash allowances for members of the Supervisory Board are set between the 50th and the 75th percentile. For the current Supervisory Board, the peer group consisted of 33 mostly non-Russian international companies in various retail sectors, i.e. food retail and wholesale (61%), drug retail (9%), specialty and other types of retail (30%).

The Company acknowledges that the awarding of shares to members of the Supervisory Board constitutes a deviation from the Dutch Corporate Governance Code. However, in addition to the cash allowance, X5 believes it is necessary to compensate members of the Supervisory Board in the form of equity to align the interests of Supervisory Board members with the long-term interests of shareholders and strengthen their commitment to the future of the Company. The equity-based awards paid to members of the Supervisory Board are calculated with respect to the fixed board fee of each member and are therefore not performance-based. While the total remuneration – including the equity component – may exceed the benchmark for the chairman and committee chairs, X5 believes that the level and structure of the remuneration of Supervisory Board members safeguard their independence of thought and judgement and adequately reflect the time commitment and responsibilities of the role.

1 Vadim Zingman, Leonid Afendikov, Mikhail Fridman, and Marat Atnashev, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.

2 Olga Vysotskaya, Fedor Ovchinnikov and Vadim Zingman were appointed on 30 June 2022.

3 Dmitry Alekseev, Vassilis Stavrou and Leonid Afendikov were appointed on 30 November 2022.

2022 Supervisory Board remuneration

In 2022, the General Meeting of Shareholders approved the updated remuneration policy for the Supervisory Board for the year.

The following table provides an overview of the Supervisory Board's remuneration that became unconditional in 2022 or at year-end (in millions of Russian roubles).

		Base remuneration		Share-based compensation		Extraordinary remuneration		Total remuneration	
	Position	2022	2021	2022	2021	2022	2021	2022	2021
P. Demchenkov	Chair, Nomination and Remuneration Committee	26	30	29	22	–	–	55	52
O. Vysotskaya[2]	Chair, Audit and Risk Committee	8	–	2	–	–	–	10	–
F. Ovchinnikov[2]		4	–	1	–	–	–	5	–
V. Stavrou[3]		2	–	–	–	–	–	2	–
V. Zingman[1, 2]		–	–	–	–	–	–	–	–
D. Alekseev[3]		2	–	–	–	–	–	2	–
L. Afendikov[1, 3]		–	–	–	–	–	–	–	–
S. DuCharme[4, 6]		1	12	21	19	90	–	112	31
M. Fridman[1, 4]		–	–	–	–	–	–	–	–
R. Brasher[4]		2	7	(2)	2	–	–	–	9
G. King[4]		6	22	(32)	21	–	–	(26)	43
M. Kuchment[4]		3	10	(14)	10	–	–	(11)	20
K.-H. Holland		–	3	–	2	–	–	–	5
N. Shouraboura[5]		6	17	10	11	–	–	16	28
A. Tynkovan[4]		3	8	(2)	2	–	–	1	10
M. Atnashev[1, 4]		–	–	–	–	–	–	–	–
Total		63	109	13	89	90	–	166	198

4 Stephan DuCharme and Mikhail Fridman stepped down on 1 March 2022. Richard Brasher, Geoff King, Michael Kuchment, Alexander Tynkovan, and Marat Atnashev stepped down on, respectively, 4 March, 11 March, 25 March, 25 May, and 22 July 2022.

5 Nadia Shouraboura's term in office expired at the 2022 Annual General Meeting of Shareholders.

6 As described in this report under "Legacy arrangements", the General Meeting of Shareholders approved to substitute part (75%) of Igor Shekhterman's termination bonus for a contract extension bonus. The meeting of shareholders approved to pay the remaining part (25%) to Stephan DuCharme for his invaluable contribution to the Company since 2008, both as member and later Chair of the Supervisory Board, and CEO from 2012 to 2015.

Ad (1) Base remuneration

Annual fees are as follows:

Role	Fee (EUR)
Supervisory Board Chair	250,000
Supervisory Board member	100,000
Additional allowance for:	
Supervisory Board Vice Chair	50,000
Committee Chair	100,000
Committee member	16,000

Ad (2) Equity-based compensation

Under the remuneration policy for the Supervisory Board, the remuneration of Supervisory Board members is composed of a fixed cash remuneration and an equity-based reward. The equity-based reward is not subject to performance criteria and was awarded in the form of restricted stock units that are converted into X5 global depositary receipts (X5 GDRs) upon vesting. When the trading of X5 GDRs at the London Stock Exchange was suspended in March, the Nomination and Remuneration Committee initiated a restructuring of the Supervisory Board's equity-based remuneration into a phantom stock plan comparable in terms and size of awards, based on the GDR trading value on the Moscow Exchange. The necessary adjustment to the remuneration policy for the Supervisory Board was submitted to, and approved by, the Extraordinary General Meeting of Shareholders in November.

Restricted Stock Unit Plan

At the same meeting, the accelerated vesting and cash settlement of restricted stock units (RSUs) awarded in 2019, 2020 and 2021 to Stephan DuCharme, who stepped down from the Supervisory Board on 1 March 2022, and Nadia Shouraboura, whose term in office came to an end at the 2022 Annual General Meeting, was approved. The proposed cash settlement was based on the X5 GDR value on the Moscow Exchange on 22 September 2022, the date the Supervisory Board resolved to terminate the restricted stock plan.

	RSUs outstanding as at 31/12/2021	Accelerated vesting	MOEX GDR value on vesting date in EUR (22/09/2022)[1]	Gross settlement amount
S. DuCharme	24,190	24,190	21.06	EUR 509,441.40
N. Shouraboura	16,171	13,571	21.06	EUR 285,805.26
Total	40,361	37,761		EUR 795,246.66

For Peter Demchenkov, Chair of the Supervisory Board, the 2022 Extraordinary General Meeting approved a transition scheme for restricted stock units awarded in 2019, 2020 and 2021; i.e. vesting of his 2019 RSU awards based on the X5 GDR value at the Moscow Exchange on 22 September 2022.

	RSUs outstanding as at 31/12/2021	Accelerated vesting of 2019 awards	MOEX GDR value on vesting date in EUR (22/09/2022)[1]	Gross settlement amount
P. Demchenkov	32,189	8,941[2]	21.06	EUR 188,297.46

All other awards to Supervisory Board members were forfeited in accordance with the rules of the Restricted Stock Unit Plan.

Under the new Phantom Stock Unit Plan, each remunerated Supervisory Board member is entitled to an annual equity award in the form of phantom stock units (PSUs), for an award value equal to his/her annual cash allowance.

Supervisory Board members Peter Demchenkov, Olga Vysotskaya, Fedor Ovchinnikov, Dmitry Alekseev, and Vassilis Stavrou were each awarded a number of PSUs, calculated by dividing 100% of their fixed cash remuneration in 2022 by the volume-weighted average closing market price of one GDR over the thirty immediate calendar days preceding 19 May 2022, i.e. RUB 1,055.66. The PSUs awarded under tranche 1 will vest on 19 May 2025. Upon vesting, the eligible Supervisory Board members are entitled to a cash pay-out based on the market value of the awarded PSUs on the vesting date. The number of PSUs awarded and outstanding to the members of the Supervisory Board is shown below.

	Tranche	PSUs awarded in 2022	Year of vesting	PSUs outstanding as at 31/12/2022
P. Demchenkov	1	23,095	2025	23,095
O. Vysotskaya	1	7,849	2025	7,849
F. Ovchinnikov	1	4,489	2025	4,489
D. Alekseev	1	1,746	2025	1,746
V. Stavrou	1	1,746	2025	1,746
Total		38,925		38,925

Ad (3) Total remuneration

No other remuneration has been granted or allocated by subsidiaries or other companies whose financials are consolidated by the Company to members of the Supervisory Board.

1 MOEX value on vesting date in EUR is calculated as average GDR price on the MOEX on 22 September (RUB 1,268.00) divided by respective EUR exchange rate on 22 September, as set by the Central Bank of Russia (RUB 60.211 per EUR 1).

2 The vesting of the 2020 (9,800 RSUs) and 2021 (13,448 RSUs) RSU awards will remain in line with the vesting schedule under the restricted stock plan, with the option to settle RSUs in cash upon vesting in 2023 and 2024, respectively, based on the X5 GDR value at the Moscow Exchange or another exchange where X5 GDRs are primarily traded at the time of vesting.

Other policy information and contract terms

Supervisory Board members benefit from liability insurance coverage and reimbursement of expenses. The Company does not grant variable remuneration to Supervisory Board members; they do not accrue any pension rights and are not eligible for personal loans or guarantees.

Supervisory Board members do not receive any other benefits or entitlements and are not entitled to any severance payment or benefits upon termination of their appointment. Supervisory Board members are appointed and reappointed based on the provisions of the law and the Company's Articles of Association.

The table on the right reflects the total remuneration of each member of the Supervisory Board in the five most recent financial years (in millions of Russian roubles).

	2018	2019	2020	2021	2022
Peter Demchenkov	24	31	35	52	55
Olga Vysotskaya (appointed on 30 June 2022)	–	–	–	–	10
Fedor Ovchinnikov (appointed on 30 June 2022, stepped down on 8 March 2023)	–	–	–	–	5
Vadim Zingman[1] (appointed on 30 June 2022)	–	–	–	–	–
Dmitry Alekseev (appointed on 30 November 2022)	–	–	–	–	2
Vassilis Stavrou (appointed on 30 November 2022)	–	–	–	–	2
Leonid Afendikov[1] (appointed on 30 November 2022)	–	–	–	–	–
Geoff King (stepped down on 11 March 2022)	35	36	34	43	(26)
Michael Kuchment (stepped down on 25 March 2022)	13	15	16	20	(11)
Nadia Shouraboura (term expired in 2022)	4	12	18	28	16
Marat Atnashev[1] (stepped down on 22 July 2022)	–	–	–	–	–
Alexander Tynkovan (stepped down on 25 May 2022)	–	–	–	10	1
Mikhail Fridman[1] (stepped down on 1 March 2022)	–	–	–	–	–
Stephan DuCharme (stepped down on 1 March 2022)	39	40	41	31	112[2]
Richard Brasher (stepped downon 4 March 2022)	–	–	–	9	(0)
Karl-Heinz Holland (stepped down on 12 May 2021)	4	11	13	5	–
Andrei Elinson[1] (stepped down on 12 May 2020)	–	–	–	–	–
Alexander Torbakhov (stepped down on 3 July 2020)	–	17	5	–	–
Pawel Musial (stepped down on 22 June 2018)	14	–	–	–	–
Christian Couvreux (stepped down on 10 May 2018)	45	–	–	–	–

1 Vadim Zingman, Leonid Afendikov, Mikhail Fridman, and Marat Atnashev, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.

2 On 30 November 2022, the General Meeting of Shareholders approved to substitute 75% of Igor Shekhterman's termination bonus for a contract extension bonus, whereby the remaining part (25%) was allocated to Stephan DuCharme in recognition of his contribution to the Company since 2008, both as member and later Chairman of the Supervisory Board, and CEO from 2012 to 2015.

Other information

Total remuneration

The annual remuneration for Management Board and Supervisory Board members during 2022 amounted to RUB 990 million (2021: RUB 640 million).

Other arrangements

No (personal) loans were granted to the members of the Management Board or of the Supervisory Board, and no guarantees or the like were granted in favour of any of the members of the Management Board or of the Supervisory Board. No severance payments were granted to members of the Management Board or of the Supervisory Board in 2022, and no variable remuneration was clawed back.

Shareholder voting

This Remuneration Report will be submitted to the 2023 Annual General Meeting of Shareholders for an advisory vote.

The Supervisory Board

31 May 2023

03 Financial Statements

X5Group

Contents

X5 Retail Group N.V.

Consolidated Statement of Financial Position

at 31 December 2022

expressed in millions of Russian Roubles, unless otherwise stated

Igor Shekhterman

CHIEF EXECUTIVE OFFICER

31 May 2023

	Note	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Property, plant and equipment	10	315,612	332,144
Right-of-use assets	11	508,543	502,325
Investment properties	12	4,573	4,461
Goodwill	13	112,929	105,028
Other intangible assets	14	38,327	39,006
Investments in associates and joint ventures		–	50
Other non-current assets		4,164	4,209
Deferred tax assets	30	27,482	23,047
		1,011,630	1,010,270
Current assets			
Inventories	15	208,661	166,840
Indemnification asset	7, 35	6,391	435
Trade, other accounts receivable and prepayments	17	21,382	20,190
Current income tax receivable		1,622	4,057
VAT and other taxes receivable	18	9,007	8,802
Short-term financial investments	9	50,067	50,092
Cash and cash equivalents	9	43,255	26,062
		340,385	276,478
Total assets		1,352,015	1,286,748

	Note	31 December 2022	31 December 2021
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	22	2,458	2,458
Share premium		46,127	46,127
Retained earnings		84,125	38,926
Other capital reserves		432	–
Share-based payment reserve	29	–	118
		133,142	87,629
Total equity		133,142	87,629
Non-current liabilities			
Long-term borrowings	21	147,386	206,571
Long-term lease liabilities	11	519,317	507,099
Deferred tax liabilities	30	6,954	928
Other non-current liabilities	7, 28	6,206	1,670
		679,863	716,268
Current liabilities			
Trade accounts payable		238,641	212,949
Short-term borrowings	21	87,146	87,767
Interest accrued		1,143	1,792
Short-term lease liabilities	11	71,843	70,264
Short-term contract liabilities	20	3,767	2,392
Current income tax payable		6,020	3,014
Provisions and other liabilities	19	130,450	104,673
		539,010	482,851
Total liabilities		1,218,873	1,199,119
Total equity and liabilities		1,352,015	1,286,748

The financial statements are unaudited

X5 Retail Group N.V.

Consolidated Statement of Profit or Loss

for the year ended 31 December 2022

expressed in millions of Russian Roubles, unless otherwise stated

	Note	2022	2021
Revenue	24	2,605,232	2,204,819
Cost of sales	25	(1,970,036)	(1,643,502)
Gross profit		**635,196**	561,317
Selling, general and administrative expenses	25	(519,757)	(467,468)
Net impairment losses on financial assets	17	(346)	(154)
Lease/sublease and other income	26	23,025	23,877
Operating profit		**138,118**	117,572
Finance costs	27	(73,727)	(57,815)
Finance income	27	5,310	586
Net foreign exchange (loss)/gain		(2,032)	399
Profit before tax		**67,669**	60,742
Income tax expense	30	(22,481)	(18,004)
Profit for the year		**45,188**	42,738
Profit for the year attributable to:			
Equity holders of the parent		45,199	42,738
Non-controlling interests		(11)	–
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	665.78	629.55
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	665.78	629.54

Igor Shekhterman

CHIEF EXECUTIVE OFFICER

31 May 2023

The financial statements are unaudited

X5 Retail Group N.V.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2022

expressed in millions of Russian Roubles, unless otherwise stated

Igor
Shekhterman

CHIEF EXECUTIVE OFFICER

31 May 2023

	2022	2021
Profit for the year	45,188	42,738
Total comprehensive income for the year, net of tax	**45,188**	**42,738**
Total comprehensive income for the year attributable to:		
Equity holders of the parent	45,199	42,738
Non-controlling interests	(11)	–

The financial statements are unaudited

X5 Retail Group N.V.

Consolidated Statement of Cash Flows

for the year ended 31 December 2022

expressed in millions of Russian Roubles, unless otherwise stated

Igor Shekhterman

CHIEF EXECUTIVE OFFICER

31 May 2023

	Note	2022	2021
Profit before tax		**67,669**	**60,742**
Adjustments for:			
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment properties, other intangible assets and goodwill	25	164,731	150,278
Gain on disposal of property plant and equipment, investment properties and intangible assets and gain on derecognition of right-of-use assets		(2,276)	(3,345)
Finance costs, net	27	68,417	57,229
Net impairment losses on financial assets	17	346	154
Impairment of prepayments	17	412	221
Share-based compensation expense	29	13	89
Net foreign exchange loss/(gain)		2,032	(399)
Other non-cash items		(576)	559
Net cash from operating activities before changes in working capital		**300,768**	**265,528**
Increase in trade, other accounts receivable and prepayments and VAT and other taxes receivable		(1,388)	(1,198)
Increase in inventories		(37,060)	(22,447)
Increase in trade payable		22,833	42,108
Increase in other accounts payable and contract liabilities		21,539	13,952
Net cash flows from operations		**306,692**	**297,943**
Interest paid		(73,067)	(56,561)
Interest received		5,276	60
Income tax paid		(17,977)	(13,980)
Net cash flows from operating activities		**220,924**	**227,462**

	Note	2022	2021
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and initial direct costs associated with right		(59,554)	(76,574)
Acquisition of businesses, net of cash acquired	7	(5,495)	(1,771)
Proceeds from disposal of property, plant and equipment, investment properties and intangible assets		3,192	4,392
Purchase of other intangible assets		(14,121)	(15,482)
Proceeds from short-term financial investments		30,000	–
Payments for financial investments	9	(30,000)	(50,000)
Net cash flows used in investing activities		**(75,978)**	**(139,435)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	21	148,974	132,345
Repayment of loans	21	(210,615)	(99,585)
Purchase of treasury shares		–	(34)
Payments of principal portion of lease liabilities	11	(66,014)	(64,610)
Dividends paid to equity holders of the parent	22	–	(50,006)
Net cash flows used in financing activities		**(127,655)**	**(81,890)**
Effect of exchange rate changes on cash and cash equivalents		(98)	(83)
Net increase in cash and cash equivalents		**17,193**	**6,054**
MOVEMENTS IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year	9	26,062	20,008
Net increase in cash and cash equivalents		17,193	6,054
Cash and cash equivalents at the end of the year	**9**	**43,255**	**26,062**

The financial statements are unaudited

X5 Retail Group N.V.

