ANNUAL 2023 REPORT

Contents

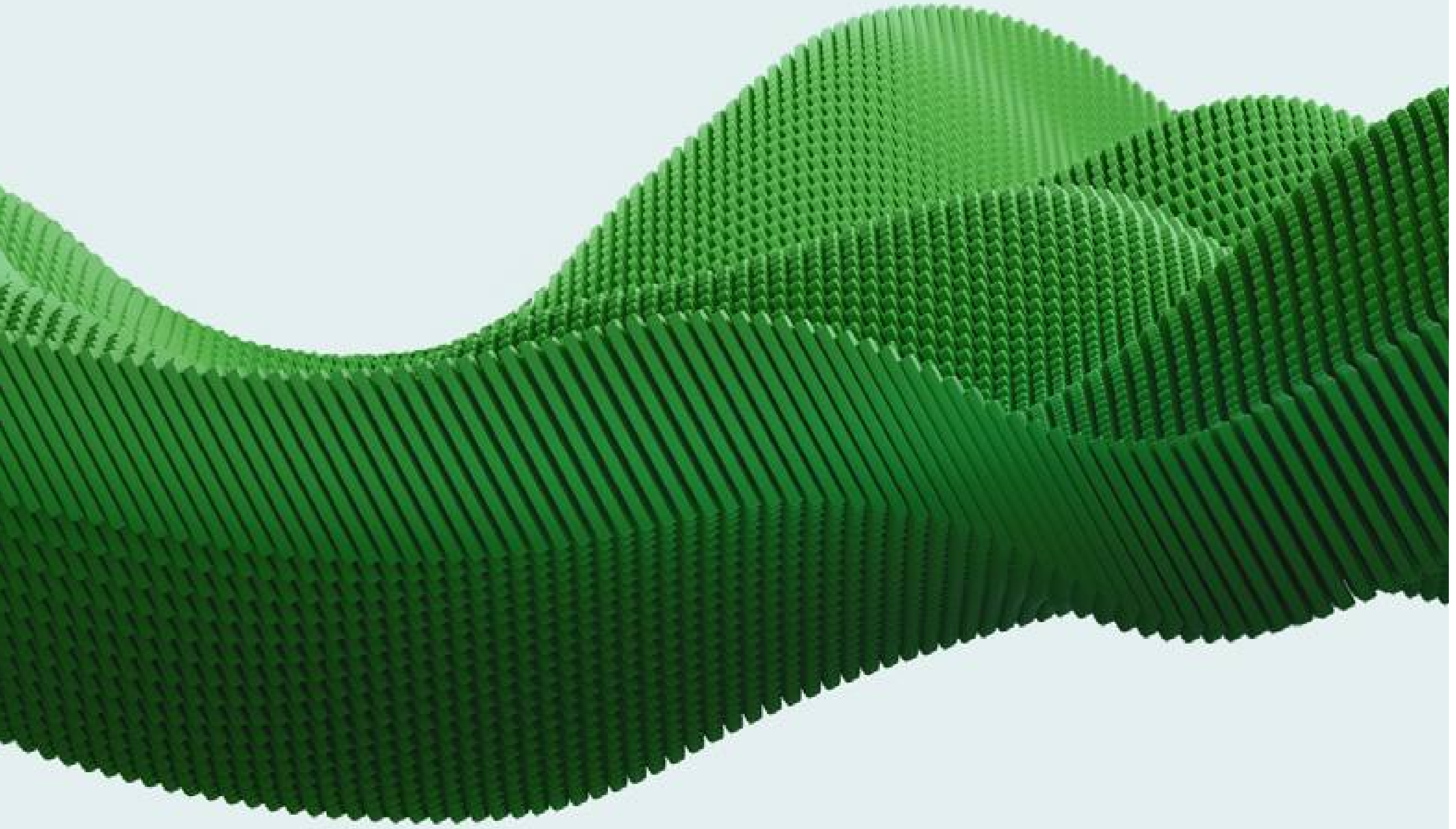
STRATEGIC REPORT

01

Overview

About this report

X5 Group's 2023 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, reports on progress against our strategic goals, and gives an overview of our ESG performance and priorities, which are discussed in greater detail in the 2023 Sustainability Report.



Report boundary and scope

This report covers the period from 1 January 2023 to 31 December 2023 and encompasses 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. 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. X5 Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Significant developments after the reporting date are also covered in this report.

Alternative performance measures

Financial results presented in this report are prepared in accordance with current IFRS (hereinafter, "IFRS 16") and as if new lease standard IFRS 16 was not adopted and the superseded lease standard IAS 17 remained in force (hereinafter, "pre-IFRS 16"). The adjusted indicators in this report exclude the effects of the LTI programmes and share-based payments, the impact 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. 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 – where possible – how it can be reconciled with a statutory measure is provided on pages 75–78.

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

Management of X5 Group has 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 issues 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 topics.

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 Board approved the 2023 Annual Report for publication on 21 March 2024.

Our approach, values and goals

Today, X5 Group is a melting pot of different cultures, pursuing a mission to become the best shopping destination on Earth by exceeding expectations.

While being different, we all share the same overarching leadership goal, which can be achieved by pitching in together; collaborating across assets, teams, and management structures; sharing expertise; and inspiring each other through our achievements and by overcoming challenges. Together, we are shaping X5 Group's new business culture, focused on our mission, vision, and values.

OUR GOAL

Leadership in market share growth in food retail

OUR MISSION

To become the best shopping destination on Earth by exceeding expectations

OUR VISION

We bring value to customers through outcome-driven partnerships

OUR VALUES

Customer, partnership, results

Values

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

Customers

When we say "customer", we always mean people shopping in-store or via mobile app. We see colleagues, suppliers, regulators, investors, and other stakeholders as our partners.

Our corporate value of Partnership shapes our engagement with them.

HOW WE LIVE THIS VALUE

- Putting the customer's interests and concerns first
- Doing more for the customer than they expect
- Being open to customers, regardless of the Company's position

Partnerships

Boosting each other's performance by joining efforts for a shared outcome.

HOW WE LIVE THIS VALUE

- Sharing information; talking about challenges, opportunities, and achievements
- Actively participating in joint decision making and taking responsibility for joint decisions
- Keeping promises
- Respecting colleagues and trusting their professionalism
- Acting like a partner when working on Company tasks and contributing to the achievement of each outcome

Results

Delivering on promises is part of our DNA.

HOW WE LIVE THIS VALUE

- Setting bold goals and striving for more when working on tasks
- Acting independently and quickly, without waiting to be told what to do
- Taking action proactively when a process needs improvement
- Looking for solutions when a mistake is made
- Taking responsibility for future outcomes when making decisions today

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.

STRATEGY

30×30

With these focus areas in mind, the Supervisory Board has approved a detailed set of targets for 2025, 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
- Share of renewable energy used in X5's operations
- 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

2023 key highlights

Despite ongoing market headwinds, X5's results in 2023 have once again demonstrated our commitment to excellent customer service, strategic expansion, and business efficiency.

We faced the challenging market conditions in 2023, and nevertheless excelled by leveraging the robust foundation of our core operations. We demonstrated remarkable resilience and attained outstanding outcomes, navigating through labour force shortages, intensified competition from e-commerce platforms, and the rise of new retail models like hard discounter stores.

3,146 RUB BLN

Revenue

+20.8% y-o-y

2023 financial and operating highlights

6.8 %

EBITDA[1] margin

pre-IFRS 16

123.6 RUB BLN

Digital business sales

+75.7% y-o-y

77.0 MLN

Orders delivered by online businesses

+115% growth y-o-y

+9.6 % Y-O-Y

Like-for-like sales

0.87 x

Net debt/EBITDA

pre-IFRS 16 as at 31 December 2023

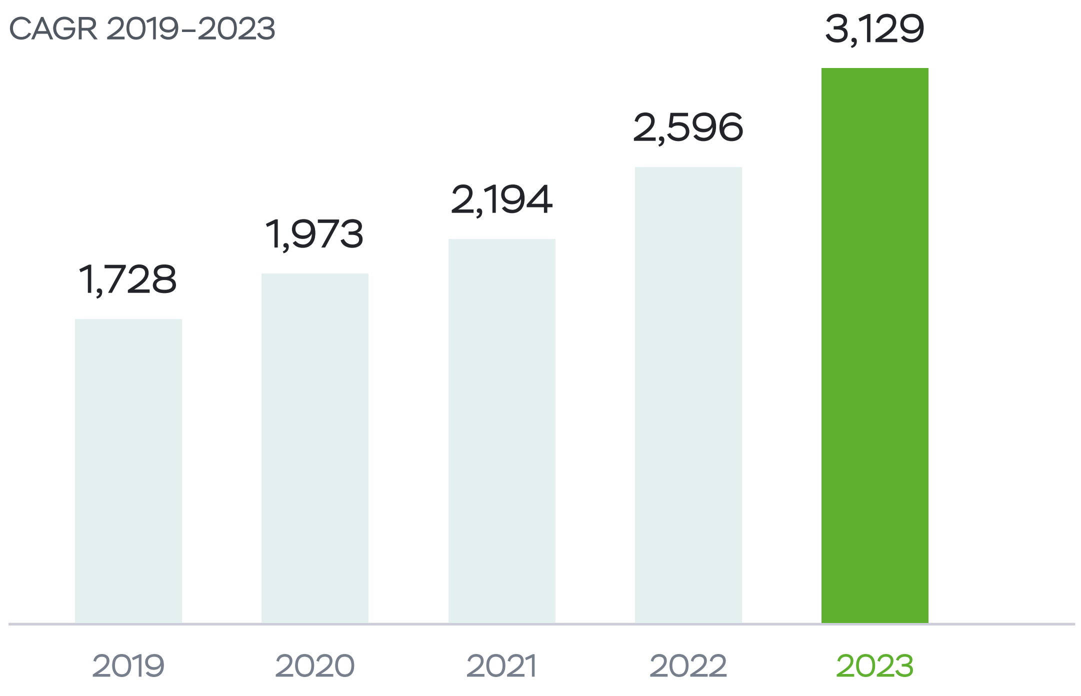
1 Earnings before interest, taxes, depreciation, and amortisation.