Consolidated Statement of Changes In Equity

for the year ended 31 December 2022

expressed in millions of Russian Roubles, unless otherwise stated

Igor Shekhterman

CHIEF EXECUTIVE OFFICER

31 May 2023

ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	Number of shares	Share capital	Share premium	Share-based payment reserve	Other capital reserves	Retained earnings	Total share-holders' equity	Non-controlling interests	Total
Balance as at 1 January 2021	67,882,444	2,458	46,086	104	–	46,194	94,842	–	94,842
Profit for the period	–	–	–	–	–	42,738	42,738	–	42,738
Total comprehensive income for the period	–	–	–	–	–	42,738	42,738	–	42,738
Dividends (Note 22)	–	–	–	–	–	(50,006)	(50,006)	–	(50,006)
Share-based payment compensation (Note 29)	–	–	–	89	–	–	89	–	89
Transfer and waiving of vested equity rights (Note 29)	6,252	–	41	(75)	–	–	(34)	–	(34)
Balance as at 31 December 2021	67,888,696	2,458	46,127	118	–	38,926	87,629	–	87,629
Balance as at 1 January 2022	**67,888,696**	**2,458**	**46,127**	**118**	**–**	**38,926**	**87,629**	–	**87,629**
Profit for the period	–	–	–	–	–	45,199	45,199	(11)	45,188
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**45,199**	**45,199**	**(11)**	**45,188**
Share-based payment compensation (Note 29)	–	–	–	(3)	–	–	(3)	–	(3)
Transfer (Note 29)	–	–		(38)	38	–	–	–	–
Modification of share-based payments (Note 29)	–	–	–	(77)	–	–	(77)	–	(77)
Acquisition of subsidiaries (Note 7)	–	–	–	–	–	–	–	2,609	2,609
Purchase commitments for non-controlling interests' shares (Note 7)	–	–	–	–	(2,204)	–	(2,204)	–	(2,204)
Impact of changes in non-controlling interests with purchase commitments (Note 7)	–	–	–	–	2,598	–	2,598	(2,598)	–
Balance as at 31 December 2022	**67,888,696**	**2,458**	**46,127**	**–**	**432**	**84,125**	**133,142**	**–**	**133,142**

The financial statements are unaudited

Notes to the consolidated financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

01

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 Zuidplein 196, 1077 XV Amsterdam, the Netherlands.

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2022 the Group operated a retail chain of 21,323 proximity stores, supermarket, hypermarket, hard discounter, online hypermarket stores, dark kitchens, "Krasny Yar" & "Slata" stores and joint dark stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Chizhik", "Perekrestok Vprok", "Mnogo Lososya", "Krasny Yar" and "Slata" (each representing separate format) in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg, Krasnoyarsk, Irkutsk (31 December 2021: 19,121 proximity stores, supermarket, hypermarket, hard discounter, online hypermarket stores and dark kitchens under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Chizhik", "Perekrestok Vprok" and "Mnogo Lososya"), with the following number of stores:

	31 December 2022	31 December 2021
"Pyaterochka" – Proximity store	19,164	17,972
"Perekrestok" – Supermarket	971	990
"Krasny Yar" & "Slata" stores	595	–
"Chizhik" – Hard discounter	517	72
"Mnogo Lososya" – Dark kitchen	54	48
"Karusel" – Hypermarket	12	33
Joint dark stores	7	–
"Perekrestok Vprok" – Online hypermarket	3	6
Total stores	**21,323**	**19,121**

As at 31 December 2022 and 31 December 2021 the principal shareholder exerting significant influence over the Company was CTF Holdings S.A. ("CTF"). As at 31 December 2022 and 31 December 2021 CTF directly owned 47.87% and 47.87% of total issued shares in the Company respectively. CTF is not an ultimate controlling party for the Group. As at 31 December 2022 and 31 December 2021 the Company's shares were listed on the London and Moscow Stock Exchanges in the form of Global Depositary Receipts (GDRs) with each GDR representing an interest of 0.25 in an ordinary share (Note 22).

Notes to the consolidated financial statements

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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 2022 have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) as adopted by the European Union and with Part 9 Book 2 of the Dutch Civil Code.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities (including derivative instruments) that have been measured at fair value. 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. Management prepared these consolidated financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations, access to financial resources (Note 31) and the potential impact of COVID 19 and the sanctions being imposed against certain entities and individuals in Russia. On 31 May 2023, the Management Board authorised the consolidated financial statements for issue. Publication is on 31 May 2023.

2.2 Basis of consolidation

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

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

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

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

Notes to the consolidated financial statements

for the year ended 31 December 2022
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Summary of significant accounting policies

2.2 Basis of consolidation (continued)

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Pending specific guidance from IFRSs regarding accounting for put options not giving present ownership interest in the non-controlling share of subsidiaries the Group accounts for such transactions as follows:

(a) Determine the amount that would have been recognised for the non-controlling interest (NCI), including an update to reflect allocations of profit or loss, allocations of changes in OCI and dividends declared for the reporting period, as required by IFRS 10 Consolidated financial statements.

(b) Derecognise the NCI as if it was acquired at the acquisition date or reporting date for the subsequent periods.

(c) Recognise a financial liability at the present value of the amount payable on exercise of the NCI put in accordance with IFRS 9 Financial Instruments with no separate accounting for the unwinding of the discount due to the passage of time.

(d) The difference between (b) and (c) is accounted for as an equity transaction within "Other reserves" in equity.

(e) When the NCI put is exercised the amount recognised as the financial liability at that date is extinguished by the payment of the exercise price.

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

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

The functional currency of the Group's entities is the national currency of the Russian Federation, the Russian Rouble ("RUB"). The presentation currency of the Group is the Russian Rouble ("RUB"), which management believes is the most useful currency to adopt for users of these consolidated financial statements.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the Central Bank of Russian Federation ("CBRF") at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items.

2.4 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 chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Group identifies retail chains of each format and dark kitchens (Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment, where required. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment are capitalised and the replaced parts are retired. Capitalised costs are depreciated over the remaining useful life of the property, plant and equipment or part's estimated useful life whichever is sooner.

Notes to the consolidated financial statements

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02

Summary of significant accounting policies

2.5 Property, plant and equipment (continued)

Leasehold improvements are capitalised when it is probable that future economic benefits associated with the improvements will flow to the Group and the cost can be measured reliably.

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

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

Land and assets under construction are 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. Buildings are divided into foundation and frame with a depreciation period of 40–50 years and other parts of 7–8 years. Other parts mainly include fixtures and fitting.

The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	Useful lives
Buildings (foundation and frame)	40–50 years
Buildings (other parts)	7–8 years
Machinery and equipment	>1–10 years
Refrigerating equipment	7–10 years
Vehicles	4–7 years
Other	3–5 years

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

2.6 Investment properties

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

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs of disposal. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Transfers are made to (or from) investment properties only when there is a change in use. Transfers between investment property and owner occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Depreciation on items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are 40–50 years.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Fair value determined for the disclosure purposes (Note 12) represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The measurement is classified in level 3 of the fair value hierarchy.

Notes to the consolidated financial statements

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Summary of significant accounting policies

2.7 Intangible assets

(a) Goodwill

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

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

(b) Brand and private labels

Brand and private labels acquired in a business combination are recognised initially at fair value. Private labels are amortised using the straight-line method over their useful lives. The useful life of "Pyaterochka" brand is estimated to be indefinite-lived as there is no foreseeable limit to the period over which the brand is expected to generate net cash inflows for the Group. In 2021 and 2022 the Group revised the useful live of brand "Karusel" in view of continuing operating segment reorganisation and determined that the remaining useful life of 5 years and 3 months as of 31 December 2021 and 31 December 2022, respectively, fairly reflects the period over which the Group expects net cash inflows from the asset.

	Useful lives
Brands "Krasny Yar", "Baton", "Slata", "KhlebSol"	3 years
Private labels	1–8 years

(c) Software and other intangible assets

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

Research costs related to software development are expensed as incurred. Software development expenditures on an individual project are recognised as an intangible asset when the following criteria are met:

- It is technically feasible to complete the intangible asset so that the asset will be available for use or sale;
- The Group intends to complete the asset and use or sell it;
- There is an ability to use or sell the asset;
- It can be demonstrated how the asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available;
- The expenditure attributable to the asset during its development can be reliably measured.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is ready for use.

(d) 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 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

GROUP AS A LESSEE

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The Group's right-of-use assets comprise leased land and buildings with depreciation periods mostly ranging from 5 to 45 years.

Right-of-use assets obtained as part of acquisition of business are recognised at an amount equal to the lease liabilities and lease payments made at or before the acquisition date and adjusted to reflect the favourable terms of the lease relative to market terms.

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Summary of significant accounting policies

2.8 Leases (continued)

Where an indication of impairment exists, the recoverable amount of any right-of-use assets is assessed and, when impaired, the asset is written down to its recoverable amount (Note 3).

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

Lease liabilities obtained as part of acquisition of business are recognised at the present value of the remaining lease payments at the date of acquisition.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

In the consolidated financial statement of cash flows payments of principal portion of lease liabilities are recognised as cash outflows related to financing activities, payments of interest portion of the lease liabilities are recognised within operating cash flows.

Sale and leaseback

When the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer, such an operation is treated as sale and leaseback transaction. a sale occurs when control of the underlying asset passes to the buyer. a lease liability is recognised, the associated non-current asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the rights retained. Any gain or loss arising relates to the rights transferred to the buyer.

Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of assets other than land and buildings (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

GROUP AS A LESSOR

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in Lease/sublease and other income in the consolidated statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rent is recognised as income in the period in which it is earned.

2.9 Inventories

Inventories at distribution centres and retail outlets are stated at the lower of cost and net realisable value. Cost comprises direct costs of goods, transportation and handling costs. Cost is determined by the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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 aged stock provision where the net realisable value is below cost.

2.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Financial assets

Initial recognition and measurement

The Group classifies its financial assets as those to be measured subsequently at amortised cost, fair value through other comprehensive income or fair value through profit and loss. The classification depends on the financial asset's contractual cash flow characteristics and the business model for managing the financial assets.

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Summary of significant accounting policies

2.10 Financial instruments (continued)

With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.24 (a) Revenue from contracts with customers.

Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, if required under IFRS. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments) is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.10 Financial instruments (continued)

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade and other receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(b) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings. For more information refer to Note 2.11 and Note 2.12.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.11 Borrowings

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

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

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

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

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest ("EIR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

2.12 Trade and other payables

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

2.13 Cash and cash equivalents

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

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Summary of significant accounting policies

2.14 Provisions

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

2.15 Value added tax

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

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

2.16 Employee benefits

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

2.17 Share-based payments

Stock unit plan

The Group receives services from Supervisory Board members as consideration for conditional rights to receive the value of the GDRs in cash after vesting period of 3 years and fulfilment of service conditions. Share-based payment transactions under the stock unit plan are accounted for as cash-settled transactions.

The fair value of the services received in exchange for the grant of the conditional rights is recognised as an expense over the vesting period with the corresponding increase in short term liabilities (Provisions and other liabilities) and in long term liabilities (Other non-current liabilities) and measured by reference to the market price of the GDRs which is determined at grant date. The liabilities are remeasured at each reporting date and at settlement date so that the ultimate liabilities equal to the cash payment on settlement date.

Service conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award. No expense is recognised for awards that do not ultimately vest because service conditions have not been met.

The cumulative expense recognised for cash-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

2.18 Share capital

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

2.19 Dividends

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

Notes to the consolidated financial statements

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02

Summary of significant accounting policies

2.20 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.

2.21 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.

2.22 Taxes

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

Current income tax liabilities (assets) are measured in accordance with IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments, based on legislation that is enacted or substantively enacted at the reporting date, taking into consideration applicable tax rates and tax exemptions.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted within the consolidated group of taxpayers (CGT) and within individual companies of the Group for the entities that are not members of the CGT.

The Group considers whether it is probable that a taxation authority will accept an uncertain tax treatment. If the Group concludes it is probable that the taxation authority will accept an uncertain tax treatment, the Group determines the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

If the Group concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the Group reflects the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. The Group reflects the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty: the most likely amount or the expected value.

If an uncertain tax treatment affects current tax and deferred tax (for example, if it affects both taxable profit used to determine current tax and tax bases used to determine deferred tax), the Group makes consistent judgements and estimates for both current tax and deferred tax.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, any known court or other rulings on such issues, and relevance and effect of a change in facts and circumstances or of new information in the context of applicable tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge and included in current income tax payable line of the consolidated statement of financial position. Interest incurred in relation to taxation is included in finance costs in the consolidated statement of profit or loss. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing.

Summary of significant accounting policies

2.23 Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 34.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.24 Income and expense recognition

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

(a) Revenue from contracts with customers

The Group is in the retail business and sells its goods both through stores operated by the Group and through franchisees (agents) acting as a principal. The revenue recognised by the Group meets the definition of revenue from contracts with customers as per IFRS 15. The Group recognises revenue when control of goods and services is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods.

The Group has loyalty points programmes, which allow customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. a portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance are charged against revenue.

(b) Cost of sales

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

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

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Summary of significant accounting policies

2.24 Income and expense recognition (continued)

(c) Interest income and expense

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

(d) Selling, general and administrative expenses

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

2.25 Contract liability

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.26 Impairment of non-current assets other than goodwill

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

2.27 Fair value of assets and liabilities at the acquisition date

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

2.28 Indemnification asset

The indemnification asset equivalent to the fair value of the indemnified liabilities is included in net assets acquired in the business combination if the selling shareholders of the acquiree agreed to compensate possible claims or contingencies. Subsequent measurement of the indemnification asset and contingent liability does not have any impact on future earnings, unless the indemnification asset becomes impaired.

2.29 Offsetting of financial assets and financial liabilities

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

2.30 Long-term employee benefits

The Group recognises the liability and respective expenses in relation to long-term employee benefits when there is a present obligation as a result of past events and a reliable estimate of the obligation can be made. The Group recognises the net total of the following amounts in profit or loss:

- Service cost;
- Net interest on the net defined benefit liability;
- Remeasurements of the net defined benefit liability.

Notes to the consolidated financial statements

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03

Critical accounting estimates and judgements in applying accounting policies

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

Impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of a cash-generating unit has been determined based on the higher of fair value less costs to sell or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 13.

Identifying a business combination

The Group enters into transactions to acquire integrated set of assets and operations of retail stores. The Group determines whether such transactions represent a business combination or assets acquisitions. The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs. All acquisitions of assets and operations of retail stores occurred in 2022 and 2021 were treated by the Group as business combinations.

Litigations

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 35).

Deferred tax assets and liabilities

Group's management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction.

Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. In the event that an assessment of future utilisation indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

IAS 12 requires a deferred tax liability to be recognised for all taxable temporary differences associated with investments in subsidiaries unless: (a) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. The Group exercises significant judgment in assessing the amount of taxable temporary differences associated with investments in subsidiaries (unremitted earnings) that will not reverse in the foreseeable future.

If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Property, plant and equipment

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

03

Critical accounting estimates and judgements in applying accounting policies

Property, plant and equipment (continued)

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. The Group performs assets impairment testing (Note 10). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2022 the Group recognised an impairment loss in the amount of RUB 4,905 (year ended 31 December 2021: a net impairment loss in the amount of RUB 3,105).

Investment property

The Group's management determines the estimated useful lives and related depreciation charges for its investment properties (Note 12). Management increases the depreciation charge where useful lives are less than previously estimated lives or it writes-off or writes-down technically obsolete or non-strategic assets that have been abandoned or reclassified as held for sale.

The Group periodically assesses whether there is any indication that investment property may be impaired. The Group performs assets impairment testing (Note 12). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2022 the Group recognised a net impairment loss in the amount of RUB 232 (year ended 31 December 2021: a net impairment gain in the amount of RUB 343).

Right-of-use assets

The Group periodically assesses whether there is any indication that right-of-use assets may be impaired. The Group performs assets impairment testing (Note 11). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2022 the Group recognised a net impairment loss in the amount of RUB 1,451 (year ended 31 December 2021: a net impairment loss in the amount of RUB 630).

Inventories 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 aged stock where the net realisable value is below cost (Note 15).

Revenue recognition – Loyalty programmes

The Group estimates the amount of obligations related to customer loyalty programmes by allocating transaction price to loyalty points based on the standalone selling price of the points. The standalone selling price of the points is reduced for the expected amount of the points that will expire unredeemed.

The Group estimates the stand-alone selling price of the loyalty points awarded under loyalty programmes. The stand-alone selling price of the loyalty points issued is calculated by multiplying to the estimated redemption rate and to the monetary value assigned to the loyalty points. In estimating the redemption rate, the Group considers breakage which represents the portion of the points issued that will never be redeemed. The Group applies statistical projection methods in its estimation using customers' historical redemption patterns as the main input. The redemption rate is updated monthly and the liability for the unredeemed points is adjusted accordingly. The Group ensures that the value assigned to the loyalty points is commensurate to the stand-alone selling price of the products eligible for redemption (i.e., the value of each point is equivalent to the stand-alone selling price of any product eligible for redemption divided by number of points required).

Points issued under the loyalty programmes normally expires in six months from their recognition. However due to periodic changes in customer redemption patterns estimates of the stand-alone selling price are subject to significant uncertainty.

Any significant changes in customers' redemption patterns will impact the estimated redemption rate. As at 31 December 2022, the estimated liability for unredeemed points was RUB 3,487 (31 December 2021: RUB 2,146).

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03

Critical accounting estimates and judgements in applying accounting policies

Provision for expected credit losses of trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and other receivables are written-off if past due for more than 3 years and are no subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables is disclosed in Note 17.

Brand and private labels

The Group periodically assesses whether there is any indication that brand and private labels may be impaired. The Group performs assets impairment testing of brands with indefinite useful lives at least annually (Note 14). The Group estimates the recoverable amount of the asset and if it is less than the carrying amount an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2022 the Group did not recognise any impairment of brand and private labels (year ended 31 December 2021: Nil).

Lease term of contracts with extension options and termination options

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. For leases of retail stores the most relevant factors are profitability and revenue of particular stores, the value to the business in a particular region and investment strategy. For leases of distribution centres and offices the most relevant factors are the value to the business, significance of termination penalties and significance of leasehold improvements' remaining value. At commencement of the lease such considerations generally result in determining the lease term equal to the non-cancellable lease period including the period covered by an option to terminate. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Incremental borrowing rates for calculation of lease liability

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Because there are normally no absolutely similar to lease agreements borrowings, which interest rates are observable in open market, the Group derives incremental borrowing rates from both internal and external data sources applying significant judgement in such calculations. The Group estimates incremental borrowing rates by adjusting Russian government risk-free bonds in a relevant currency by the risk-premium inherent to the Group which in turn is determined by comparing Group's rate of borrowing with Russian government risk-free bonds of the same duration. Incremental borrowing rates are calculated on a monthly basis.

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04

Adoption of new and revised standards and interpretations and new accounting pronouncements

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2022. Standards, Interpretations and amendments effective 1 January 2022 did not have a material impact on the financial position or performance of the Group.

The following amendments to IFRSs effective for the financial year beginning on or after 1 January 2022 do not have a material impact on the Group and do not result in change of the Group's accounting policy:

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018–2020.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective:

Standards issued but not yet effective in the European Union	**Effective for annual periods beginning on or after**
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current, Classification of Liabilities as Current or Non-current – Deferral of Effective Date and Non-current Liabilities with Covenants	1 January 2024[1]
Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IFRS 17 Insurance Contracts including Amendments to IFRS 17	1 January 2023
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback	1 January 2024[1]

1 Subject to EU endorsement.

The Group expects that the adoption of other pronouncements listed above will not have a significant impact on the Group's results of operations and financial positions in the period of initial application except for amendments to IAS 12 Income Taxes.

The amendments to IAS 12 Income Taxes may require to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The impact for the Group would be the recognition of additional deferred tax assets and liabilities attributable to right-of-use assets and lease liabilities. The Group does not expect significant effect of the amendments to IAS 12 on its consolidated financial statements.

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05

Segment reporting

The Group identifies retail chains of each format and (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8.

The following significant operating functions are decentralised by formats:

- Category management, including purchasing, pricing, assortment management, promotion management;
- Distribution centres logistics;
- Development function.

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

Upon adoption of IFRS 16 the Management Board started to assess the performance of the operating segments based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment pre-IFRS 16 (EBITDA pre-IFRS 16). EBITDA pre-IFRS 16 is calculated by adjusting EBITDA to include fixed lease expenses, fixed non-lease components of lease contracts, exclude gain on derecognition of right-of-use assets and lease liabilities and exclude adjustment of gain/loss from sale of asset under sale and leaseback operations for the proportion of the rights retained. Adjusted capital expenditures include additions of property, plant and equipment, investment properties and intangible assets adjusted to replace capitalised depreciation of right-of-use assets with capitalisation of fixed lease expenses, acquisitions of property, plant and equipment, investment properties and intangible assets through business combinations as well as goodwill acquired through such business combinations.

The accounting policies used for segments are the same as accounting policies applied for these consolidated financial statements. In 2022 a new methodology of overhead expenses allocation was used for more accurate measurements of segments' performance. The comparative figures for earlier periods have been adjusted in order to provide meaningful comparative information.

The segment information for the year ended 31 December 2022, comparative figures for earlier periods and reconciliation of EBITDA pre-IFRS 16 to profit for the year is provided as follows:

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Segment reporting

YEAR ENDED 31 DECEMBER 2022	Pyaterochka	Perekrestok	Other segments	Corporate centre	Total
Revenue (Note 24)	2,124,617	386,199	94,416	–	2,605,232
EBITDA pre-IFRS 16	170,538	28,251	(5,963)	(6,038)	186,788
Fixed lease expenses and fixed non-lease components of lease contracts					113,742
Gain on derecognition of right-of-use assets and lease liabilities					2,551
Reversal of adjustment for the proportion of the rights retained under sale and leaseback operations (Note 11)					(232)
Depreciation, amortisation and impairment					(164,731)
Operating profit					138,118
Finance cost, net					(68,417)
Net foreign exchange result					(2,032)
Profit before income tax					67,669
Income tax expense					(22,481)
Profit for the year					45,188
Adjusted capital expenditure	46,077	10,024	25,909	–	82,010
31 December 2022					
Inventories	169,190	28,136	11,335	–	208,661

YEAR ENDED 31 DECEMBER 2021	Pyaterochka	Perekrestok	Other segments	Corporate centre	Total
Revenue (Note 24)	1,795,018	351,100	58,701	–	2,204,819
EBITDA pre-IFRS 16	145,495	24,241	(4,369)	(4,343)	161,024
Fixed lease expenses and fixed non-lease components of lease contracts					104,141
Gain on derecognition of right-of-use assets and lease liabilities					2,940
Reversal of adjustment for the proportion of the rights retained under sale and leaseback operations (Note 11)					(255)
Depreciation, amortisation and impairment					(150,278)
Operating profit					117,572
Finance cost, net					(57,229)
Net foreign exchange result					399
Profit before income tax					60,742
Income tax expense					(18,004)
Profit for the year					42,738
Adjusted capital expenditure	72,079	18,656	7,189	–	97,924
31 December 2021					
Inventories	137,489	25,638	3,713	–	166,840

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06

Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2022 and 31 December 2021 were as follows:

Company	Country	Nature of operations	Ownership (%) 31 December 2022	Ownership (%) 31 December 2021
Agrotorg LLC	Russia	Retailing	100	100
Trade House PEREKRIOSTOK JSC	Russia	Retailing	100	100
Agroaspect LLC	Russia	Retailing	100	100
X5 Nedvizhimost CJSC	Russia	Assets holding company	100	100
KOPEYKA-MOSCOW Ltd	Russia	Retailing	100	100
Krasnoborskoe LLC	Russia	Assets holding company	100	100
PEREKRIOSTOK-2000 LLC	Russia	Assets holding company	100	100
Beta Estate LLC	Russia	Assets holding company	100	100
X5 FINANSE LLC	Russia	Bond issuer	100	100
Agro-Avto LLC	Russia	Assets holding company	100	100
X5 Corporate Center LLC	Russia	Assets holding company	100	100

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07

Acquisition of businesses

Acquisitions in 2022

Acquisition of Krasny Yar and Slata

In 4th quarter 2022 the Group acquired 70% of shares of Smart LLC (Krasny Yar) and Mayak LLC (Slata) operating retail chains in Eastern Siberia and provided put options for the remaining 30% non-controlling interests. At acquisition date the retail chains operated 594 stores under brands "Krasny Yar", "Baton", "Slata", "KhlebSol".

Since the put options do not give present ownership interest in the shares subject to put and in the absence of particular guidance of accounting for put options over NCI in current IFRSs the Group made an accounting policy choice (Note 2.2) to account for the initial recognition and further changes in fair value of put option liability along with NCI in Other reserves within equity. As at 31 December 2022 purchase commitments for non-controlling interests' shares under put option liability in amount of RUB 2,204 were included in other non-current liabilities in the consolidated statement of financial position.

In the year ended 31 December 2022 the acquired business contributed revenue of RUB 14,482 from the date of acquisition. Net loss from the date of acquisition comprised RUB 37. If the acquisitions had taken place at the beginning of the year, revenue of the Group would have been RUB 2,663,257.The Group considers impracticable to disclose the impact of the acquisition on the Group's net profit, since before the acquisition the acquired businesses did not prepare financial statements in accordance with the Group's accounting policy.

The Group assigned provisional fair values to net assets acquired. The Group will finalise the purchase price allocation within 12 months from the acquisition date which is not yet finished at the date of approval of these consolidated financial statements.

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Krasny Yar and Slata the Group elected to recognise the non-controlling interests at fair value.

The fair value of the non-controlling interest in Smart LLC and Mayak LLC, non-listed companies, was estimated by applying a proportionate share to the valuation of the companies which in its turn was made on the basis of revenue and EBITDA multiples. The fair value measurements were based on significant inputs that are not observable in the market.

The purchase consideration for the reporting period comprised RUB 5,013 and RUB 1,073 as cash consideration and deferred consideration respectively.

The goodwill recognised is attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to this acquisition was allocated to other segments in amount of RUB 7,674.

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

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 10)	2,342
Other intangible assets (Note 14)	1,863
Right-of-use assets (Note 11)	19,061
Indemnification asset	5,986
Inventories	4,761
Trade, other accounts receivable and prepayments	753
VAT and other taxes receivable	148
Cash and cash equivalents	531
Lease liabilities (Note 11)	(18,960)
Deferred tax liabilities (Note 30)	(424)
Trade accounts payable	(5,361)
Short-term borrowings (Note 21)	(1,819)
Interest accrued	(5)
Short-term contract liabilities (Note 20)	(26)
Current income tax payable	(2,115)
Provisions and other liabilities	(5,714)
Net assets acquired	**1,021**

	Provisional fair values at the acquisition date
Goodwill (Note 13)	7,674
Non-controlling interests measured at fair value	(2,609)
Purchase consideration	**6,086**
Net cash outflow arising from the acquisition	4,482

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07

Acquisition of businesses

Other acquisitions

In 2022 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2022 the acquired businesses contributed revenue of RUB 3,391 from the date of acquisition. If the acquisitions had taken place at the beginning of the year, revenue of the Group would have been RUB 2,607,521. The Group considers impracticable to disclose the impact of this factor on the Group's net profit, since before the acquisition the acquired businesses did not prepare financial statements in accordance with the Group's accounting policy.

The Group assigned provisional fair values to net assets acquired. The Group will finalise the purchase price allocation within a 12-month period from the acquisition date which is not yet finished at the date of approval of these consolidated financial statements.

The purchase consideration for the reporting period comprised consideration paid in cash of RUB 648.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka segment in amount of RUB 502.

During the 12 months ended 31 December 2022 the Group transferred RUB 369 as deferred payments for the prior periods acquisitions.

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

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 10)	339
Right-of-use assets (Note 11)	3,574
Deferred tax assets (Note 30)	128
Trade, other accounts receivable and prepayments	5
VAT and other taxes receivable	52
Cash and cash equivalents	4
Lease liabilities (Note 11)	(3,507)
Current income tax payable	(106)
Provisions and other liabilities	(343)
Net assets acquired	**146**
Goodwill (Note 13)	502
Purchase consideration	**648**
Net cash outflow arising from the acquisition	644

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07

Acquisition of businesses

Acquisitions in 2021

During 2021 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2021 the acquired businesses contributed revenue of RUB 5,996 from the date of acquisition. As the businesses were not acquired as separate legal entities, it is impracticable to disclose net profit from the date of acquisition. 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 2021 as though the acquisition date had been the beginning of that period.

The purchase consideration for the reporting period comprised consideration paid in cash of RUB 1,021 and RUB 265 as deferred consideration measured at fair value.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka segment in amount of RUB 1,063, Perekrestok segment in amount of RUB 35 and other segments in amount of RUB 20.

During the 12 months ended 31 December 2021 the Group transferred RUB 750 as deferred payments for the prior periods' acquisitions.

At 31 December 2021 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2022 the Group completed the purchase price allocation, which resulted in no changes in fair values at the acquisition date:

	Finalised fair values at the acquisition date
Other intangible assets (Note 14)	10
Right-of-use assets (Note 11)	3,928
Deferred tax assets (Note 30)	244
Indemnification asset	6
Trade, other accounts receivable and prepayments	22
Lease liabilities (Note 11)	(3,928)
Current income tax payable	(34)
Provisions and other liabilities	(80)
Net assets acquired	**168**
Goodwill (Note 13)	1,118
Purchase consideration	**1,286**
Net cash outflow arising from the acquisition	1,021

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08

Related party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2022 and at 31 December 2021 are provided below. The ownership structure is disclosed in Note 1.

The following transactions were carried out with related parties:

	Relationship	2022	2021
CTF Holdings S.A.	Entity with significant influence over the Company		
Management services received		33	113
Other	Under control by the entity with significant influence over the Company		
Purchases from related parties		4,924	4,122
Other operating expenses		4	1
Bonuses from related parties		206	201
Other	Other		
Other operating expenses		–	44
Interest expenses		107	–
Variable rent		3	–

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

	Relationship	31 Dec 2022	31 Dec 2021
CTF Holdings S.A.	Entity with significant influence over the Company		
Other accounts payable		–	27
Other	Under control by the entity with significant influence over the Company		
Other receivables from related parties		52	45
Trade accounts payable		872	759
Trade accounts receivable		–	23
Other accounts payable		–	50
Other	Other		
Advances		–	26
Other accounts payable		–	4

Notes to the consolidated financial statements

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08

Related party transactions

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Group considers all members of the Management Board, Executive Board and the Supervisory Board to be key management personnel as defined in IAS 24 Related Party Disclosures. The total direct compensation for members of the Management Board and other key management personnel consists of a base salary and a performance related short-term incentive as well as, for the CEO and other key management personnel, a performance related long-term incentive. Members of the Supervisory Board receive a fixed annual remuneration in cash and equity-based payments.

Total compensation of the Management Board and other key management personnel was as follows:

	2022	2021
Short-term employee benefits	1,158	824
Long-term employee benefits	458	538
Social security costs	232	196
Total	1,848	1,558

Total compensation of the Supervisory Board was as follows:

	2022	2021
Short-term renumerations	153	109
Equity-based compensation	13	89
Total	166	198

As at 31 December 2022 the total number of outstanding conditional rights awarded to members of the Supervisory Board (Note 29) under the Phantom Stock Unit Plan was 38,925 (31 December 2021: Nil) and under Restricted Stock Unit Plan 23,248 (31 December 2021: 120,448).

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2022 and 31 December 2021, the Group did not record any material expected credit loss provisions for trade and other receivables nor did it recognise any impairment provisions for prepayments.

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09

Cash and cash equivalents, short-term financial investments

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

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

Short-term financial investments at 31 December 2022 and 31 December 2021 represent irrevocable bank deposits in Russian Roubles with maturity not more than a year that earn interest income at the rates in the range of 8.0%–9.0% per annum.

	31 December 2022	31 December 2021
Bank current account – Roubles	14,336	2,733
Bank current account – other currencies	1,577	49
Cash in transit – Roubles	17,457	14,997
Cash in hand – Roubles	9,759	8,278
Deposits – Roubles	126	5
Total	**43,255**	**26,062**

	31 December 2022	31 December 2021
Short-term financial investments	50,067	50,092
Total	**50,067**	**50,092**

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10

Property, plant and equipment

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress[1]	Total
COST							
At 1 January 2021	316,545	65,987	72,728	25,673	59,090	7,274	547,297
Additions	–	–	–	–	–	79,716	79,716
Transfers	31,764	16,375	11,208	5,795	13,140	(78,282)	–
Disposals	(7,360)	(5,536)	(4,098)	(921)	(3,835)	(282)	(22,032)
At 31 December 2021	340,949	76,826	79,838	30,547	68,395	8,426	604,981
Additions	–	–	–	–	–	56,258	56,258
Transfers	18,548	10,400	6,454	4,468	9,553	(49,423)	–
Transfer to investment property	(1,605)	–	–	–	–	–	(1,605)
Assets from acquisitions	697	815	663	64	408	34	2,681
Disposals	(11,858)	(3,689)	(2,386)	(1,671)	(2,619)	(115)	(22,338)
At 31 December 2022	**346,731**	**84,352**	**84,569**	**33,408**	**75,737**	**15,180**	**639,977**

1 This category also includes machinery and equipment, refrigerating equipment, vehicles and other items of property, plant and equipment not yet available for use.