2023 operational and financial performance overview

Operational highlights

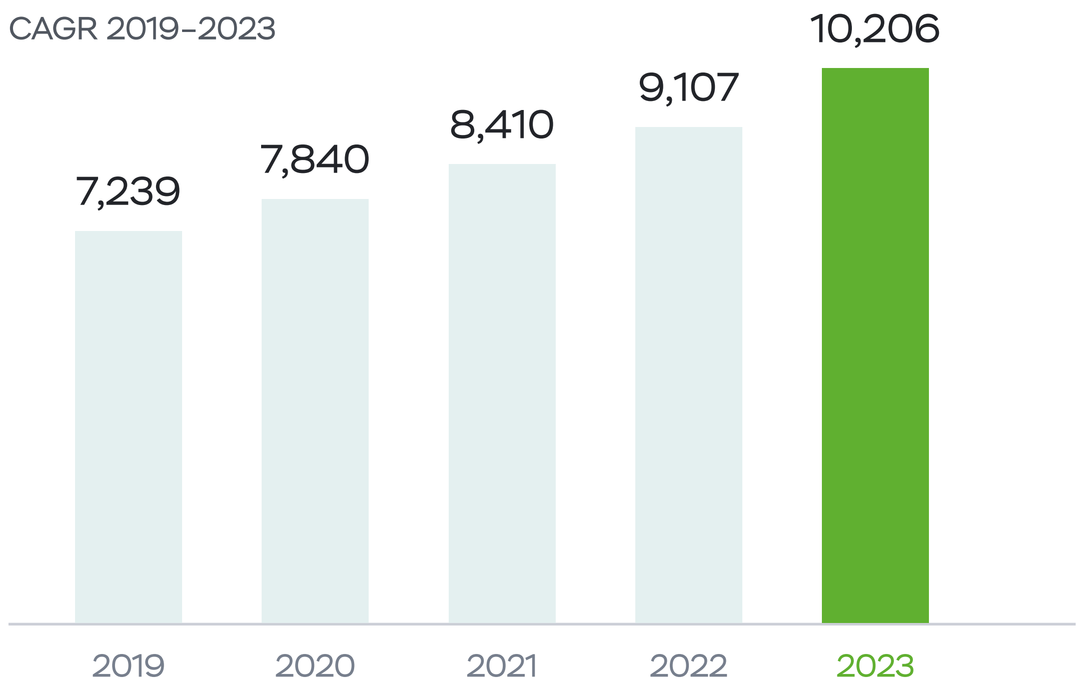
Net retail sales, RUB bln

16.0%
CAGR 2019–2023



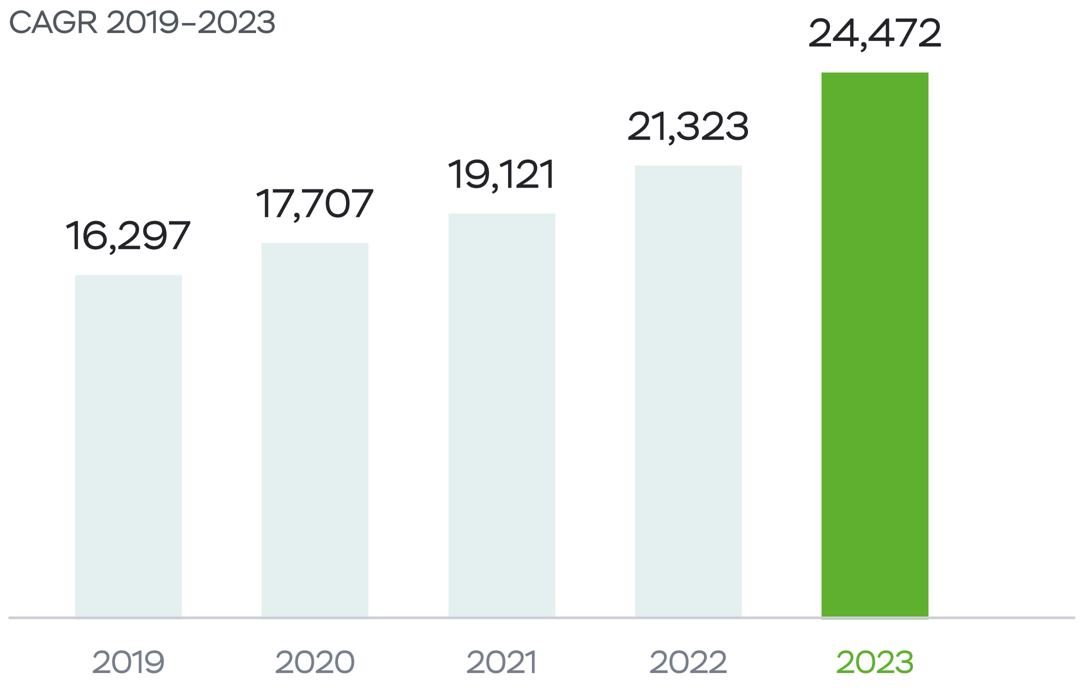
Selling space,[1] ths sqm

9.0%
CAGR 2019–2023

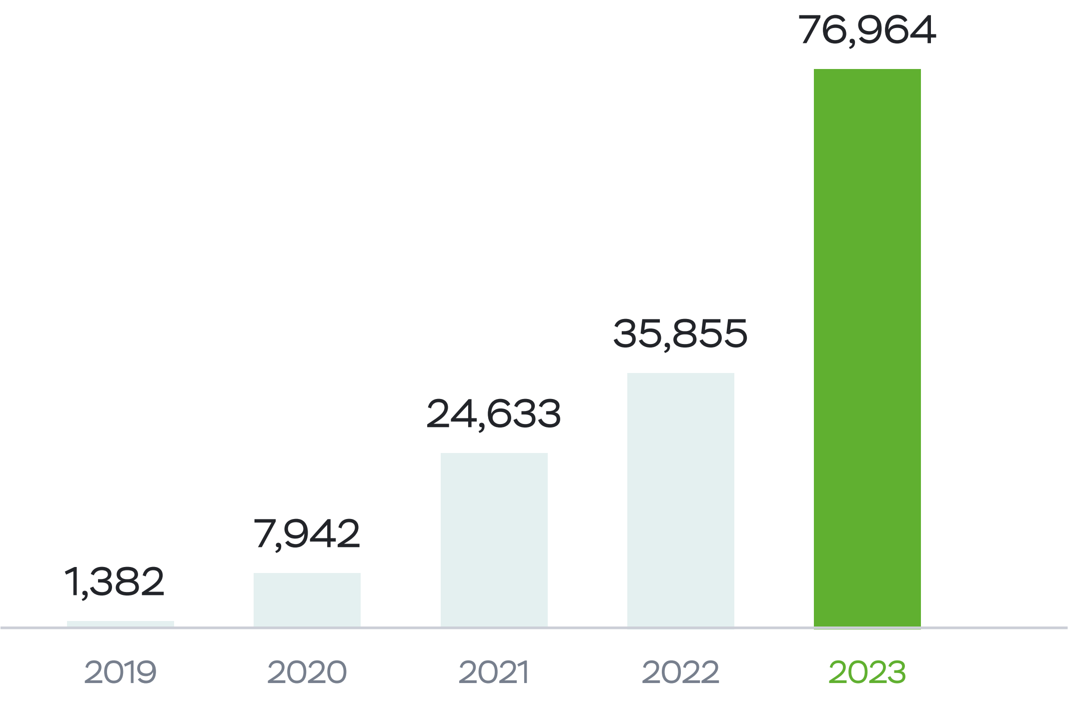


Number of stores[1]

10.7%
CAGR 2019–2023



Number of orders in online businesses, ths

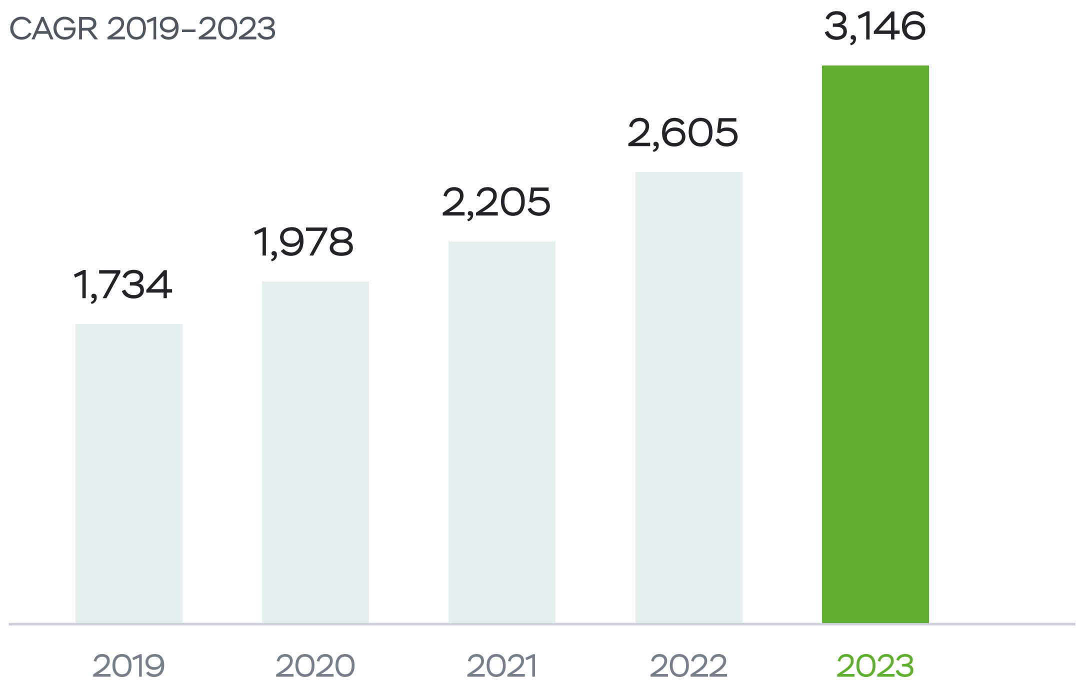


1 As at 31 December.

Financial highlights (pre-IFRS 16)

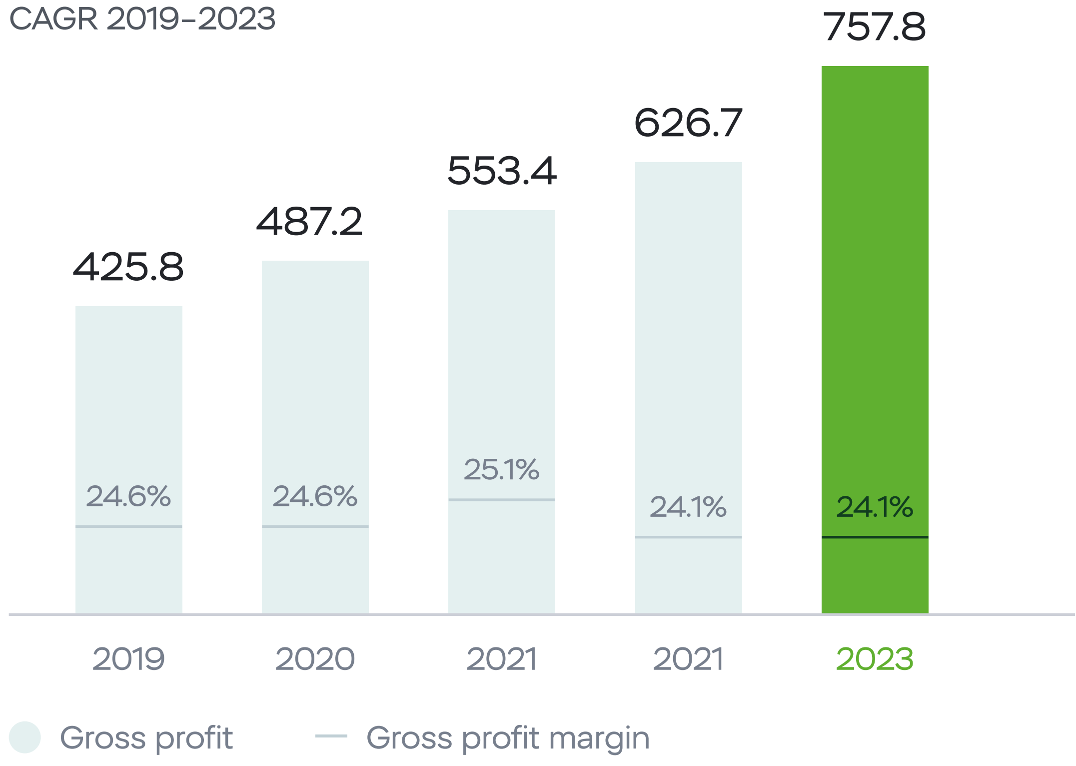
Revenue, RUB bln

16.1%
CAGR 2019–2023



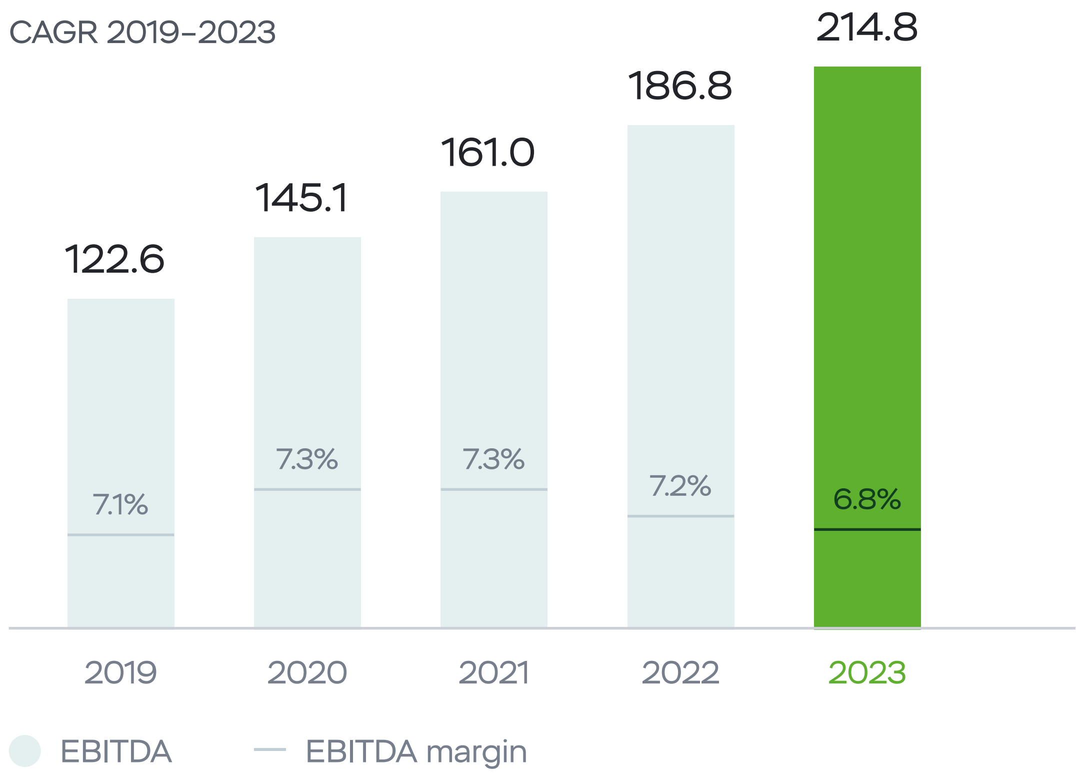
Gross profit, RUB bln

15.5%
CAGR 2019–2023



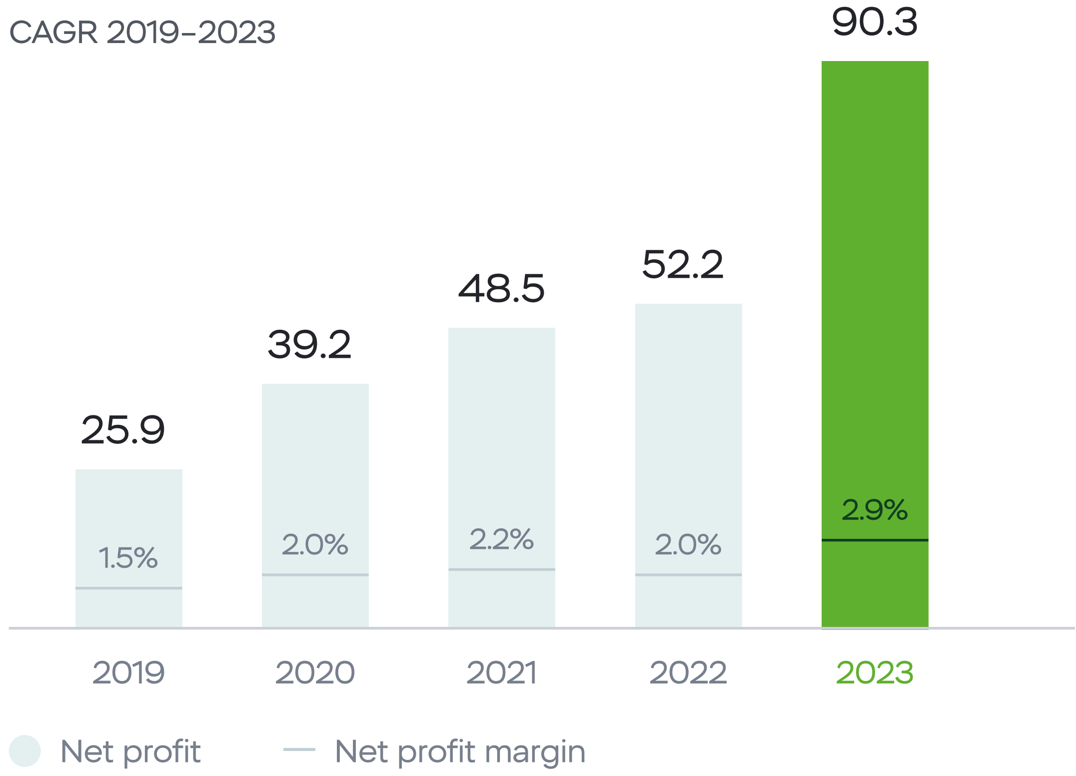
EBITDA, RUB bln

15.0%
CAGR 2019–2023



Net profit, RUB bln

36.6%
CAGR 2019–2023



Business model

Our business model is designed to generate value for all stakeholders, including suppliers, the Corporate Centre, our offline operations, and digital businesses. Given the current market's volatility and challenges, it is essential to establish an efficient and effective business model across all phases while consistently focusing on providing the utmost quality to our consumers.

Our approach to managing and operating both our offline and online businesses is based on decentralisation, aimed at maximizing agility in meeting customer demands. This structure also allows us to harness the benefits of scale, including enhanced purchasing power, advanced IT and digital capabilities, and logistical synergies. In terms of logistics, we run our own operations, with centralised supply to stores from Company-operated distribution centres standing at 93.3% in 2023.

Suppliers

Throughout 2023, we further refined our strategies for planning and collaborating with our suppliers, ensuring the consistency of our product assortment and inventory levels, and enhancing the efficiency of our supply chain management.

7,056
Suppliers

31.6%
Share of top 30 suppliers in revenue

Corporate Centre

X5 Group's Corporate Centre manages shared business infrastructure like IT systems, innovation and big data, logistics management, and internal controls, as well as corporate finance, risk management, and reporting. Overall strategic guidance and sharing best practices are also handled by the Corporate Centre.

Offline businesses

X5's retail chains are strategically designed to leverage our distinctive CVP across the various market segments we serve. Pyaterochka proximity stores cater to customers seeking value, quality, and convenience. Perekrestok supermarkets provide an engaging shopping environment, featuring a wider selection of unique products, exceptional customer service, and an assortment of ready-to-eat options. Chizhik, positioned as a hard discounter, is rapidly expanding its footprint, appealing to consumers who are particularly sensitive to price.

21,308
Pyaterochka proximity stores in 69 regions

972
Perekrestok supermarkets in 46 regions

1,500
Chizhik hard discounter stores in 43 regions

Слата / Красный Яр

610
Krasny Yar and Slata stores

Digital businesses

X5 Digital

X5 Digital is responsible for online sales throughout X5 Group. It has an arm's-length relationship with the Group's retail formats, acting as an aggregator and overseeing the financial performance of digital sales. Among X5 Digital's primary activities are managing and developing the Company's platform for mobile apps, including user interfaces; managing X5's e-commerce business under the terms established by each retail format; carrying out audience targeting on behalf of the retail formats; and running the Company's express delivery service and dark stores as well as the online hypermarket Vprok.ru.

75.1 MLN
Total orders

44
Dark stores

69
Regions

5Post

5Post is X5's last-mile delivery service for Russian and international e-commerce platforms. This service ensures the delivery of goods to parcel lockers and pickup points, managed either by 5Post or directly by X5 retail staff at Perekrestok and Pyaterochka store checkouts. By capitalising on X5's extensive retail presence across the country, 5Post has broadened its offerings by providing a cost-effective and high-quality delivery solution. This strategy not only boosts store traffic but also generates additional revenue, augmenting our core business operations.

>700
Commercial partners

44
Sorting facilities

>26 THS
Pickup points, including over 5 ths multi-parcellockers

X5 Food

X5 Food manages both in-house and outsourced production on behalf of X5's retail formats, as well as procurement, logistics, R&D for ready-to-eat meals and open kitchens at Perekrestok supermarkets. X5 Food is also responsible for the Company's smart kitchens, partnership development and the operation of Mnogo Lososya.

Mnogo Lososya

Mnogo Lososya is a digital platform that includes a network of dark kitchens and café points dedicated to providing ready-to-eat meals.

1.8 MLN
Total orders

73
Dark kitchens

325
Café points

Food.ru media platform

Food.ru guides and informs customers as they navigate and plan their grocery shopping, offering recipes and advice, as well as integration with X5 services like express delivery and Vprok.ru. It is a convenient starting point for X5's integrated omnichannel shopping experience.

28.4 MLN
MAUs

Supply chain infrastructure

Efficient and reliable logistics operations are critical to delivering the quality products and assortment that our customers expect across our operations, both 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

5,344
Company-owned trucks

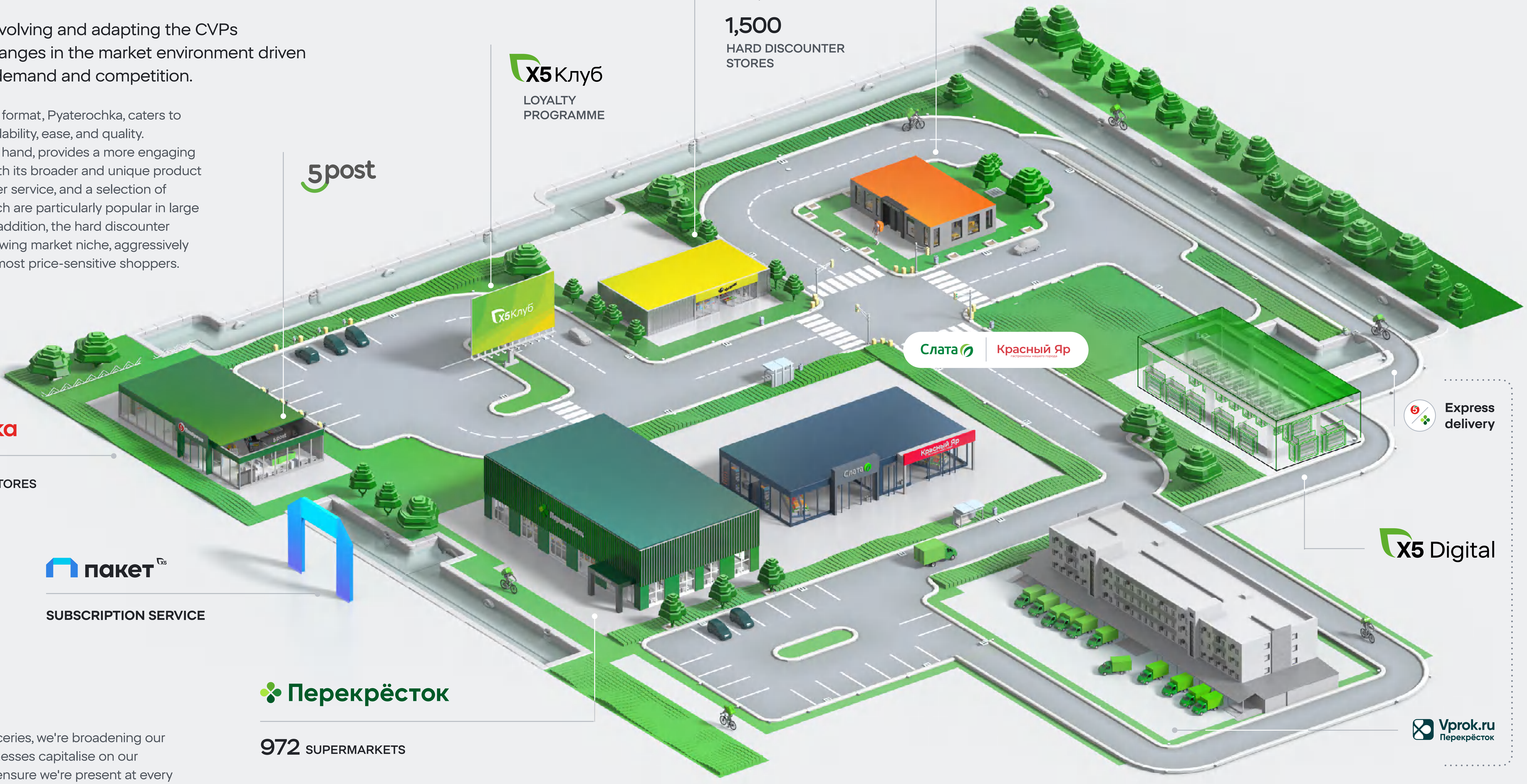
62
Distribution centres to support offline stores

44
Dark stores to support digital businesses

Our formats

We are constantly evolving and adapting the CVPs of our formats to changes in the market environment driven by both consumer demand and competition.