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Property, plant and equipment

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress[1]	Total
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2021	(114,675)	(29,788)	(31,974)	(11,513)	(36,480)	(160)	(224,590)
Depreciation charge	(28,408)	(10,709)	(9,513)	(4,044)	(10,865)	–	(63,539)
Impairment charge	(3,160)	(872)	(585)	(27)	(196)	(131)	(4,971)
Reversal of impairment	1,829	9	4	22	2	–	1,866
Disposals	4,539	5,161	3,946	808	3,745	198	18,397
At 31 December 2021	(139,875)	(36,199)	(38,122)	(14,754)	(43,794)	(93)	(272,837)
Depreciation charge	(29,678)	(11,789)	(9,842)	(4,917)	(11,295)	–	(67,521)
Impairment charge	(4,766)	(567)	(300)	–	(234)	(81)	(5,948)
Reversal of impairment	1,043	–	–	–	–	–	1,043
Transfer to investment property	911	–	–	–	–	–	911
Disposals	10,351	3,424	2,246	1,394	2,457	115	19,987
At 31 December 2022	**(162,014)**	**(45,131)**	**(46,018)**	**(18,277)**	**(52,866)**	**(59)**	**(324,365)**
Net book value at 31 December 2022	**184,717**	**39,221**	**38,551**	**15,131**	**22,871**	**15,121**	**315,612**
Net book value at 31 December 2021	201,074	40,627	41,716	15,793	24,601	8,333	332,144
Net book value at 1 January 2021	201,870	36,199	40,754	14,160	22,610	7,114	322,707

1 This category also includes machinery and equipment, refrigerating equipment, vehicles and other items of property, plant and equipment not yet available for use.

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Property, plant and equipment

Depreciation charge, impairment charge and reversal of impairment were included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2022 and 31 December 2021.

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

The buildings are mostly located on leased land. No loans were collateralised by land and buildings including investment property as of 31 December 2022 and 31 December 2021.

Impairment test

At the end of 2022 management performed an impairment test of property, plant and equipment, right-of-use assets, other intangible assets and investment property. The approach for determination of the recoverable amount of an asset was different for each class of property, plant and equipment, right-of-use assets, other intangible assets and investment property.

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

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

The resulting impairment charge arose primarily from underperforming stores and Karusel transformation. At the same time the Group recognised the reversal of previously recorded impairment charges due to improved performance of certain stores. Due to the great number of CGUs being tested for impairment it is considered impracticable to disclose detailed information for each individual CGU.

Fair value of land and buildings and construction in progress is determined by management internal specialists by reference to current observable prices on an active market subsequently adjusted for specific characteristics of respective assets. The fair value measurement of these assets is classified at level 3 of the fair value hierarchy.

Value in use

For property, plant and equipment, right-of-use assets, other intangible assets and investment property the discounted future cash flow approach is applied and covers a 10-year period from 2023 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan is extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4.00% to 6.91% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2021: 4.00% to 7.86%). For the years beyond the forecast period the long-term consumer price index forecast of 4.00% at 31 December 2022 is used (31 December 2021: 4.00%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 15.92% (31 December 2021: 13.39%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions. If the revised estimated discount rate consistently applied to the discounted cash flows had been 200 b.p. higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment, right-of-use assets, investment property and intangible assets by RUB 1,994 (31 December 2021: RUB 1,544), if 200 b.p. lower – increase by RUB 1,581 (31 December 2021: RUB 1,198). If the annual revenue growth rate used in calculations of value in use had been 200 b.p. higher, the Group would need to increase the carrying value of property, plant and equipment, right-of-use assets, investment property and intangible assets by RUB 157 (31 December 2021: RUB 809), lower – decrease by RUB 164 (31 December 2021: RUB 1,026).

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11

Leases

Group as a lessee

The Group has lease contracts for land and buildings used in its operations. Leases of land and buildings generally have fixed lease terms between 5 and 45 years and contain extension options provided by the law. However vast majority of lease contracts include cancellation options on 2–12 months' notice.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets (land and buildings)	Lease liabilities
At 1 January 2022	**502,325**	**(577,363)**
Additions	64,489	(64,059)
Acquisition of businesses (Note 7)	22,635	(22,467)
Depreciation expense	(75,958)	–
Impairment charge	(3,239)	–
Reversal of impairment	1,788	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(3,497)	6,048
Interest accrued	–	(49,880)
Payments	–	115,894
Effect of changes in foreign exchange rates	–	667
At 31 December 2022	**508,543**	**(591,160)**

	Right-of-use assets (land and buildings)	Lease liabilities
At 1 January 2021	480,511	(548,501)
Additions	96,964	(96,555)
Acquisition of businesses (Note 7)	3,928	(3,928)
Depreciation expense	(74,601)	–
Impairment charge	(1,596)	–
Reversal of impairment	966	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(3,847)	6,787
Interest accrued	–	(40,572)
Payments	–	105,182
Effect of changes in foreign exchange rates	–	224
At 31 December 2021	502,325	(577,363)

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11

Leases

The expenses related to short-term leases for the year ended 31 December 2022 amounted to RUB 100 (31 December 2021: 97). The expense related to variable lease payments not included in the measurement of lease liabilities for the year ended 31 December 2022 amounted to RUB 19,825 (31 December 2021: 14,444). Variable lease payments are mainly linked to sales generated from a store. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base.

The total cash outflow for leases for the year ended 31 December 2022 amounted to RUB 135,546 (2021: RUB 119,238).

Maturity analysis of the lease liabilities is disclosed in the Note 31.

As at 31 December 2022 potential future cash outflows of RUB 3,529 (undiscounted) (31 December 2021: 3,134) have not been included in the lease liability because it was assessed reasonably certain that the leases will be terminated.

In an ordinary course of the business the Group constantly arranges for leases of new premises and land. As at 31 December 2022 and 31 December 2021 the Group had a certain number of leases to which the Group was committed but the lease did not commence. The Group assesses that the amount of future cash outflows to which the lessee is potentially exposed is not significant.

In 2022 the Group completed a sale and leaseback transaction in respect of a number of stores located in Bashkortostan. The cash proceeds amounted to RUB 970 recognised in the consolidated statement of cash flows, the loss from sale amounted to RUB 25 recognised in the consolidated statement of profit or loss for the year ended 31 December 2022. When measuring the lease liability, the Group included fixed lease payments per lease agreement and the estimate of variable payments calculated as a percentage of the expected revenue generated from the leased asset. The lease term of the leaseback was 14 years.

In 2021 the Group completed a sale and leaseback transaction in respect of a store located in Saint-Petersburg. The cash proceeds amounted to RUB 594 recognised in the consolidated statement of cash flows and gain amounted to RUB 124 recognised in the consolidated statement of profit or loss for the year ended 31 December 2021. When measuring the lease liability, the Group included fixed lease payments per lease agreement and the estimate of variable payments calculated as a percentage of the expected revenue generated from the leased asset. The lease term of the leaseback was 12 years.

Group as a lessor

The lease arrangements are operating leases, the majority of which are short-term. The future minimum lease and sublease payments receivable under operating leases were as follows:

	31 December 2022	31 December 2021
Within 1 year	3,382	2,928
Between 1 and 2 years	638	403
Between 2 and 3 years	432	329
Between 3 and 4 years	315	272
Between 4 and 5 years	212	138
Later than 5 years	364	418
Total	**5,343**	**4,488**

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2022 amounted to RUB 7,214 (2021: RUB 7,007) (Note 26). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2022 amounted to RUB 221 (2021: 202).

Income from subleasing right-of-use assets under operating lease agreement for the year ended 31 December 2022 amounted to RUB 2,763 (2021: RUB 2,618).

Impairment test

At the end of 2022 management performed an impairment test of right-of-use assets. The evaluation performed and reasons for it are consistent with the approach for impairment testing of Property, Plant and Equipment (Note 10).

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Investment properties

Depreciation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2022 and 31 December 2021.

The Group's investment properties consist of land and buildings. Rental income from investment property amounted to RUB 1,165 (2021: RUB 1,140). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 937 (2021: RUB 796). 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 2022 amounted to RUB 6,861 (31 December 2021: RUB 6,700). The fair value was estimated using market approach with key inputs being rent income rates and market value of comparable assets.

Impairment test

At the end of 2022 management performed an impairment test of investment property. The evaluation performed and reasons for it are consistent with the approach for impairment testing of Property, Plant and Equipment (Note 10).

The Group held the following investment properties at 31 December 2022 and 31 December 2021:

	2022	2021
COST		
Cost at 1 January	**7,909**	8,356
Transfer from fixed assets	1,605	–
Disposals	(467)	(447)
Cost at 31 December	**9,047**	7,909
ACCUMULATED DEPRECIATION AND IMPAIRMENT		
Accumulated depreciation and impairment at 1 January	**(3,448)**	(3,854)
Depreciation charge	(176)	(169)
Impairment charge	(483)	(65)
Reversal of impairment	251	408
Transfer from fixed assets	(911)	–
Disposals	293	232
Accumulated depreciation and impairment at 31 December	**(4,474)**	(3,448)
Net book value at 31 December	4,573	4,461
Net book value at 1 January	**4,461**	4,502

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13

Goodwill

Goodwill impairment test

For the purposes of impairment testing, goodwill is allocated to groups of cash-generating units (groups of CGUs) being store chains of each format and dark kitchens. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The group of CGUs to which goodwill has been allocated is tested for impairment annually or more frequently if there are indications that the particular group of CGUs might be impaired. Goodwill is tested for impairment at the group of CGUs level by comparing carrying values of particular group of CGU assets including allocated goodwill to their value in use. The Karusel group of CGUs started reorganisation in 2019. The reorganisation is expected to be finalised in 2023. The reorganisation resulted in disposal of goodwill allocated to Karusel in amount of RUB 6,567 and its accumulated impairment in the same amount and impairment charge for the year ended 31 December 2022 in amount of RUB 255 (2021: RUB 980).

Movements in goodwill arising on the acquisition of businesses at 31 December 2022 and 31 December 2021 were:

	2022	2021
COST		
Gross book value at 1 January	**172,099**	171,202
Acquisition of businesses (Note 7)	8,176	1,118
Disposal	(6,567)	(221)
Gross book value at 31 December	**173,708**	172,099
ACCUMULATED IMPAIRMENT LOSSES		
Accumulated impairment losses at 1 January	**(67,071)**	(66,312)
Impairment charge	(275)	(980)
Disposal	6,567	221
Accumulated impairment losses at 31 December	**(60,779)**	(67,071)
Carrying amount at 1 January	**105,028**	104,890
Carrying amount at 31 December	**112,929**	105,028

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Goodwill

Goodwill impairment test (continued)

Value in use

For items of land, buildings and construction in progress the discounted future cash flow approach is applied and covers a 10-year period from 2023 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4.00% to 6.91% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2021: 4.00% to 7.86%). For the years beyond the forecast period the long-term consumer price index forecast of 4.00% at 31 December 2022 is used (31 December 2021: 4.00%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 15.92% (31 December 2021: 13.39%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

The changes in assumptions applied in the model used for impairment testing do not indicate any trigger for impairment because the fair value less cost of disposal and the value in use are significantly higher than the carrying values of the cash generating unit assets.

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

The allocation of carrying amounts of goodwill to each group of CGUs was as follows:

	Pyaterochka	Perekrestok	Other	Total
31 December 2022				
Goodwill	81,258	23,334	8,337	112,929
31 December 2021				
Goodwill	80,756	23,334	938	105,028

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Other intangible assets

The majority of additions of software are represented with internally generated development costs. Brand and private labels includes brand "Pyaterochka" with the carrying amount of RUB 4,029 (31 December 2021: RUB 4,029), brand "Karusel" with the carrying amount of RUB 42 (31 December 2021: RUB 298) and brands "Krasny Yar", "Baton", "Slata", "KhlebSol" with the carrying amount of RUB 1,630.

Amortisation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2022 and 31 December 2021.

Impairment test

At the end of 2022 management performed an impairment test of brands.

For private labels the evaluation performed and reasons for it are consistent with the approach for impairment testing of property, plant and equipment (Note 10). For brands, which are tested annually for impairment, evaluation performed is consistent with the approach for goodwill (Note 13).

Also the Group recognised an impairment of software which was no longer used.

Other intangible assets comprise the following:

	Brand and private labels	Software and other	Total
COST			
At 1 January 2021	16,843	42,302	59,145
Additions	–	16,520	16,520
Acquisition of businesses (Note 7)	–	10	10
Disposals	–	(415)	(415)
At 31 December 2021	16,843	58,417	75,260
Additions	–	12,221	12,221
Assets from acquisitions	1,725	138	1,863
Disposals	–	(5,057)	(5,057)
At 31 December 2022	18,568	65,719	84,287
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2021	(12,439)	(15,949)	(28,388)
Amortisation charge	(76)	(7,846)	(7,922)
Impairment charge	–	(352)	(352)
Disposals	–	408	408
At 31 December 2021	(12,515)	(23,739)	(36,254)
Amortisation charge	(352)	(10,291)	(10,643)
Impairment charge	–	(3,918)	(3,918)
Disposals	–	4,855	4,855
At 31 December 2022	(12,867)	(33,093)	(45,960)
Net book value at 31 December 2022	5,701	32,626	38,327
Net book value at 31 December 2021	4,328	34,678	39,006
Net book value at 1 January 2021	4,404	26,353	30,757

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Inventories

At 31 December 2022 inventories in the amount of RUB 208,661 were accounted at the lower of cost and net realisable value (31 December 2021: RUB 166,840). Write-off of inventory to net realisable value at 31 December 2022 amounted to RUB 2,877 (31 December 2021: RUB 3,021). At 31 December 2022 and 31 December 2021 inventories consisted mainly of goods for resale.

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Financial instruments by category

	31 December 2022	31 December 2021
FINANCIAL ASSETS AT AMORTISED COST		
Assets as per consolidated statement of financial position		
Short-term financial investments	50,067	50,092
Trade and other receivables excluding prepayments	15,462	15,338
Cash and cash equivalents	43,255	26,062
Total	108,784	91,492

	31 December 2022	31 December 2021
FINANCIAL LIABILITIES AT AMORTISED COST		
Liabilities as per consolidated statement of financial position		
Lease liabilities	591,160	577,363
Borrowings	234,532	294,338
Interest accrued	1,143	1,792
Trade, other current and non-current payables excluding statutory liabilities and advances	324,382	290,074
Total	1,151,217	1,163,567

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Trade, other accounts receivable and prepayments

	31 December 2022	31 December 2021
Trade accounts receivable	13,123	11,499
Other receivables	3,117	4,658
Allowance for expected credit losses of trade and other receivables	(778)	(819)
Total trade and other accounts receivable	**15,462**	15,338
Prepayments	4,631	4,327
Advances made to trade suppliers	2,076	1,086
Allowance for impairment of prepayments and advances	(787)	(561)
Total prepayments	**5,920**	4,852
Total	**21,382**	20,190

The carrying amounts of the Group's trade and other receivables were primarily denominated in Russian Roubles. Trade receivables and other receivables are non-interest bearing and are generally on terms of 30 to 90 days.

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Trade, other accounts receivable and prepayments

Trade receivables

Trade receivables are mainly bonuses from suppliers of goods for resale with a low historic default rate. The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable. The Group did not hold any collateral as security.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Expected credit loss rate at 31 December 2022	Estimated total gross carrying amount at default 31 December 2022	Expected credit loss 31 December 2022	Expected credit loss rate at 31 December 2021	Estimated total gross carrying amount at default 31 December 2021	Expected credit loss 31 December 2021
Not overdue – 1 month	0.16%	12,582	20	0.28%	11,018	31
1–6 months	2.80%	214	6	3.91%	256	10
6–12 months	40.32%	62	25	45.16%	62	28
Over 1 year	75.85%	265	201	71.17%	163	116
Total		13,123	252		11,499	185

Movements on the allowance for expected credit losses of trade receivables were as follows:

	2022	2021
At 1 January	**(185)**	(472)
Addition of allowance for expected credit losses	(308)	(110)
Release of allowance for expected credit losses	30	104
Trade receivables written off as uncollectable	211	293
At 31 December	**(252)**	(185)

The creation and release of the allowance for expected credit losses have been included in net impairment losses on financial assets in the consolidated statement of profit or loss.

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Trade, other accounts receivable and prepayments

Other receivables

The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable. The Group did not hold any collateral as security.