Our flagship convenience format, Pyaterochka, caters to consumers seeking affordability, ease, and quality. Perekrestok, on the other hand, provides a more engaging shopping environment with its broader and unique product range, enhanced customer service, and a selection of ready-to-eat options, which are particularly popular in large urban centers. Our latest addition, the hard discounter Chizhik, targets a fast-growing market niche, aggressively expanding to attract the most price-sensitive shoppers.



In the realm of online groceries, we're broadening our footprint: our digital businesses capitalise on our operation's vast scale to ensure we're present at every stage of the customer journey.

Pyaterochka

21,308
Number of stores
+11.2% y-o-y

8,339 THS SQM
Selling space
+11.2% y-o-y

2,491 RUB BLN
Net retail sales
+17.3% y-o-y

79.6 %
Share of X5 Group's net retail sales

Pyaterochka, known for its strategically located neighbourhood stores, is the leading standalone food retailer in Russia, with 21,308 outlets operational as at 31 December 2023 and net retail sales amounting to RUB 2.5 trillion for FY 2023. Since its inception in 1999, Pyaterochka has expanded to cover 69 Russian regions. The brand is dedicated to being the go-to source for cost-effective, high-quality formats in Russia. On a daily basis throughout 2023, Pyaterochka attended to an average of 17 million customers and earned the title of the most cherished brand among grocery retailers in the country.

Perekrestok

972
Number of stores
+0.1% y-o-y

1,085 THS SQM
Selling space
−0.1% y-o-y

419 RUB BLN
Net retail sales
+8.7% y-o-y

13.4 %
Share of X5 Group's net retail sales

Perekrestok stands as Russia's largest supermarket chain, with 972 stores as at 31 December 2023, and net retail sales of RUB 419 billion for FY 2023. Founded in 1995, Perekrestok was the pioneer of supermarket formats in Russia. Known for its unique product range and customer service, Perekrestok catered to an average of 1.8 million customers daily throughout 2023.

Chizhik

1,500
Number of stores
3x growth y-o-y

442 THS SQM
Selling space
3x growth y-o-y

118 RUB BLN
Net retail sales
3x growth y-o-y

3.8 %
Share of X5 Group's net retail sales

Chizhik, the latest hard discounter venture of X5 Group, had 1,500 stores up and running as at 31 December 2023, generating net retail sales of RUB 118 billion for FY 2023. Adopting an "every day low price" (EDLP) strategy, Chizhik emphasizes a concise selection of staple products. This approach to customer engagement has been instrumental in building confidence in its budget-friendly brands. On average, Chizhik welcomed on average 635 thousand customers daily throughout 2023.

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

Launched in 2019, the service offers delivery from local stores or dark stores within 40–60 minutes. Since 2022, the service has also been available on delivery aggregators, and has been available from 8,515 stores as well as 41 dark stores in 69 regions across Russia. The service handled a total of 70.7 million orders during FY 2023, 2.4x 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. The service operated three large dark stores in Moscow and Saint Petersburg as at 31 December 2023.

5Post

5Post is a last-mile delivery service established in 2019, designed to support e-commerce providers and other X5 digital ventures in distributing goods to parcel lockers, checkout counters, and pickup points located within X5 retail locations. As at 31 December 2023, 5Post had expanded to include 26.1 thousand pickup points in 20.3 thousand locations across 66 regions of Russia, delivering a total of 29.6 million orders during FY 2023.

X5 Food

X5 Food manages both in-house and outsourced production on behalf of X5's retail formats, as well as procurement, logistics, R&D for ready-to-eat meals and open kitchens at Perekrestok supermarkets. It is also responsible for developing a network of high-quality production facilities in regional markets. It operates as a cross-functional team in which X5's retail formats work alongside individuals with expertise in a variety of areas – diet and recipes, product range, production, marketing, logistics and operations – to serve the best interest of our customers. X5 Food is also responsible for the Company's smart kitchens, partnership development and the operation of Mnogo Lososya.

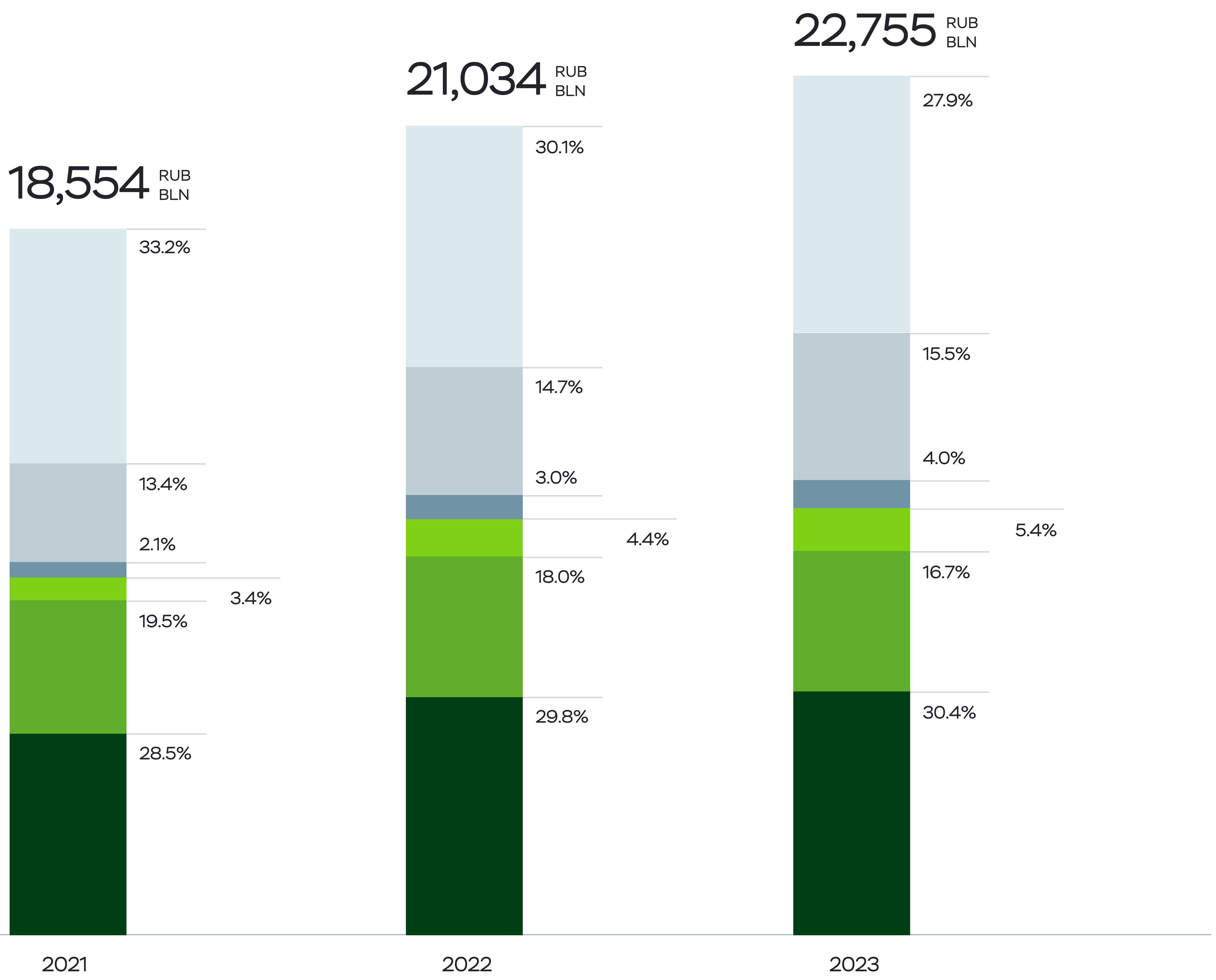
Mnogo Lososya

Mnogo Lososya, known for its dark kitchens and sushi stations within Perekrestok supermarkets, became part of X5 Group in 2021. Operating 73 dark kitchens, including 3 franchised locations, Mnogo Lososya processed 1.8 million orders in FY 2023. The total Gross Merchandise Value (GMV), incorporating sales from cafe points at Perekrestok stores, amounted to RUB 7.3 billion, 78.7% growth year-on-year.

Russia's food retail market

The Russian food market grew to over RUB 22.8 trillion in 2023. Recently, the hard discounters, specialists, and e-grocery have led the edge in the market, and we have delivered outstanding growth across all these booming segments.

Russian food retail market development



- Proximity stores
- Supermarkets
- Hard discounters
- E-grocery
- Specialists
- Other (e.g. hypermarkets, traditional trade)

X5's position in a changing market

The proximity and supermarket segments remain X5 Group's flagship operations and secure our ultimate leadership in Russia's overall food market. We are also a significant player in e-grocery. Furthermore, we are aggressively scaling our hard discount business, with sales in this segment tripling in 2023.

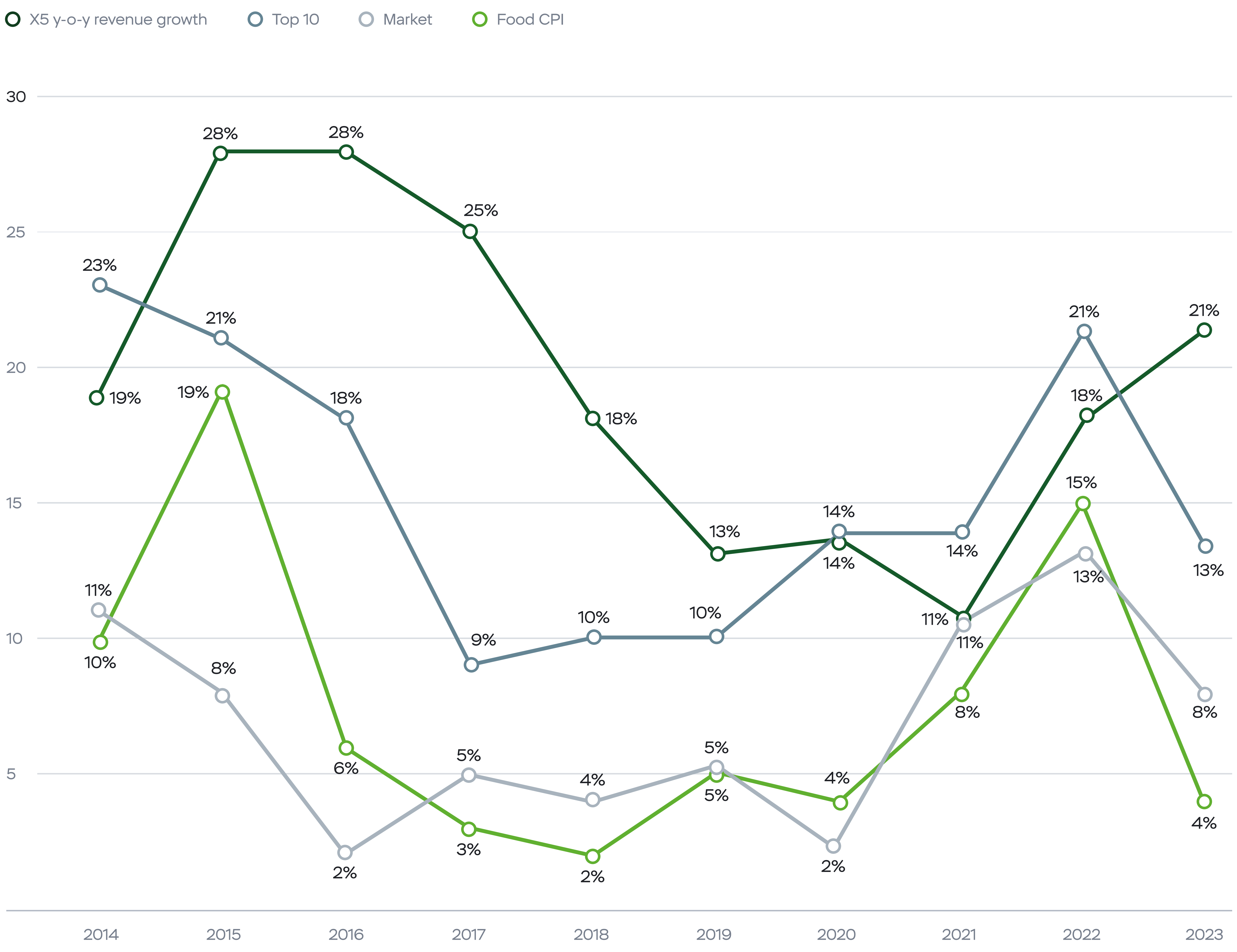
#1
Player with 14.6% market share in FY 2023

3× Y-O-Y
Hard discounter format revenue growth

77 MLN
Active loyalty card users

75.7 % Y-O-Y
Digital business revenue growth

X5 vs Russian food retail in top-line growth



Source: INFOLine, X5 data

Food market trends in 2023

Price becoming a key factor for customers

75% of Russians cut down on spending in 2023

35% Food's share of wallet

Customers visit more stores to find the best deals

UP TO **5–6** stores are now visited by an average customer per month

Loyalty to local products

~25% of customers now buy local products more often on spending in 2023

83% of retail chain sales in 2023 made up by local products

Customers continue to switch to private labels

48% of Russians see private labels as offering good quality at attractive prices

0.5 P.P. the difference in sales growth between private labels and brands

Express delivery is the largest and fastest-growing online segment

46% The share of express delivery in the online segment

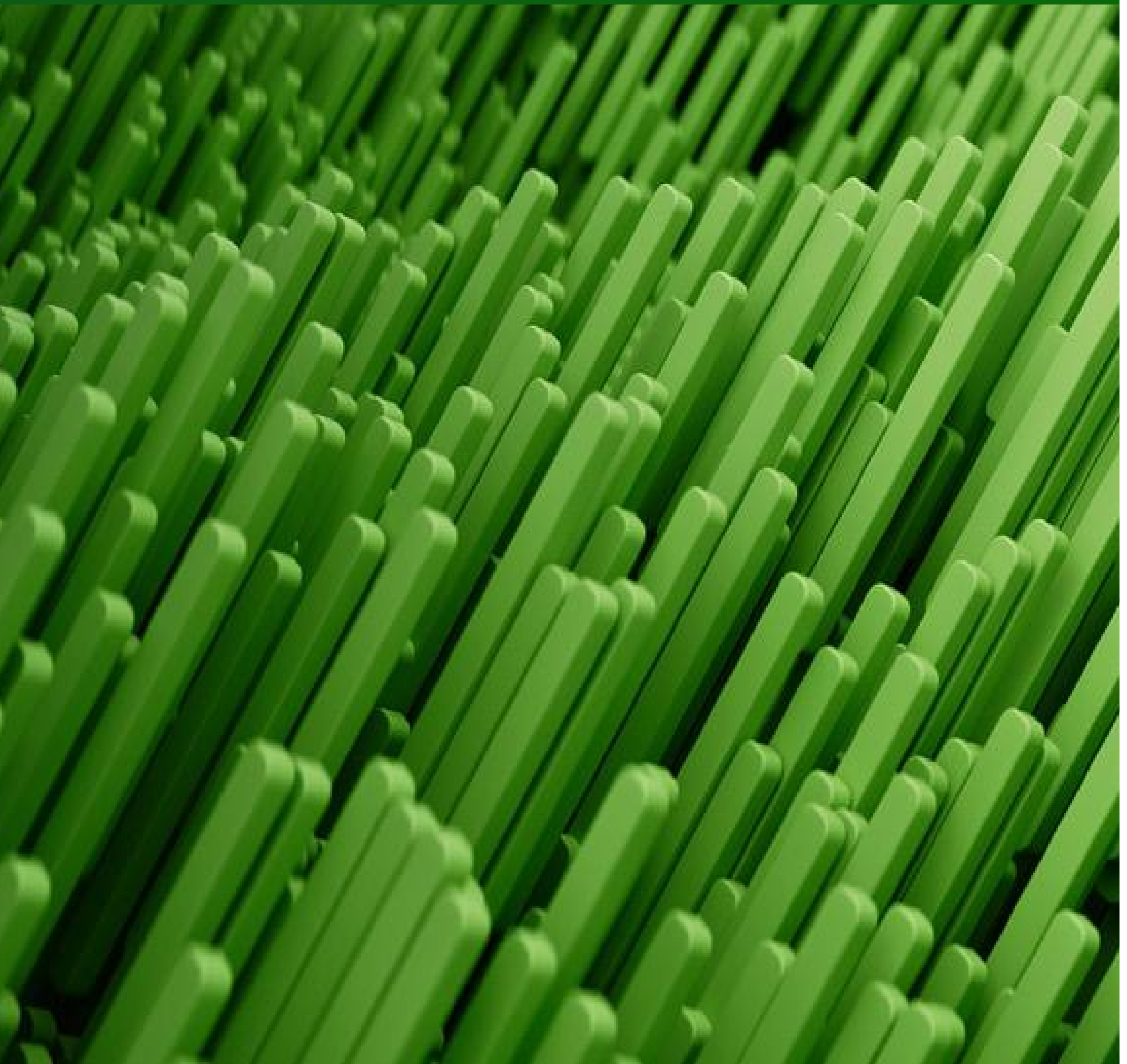
7 P.P. The increase in the share of express delivery since 2021