Set out below is the information about the credit risk exposure on the Group's other receivables using a provision matrix:

	Expected credit loss rate at 31 December 2022	Estimated total gross carrying amount at default 31 December 2022	Expected credit loss 31 December 2022	Expected credit loss rate at 31 December 2021	Estimated total gross carrying amount at default 31 December 2021	Expected credit loss 31 December 2021
Not overdue – 1 month	0.41%	1,930	8	0.85%	2,695	23
1–6 months	11.98%	668	80	9.07%	739	67
6–12 months	43.37%	83	36	44.12%	204	90
Over 1 year	92.20%	436	402	44.51%	1,020	454
Total		3,117	526		4,658	634

Movements on the allowance for expected credit losses of other receivables were as follows:

	2022	2021
At 1 January	(634)	(609)
Addition of allowance for expected credit losses	(270)	(356)
Release of allowance for expected credit losses	202	208
Trade receivables written off as uncollectable	176	123
At 31 December	(526)	(634)

The creation and release of the allowance for expected credit losses have been included in net impairment losses on financial assets in the consolidated statement of profit or loss.

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Trade, other accounts receivable and prepayments

Prepayments and advances made to trade suppliers

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

The individually impaired prepayments mainly related to debtors that expected financial difficulties or there was likelihood of the debtor's insolvency. It was assessed that a portion of the prepayments was expected to be recovered.

Movements on the allowance for expected credit losses of other receivables were as follows:

	2022	2021
At 1 January	**(561)**	(500)
Addition of allowance for prepayments and advances to trade suppliers impairment	(545)	(372)
Release of allowance for prepayments and advances to trade suppliers impairment	133	151
Prepayments and advances to trade suppliers written off as uncollectable	186	160
At 31 December	**(787)**	(561)

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VAT and other taxes receivable

	31 December 2022	31 December 2021
VAT receivable	8,794	8,462
Other taxes receivable	213	340
Total	**9,007**	**8,802**

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Provisions and other liabilities

	31 December 2022	31 December 2021
Other accounts payable and accruals	34,212	31,896
Accrued salaries and bonuses	28,266	26,153
Accounts payable for property, plant and equipment	15,837	16,191
Taxes other than income tax	37,872	21,261
Advances received	1,796	1,680
Payables to landlords	1,771	1,443
Provisions and liabilities for tax uncertainties (Note 35)	10,696	6,049
Total	**130,450**	**104,673**

There were no significant amounts of other payables to foreign counterparties as at 31 December 2022 and 31 December 2021.

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Contract liabilities

	31 December 2022	31 December 2021
Short-term contract liabilities		
Short-term contract liabilities related to loyalty programmes	3,487	2,146
Advances received from wholesales customers	42	40
Advances received from other customers	238	206
Total	**3,767**	**2,392**

Movements in short-term contract liabilities related to loyalty programmes comprise the following:

	2022	2021
At 1 January	**2,146**	**1,955**
Deferred during the year	11,949	2,146
Recognised at acquisition of businesses (Note 7)	26	–
Recognised as revenue during the year	(10,634)	(1,955)
At 31 December	**3,487**	**2,146**

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Borrowings

In December 2022 the Group issued RUB 20,000 exchange-registered corporate bonds series 002P-02 with 8.90% coupon rate with put-option in 2.5 years and RUB 14,000 exchange-registered corporate bonds series 002P-03 with 8.68% coupon rate with call-option in 2.25 years.

The weighted average effective interest rate on X5's total borrowings for the year ended 31 December 2022 comprised 8.64% per annum (year ended 31 December 2021: 6.56%).

All borrowings at 31 December 2022 are shown net of related transaction costs of RUB 129 which are amortised over the term of the loans using the effective interest method (31 December 2021: RUB 119). Borrowing costs capitalised for the year ended 31 December 2022 amounted to RUB 13 (for year ended 31 December 2021: RUB 24). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was approximate to weighted average effective interest rate for the period.

Change in total borrowings in amount of RUB 59,806 in 2022 equals to the proceeds from borrowings in amount of RUB 148,974, repayment of borrowings in amount of RUB 210,615 (the Consolidated Statement of Cash Flows), increase due to acquisitions during the year recorded as part of the purchase price allocation (Note 7) in the amount of RUB 1,819 and other non-cash movements in amount of RUB 70 plus amortisation of transaction costs in amount of RUB 86. Changes in lease liabilities which also form liabilities arising from financing activities are disclosed in the Note 11.

The Group had the following borrowings at 31 December 2022 and 31 December 2021:

		FAIR VALUE		CARRYING VALUE	
	Final maturity year[1]	2022	2021	2022	2021
CURRENT					
RUB Bonds X5 Finance series BO-07			5,023	–	5,000
RUB Bonds X5 Finance series 001P-06		–	9,920	–	9,999
RUB Bonds X5 Finance series 001P-05		–	5,017	–	4,999
RUB Bonds X5 Finance series 001P-10		–	9,875	–	9,998
RUB Bonds X5 Finance series 001P-07		–	4,967	–	4,999
RUB Bonds X5 Finance series BO-05	2023	9	–	9	–
RUB Bonds X5 Finance series BO-04		–	2,091	–	2,150
RUB Bonds X5 Finance series BO-06		–	1,201	–	1,201
RUB Bonds X5 Finance series 001P-11		–	9,726	–	9,994
RUB Bonds X5 Finance series 001P-08		–	4,915	–	4,998
RUB Bonds X5 Finance series 001P-09		–	4,915	–	4,998
RUB Bonds X5 Finance series 001P-01	2023	96	–	96	–
RUB Bonds X5 Finance series 001P-03	2023	51	–	48	–
RUB Bonds X5 Finance series 001P-12	2023	9,906	–	9,996	–
RUB Bonds X5 Finance series 001P-02	2023	7	–	8	–
RUB Bilateral Loans	2023	76,989	29,431	76,989	29,431
Total current borrowings		**87,058**	87,081	**87,146**	87,767

1 In case of the Group's Bonds – the next put/call option date.

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Borrowings

Change in total borrowings in amount of RUB 32,391 in 2021 equals to the proceeds from borrowings in amount of RUB 132,345, repayment of borrowings in amount of RUB 99,585 (the Consolidated Statement of Cash Flows) and other non-cash movements in amount of RUB 447 plus amortisation of transaction costs in amount of RUB 78. Changes in lease liabilities which also form liabilities arising from financing activities are disclosed in the Note 11.

In accordance with a few loan agreements, the Group maintains an optimal leverage ratio by tracking covenant: the maximum level of Net Debt/EBITDA pre-IFRS 16 (4.00/4.25 during 2 quarters after acquisition). At 31 December 2022 the Group complied with this covenant and Net Debt/EBITDA pre-IFRS 16 was equal to 1.02 (31 December 2021: 1.67). Metric EBITDA specified in all loan agreements is equal to EBITDA pre-IFRS 16 (for calculation please refer to Note 5).

		FAIR VALUE		CARRYING VALUE	
	Final maturity year[1]	2022	2021	2022	2021
NON-CURRENT					
RUB Bonds X5 Finance series BO-05		–	8	–	9
RUB Bonds X5 Finance series 001P-01		–	98	–	96
RUB Bonds X5 Finance series 001P-02		–	7	–	8
RUB Bonds X5 Finance series 001P-03		–	43	–	48
RUB Bonds X5 Finance series 001P-12		–	9,609	–	9,989
RUB Bonds X5 Finance series 002P-01	2024	9,860	9,951	9,992	9,998
RUB Bonds X5 Finance series 002P-02	2025	19,972	–	19,956	–
RUB Bonds X5 Finance series 002P-03	2025	13,930	–	13,969	–
RUB Bilateral Loans	2025	101,279	179,255	103,469	186,423
Total non-current borrowings		**145,041**	198,971	**147,386**	206,571
Total borrowings		**232,099**	286,052	**234,532**	294,338

1 In case of the Group's Bonds – the next put/call option date.

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Share capital

As at 31 December 2022 the Group had 190,000,000 authorised ordinary shares (31 December 2021: 190,000,000) of which 67,888,696 ordinary shares were outstanding (31 December 2021: 67,888,696) and 4,521 ordinary shares in amount of RUB 41 were held as treasury stock (31 December 2021: 4,521 ordinary shares in amount of RUB 41). The nominal par value of each ordinary share is EUR 1.

Dividends approved for distribution at the General Meeting in May 2021 have been paid in the amount of RUB 30,006 during the year ended 31 December 2021 (RUB 441.99 per share).

In December 2021 interim dividends proposed by the Supervisory Board for the nine months ended 30 September 2021 have been paid in amount of RUB 20,000 (RUB 294.60 per share).

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Earnings per share

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

Earnings per share were calculated as follows:

	2022	2021
Profit attributable to equity holders of the parent	45,199	42,738
Weighted average number of ordinary shares in issue	67,888,696	67,886,315
Effect of share options granted to employees, number of shares	–	1,801
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,888,696	67,888,116
Basic earnings per share for profit (expressed in RUB per share)	**665.78**	**629.55**
Diluted earnings per share for profit (expressed in RUB per share)	**665.78**	**629.54**

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Revenue

	2022			
	Pyaterochka	Perekrestok	Other segments	Total
Revenue from sale of goods through own stores (at a point of time)	2,089,270	385,025	87,798	2,562,093
Revenue from sale of goods through franchisees (at a point of time)	33,523	470	–	33,993
Revenue from wholesale of goods (at a point of time)	572	104	3,571	4,247
Revenue from other services (over time)	1,252	600	3,047	4,899
Total	2,124,617	386,199	94,416	2,605,232

	2021			
	Pyaterochka	Perekrestok	Other segments	Total
Revenue from sale of goods through own stores (at a point of time)	1,770,731	348,553	51,858	2,171,142
Revenue from sale of goods through franchisees (at a point of time)	22,946	389	–	23,335
Revenue from wholesale of goods (at a point of time)	372	1,596	3,558	5,526
Revenue from other services (over time)	969	562	3,285	4,816
Total	1,795,018	351,100	58,701	2,204,819

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Expenses by nature

	2022	2021
Cost of goods sold	1,893,469	1,580,063
Staff costs (Note 28)	248,368	218,948
Lease expenses (Note 11)	19,925	14,541
Depreciation, amortisation	153,950	145,554
Impairment of non-current assets	10,781	4,724
Other store costs	34,693	31,430
Utilities	54,147	47,935
Net impairment losses on financial assets	346	154
Other	74,460	67,775
Total	2,490,139	2,111,124

Other expenses included impairment of prepayments in amount to RUB 412 in 2022 (2021: RUB 221).

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

	2022	2021
Audit of financial statements	77	70
Other assurance services performed by other companies being part of external auditor's network	4	7
Non-audit services by other companies being part of external auditor's network	48	43
Total	129	120

In addition to the statutory audit of the financial statements the members of the group, comprising the external auditor entity in Russia, provided non-audit services in the areas of retail pricing proof and business trainings.

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Lease/sublease and other income

	2022	2021
Lease/sublease income (Note 11)	7,214	7,007
Income from sales of waste	8,391	8,412
Gain on derecognition of right-of-use assets and lease liabilities	2,551	2,940
Other	4,869	5,518
Total	23,025	23,877

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Finance income and costs

	2022	2021
Interest expense on lease liabilities	49,877	40,562
Interest expense on borrowings	22,535	16,412
Interest income	(5,248)	(154)
Other finance costs, net	1,253	409
Total	68,417	57,229

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Staff costs

Wages and salaries include expenses for outstaffing and outsourcing services. Wages and salaries in 2022 included expenses of RUB 2,171 related to the long-term incentive programme (LTI) for key employees, including members of the Management Board, other key management and other key employees (2021: RUB 2,535). The liability for LTI in amount of RUB 3,869 (including social security costs) was included in other non-current liabilities in the consolidated statement of financial position as at 31 December 2022 (31 December 2021: RUB 1,525) and in amount of RUB 105 (including social security costs) in provisions and other liabilities in the consolidated statement of financial position (31 December 2021: RUB 2,403).

Social security costs in 2022 included pension contributions amounted to RUB 35,178 (2021: RUB 32,052).

The number of employees as at 31 December 2022 amounted to 353,196 (31 December 2021: 340,928).

	2022	2021
Wages and salaries	194,883	171,225
Social security costs	53,472	47,634
Share-based payments expense	13	89
Total	248,368	218,948

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Share-based payments

Restricted Stock Unit Plan

Under the remuneration policy for members of the Supervisory Board, Supervisory Board members were entitled to annual awards of restricted stock units (RSUs) under the Group's Restricted Stock Unit Plan (RSU Plan). RSU awards to members of the Supervisory Board were not subject to performance criteria, and determined by the General Meeting of Shareholders.

Since the trading of X5 GDRs at the London Stock Exchange was suspended in March 2022, the General Meeting of Shareholders approved in its extraordinary meeting on 30 November 2022 a new phantom stock plan for eligible Supervisory Board members. The new plan replaces the RSU Plan that was terminated on 22 September 2022. In accordance with termination conditions under the RSU Plan, 46,704 RSUs vested and were settled in cash based on the X5 GDR value at the Moscow Exchange on 22 September 2022. a total number of 50,496 RSUs were forfeited during the year ended 31 December 2022.

For the remaining outstanding RSUs, the General Meeting of Shareholders approved the option to settle RSUs in cash upon vesting on the GDR value at Moscow Exchange or other Exchange where GDRs are primarily traded at the time of vesting.

At 31 December 2022 the carrying amount of liability related to RSU was RUB 24 (31 December 2021: Nil), the equity component was RUB 38 (31 December 2021: RUB 118). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding were as follows:

	2022		2021	
	Number of conditional rights	Weighted average fair value, RUB	Number of conditional rights	Weighted average fair value, RUB
Outstanding at the beginning of the period	**120,448**	**2,156.84**	116,479	2,025.96
Awarded during the period	–	–	47,319	2,243.40
Vested during the period	(46,704)	2,114.72	(39,643)	1,878,34
Forfeited during the period	(50,496)	2,167.29	(3,707)	2,127.76
Outstanding at the end of the period	**23,248**	**2,218.76**	120,448	2,156.84

Expenses recognised during the year for the RSU Plan were as follows:

	2022	2021
Equity settled RSU (benefit)/expenses	(3)	89
Cash settled RSU expenses	6	–
Total	3	89

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Share-based payments

Phantom Stock Unit Plan

Members of the Supervisory Board are entitled to annual awards of phantom stock units (PSUs) under the Group's Phantom Stock Unit Plan (PSU Plan) approved by the General Meeting of Shareholders on November 2022. PSUs awards to members of the Supervisory Board are not subject to performance criteria, and PSUs are converted into cash after a three-year vesting period.

During the year ended 31 December 2022 a total number of 38,925 PSUs were awarded under tranche 1 of the PSU Plan and will vest in 2025.

In total during the year ended 31 December 2022 the Group recognised expense related to the PSU Plan in the amount of RUB 10 (expense during the year ended 31 December 2021: Nil).

At 31 December 2022 the carrying amount of liability related to PSU was RUB 10 (31 December 2021: Nil). The fair value of services received in return for the conditional PSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding were as follows:

	2022		2021	
	Number of conditional rights	Weighted average fair value, RUB	Number of conditional rights	Weighted average fair value, RUB
Outstanding at the beginning of the period	**–**	**–**	–	–
Awarded during the period	38,925	1,049.50	–	–
Outstanding at the end of the period	**38,925**	**1,049.50**	–	–

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Income tax

	2022	2021
Current income tax charge	21,186	22,190
Deferred income tax charge / (benefit)	1,295	(4,186)
Income tax charge for the year	**22,481**	18,004

As at 31 December 2022 37 Russian subsidiaries of the Group were the members of the CGT (consolidated group of taxpayers) with X5 Corporate Center LLC acting as a responsible CGT member. At 1 January 2023 the CGT agreement was terminated and the former members of the CGT started accounting for income tax on standalone basis.

The theoretical and effective tax rates are reconciled as follows:

	2022	2021
Profit before taxation	**67,669**	60,742
Theoretical tax at the effective statutory rate[1]	**13,534**	12,148
Tax effect of items which are not deductible or assessable for taxation purposes		
Current tax on dividends distributed by the Group's subsidiaries	–	5,305
Change in deferred tax liability associated with investments in subsidiaries	–	(1,580)
Expenses on inventory shortage	400	337
Unrecognised tax loss carry forwards for the year	16	153
Effect of income taxable at rates different from standard statutory rates	(6)	14
Adjustments in respect of current income tax of previous years	1,600	–
Deferred tax expenses arising from deferred tax asset write down	1,599	–
Other non-deductible expense	5,338	1,627
Income tax charge for the year	**22,481**	18,004

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

Notes to the consolidated financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Income tax

Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were attributable to the following items for the year ended 31 December 2022:

	1 January 2022	Credited / (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2022
TAX EFFECTS OF DEDUCTIBLE TEMPORARY DIFFERENCES AND TAX LOSS CARRY FORWARDS				
Tax losses available for carry forward	5,369	(2,675)	–	2,694
Right-of-use assets and lease liabilities	20,115	697	128	20,940
Property, plant and equipment and investment property	333	309	–	642
Other intangible assets	53	111	–	164
Inventories	2,426	133	20	2,579
Accounts receivable	31	239	–	270
Accounts payable	10,487	2,802	103	13,392
Other	437	261	5	703
Gross deferred tax assets	**39,251**	**1,877**	**256**	**41,384**
Less offsetting with deferred tax liabilities	(16,204)	2,430	(128)	(13,902)
Recognised deferred tax assets	**23,047**	**4,307**	**128**	**27,482**

	1 January 2022	Credited / (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2022
TAX EFFECTS OF TAXABLE TEMPORARY DIFFERENCES				
Right-of-use assets and lease liabilities	(53)	3	(29)	(79)
Property, plant and equipment and investment property	(8,404)	(3,233)	(217)	(11,854)
Investments into subsidiary	–	–	–	–
Other intangible assets	(6,806)	397	(288)	(6,697)
Inventories	–	(10)	–	(10)
Accounts receivable	(1,698)	(50)	(18)	(1,766)
Accounts payable	(2)	(338)	–	(340)
Other	(169)	59	–	(110)
Gross deferred tax liabilities	**(17,132)**	**(3,172)**	**(552)**	**(20,856)**
Less offsetting with deferred tax assets	16,204	(2,430)	128	13,902
Recognised deferred tax liabilities	**(928)**	**(5,602)**	**(424)**	**(6,954)**

Notes to the consolidated financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Income tax

Deferred income tax (continued)

The temporary differences associated with investments in the Group's subsidiaries, for which a deferred tax liability was not recognised at 31 December 2022 amounted to RUB 35,252 (2021: Nil).

Management believes that the future taxable profits in tax jurisdictions that suffered a loss in the current or preceding years will be available to utilise the deferred tax asset of RUB 2,694 recognised at 31 December 2022 for the carry forward of unused tax losses (31 December 2021: RUB 5,369).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards at 31 December 2022 of RUB 7,984 (31 December 2021: RUB 3,206). At 31 December 2022 and 31 December 2021 unused tax losses had no time restrictions for carry forward.

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were attributable to the following items for the year ended 31 December 2021:

	1 January 2021	Credited / (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2021
TAX EFFECTS OF DEDUCTIBLE TEMPORARY DIFFERENCES AND TAX LOSS CARRY FORWARDS				
Tax losses available for carry forward	5,487	(118)	–	5,369
Right-of-use assets and lease liabilities	18,506	1,365	244	20,115
Property, plant and equipment and investment property	276	57	–	333
Other intangible assets	52	1	–	53
Inventories	2,293	133	–	2,426
Accounts receivable	27	4	–	31
Accounts payable	7,997	2,490	–	10,487
Other	396	41	–	437
Gross deferred tax assets	**35,034**	**3,973**	**244**	**39,251**
Less offsetting with deferred tax liabilities	(14,576)	(1,628)	–	(16,204)
Recognised deferred tax assets	**20,458**	**2,345**	**244**	**23,047**

	1 January 2021	Credited / (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2021
TAX EFFECTS OF TAXABLE TEMPORARY DIFFERENCES				
Right-of-use assets and lease liabilities	(11)	(42)	–	(53)
Property, plant and equipment and investment property	(9,559)	1,155	–	(8,404)
Investments into subsidiary	(1,580)	1,580	–	–
Other intangible assets	(4,880)	(1,926)	–	(6,806)
Accounts receivable	(1,149)	(549)	–	(1,698)
Accounts payable	(4)	2	–	(2)
Other	(162)	(7)	–	(169)
Gross deferred tax liabilities	**(17,345)**	**213**	**–**	**(17,132)**
Less offsetting with deferred tax assets	14,576	1,628	–	16,204
Recognised deferred tax liabilities	**(2,769)**	**1,841**	**–**	**(928)**

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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 the Group's centralised Finance Department. The Finance Department monitors and measures financial risks and undertakes steps to limit their influence on the Group's performance.

(a) Market risk

Currency risk

Group is exposed to foreign exchange risk arising from foreign currency denominated assets and liabilities with respect to import purchases and lease liabilities mainly in USD and EUR. As at 31 December 2022 the Group had trade accounts payable denominated in USD in the amount of RUB 8,140, in EUR in the amount of RUB 2,307 and in CNY in the amount of RUB 354 (31 December 2021: denominated in USD in the amount of RUB 7,351 and in EUR in the amount of RUB 2,101) and leases denominated in USD in the amount of RUB 4,523 and in EUR in the amount of RUB 2,532 (31 December 2021: denominated in USD in the amount of RUB 7,028 and in EUR in the amount of RUB 3,506). As at 31 December 2022 the Group did not have any other significant assets and liabilities denominated in foreign currency and the exposure for the Group was estimated as not significant.

Interest rates risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As at 31 December 2022 the Group had no floating interest-bearing assets (31 December 2021: Nil), but had 4% (31 December 2021: 16%) share of borrowings with floating interest rates based on the Key rate of the Central Bank of the Russian Federation.

If the Key rate had been 100 b.p. higher the profit before tax for the year ended 31 December 2022 would have been RUB 85 lower. If the Key rate had been 100 b.p. lower the profit before tax for the year ended 31 December 2022 would have been RUB 85 higher. The Group's income and operating cash inflows were largely independent of changes in market interest rates but part of The Group's interest expenses was marginally exposed to changes in market interest rates.

(b) Credit risk

Financial assets, which are potentially subject to credit risk, consisted principally of cash and cash equivalents and short-term financial investments 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 had no significant concentration of credit risk. Cash was placed in financial institutions which were considered at the time of deposit to have low risk of default (Note 9).

The Group has policies in place to ensure that in case of credit sales of products and services to wholesale customers and reverse franchise schemes only those counteragents with an appropriate credit history are selected. Although collection of receivables could be influenced by economic factors, management believes that there was no significant risk of loss to the Group beyond the allowance already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits were continually monitored and no individual exposure was considered significant.

(c) Liquidity risk

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

The Group finances its operations by a combination of cash flows from operating activities and long-term 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 lines/limits, and a strong credit rating so that maturing debt may be refinanced as it falls due.

Notes to the consolidated financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Financial risk management

(c) Liquidity risk (continued)

At 31 December 2022 the Group had net current liabilities of RUB 198,625 (31 December 2021: RUB 206,373) including short-term borrowings of RUB 87,146 (31 December 2021: RUB 87,767). At 31 December 2022 the Group had available bank credit lines of RUB 475,020 (31 December 2021: RUB 482,263). At 31 December 2022 the Group had RUB registered bonds programme available for issue on MOEX of RUB 156,000 (31 December 2021: RUB 190,000).

Management regularly monitors the Group's operating cash flows and available credit lines/limits to ensure that these are adequate to meet the Group's ongoing obligations and its expansion programmes. Part of the existing lines is provided on rolling basis which is closely monitored by detailed cash flow forecasts and are managed by the Corporate Finance Department.

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

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

The Group has assessed the impact of climate related matters on its financial statements as not material.

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

YEAR ENDED 31 DECEMBER 2022	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	122,886	418,196	318,224
Borrowings	104,323	157,776	–
Trade payables	238,641	–	–
Other financial liabilities	80,086	5,655	–
Total	**545,936**	**581,627**	**318,224**

YEAR ENDED 31 DECEMBER 2021	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	111,953	389,062	289,176
Borrowings	107,339	223,397	–
Trade payables	212,949	–	–
Other financial liabilities	75,683	1,442	–
Total	507,924	613,901	289,176

Notes to the consolidated financial statements

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

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Operating environment of the Group

Since late February 2022 the aggravation of geopolitical tensions and the conflict related to Ukraine had a negative impact on the economy of the Russian Federation.
The European Union, the United States and a number of other countries imposed new sanctions against certain entities and individuals in Russia. Some international companies announced the suspension of activities in Russia or the termination of the supply of products to Russia. This led to increased volatility in the stock and currency markets. In response to increased volatility in financial markets and rising inflation risks, the Central Bank of Russian Federation raised its key rate to 20% at an extraordinary meeting in February 2022. Subsequently, the key rate was gradually lowered to 7.5%.

The future stability of the Russian economy is largely dependent upon the impact of the sanctions being imposed. Should the economy be in a long-term recession after the sanctions, that may affect the Group's financial position, cash flows and results of operations.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

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Capital risk management

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

In accordance with a few loan facilities the Group maintains an optimal leverage ratio by tracking covenant: the maximum level of Net Debt/EBITDA pre-IFRS 16 (4.00/4.25 during two quarters after acquisition). Net debt is calculated as the sum of short-term and long-term borrowings less cash and cash equivalents. Reconciliation of EBITDA pre-IFRS 16 to operating profit is presented in Note 5. This ratio is included as covenants into some of Group's loan agreements (Note 21). At 31 December 2022 and 31 December 2021 the Group complied with the requirements under the loan facilities.

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Fair value of financial instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

The carrying amount of cash and cash equivalents and trade and other financial receivables approximates their fair value.

Liabilities carried at amortised cost

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

The fair value of bonds traded on the MOEX and the SE is determined based on active market quotations and amounted to RUB 53,831 at 31 December 2022 (31 December 2021: RUB 77,366). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 54,074 at 31 December 2022 (31 December 2021: RUB 78,484) (Note 21). The fair value of long-term borrowings amounted to RUB 101,279 at 31 December 2022 (31 December 2021: RUB 179,255). The measurement is classified in level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using interest rate of similar instruments available on the market. The sensitivity analysis shows that the increase/decrease of the market interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 1,304 at 31 December 2022 (31 December 2021: RUB 2,470). The fair value of short-term borrowings was not materially different from their carrying amounts.

Notes to the consolidated financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Commitments and contingencies

Capital expenditure commitments

At 31 December 2022 the Group contracted for capital expenditure for the acquisition of property, plant and equipment and intangible assets of RUB 4,540 (net of VAT) (31 December 2021: RUB 7,659).

Legal contingencies

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued at 31 December 2022.

Tax contingencies, commitments and risks

Russian tax, customs, and currency legislation allows for various interpretations and is subject to frequent amendments. Relevant regional and federal authorities can challenge the Group management interpretation of legislation provisions in the context of the Group's transactions and operations. The Group includes companies incorporated outside Russia. These companies are subject to tax at the rates prescribed by the legislation of the jurisdiction where the companies are tax residents. According to the Russian legislation, foreign companies of the Group are not subject to profit tax except for cases of withholding tax (i.e. dividends, interest, capital gain, etc.), since tax obligations of the foreign companies of the Group are determined on the assumption that the foreign companies of the Group are not Russian tax residents.

The Russian transfer pricing legislation is to the large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. Starting from 1 January 2019, a significant number of domestic transactions was excluded from the transfer pricing control in Russia. Only transactions between Russian companies that apply different tax rates on profits or special tax regimes are subject to the rules, and only if income from those transactions exceeds RUB 1 billion per year. Moreover, starting from 1 January 2022, a threshold of RUB 120 million applies for cross-border transactions to be classified as controlled for transfer pricing purposes.

Recent trends of interpretation and application of particular provisions of the Russian tax legislation highlight the fact that tax authorities can enter the more rigid position with regards to the interpretation of the legislation and tax calculations. Therefore, tax authorities can dispute lawfulness of transactions and accounting methods that were previously out of question. As a result, material additional taxes, penalties and fines can be charged. It is impossible to forecast the amount of potential claims and to evaluate the probability of an unfavourable outcome. Generally, tax audits can cover three calendar years preceding the year in which the decision on the performance of audit is adopted. In certain circumstances a tax audit can cover earlier tax periods.

In May 2021 the Federal Law on denunciation of the Double Tax Treaty (DTT) with the Netherlands was adopted, as a result respective DTT expired starting from 2022. These changes do not apply retrospectively to income paid prior to 2022.

MLI standards came into effect on 1 January 2021. The MLI requires the setting of minimum standards – rules that must be observed in order to benefit from reduced rates under a tax treaty. The Russian Federation adopted the following standards:

- The principal purpose test (PPT); and
- Simplified limitation on benefits (sLoB).

The principal purpose test means that tax treaty benefits may not be applied if obtaining them was the principal purpose of a transaction.

The simplified limitation on benefits means that reduced rates under a tax treaty may be enjoyed only by "qualified persons" (individuals, a state or political subdivision thereof, public companies, pension funds, non-profit organizations, etc.) and other persons who are not "qualified persons" if they carry on "active business" and the income received is connected to that business. The term "active business" does not include activities of holding companies, intra-group financing, making or managing investments (except for professional participants in the market), etc.

It follows from the above that where income is paid to a foreign company which qualifies for reduced rates or exemption from taxation only on the basis of the provisions of a tax treaty with a specific state, it is essential to ensure compliance both with local law and with the provisions of the MLI as a document that regulates the application of DTTs between specific countries.

Notes to the consolidated financial statements

for the year ended 31 December 2022
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Commitments and contingencies

Tax contingencies, commitments and risks (continued)

In the first half of 2022 the Russian authorities took an array of measures meant to support the population and businesses due to the impact of economic sanctions imposed on the Russian Federation in response to the military operation initiated on 24 February 2022, including a number of tax initiatives which are aimed to shield the business and relevant to the Group:

- Right to make income tax instalment payment for March 2022 one month later, i.e. on April 28, 2022;
- Right to pay contributions to social funds for second and third quarters of 2022 one year later (in 2023 for 2022);
- Reducing of late tax payment interest rate (1/300 instead of 1/150 of the Central Bank of the Russian Federation refinancing rate applied for each day of late tax payment during the period from 9 March 2022 to 31 December 2023);
- Availability of accelerated (before desk tax audit is ended) VAT refund without presenting a bank guarantee;

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 not only for the periods open for tax audit but also for which the three years' tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist.

Management estimates that possible exposure in relation to the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times more than 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.

Notes to the consolidated financial statements

for the year ended 31 December 2022
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Subsequent events for the Group

In April 2023 the Group acquired 100% of LLC Tamerlan operating 295 retail stores in the Southern Federal District and the Stavropol Territory of Russia.

X5 Retail Group N.V.

Company Statement of Financial Position

at 31 December 2022
Before appropriation of profit
expressed in millions of Russian Roubles, unless otherwise stated

Igor Shekhterman

CHIEF EXECUTIVE OFFICER

31 May 2023

	Note	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Financial fixed assets	38	172,552	75,516
Other non-current assets		6	9
Deferred tax assets	43	–	379
		172,558	75,904
Current assets			
Amounts due from group companies		3,339	3,549
Prepaid expenses		20	8
Other receivables		20	50,627
· Short-term financial investments	9	–	50,092
· Other		20	535
Cash and cash equivalents		1,378	5
		4,757	54,189
Total assets		**177,315**	130,093
EQUITY AND LIABILITIES			
Paid up and called up share capital	39	5,136	5,707
Share premium account	39	46,127	46,127
Share-based payment reserve	39, 41	–	118
Translation reserve	39	(2,678)	(3,249)
Other capital reserve	39	(2,166)	–
Retained earnings, excluding undistributed profit for the year	39	38,926	–
Undistributed profit for the year	39	45,199	38,926
Total equity		**130,544**	87,629

	Note	31 December 2022	31 December 2021
Non-current liabilities			
Loans from group companies	40	–	1,829
Other non-current liabilities		21	–
		21	1,829
Current liabilities			
Loans from group companies	40	–	446
Amounts due to group companies		46,006	39,698
Accrued expenses and other liabilities		459	491
Current income tax		285	–
		46,750	40,635
Total liabilities		**46,771**	42,464
Total equity and liabilities		**177,315**	130,093

The financial statements are unaudited

X5 Retail Group N.V.

Company Statement of Profit or Loss

for the year ended 31 December 2022

expressed in millions of Russian Roubles, unless otherwise stated

Igor Shekhterman

CHIEF EXECUTIVE OFFICER

31 May 2023

	Note	31 December 2022	31 December 2021
Other income		203	877
General and administrative expenses	42	(594)	(817)
Operating (loss)/profit		**(391)**	**60**
Finance income		2,788	885
Finance costs		(64)	(347)
Net foreign exchange loss		(674)	(5)
Profit before tax		**1,659**	**593**
Withholding tax	43	–	(4,097)
Income tax (expense)/benefit	43	(635)	1,967
Share of income on participating interest after tax	38	44,175	44,275
Profit for the year		**45,199**	**42,738**

The financial statements are unaudited

Notes to the Company financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Accounting principles

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 holding company for retail chains operating mainly in Russia. The Company is registered with the Amsterdam Chamber of Commerce under number 33143036.

Basis of presentation

The Company's financial statements have been prepared in accordance with the provisions of Part 9 of Book 2 of the Dutch Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of IFRS as adopted by the EU as explained in the notes to the consolidated financial statements.

Accounting principles

Unless stated otherwise below, the accounting principles applied for the Company accounts are similar to those used in the IFRS Consolidated Financial Statements (refer to Note 2 in the Consolidated Financial Statements). The consolidated accounts of companies publicly listed in the European Union must be prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and adopted by the European Commission.

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

Investments in group companies

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

The Company applies the acquisition method to account for acquired 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 remeasured to its fair value, with the change in carrying amount to be accounted for in the statement of profit or loss. When parts of investments in group companies are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognised in equity.

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

Amounts due from group companies

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

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

Financial guarantee

At initial recognition the financial guarantees contracts are measured at the fair value.

On subsequent measurement financial guarantees contracts are measured at the 'higher of': The expected credit losses allowance as defined above, and the amount initially recognised (i.e. fair value) less any cumulative amount of income amortisation recognised.