Ready-to-eat sales across retail chains will continue to outpace HoReCa

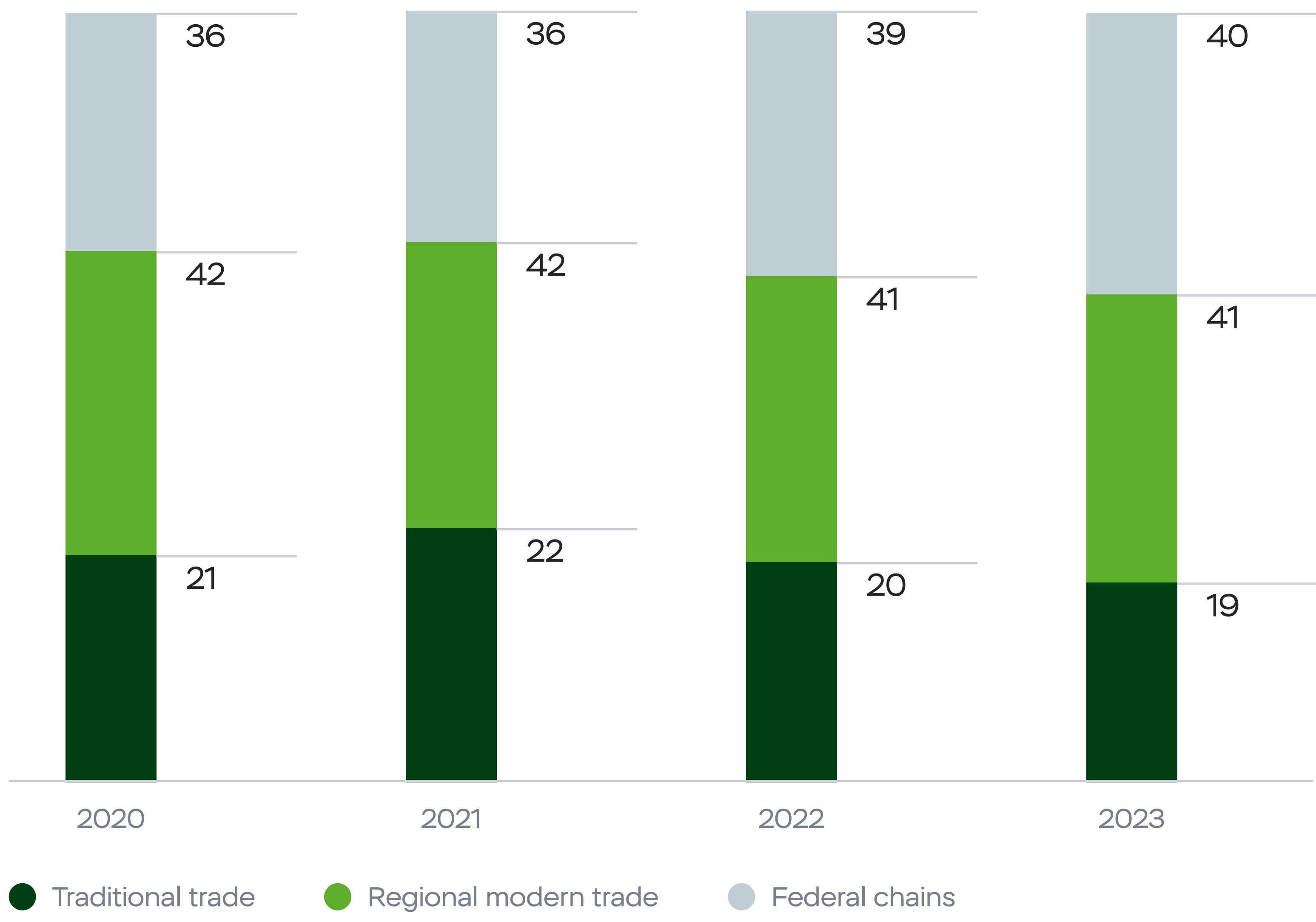
18% CAGR for 2023–2025 Ready-to-eat

10% CAGR for 2023–2025 HoReCa

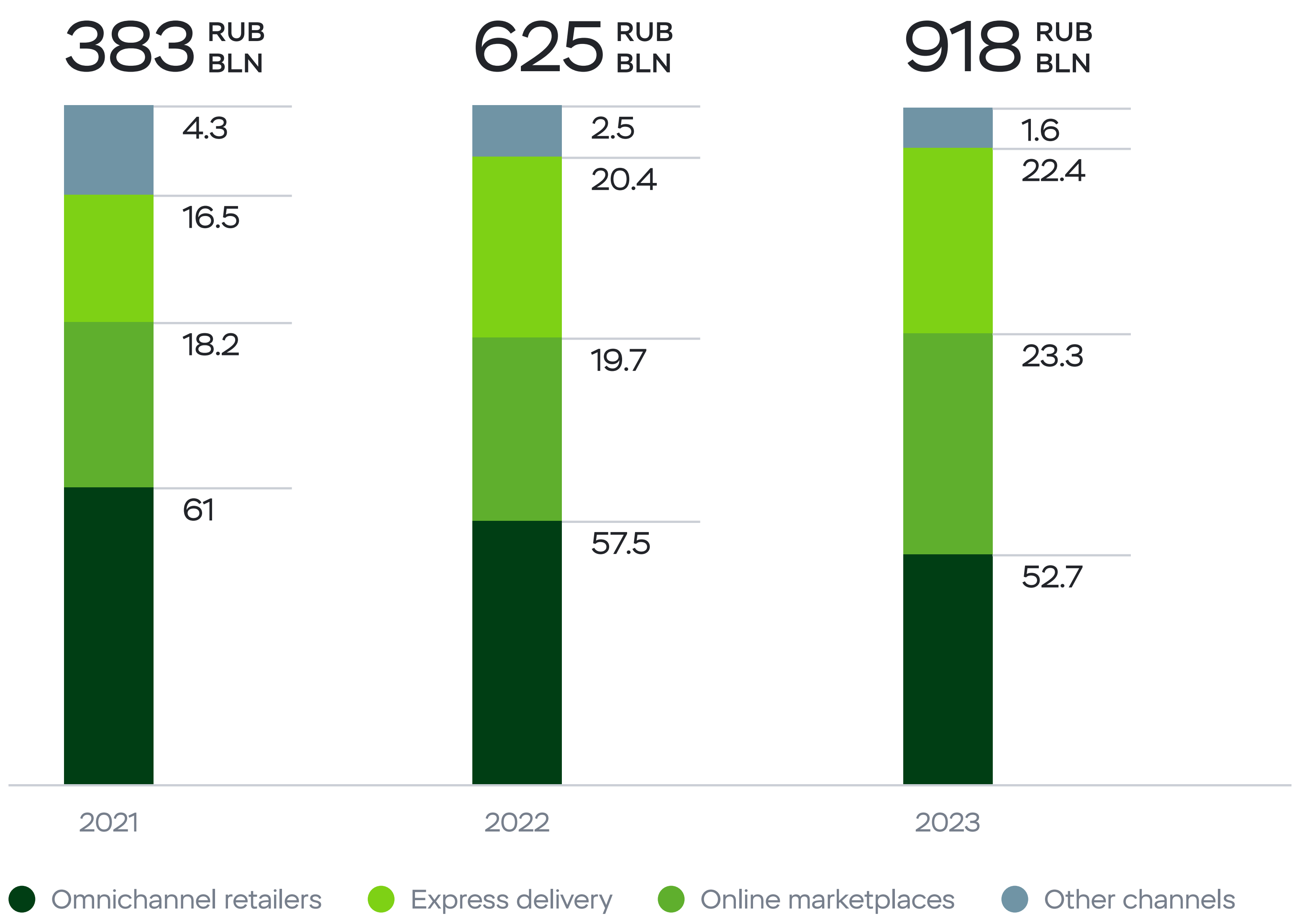
In total, X5's formats are present in what accounts for over 50% of the market today.



Russian grocery retail market dynamics, %



E-grocery market development, %



Top 10 Russian food retailers, % market share

		2022	2023
1	X5 Group	13.2%	14.6%
2	Magnit	10.5%	10.6%
3	Mercury Retail Group	5.6%	6.1%
4	Lenta	2.3%	2.3%
5	Svetofor	1.7%	1.6%
6	Auchan	1.3%	1.2%
7	Vkusvill	1.1%	1.2%
8	METRO	1.0%	1.0%
9	Monetka	0.9%	1.0%
10	O'KEY	1.0%	0.9%
TOTAL TOP 10		38.5%	40.5%

Top 10 Russian online food retailers, % market share

		2022	2023
1	Samokat	12.4%	15.9%
2	Vkusvill	14.0%	14.6%
3	X5 Group	11.2%	13.2%
4	Wildberries	9.2%	10.8%
5	Ozon	9.3%	9.5%
6	Yandex.Lavka	6.1%	6.9%
7	Lenta	6.4%	5.7%
8	Magnit	4.9%	4.2%
9	METRO	4.3%	3.4%
10	Auchan	2.5%	2.3%
TOTAL TOP 10		80.3%	86.6%

Source: INFOLine

Trends in the economy and consumer behaviour

According to preliminary estimates, GDP rose 3.6% in 2023. Average annual inflation fell from 13.8% in 2022 to 5.9% in 2023, with food inflation decreasing from 13.8% to 4.4%. Nominal wages continued to grow by an average of about 14% year-on-year in 2023 (according to Rosstat) amid labour shortages. Consumer activity picked up amid higher real disposable income driven by real wage gains. Consumer lending increased from 9.5% to 26.7%. The average annual RUB/USD exchange rate was 85.1 roubles in 2023, compared with 68.1 roubles a year earlier.

The labour market remained strong throughout the year. Unemployment steadily declined to 2.9% in Q4 2023, driven by shrinking workforce and higher demand for labour in most sectors. The economy is seeing record employment, with labour shortages in most industries. On top of this, migration is down and is now sitting at its lowest level recorded.

The 4.7% growth in real disposable income had an impact on the food retail market in 2023, with food retail trade turnover up 3.3% in real terms. Nominal market volumes increased by 8.2%. The socio-economic situation of recent years has sparked a shift in the consumer habits of Russians and has ushered in rational consumption. This trend led to a reshuffle in the format mix of food retail chains. With consumer focus shifting from supermarkets and hypermarkets to more affordable shopping at proximity stores and hard discounters, growth in the latter segment is up more than 30%.

Food inflation decelerated at the beginning of the year, with deflation reported in Q2 2023, and picked up again in the second half of 2023, while nominal wage growth remained high amid labour shortages. Higher annual price increases for goods and services were also driven by a weaker rouble.

The Bank of Russia raised its key rate a total five times, going from 7.5% to 16% in 2023, signalling a tighter approach in response to the growth of pro-inflationary factors and the volatility in the rouble exchange rate.

Selected macroeconomic data

Russian macroeconomic indicators, year-on-year comparison, %	2022					2023				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Real GDP	3.5	(4.1)	(3.7)	(2.7)	(2.6)	(1.8)	4.9	5.5	5.3	3.6
RUB/USD exchange rate, weighted average for the period	84.7	66.0	59.4	62.3	68.1	72.7	81.0	94.1	92.7	85.1
CPI	11.5	16.9	14.4	12.2	13.8	8.7	2.7	5.1	7.2	5.9
Food inflation	13.5	19.5	15.6	11.2	13.8	7.4	(0.2)	3.6	7.1	4.4
Real wage growth	3.1	(5.4)	(1.9)	(1.1)	(1.2)	1.9	11.4	8.7	9.3	7.8
Real income growth	(1.6)	(2.2)	(2.5)	0.4	(1.4)	3.2	5.4	4.9	5.1	4.7
Unemployment rate	4.2	4.0	3.8	3.7	3.9	3.5	3.2	3.0	2.9	3.2
Nominal retail trade turnover	17.2	7.9	5.2	2.3	7.7	0.7	10.3	15.6	18.1	11.4
Nominal food retail trade turnover	16.6	17.1	13.2	8.0	13.4	5.2	5.8	8.7	11.7	8.0

Legislative changes

Regulations	Relevant changes in legislation	Effective date
Preventing the sale of labelled products past their expiry date	An experiment is being conducted to introduce a mechanism to prevent the sale of labelled products past their expiry date. The experiment seeks to define criteria for a mechanism making it technically impossible to sell products that were put into circulation illegally or reached their expiry date, as well as develop and test relevant hardware and software. For more details, see Resolution of the Russian Government No. 74 On Conducting an Experiment in the Russian Federation to Make It Technically Impossible to Sell Food, Tobacco, and Nicotine-Containing Products That Were Put into Circulation Illegally or Reached Their Expiry Date, dated 24 January 2023	3 February 2023
Extending moratorium on inspections	The moratorium on inspections was extended until 2030. The specifics of carrying out unscheduled inspections to follow up on improvement notices in 2023 were clarified. For more details, see Resolution of the Russian Government No. 372 On Amendments to Certain Legislative Acts of the Russian Government and Invalidation of a Specific Provision of a Russian Government Act, dated 10 March 2023	17 March 2023
Extending the permit to import products meant for circulation within Russia only	The permit to import products meant for circulation within Russia only, without mandatory labelling, was extended until 1 September 2023. This mandatory labelling must be attached to the products imported to Russia before they are offered to consumers (users). For more details, see Resolution of the Russian Government No. 430 dated 20 March 2023 On Amendments to Resolution of the Russian Government No. 353 dated 12 March 2022	21 March 2023
Changes in regulation of nicotine-containing products	A minimum price for nicotine-containing products was introduced, to be set by the Russian Government before 1 September 2023. The Government may prepare a list of flavourings, additives, and colourings that will be prohibited in production of nicotine-containing products. Any discounts on nicotine delivery systems were prohibited. Restrictions on the ways of retailing tobacco and nicotine-containing products were extended to cover nicotine delivery systems (effective from 1 June 2023). Advertising showing the use of nicotine delivery systems was prohibited (effective from the publication date). For more details, see Resolution of the Russian Government No. 430 dated 20 March 2023 On Amendments to Resolution of the Russian Government No. 353 dated 12 March 2022	28 April 2023
Changes in regulation of nicotine-containing products	Penalties for selling tobacco products, nicotine-containing products, and nicotine delivery systems to minors were increased. For more details, see Federal Law No. 175-FZ On Amendments to the Code of Administrative Offences of the Russian Federation, dated 28 April 2023	9 May 2023

Legislative changes

Regulations	Relevant changes in legislation	Effective date
Changes in safety risk regulations	EMERCOM of Russia added yet another risk indicator to its list of fire safety risk indicators. The new risk is posed by a facility where installation, maintenance, or repair of fire safety equipment was performed by an organisation whose licence had been suspended within 30 days prior to the works. For more details, see Order of the Ministry of the Russian Federation for Civil Defence, Emergencies, and Elimination of Consequences of Natural Disasters No. 705 dated 4 July 2023	21 August 2023
Veterinary certificate regulations	The new order is more comprehensive than the previous one, as it provides detailed answers to most questions, for example: • The new Order highlights the requirement to obtain a veterinary certificate for transportation before the transportation begins, and a veterinary certificate for the transfer of rights without transportation – before the transfer of the relevant rights. Exemption in both cases is provided where a relevant veterinary certificate is obtained to replace a cancelled one • The Order's provisions detail information required to obtain a veterinary certificate for production, depending on the product type • The timeframe for obtaining veterinary certificates for production was extended to 48 hours after the production process is completed. Goods were allowed to be redirected to a specific point if a veterinary certificate for return or redirection is obtained • Supply chain participants for products subject to certification may choose not to obtain a physical veterinary certificate in case of emergencies • Registered users are notified of any errors made in their veterinary certificate applications by e-mail. The application record is not removed in this case For more details, see Order of the Ministry of Agriculture of the Russian Federation No. 862 On Approval of Veterinary Rules for Preparing Veterinary Certificates, a Procedure for Obtaining Electronic Veterinary Certificates, and a Procedure for Obtaining Physical Veterinary Certificates, dated 13 December 2022	1 September 2023
Mandatory labelling of bottled water with identification means	New requirements effective from 1 September 2023 include mandatory labelling of bottled water with identification means (the Commodity Nomenclature code 2201 and the OKPD2 code 10.86.10.310) and submission of labelling data for bottled water and data on putting it into circulation via the Chestny ZNAK system. From 1 March 2024, information on bottled water coming to / going out of circulation is subject to mandatory reporting. For more details, see Resolution of the Russian Government No. 834 dated 27 May 2023 On Amendments to Resolution of the Russian Government No. 841 dated 31 May 2021	1 September 2023
Labelling dietary supplements with identification means	The procedure for labelling dietary supplements with identification means was determined along with requirements for dietary supplement supply chain participants and rules for submitting information to the labelling system. For more details, see Resolution of the Russian Government No. 886 On Approval of the Rulesfor Labelling Dietary Supplements with Identification Means and Specifics of Implementing the State Information System for Monitoring the Circulation of Goods Subject to Mandatory Labelling with Identification Means, in Respect to Dietary Supplements, dated 31 May 2023	1 September 2023

Legislative changes

Regulations	Relevant changes in legislation	Effective date
Mandatory registration in the cosmetic products for hand hygiene labelling system	Gradual changes in cosmetic products labelling system, including: • 1 September 2023: the start of mandatory registration in the hand sanitiser labelling system for all supply chain participants • 1 October 2023: the labelling was made mandatory. Manufacturers and importers in the supply chain are required to put relevant codes on consumer packaging labels and submit data on the products coming into circulation via the Chestny ZNAK track and trace system • 1 March 2024: obligation for all supply chain participants to submit information on cosmetic products for hand hygiene with antibacterial effect stated on the consumer packaging labels going out of circulation (unit accounting) • 1 May 2024: all supply chain participants are obliged to submit information on the circulation of labelled goods (volume and type accounting) • 1 September 2025: all supply chain participants are obliged to submit information on the circulation of labelled goods (unit accounting) for each item of labelled goods For more details, see Resolution of the Russian Government No. 870 On Approval of the Rules for Labelling Cosmetic Products for Hand Hygiene with Antibacterial Effect Stated on the Consumer Packaging Labels, as Well as Hand Sanitisers – Disinfectants with Identification Means and Specifics of Implementing the State Information System for Monitoring the Circulation of Goods Subject to Mandatory Labelling with Identification Means, in Respect to Cosmetic Products for Hand Hygiene with Antibacterial Effect Stated on the Consumer Packaging Labels, as Well as Hand Sanitisers – Disinfectants, dated 30 May 2023	1 September 2023
Mandatory labelling for non-alcoholic beverages	The transition to mandatory labelling for non-alcoholic beverages commenced on 1 September 2023. As from the said date, manufacturers, importers, and sellers must apply for registration in SIS Monitoring. • Manufacturers and importers of non-alcoholic beverages (excluding juices, nectars, plant-based milk, and kompots) must label these products and submit labelling details. Information on the withdrawal of the said products from circulation, including through sales, will need to be submitted to the monitoring system from 5 November 2024 • Manufacturers and importers of juices, nectars, plant-based milk, and kompots must label these products and submit labelling details from 1 June 2024. Information on the withdrawal of the said products from circulation, including through sales, will need to be submitted to the monitoring system from 1 March 2025 The sale of unlabelled non-alcoholic beverages put into circulation before the introduction of mandatory labelling for manufacturing and imports is allowed until the expiry dates of these products. For more details, see Resolution of the Russian Government No. 887 On Approval of the Rules for Labelling Certain Types of Non-alcoholic Beverages, Including Juice-Containing Ones, and Juices with Identification Means and Specifics of Implementing the State Information System for Monitoring the Circulation of Goods Subject to Mandatory Labelling with Identification Means, in Respect to Certain Types of Non-alcoholic Beverages, Including Juice-Containing Ones, and Juices, dated 31 May 2023	1 September 2023

Legislative changes

Regulations	Relevant changes in legislation	Effective date
Submitting information to the Unified Register of Internet Advertising	The company may be subject to penalties in case of failure to submit certain advertisement details or failure to meet deadline for submission. Non-compliances related to advertising identifiers (tokens), is also subject to penalties. The labelling of internet advertising will be monitored by Roskomnadzor. This agency is in charge of the internet advertising accounting system, the Unified Register of Internet Advertising. For more details, see Federal Law No. 274-FZ On Amendments to the Code of Administrative Offences of the Russian Federation, dated 24 June 2023	1 September 2023
Regulation of production and circulation of tobacco products, nicotine-containing products, and raw materials	The recently signed law on tobacco market control has introduced comprehensive state regulation of the tobacco industry, introducing in particular: • the licensing of activities related to the manufacturing and import of tobacco products, nicotine-containing products, and raw materials for their production. The new licensing requirements do not apply to retail trade • the procedure for obtaining (reissuing) and revoking licences • manufacturers' obligation to register core equipment for the manufacturing of relevant products. If the equipment is not in use, it will need to be mothballed • the proposed expansion of the functions of the Russian Federal Service for Alcohol and Tobacco Market Regulation (Rosalkogoltabakcontrol) and empowering it to control tobacco and nicotine-containing products. For more details, see Federal Law No. 203-FZ On State Regulation of Production and Circulation of Tobacco Products, Nicotine-Containing Products, and Raw Materials for Their Production, dated 13 June 2023	1 September 2023 (clauses introducing licensing – from 1 March 2024)
Expansion of the list of risk indicators for federal supervision in consumer rights protection	Rospotrebnadzor has expanded the list of risk indicators for federal-level state control (supervision) in consumer rights protection. The new indicators will be identified using the Chestny ZNAK system. They apply to retail outlets selling tobacco and nicotine-containing products as well as nicotine delivery systems. For more details, see Order of the Russian Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor) No. 502 dated 4 August 2023	10 September 2023
Expansion of the list of risk indicators applicable to the manufacturing and circulation of alcoholic products	The list of risk indicators applicable to the manufacturing and circulation of alcoholic products was expanded. For more details, see Order of the Ministry of Finance of the Russian Federation No. 107n dated 29 June 2023	6 October 2023

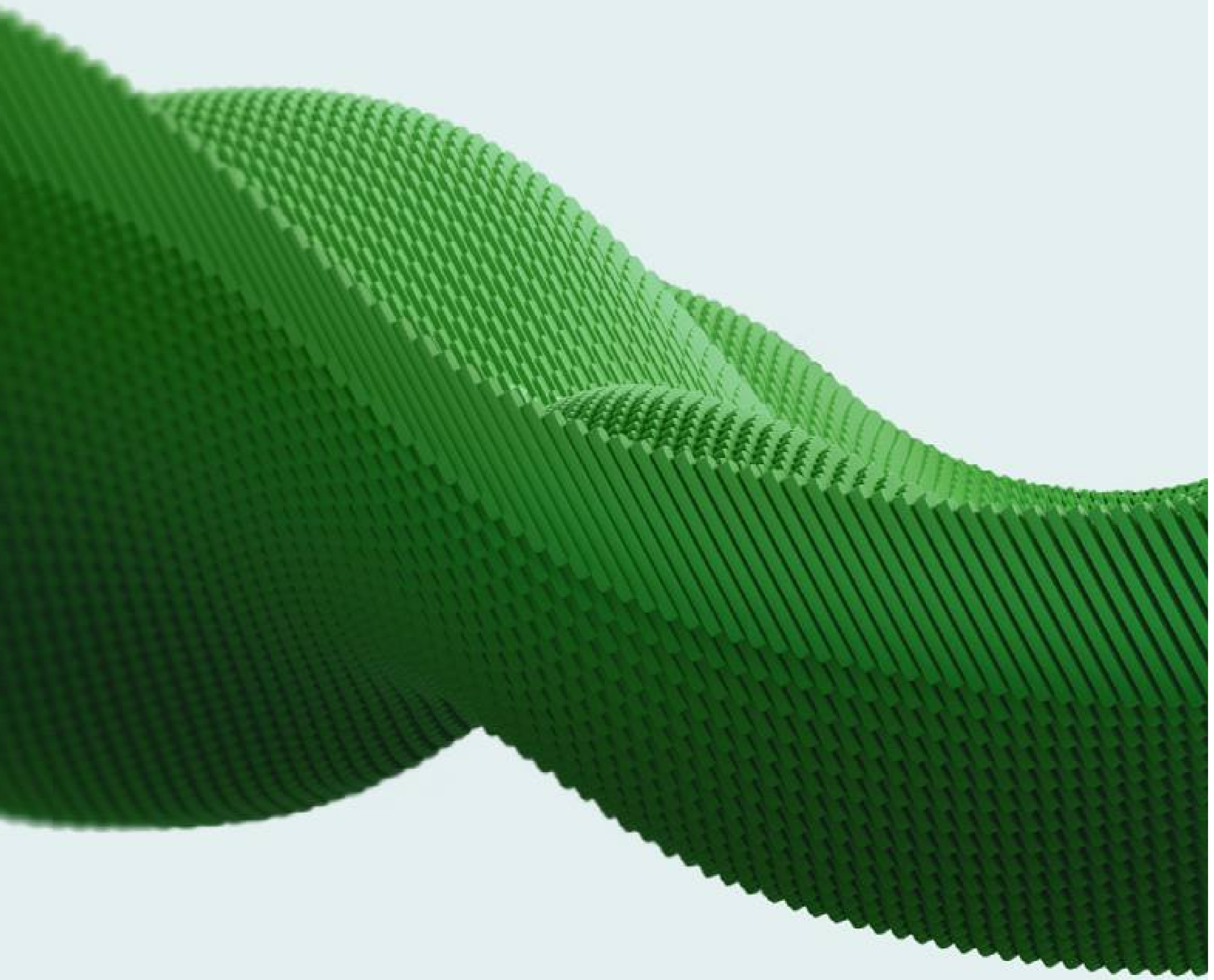
Legislative changes

Regulations	Relevant changes in legislation	Effective date
Duties for certain types of alcoholic and tobacco products	Higher excise duties have been introduced for certain types of alcoholic and tobacco products. Federal Law No. 539-FZ dated 27 November 2023	27 November 2023
Rules of user authentication	As from 1 December 2023, the owner of a website, software, or other internet resource that requires user authentication must conduct it in one of the specifically determined ways (via a cell phone, the Unified Identification and Authentication System, the unified biometric system or another system compliant with information protection requirements). For more details, see Federal Law No. 406-FZ On Amendments to Federal Law On Information, Information Technology, and Information Protection and Federal Law On Communications, dated 31 July 2023	1 December 2023
Obligation of the seller to check the relevant goods are not prohibited from sale	The Government has approved a list of cases where the sale of labelled goods will be prohibited. The seller will be obliged to check the relevant goods are not prohibited from sale. At the same time, the seller may not sell the goods if grounds for prohibition are identified. For more details, see Resolution of the Russian Government No. 1944 dated 21 November 2023	12 December 2023
Provision of various services to legal entities established in Russia	Following a number of EU sanctions packages adopted since February 2022, the provision of various services to legal entities established in Russia has been prohibited pursuant to Article 5n of Council Regulation (EU) 833/2014. This prohibition has been subject to an exemption in case of services provided to Russian subsidiaries of EU legal entities. On 18 December 2023 the EU amended Article 5n and introduced a deadline of 20 June 2024 for the exemption of Russian subsidiaries of EU legal entities. Due to this legislative change, once this deadline has been reached, X5 Retail Group N.V. and other service providers must obtain a license before providing restricted services to X5's Russian subsidiaries. The Company is in the process of filing an application for a license with the Dutch competent authority enabling the Company and its directors and employees to provide restricted services, insofar there are any, ensuring the uninterrupted continuation of the Group's business operations in Russia. In the event that no license is granted, X5 Retail Group N.V. will take the necessary measures to mitigate any potential impact on the Group's business operations in Russia.	18 December 2023
Increasing administrative penalties for violations of personal data	The Law on Increasing Administrative Penalties for Violations of Personal Data (PD) Processing was signed. Penalties for processing PD without written consent, as well as for non-compliance with the information composition requirements, will increase significantly. Penalties for repeat violations will also be increased. For more details, see Federal Law No. 589-FZ dated 12 December 2023	23 December 2023