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

Shareholders' equity

Issued and paid-up share capital, which is denominated in Euro, is restated into Russian Rouble ("RUB") at the official exchange rate of the Central Bank of the Russian Federation as at reporting date in accordance with section 2:373.5 of the Dutch Civil Code. The difference is settled in the translation reserve.

Notes to the Company financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Financial fixed assets

	31 December 2022	31 December 2021
Interests in group companies	172,223	74,954
Loans to group companies	329	562
Total financial fixed assets	**172,552**	**75,516**

A. MOVEMENTS IN THE INTERESTS IN GROUP COMPANIES HAVE BEEN AS FOLLOWS		
Balance as at 1 January	74,954	114,141
Acquisitions / capital contribution	56,065	9,002
Deinvestment of Group company	–	(404)
Change in equity of a subsidiary related to options for non- controlling interests' shares	(2,204)	–
Change in equity of a subsidiary as part of common control transaction	(767)	(6,583)
Change in equity of a subsidiary in the course of merge with parent	–	18,824
Change in equity of a subsidiary due to dividend distributions	–	(104,301)
Share of income on participating interest after tax	44,175	44,275
Balance as at 31 December	**172,223**	**74,954**

During 2022 the government of the Russian Federation imposed temporary restrictions on cross-border payment of dividends or similar capital distributions to a number of countries including the Netherlands. Under these restrictions such payments are subject to a preliminary government authorisation, leading to significant uncertainties with respect to future dividend distributions if and when declared and, as a consequence, impact on the valuation of investments into Russian subsidiaries. Based on its current assessment the Company believes that no impairment or derecognition of investments in group companies is needed.

The list of significant group companies was disclosed in the consolidated financial statements (please refer to Note 6 of the consolidated financial statements).

	31 December 2022	31 December 2021
B. MOVEMENTS IN THE LOANS TO GROUP COMPANIES WERE AS FOLLOWS		
Balance as at 1 January	562	11,090
Additions	58	287
Settlement/repayment	(291)	(395)
Offset as a part of merge with subsidiary[1]	–	(10,404)
Foreign exchange differences	–	(16)
Balance as at 31 December	**329**	**562**

1 In October 2021 the Company merged with its subsidiary Perekrestok Holdings B.V.

Notes to the Company financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Financial fixed assets

	31 December 2022			31 December 2021		
	Carrying value	Interest rate, % p.a.	Maturity date	Carrying value	Interest rate, % p.a.	Maturity date
LOANS TO GROUP COMPANIES						
RUB loans to group companies	7	6.50%	December 2025	105	7%	December 2024
RUB loans to group companies	105	7%	December 2024	283	8.5%	December 2024
RUB loans to group companies	216	8.5%	December 2025	1	10.50%	December 2023
RUB loans to group companies	1	10.50%	December 2024	173	10.50%	December 2024
Total loans to group companies	329			562		

The total amount of loans provided to group companies was RUB 329 (2021: RUB 562) and it approximated the fair value. The loans have not been secured.

Notes to the Company financial statements

for the year ended 31 December 2022
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Shareholders' equity

	Share capital[1]	Share premium	Share-based payment (equity)	Other capital reserves	Translation reserve	Retained earnings	Undistributed profit for the year	Total
COST								
Balance as at 1 January 2021	6,156	46,086	104	–	(3,698)	17,850	28,344	94,842
Value of employee services	–	–	89	–	–	–	–	89
Transfer	–	–	–	–	–	28,344	(28,344)	–
Currency translation	(449)	–	–	–	449	–	–	–
Transfer of vested and waived equity rights (Note 29)	–	41	(75)	–	–	–	–	(34)
Profit for the year	–	–	–	–	–	–	42,738	42,738
Dividends	–	–	–	–	–	(46,194)	(3,812)	(50,006)
Balance as at 1 January 2022	**5,707**	**46,127**	**118**	**–**	**(3,249)**	**–**	**38,926**	**87,629**
Value of employee services	–	–	(3)	–	–	–	–	(3)
Transfer	–	–	–	–	–	38,926	(38,926)	–
Currency translation	(571)	–	–	–	571	–	–	–
Purchase commitments for non-controlling interests' shares (Note 7)	–	–	–	(2,204)	–	–	–	(2,204)
Transfer to Other capital reserves	–	–	(38)	38	–	–	–	–
Modification of share-based payments	–	–	(77)	–	–	–	–	(77)
Profit for the year	–	–	–	–	–	–	45,199	45,199
Balance as at 31 December 2022	**5,136**	**46,127**	**–**	**(2,166)**	**(2,678)**	**38,926**	**45,199**	**130,544**

1 Share capital translated at the year-end exchange rate EUR/RUB of 75.6553 (2021: 84.0695).

Notes to the Company financial statements

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Shareholders' equity

As at 31 December 2022 total equity included the reserve for capitalised IT development costs in the amount of RUB 28,926 (31 December 2021: RUB 26,122). As at 31 December 2022 equity available for distribution of dividends to shareholders comprised RUB 96,482 (31 December 2021: RUB 55,682).

In view of the current market conditions, ongoing regulatory constraints, and consistent with last year's profit allocation, the Supervisory Board will recommend to X5's General Meeting of shareholders not to distribute a dividend for 2022. This recommendation is based on various factors, including the need to strengthen the Company's focus on supporting customers and suppliers to maintain a stable supply chain and keep store shelves sufficiently stocked. The Supervisory Board believes that meeting these priorities will require financial resources, and that all Company stakeholders will benefit in the long term from X5 strengthening its reputation as a reliable partner for both customers and suppliers. Regulatory constraints follow from regulations issued by Russian Government during 2022, temporarily restricting the possibility of cross-border payment of dividends or similar capital distributions to a jurisdiction that enacted sanctions against the Russian Federation. Whereas such restrictions apply to potential distributions to the Company from its Russian operating subsidiaries, such distributions to the Netherlands are in principle allowed with a waiver to be obtained from the Government. While the Company remains committed to its long-term goal of returning company profits to shareholders, the Supervisory Board believes it would be in the Company's best interest to temporarily deviate from its dividend policy as long as current uncertainties and regulatory conditions prevail.

Share capital issued

As at 31 December 2022 the Company had 190,000,000 authorised ordinary shares (31 December 2021: 190,000,000) of which 67,888,696 ordinary shares were outstanding (31 December 2021: 67,888,696) and 4,521 ordinary shares held as treasury stock (31 December 2021: 4,521). The nominal value of each ordinary share is EUR 1.

Statutory profit appropriation

On 12 May 2021, in addition to interim dividend RUB 19,997 (RUB 294.58 per share) that was declared and paid in 2020, the General Meeting of Shareholders approved the dividend for 2020 in the amount of RUB 30,006 (RUB 441.99 per share).

On 25 November 2021, the Company announced the interim dividend for 2021 in the amount of RUB 20,000 (RUB 294.60 per share), which was paid to shareholders in December 2021.

Notes to the Company financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Loans from group companies

	31 December 2021	Interest rate, % p.a.	Final maturity date
NON-CURRENT			
RUB loans from group companies	1,829	6.5%	December 2023
Total	1,829		

	31 December 2021	Interest rate, % p.a.	Final maturity date
CURRENT			
RUB loans from group companies	135	6.5%	December 2022
RUB loans from group companies	311	4%	December 2022
Total	446		

Loans from group companies were fully repaid in 2022. No collaterals were provided for the loans mentioned above as of December 2021.

Notes to the Company financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Share-based payments

Under the remuneration policy for members of the Supervisory Board, Supervisory Board members were entitled to annual awards of restricted stock units under the Group's Restricted Stock Unit Plan (RSU Plan). Since the trading of X5 GDRs at the London Stock Exchange was suspended in March 2022, the General Meeting of Shareholders approved in its extraordinary meeting on 30 November 2022 a new Phantom Stock Plan (PSU plan) for eligible Supervisory Board members. For the annual award under RSU and PSU plans for members of the Supervisory Board, please refer to Note 44 and to Note 29 in the consolidated financial statements, Note 29 is deemed incorporated and repeated herein by reference.

The following is included in the Company's statement of financial position for the Restricted Stock Unit and Phantom Stock Plans:

	31 December 2022	31 December 2021
Share-based payment reserve	–	118
Carrying amount of liability related to RSU	24	–
Carrying amount of liability related to PSU	10	–

The following is included in the Company's statement of profit and loss for the Restricted Stock Unit and Phantom Stock Plans:

	2022	2021
Equity settled RSU (benefit)/expenses	(3)	89
Cash settled RSU expenses	6	–
Cash settled PSU expenses	10	–

Notes to the Company financial statements

for the year ended 31 December 2022
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General and administrative expenses

	2022	2021
Key management renumeration (Note 44)	264	219
Other employee expenses	33	46
Other expenses	261	437
Audit expenses	23	26
RSU/PSU expenses	13	89
Total	594	817

Total fees as referred to in section 2:382a Dutch Civil Code, to be paid to audit firm Reanda Audit & Assurance B.V. amounted to RUB 23 (2021: to audit firm Ernst & Young Accountants LLP RUB 26).

During 2022 the average number of persons other than members of the Management Board and the Supervisory Board having an employment contract with the Company was nine (2021: nine).

Notes to the Company financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Income tax expense

	2022	2021
Current tax on dividends distributed by the Company's subsidiaries[1]	–	3,784
Current income tax charge	285	–
Deferred income tax charge/(benefit)	379	(1,654)
Adjustments for current tax of prior periods	(29)	–
Income tax charge for the year	**635**	**2,130**

1 During 2021 the Company received dividends of RUB 105,493 from Russian subsidiary (gross amount including current tax on dividends distributed by the Group's subsidiaries of RUB 5,305 (Note 30)).

Theoretical and effective tax rates are reconciled as follows:

	2022	2021
Profit before taxation	**1,659**	**593**
Theoretical tax at the effective statutory rate[2]	**428**	**148**
TAX EFFECT OF ITEMS WHICH ARE NOT DEDUCTIBLE OR ASSESSABLE FOR TAXATION PURPOSES		
Change in deferred tax liability associated with investments in subsidiaries	–	(1,844)
Current tax on dividends distributed by the Group's subsidiaries	–	3,784
Other non-deductible expense	161	54
Effect of change in tax rate on deferred taxes**	–	(12)
Deferred tax expenses arising from deferred tax asset write down	75	–
Adjustments for current tax of prior periods	(29)	–
Income tax charge for the year	**635**	**2,130**

2 Starting from 2022 profit before taxation on operations in the Netherlands is assessed based on the statutory rate of 25.8% (2021: 25%).

Notes to the Company financial statements

for the year ended 31 December 2022
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Income tax expense

Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge/(benefit) in the company statement of profit or loss were attributable to the following items for the year ended 31 December 2022:

	1 January 2022	Credited/ (debited) to profit and loss	31 December 2022
TAX EFFECTS OF DEDUCTIBLE TEMPORARY DIFFERENCES AND TAX LOSS CARRY FORWARDS			
Tax losses available for carry forward	379	(379)	–
Gross deferred tax assets	379	(379)	–
Recognised deferred tax assets	379	(379)	–

The Company estimated the temporary differences related to unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 3,206 (2021: RUB 2,917) and unused tax credits of RUB 4,986 (2021: RUB 4,996).

At 31 December 2022 and at 31 December 2021 temporary differences related to unrecognised potential deferred tax assets and unused tax credits had no time restrictions for carry forward.

Deferred tax assets, deferred tax liabilities and the deferred tax benefit in the Company statement of profit or loss were attributable to the following items for the year ended 31 December 2021:

	1 January 2021	Balance acquired in the course of merge with subsidiary	Credited/ (debited) to profit and loss	31 December 2021
TAX EFFECTS OF DEDUCTIBLE TEMPORARY DIFFERENCES AND TAX LOSS CARRY FORWARDS				
Tax losses available for carry forward	569	–	(190)	379
Gross deferred tax assets	569	–	(190)	379
Recognised deferred tax assets	569	–	(190)	379
TAX EFFECTS OF TAXABLE TEMPORARY DIFFERENCES				
Investments into subsidiary	(395)	(1,449)	1,844	–
Gross deferred tax liabilities	(395)	(1,449)	1,844	–
Recognised deferred tax assets	(395)	(1,449)	1,844	–

Notes to the Company financial statements

for the year ended 31 December 2022
(expressed in millions of Russian Roubles, unless otherwise stated)

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Key management personnel expenses

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Group considers all members of the Management Board, Executive Board and the Supervisory Board to be key management personnel as defined in IAS 24 Related Party Disclosures. The CEO and the President are the members of both the Management Board and the Executive Board.

At the end of 2022 the Executive Board consisted of eight members. The total direct compensation for the CEO, President and other Executive Board members consists of a base salary, a performance related annual cash incentive (STI) and a performance related long-term cash incentive (LTI). Members of the Supervisory Board receive an annual base compensation in cash and share-based payments.

Total compensation of key management personnel:

	2022	2021
Management Board and Executive Board	1,848	1,558
Supervisory Board	166	198
Total	2,014	1,756

Expenses recognised for remuneration of the members of the Management Board:

Name	Year	Base salary[2]	Short-term incentive[3]	Long-term incentive[4]	Extension bonus[5]	Social security cost[6]	Total
I. Shekhterman	2022	130	109	99	229	82	649
	2021	104	88	122	–	44	358
E. Lobacheva[1]	2022	31	26	30	–	12	99
	2021	–	–	–	–	–	–
F. Lhoëst	2022	25	15	–	–	1	41
	2021	27	16	–	–	1	44
Q. Peer	2022	22	12	–	–	1	35
	2021	24	15	–	–	1	40
Total	2022	208	162	129	229	96	824
	2021	155	119	122	–	46	442

1 Ekaterina Lobacheva was appointed as member of the Management Board and President on 30 June 2022.

2 The table reflects actual base salary amounts, including adjustments based on number of days spent on vacation, in accordance with Russian labour law.

3 Short-term incentives are based on results achieved in 2022 and payable in 2023. For the year ended 31 December 2022 the group performance targets (as described in the Remuneration Report on pages 137–147) were achieved for 89.9% (for the year ended 31 December 2021: 91.7%). Individual adjustments were apllied up to 20% to individual assessments at the discretion of the Supervisory Board. This results in payouts of 90.6% of base salary for Mr. Shekhterman (2021: 86.2%), 65.2% of base salary for Mr. Lhoëst (2021: 61.2%), 60% of base salary for Mr. Peer (2021: 63.2%) and 97.3% of base salary for Mrs. Lobacheva.

4 For Igor Shekhterman the expense recognised in 2022 for the long-term incentive award is based on the deferred payout under the 2018-2020 LTI programme and the accrual based on the probability of achieving the targets under the 2021-2023 LTI programme, payable in 2024-2025, for Ekaterina Lobacheva the long-term incentive award expenses represent the accrual based on the probability of achieving the targets under the 2021-2023 LTI programme, payable in 2024-2025.

5 On 30 November 2022, the General Meeting of Shareholders approved to substitute 75% of Igor Shekhterman's termination bonus for a contract extension bonus in the amount of USD 3,750,000.

6 For the year ended 31 December 2022 statutory pension contributions amounted to RUB 62 (2021: RUB 29).

Notes to the Company financial statements

for the year ended 31 December 2022
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Key management personnel expenses

Remuneration of the Executive Board (‘Other key management personnel’)

Other key management personnel comprises all members of the Executive Board excluding the CEO and the President. In accordance with the remuneration policy for the Executive Board, the total direct compensation of other key management personnel consists of a base salary, a performance-related annual cash incentive (STI) and a performance-related long-term cash incentive (LTI).

Expenses recognised for remuneration of the Executive Board members (excluding the CEO and the President from the date of appointment):

Name	Year	Base salary[1]	Short-term incentive[2]	Long-term incentive[3]	Social security cost[4]	Total
Other key management personnel	2022	280	279	329	136	**1,024**
	2021	314	236	416	150	1,116

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

2 Short-term incentive for performance in the year 2022 (2021) paid in cash in 2023 (2022).

3 The expense recognised in 2022 for the long-term incentive award is based on the deferred payout under the 2018-2020 LTI programme and an accrual based on the probability of achieving the targets under the 2021–2023 LTI programme.

4 For the year ended 31 December 2022 statutory pension contributions amounted to RUB 89 (2021: RUB 98).

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Key management personnel expenses

Remuneration of the Supervisory Board

The table below specifies the remuneration of the members of the Supervisory Board. Details on Supervisory Board remuneration in 2022 are reflected in the Remuneration Report on pages 137–147.

In accordance with the remuneration policy for the Supervisory Board, as approved by the Extraordinary General Meeting of Shareholders (EGM) held on 30 November 2022, eligible members of the Supervisory Board receive remuneration in cash and an equity-based remuneration in the form of Phantom Stock Units (PSUs) awarded annually.

Annual cash remuneration for Supervisory Board members:

Position	EUR
Supervisory Board Chair	250,000
Supervisory Board Member	100,000
Additional allowance for:	
Supervisory Board Vice-Chair	50,000
Committee Chair	100,000
Committee Member	16,000

Expenses recognised for remuneration of the members of the Supervisory Board:

		Base remuneration		Share-based compensation		Extraordinary remuneration[6]		Total remuneration	
	Position	2022	2021	2022	2021	2022	2021	2022	2021
P. Demchenkov	Chairman, Nomination and Remuneration Committee	26	30	29	22	–	–	55	52
O. Vysotskaya[2]	Chair, Audit and Risk Committee	8	–	2	–	–	–	10	–
F. Ovchinnikov[2]		4	–	1	–	–	–	5	–
V. Stavrou[3]		2	–	–	–	–	–	2	–
V. Zingman[1,2]		–	–	–	–	–	–	–	–
D. Alekseev[3]		2	–	–	–	–	–	2	–
L. Afendikov[1,3]		–	–	–	–	–	–	–	–
S. DuCharme[4,6]		1	12	21	19	90	–	112	31
M. Fridman[1,4]		–	–	–	–	–	–	–	–
R. Brasher[4]		2	7	(2)	2	–	–	–	9
G. King[4]		6	22	(32)	21	–	–	(26)	43
V. Kuchment[4]		3	10	(14)	10	–	–	(11)	20
K.-H. Holland		–	3	–	2	–	–	–	5
N. Shouraboura[5]		6	17	10	11	–	–	16	28
A. Tynkovan[4]		3	8	(2)	2	–	–	1	10
M. Atnashev[1,4]		–	–	–	–	–	–	–	–
Total		63	109	13	89	90	–	166	198

1 Vadim Zingman, Leonid Afendikov, Mikhail Fridman and Marat Atnashev, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.

2 Olga Vysotskaya, Fedor Ovchinnikov and Vadim Zingman were appointed on 30 June 2022.

3 Dmitry Alekseev, Vasileios Stavrou and Leonid Afendikov were appointed on 30 November 2022.

4 Stephan DuCharme and Mikhail Fridman stepped down on 1 March 2022. Richard Brasher, Geoff King, Michael Kuchment, Alexander Tynkovan and Marat Atnashev stepped down on, respectively, 4 March, 11 March, 25 March, 25 May and 22 July 2022.

5 Nadia Shouraboura's term in office expired at the 2022 Annual General Meeting of Shareholders.

6 On 30 November 2022 the General Meeting of Shareholders approved to substitute 75% of Igor Shekhterman's termination bonus for a contract extension bonus, whereby the remaining part (25%) was allocated to Stephan DuCharme for his invaluable contribution to the Company since 2008, both as member and later as Chairman of the Supervisory Board, and CEO from 2012 to 2015.

Notes to the Company financial statements

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Key management personnel expenses

Equity-based remuneration

Since the trading of X5 GDRs at the London Stock Exchange was suspended in March 2022, the General Meeting of Shareholders approved on 30 November 2022 a new phantom stock unit plan for Supervisory Board members to replace the restricted stock unit plan that was no longer operational (Note 29).

Phantom Stock Unit Plan

Under the new plan, the award of phantom stock is not subject to performance criteria, and phantom stock units (PSUs) are converted into cash after a three-year vesting period.

Supervisory Board members Peter Demchenkov, Olga Vysotskaya, Fedor Ovchinnikov, Dmitry Alekseev and Vasileios Stavrou were each awarded a number of PSUs, calculated by dividing 100% of their fixed cash remuneration in 2022 by the volume weighted average closing market price of one GDR over the thirty immediately calendar days preceding 19 May 2022, i.e. RUB 1,055.66. PSUs awarded under tranche 1 will vest on 19 May 2025. Upon vesting the eligible Supervisory Board members are entitled to a cash pay-out based on the market value of the awarded PSUs on the vesting date.

The number of PSUs awarded and outstanding to the members of the Supervisory Board is shown below. For the calculation of the intrinsic value and further details please refer to Note 29.

	Tranche	PSUs awarded in 2022	Year of vesting	PSUs outstanding as per 31 December 2022
P. Demchenkov	1	23,095	2025	23,095
O. Vysotskaya	1	7,849	2025	7,849
F. Ovchinnikov	1	4,489	2025	4,489
D. Alekseev	1	1,746	2025	1,746
V.Stavrou	1	1,746	2025	1,746
Total		38,925		38,925

Restricted Stock Unit Plan

As part of the termination of the restricted stock unit plan in 2022, the Extraordinary Meeting approved:

- the vesting and cash settlement of all restricted stock units (RSUs) awarded in 2019, a transition scheme for RSUs awarded in 2020 and 2021 for Peter Demchenkov. The Vesting of the 2020 and 2021 RSU awards stay in line with the vesting schedule under the RSU plan (19 May of each respective year of vesting, if 19 May falls in a weekend, vesting date is the immediately following business day), with the option to settle RSUs in cash upon vesting respectivly in 2023 and 2024 based on the X5 GDR value at the Moscow Exchange or other exchange where X5 GDRs are primarily traded at the time of vesting;
- the accelerated vesting and cash settlement of all RSUs awarded in 2019, 2020 and 2021 to Stephan DuCharme who stepped down from the Supervisory Board on 1 March 2022;
- the vesting and cash settlement of RSUs awarded in 2019, accelerated vesting and cash settlement of RSUs awarded in 2020 and partial accelerated vesting and cash settlement RSUs awarded in 2021 to Nadia Shouraboura who's term in office came to an end at the 2022 Annual General Meeting of Shareholders.

The proposed settlement in cash in 2022 was approved by the EGM in EUR. The amount of the cash settlements is based on the average X5 GDR price at the Moscow Exchange (MOEX) on 22 September 2022 (RUB 1,268.00), the date of termination of the RSU Plan and the respective EUR exchange rate set by the Central Bank of Russia (RUB 60,211 per EUR) for this date.

Notes to the Company financial statements

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Key management personnel expenses

Restricted Stock Units vested, forfeited and outstanding to members of the Supervisory Board.

For the calculation of the intrinsic value and further RSUs details please refer to Note 29.

Name	Tranche	RSUs awarded in 2019	RSUs awarded in 2020	RSUs awarded in 2021	Year of vesting	RSUs vested[1]	RSUs vested (accelerated vesting)[1]	RSUs forfeited	Value on vesting date	RSUs out-standing as per 31 December 2022	RSUs out-standing as per 31 December 2021
S. DuCharme[2]	10	9,722	–	–	2022	–	9,722	–	12	–	9,722
	11	–	9,335	–	2023	–	9,335	–	12	–	9,335
	12	–	–	5,133	2024	–	5,133	–	7	–	5,133
G. King	10	9,373	–	–	2022	–	–	9,373	–	–	9,373
	11	–	9,211	–	2023	–	–	9,211	–	–	9,211
	12	–	–	9,747	2024	–	–	9,747	–	–	9,747
P. Demchenkov[4]	10	8,942	–	–	2022	8,942	–	–	11	–	8,942
	11	–	9,800	–	2023	–	–	–	–	9,800	9,800
	12	–	–	13,448	2024	–	–	–	–	13,448	13,448
M. Kuchment	10	4,099	–	–	2022	–	–	4,099	–	–	4,099
	11	–	4,274	–	2023	–	–	4,274	–	–	4,274
	12	–	–	4,523	2024	–	–	4,523	–	–	4,523
N. Shouraboura[3]	10	4,099	–	–	2022	4,099	–	–	5	–	4,099
	11	–	4,274	–	2023	–	4,274	–	5	–	4,274
	12	–	–	7,798	2024	–	5,199	2,599	7	–	7,798
R. Brasher	12	–	–	3,245	2024	–	–	3,245	–	–	3,245
A. Tynkovan	12	–	–	3,425	2024	–	–	3,425	–	–	3,425

1 Vesting date in 2022 is 22 September 2022, vested RSUs are settled for cash as per the GDR value on the Moscow Exchange as per vesting date.

2 The Gross cash settlement of Stephan DuCharme in 2022 comprised EUR 509,423.86

3 The Gross cash settlement of Nadia Shouraboura in 2022 comprised EUR 285,805.21

4 The Gross cash settlement of Peter Demchenkov in 2022 comprised EUR 188,290.98.

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Contingent rights and liabilities

Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations.

The Company had the following guarantees issued under obligations of its group companies:

	31 December 2022	31 December 2021
Irrevocable offer to holders of X5 FINANSE LLC bonds	54,586	79,534
Total	54,586	79,534

The guarantees issued mature as follows:

	31 December 2022	31 December 2021
Not later than 1 year	10,170	59,129
Later than 1 year and no later than 5 years	44,416	20,405
Total	54,586	79,534

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Related party transactions

Please refer to Note 8 of the consolidated financial statements; all group companies are also considered related parties. During 2021 and 2022 there were no transactions with related parties outside the normal course of business.

Statutory director's compensation

The Company has a Management Board and a Supervisory Board. The total remuneration of all Board members as well as other key management personnel is disclosed in Note 8 of the Consolidated Financial Statements and Note 44.

Loans to group companies

For loans issued to and interest income from group companies please refer to Note 38.

Loans from group companies

For loans received from and interest expenses to group companies please refer to Note 40.

Notes to the Company financial statements

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Subsequent events for the Company

In March 2023 Fedor Ovchinnikov stepped down from the Supervisory Board.

Amsterdam, 31 May 2023

Management Board:

Igor Shekhterman
Ekaterina Lobacheva
Frank Lhoëst
Quinten Peer

Supervisory Board:

Peter Demchenkov
Olga Vysotskaya
Vadim Zingman
Dmitry Alekseev
Vasileios Stavrou
Leonid Afendikov

X5 Retail Group N.V.

Other information

Statutory profit appropriation

In Article 30 of the Company's Articles of Association the following has been stated concerning the appropriation of result:

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

Subsequent events

For subsequent events, please refer to Notes 36 and 47 of the financial statements.

Explanation on the absence of the independent auditor's report

On 17 March 2023 the Group released its 2022 audited consolidated financial statements together with the audit report issued by TSATR – Audit Services LLC ('B1'). Earlier in February the Supervisory Board, in accordance with the authority delegated by the Company's General Meeting of Shareholders, appointed Reanda Audit & Assurance B.V. as its external group auditor in the Netherlands, to audit the Company's 2022 consolidated and company financial statements (the '2022 Financial Statements', as part of the 2022 Annual Report). During the audit of the 2022 Financial Statements the Dutch auditor indicated that more time is required to consider the impact of the current geopolitical situation, and relevant regulations and restrictions imposed by Russian and European governments, on its audit opinion.

Meanwhile, the Company believes that the 2022 Financial Statements give a true and fair view of the financial position and results of the Group. Therefore, pending the issue of Reanda's audit opinion, the Company has decided for transparency purposes to submit its 2022 Annual Report to the Company's Annual General Meeting of Shareholders without the auditor's report. The Company will release its 2022 Annual Report with the independent auditor's report included if and when such report will be issued by the group auditor.

Annex

TCFD compliance statement and index

Compliance statement

X5 Group took into consideration the documents referred to in the updated guidance found in Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, published in October 2021.

In the table below, we include cross-references to disclosures made elsewhere within the Report and offer explanations for why we partially comply with some of the TCFD recommendations and recommended disclosures. X5 is set to cover most of the partially compliant disclosures in future reporting.

X5 Group fully complies with the following TCFD recommendations and recommended disclosures:

- Governance – (a) and (b)
- Strategy – (a) and (c)
- Risk management – (a), (b) and (c)
- Metrics and targets – (b) and (c)

X5 Group partially complies with the following TCFD recommendations and recommended disclosures:

- Strategy – (b)
- Metrics and targets – (a)

TCFD disclosure	Cross-reference for the disclosure in the Report	Summary of the climate-related financial disclosures	Explanation for non-compliance	Next steps
Governance				
a) Describe the Supervisory Board's oversight of climate-related risks and opportunities.	page 92	The Supervisory Board meets at least four times per year and discusses climate-related issues through the Audit and Sustainable Development and Innovation Committees. The Executive Board is in charge of properly managing progress against the Company's strategy and the sustainable development strategy as well as associated risks, including all climate-related risks and opportunities. By reviewing the detailed reports submitted by relevant committees, the Supervisory Board keeps track of all key projects and activities, including progress measured against the sustainable development strategy, the implementation of climate-related mitigation measures, and project outcomes.		
b) Describe management's role in assessing and managing climate-related risks and opportunities.	page 92	The Group has set up a Sustainable Development Committee at the Executive Board level. The Committee is responsible for implementing decarbonisation measures and developing action plans to mitigate climate-related risks, which are then submitted to the Sustainable Development and Innovation Committee, as well as the Supervisory Board, for approval. Representatives of business units implement the proposed measures and changes within the Group's sustainability agenda.		
Strategy				
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	page 92–96	The Group's climate risk assessment is aligned with three time horizons: 2023, the short-term horizon; 2023–2030, the medium-term horizon; and 2030–2050, the long-term horizon. The Group analyses its transition and physical risks for each business unit separately in order to glean a comprehensive understanding of risk exposure across different business activities and geographies. A full list of identified climate-related risks is published in our 2021 Sustainability Report on pages 68–72.		
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	page 93–97	In 2022, we have qualitatively reassessed the impact of our identified climate-related risks, results may be found on pages 93–97.	The Group periodically (less than once a year) assesses the impacts of climate-related risks and opportunities on X5's financial performance through 2030.	X5 Group plans to disclose information on this metric in future disclosures.

TCFD disclosure	Cross-reference for the disclosure in the Report	Summary of the climate-related financial disclosures	Explanation for non-compliance	Next steps
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2 °C or lower scenario.	page 93	By analysing how climate-related risks affect us, we unlock a more comprehensive understanding of how the Group's strategy should be built, as well as how we should mitigate the consequences of potential issues in the future. The risk assessment used the following climate scenarios from the IPCC's Sixth Assessment Report (AR6): the 1.5 °C scenario (scenario SSP1-2.6), the 2.0 °C scenario (scenario SSP2-4.5) and the 4.0 °C scenario (scenario SSP5-8.5). X5 Group pays particular attention to materiality scores in the SSP2-4.5 scenario. We consider SSP2-4.5 the primary scenario for our industry, and we believe it will have a long-term effect on the Group's strategic resilience and estimated financial impacts.		
Risk management				
a) Describe the organisation's processes for identifying and assessing climate-related risks.	page 97	Climate-related risks, including physical and transition risks, are incorporated in the general risk register and are reviewed annually. The Group's climate risk assessment process is aligned with its general risk assessment. The results are plotted on a scale, representing risk impact from the lowest possible impact (green) to the most significant possible impact (red).		
b) Describe the organisation's processes for managing climate-related risks.	page 93–97	Our decarbonisation initiatives feed into measures to mitigate climate risk to ensure our sustainable development strategy remains adequate and effective in scope. The sustainable development strategy is based on cost-effective decarbonisation measures that are set to benefit X5's long-term value.		
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	page 97	Our climate risk assessment process aligns with the Group's general risk assessment and is closely reviewed on a regular basis during the Supervisory Board's strategy sessions.		

TCFD disclosure	Cross-reference for the disclosure in the Report	Summary of the climate-related financial disclosures	Explanation for non-compliance	Next steps
Metrics and targets				
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	page 98	In 2022, the Group regularly reviewed qualitative results relating to climate-related risks and opportunities. When charting its pathway to net zero, X5 established a feasible internal carbon price to aid in strategic decision-making. X5 Group has set climate-related KPIs for management to help motivate them to implement our 2023 and 30x30 agenda. The KPIs include the LTI programme, which aims for a 10% carbon footprint cut by 2023 vs a 2019 baseline. The KPIs also include other sustainability metrics, such as boosting the share of packaging that is recycled, as well as waste management initiatives, which are vital for decreasing Scope 3 emissions. Overall, climate-related KPIs hold a 5% weighting for total management team KPIs.	X5 Group has set an internal carbon price; however, the methodology for establishing its value is being revised.	X5 Group plans to disclose internal carbon price information in future disclosures.
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	page 98	Since 2019, the Group has been measuring GHG emissions (Scope 1, Scope 2 and Scope 3) in accordance with the GHG Protocol. In 2021, this assessment included GHG emission sources at key business units that make up at least 95% of all GHG emission sources. The 2022 GHG emissions calculation results and a full description of the calculation methodology will be published in our 2022 Sustainability Report.		
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	page 98	The long-term goal of the strategy is for the X5 Group to achieve carbon neutrality by 2050, in line with the Paris Agreement and Russian decarbonisation goals. As one of the steps to attain this objective, X5 has introduced the 30x30 agenda, which encompasses the following medium-term targets for 2030: • A 30% reduction in GHG emissions intensity (Scope 1 and Scope 2) per square metre of selling space against a 2019 baseline • A 30% share of renewable energy in X5 operations against a 2019 baseline • A 30% reduction in the ratio of waste generated to retail sales against a 2019 baseline ESG and climate considerations are also being incorporated into its short-term corporate strategy to 2025, which is currently under development. X5's GHG reduction targets are based on the methodology and requirements of the Science Based Targets initiative (SBTi) and look to achieve net zero by 2050. More detailed information on GHG emissions will be published in our 2022 Sustainability Report.		