Legislative changes

Regulations	Relevant changes in legislation	Effective date
Extension of the current moratorium on business inspections	The Russian Government extended the current moratorium on business inspections as part of control and supervisory activities until the end of 2024. For more details, see Resolution of the Russian Government No. 2140 dated 14 December 2023	23 December 2023
Changes in waste management and recycling responsibility regulations	The extended producer responsibility reform is ongoing, with new provisions approved, such as: responsibility for recycling packaging from goods manufactured in the Russian Federation is transferred from the manufacturers of such goods to packaging manufacturers/importers; manufacturers/importers of goods must ensure the recycling of waste from the use of goods independently etc. For more details, see Federal Law No. 451-FZ On Amendments to Federal Law On Production and Consumption Waste and Certain Legislative Acts of the Russian Federation, dated 4 August 2023	1 January 2024

CEO and President's statement



Dear stakeholders,

Our 2023 Annual Report spotlights some of X5's most remarkable achievements and positive changes during a year with a turbulent market environment, and we are pleased to share them with you.

We successfully worked on cementing our leadership in the Russian food retail market while developing three key formats: the proximity store, supermarket, and hard discounter. In 2023, X5 Group posted strong double-digit growth in revenue (20.8% year-on-year) and solid like-for-like sales performance of 9.6%, all while keeping EBITDA margin at 6.8%. Our operating results speak for themselves. The same is true for our retail network – we significantly increased the number of stores under the X5 banner to a record 24,472 outlets across all formats.

To consolidate our leadership, we constantly seek new opportunities for growth and expansion. In 2023, the Group entered the Russian Far East and bolstered its market presence with strategic M&A deals. The transformation of the Karusel format was seen through to completion, and the Company focused on further improving the key formats that perfectly meet customers' expectations.

One of our flagship operations – Pyaterochka – continued to deliver rapid network expansion, adding 2,144 new stores. In March 2023, the chain launched its first stores in the Russian Far East. This made X5 the first nationwide food retailer to boast a presence in this region and created more opportunities for local customers to access high-quality products at low prices. Elsewhere, Pyaterochka expanded its footprint via targeted M&A deals that serve to solidify X5's leadership in the Russian food market. In April 2023, X5 acquired Tamerlan, the owner of several discounter chains and a supermarket chain in southern Russia. In August, X5 completed the acquisition of Victoria Baltia, a retail operator in the Kaliningrad Region, enabling the Company to establish a foothold in this highly promising territory. M&As and strategic partnerships will help drive our business expansion out of reach of competitors while also propelling profound organic growth.

Throughout 2023, we continued to enhance our unique value proposition at Perekrestok supermarkets in order to drive efficiency gains and boost like-for-like sales. X5 plans to continue the transformation of its supermarkets, striving to remain customer centric and deliver tailored services at every step of the customer journey while building a more efficient business.

Our hard discounter format – Chizhik – made significant progress in expanding its footprint on the back of growing demand for high-quality, low-priced food products. In 2023, Chizik opened 983 new stores, bringing the total count to 1,500 nationwide. In October 2023, our hard discounter launched its first stores in Siberia and plans a further massive expansion in the region. The format won customers' hearts through its tailored selection of quality and affordable products, while the development of the Chizhik chain remains among top priorities for X5.

In 2023, we saw a notable shortage of operating personnel on the market and, as a result, a significant increase in labour costs. The negative impact of this on our margins was partially offset by internal initiatives aimed at efficiency. Key measures included increasing automation in stores and logistics, and introducing day and night non-contact picking, which resulted in lower average headcount per store. These improvements allowed us to increase labour productivity by 9% in 2023.

We do not foresee a substantial improvement in the labour market in 2024 and plan to continue our initiatives to improve the efficiency of X5's business processes (including rolling out automation in stores and logistics, scaling up contactless pickup, increasing the number of self-service checkouts, and more). As a result, we expect further growth in labour productivity in 2024.

Meanwhile, we are driving closer intra-group collaboration: in 2023, we introduced a new management model to promote operational flexibility.

Our digital businesses remained a core part of the customer journey in 2023, and we look to lead the pack in the industry, primarily in Moscow and the Moscow Region. We are focused on building up a hybrid backbone for our online operations, bringing together stores and dark stores, and also on improving the mobile customer journey.

X5 Digital's net sales increased by 75.7% year-on-year in 2023. We have continued the rapid expansion of express delivery services from Pyaterochka proximity stores and Perekrestok supermarkets to provide our customers with the convenience of a seamless omnichannel shopping experience. At the same time, the relentless competition and the current pressure on margins in this segment have not yet allowed us to effectively translate top-line growth into better profitability.

CEO and President's statement

In 2023, X5's online delivery logistics service, 5Post, entered Siberia and passed the milestone of 20,000 pickup points across Russia. This move has enabled 5Post to approach 100% coverage of our targeted geographic footprint while making online deliveries for customers in Siberia easier, faster, and closer to home.

We continuously deliver on our strategy to expand our presence at each step of the customer journey by developing the X5 Club joint loyalty programme and complementary services. In 2023, X5 integrated nearly all of its businesses – express delivery services from Pyaterochka and Perekrestok, the media platform Food.ru, and the sushi delivery service Mnogo Lososya – into the updated X5 Club loyalty programme. Now customers can conveniently earn and spend bonus points when shopping at Pyaterochka and Perekrestok, as well as when ordering ready-to-eat food from Mnogo Lososya, all from a single loyalty account.

One area where we are consistently stepping up our efforts, and will continue to do so going forward, is our commitment to community engagement. In September 2023, X5 Group's Supervisory Board approved an updated sustainable development strategy that sets out the Company's sustainability targets to 2025. Under the strategy, X5 set new targets for energy efficiency and emissions reduction, among other goals, and placed a stronger emphasis on social programmes to include food aid, supporting local communities, and promoting inclusion. X5's sustainability initiatives were awarded high ESG ratings from the rating agencies ACRA and Expert RA in 2023.

Our people are the most valuable asset at X5 Group. The wealth of experience, in-depth knowledge of the business, and relentless commitment to success that the X5 team brings to the table cannot be underestimated. We will continue to foster and inspire the winning culture and true entrepreneurial spirit that have always been the hallmark of our organisation.

On behalf of all the management team, we would like to thank our employees, business partners, investors and customers for their loyalty to X5 Group during 2023, which, hopefully, will continue to show going forward.

Igor Shekhterman
X5 Group Chief Executive Officer

Ekaterina Lobacheva
X5 Group President

Our strategy

No. 1 by market share growth in food retail

Strategic priorities

Maintaining Pyaterochka's growth momentum • We are maintaining Pyaterochka's high growth rates and are shifting its product assortment towards the low-price segment	**Expanding e-grocery business and driving efficiency gains** • We are building the most efficient e-grocery business in the market
Sharpening Perekrestok's edge over competitors • We are sharpening Perekrestok's competitive edge through its unique assortment and focus on large cities	**Developing new formats** • We are creating new areas of growth through new formats
Driving Chizhik's aggressive growth • We are aggressively growing the Chizhik chain and aim for a leadership position in the hard discounter segment	**Maintaining a strong customer focus** • We continue to apply a customer-journey lens to keep the customer top-of-mind and develop services for each stage of the customer journey
Expanding into new regions • We are expanding into new regions by striking alliance deals with local chains where we acquire a controlling stake	**Managing our business portfolio** • We are managing the Company as a portfolio of saleable businesses
Fostering a partnership approach • We are implementing a partnership approach to store management	

Successfully meeting our food market leadership goals in 2023

- We are maintaining our leadership in the food retail market with a focus on growth in three key segments: proximity stores, supermarkets, and hard discounters
- We are accelerating Pyaterochka's growth: in 2023, we added more than 2,000 new stores – including through expansion into the Russian Far East and the integration of regional chains – as well as demonstrated LFL sales growth above food inflation level and increased express delivery volumes by 159%
- We are updating Perekrestok's CVP, which is aimed at strengthening its leading position in the supermarket segment, as reflected in LFL sales growth above food inflation level and online sales increasing by 72%. The new concept of the Perekrestok Café was developed as part of the supermarket format's revamped CVP, with rollout planned for 2024. At present, Perekrestok is among the leaders in the casual meal segment in Russia by number of outlets
- We are continuing our active expansion in the hard discounter segment: as at 2023-end, we had 1,500 Chizhik stores in operation and had opened our first stores in several Siberian regions
- We are strategically focused on securing the leading position among omnichannel food retailers in Moscow and the Moscow Region, as well as on driving efficiency gains in the Russian regions, developing express delivery services from our retail stores and dark stores, and continuously enhancing our customers' mobile app experience
- We are developing our ready-to-eat services to cover all customer needs, both offline and through delivery services, and are increasing our operational capacities, including through regional partnerships
- We are driving stronger intra-group collaboration: in 2023, we introduced a new management model to promote operational flexibility
- We are taking consistent steps to expand our presence at each step of the customer journey and are developing the X5 Club joint loyalty programme and complementary services

2023 strategic highlights

14.6%
X5 Group's share in the food retail market

13.2%
X5 Group's share in the e-grocery market

28.4 MLN
MAUs across digital channels
including Food.ru

84.7%
Employee engagement rate

Building X5's presence at each step of the customer journey

X5 is strategically focused on consistently expanding its presence at each step of the customer journey:

- Developing a single digital express delivery platform
- Piloting a wholesale distributor and Okolo small format
- Boosting logistics service efficiency: 5Post became a top-3 market leader, doubling its number of partners in 2023
- Developing the X5 Club joint loyalty programme
- Launching complementary B2B resources: a media platform for advertisers

Geography of operations

X5 Group's extensive geographic presence has been pivotal for solidifying our leadership in Russia's food market, fostering profitable and efficient growth in both offline and online retail, while we persistently refined our operations. By the end of 2023, X5 had successfully expanded its network to include 24,472 retail stores, 3 large dark stores, 41 express delivery dark stores, and 62 distribution centres, covering 72 Russian regions, marking significant strides in our operational capabilities and market reach.

Digital businesses

We continue to expand our digital businesses, leveraging a robust IT infrastructure and vast retail operations to deliver agile services – all without losing our focus on the bottom line. Throughout 2023, X5 expanded its partnership with leading online delivery aggregators to offer delivery of food and non-food items from Vprok.ru, X5's online hypermarket, in addition to express delivery.

As at 31 December 2023, our express delivery service was available from 8,515 stores and 41 dark stores across 69 Russian regions, as compared to 4,483 stores and 44 dark stores in 64 regions in 2022. Our last-mile e-commerce delivery service – 5Post – had over 26 thousand pickup points in operation, including over 5 thousand multi-parcel lockers at 2023-end, as well as 73 Mnogo Lososya dark kitchens.

24,472
Retail stores as at 31 December 2023

62
Distribution centres as at 31 December 2023

41
Express delivery dark stores as at 31 December 2023

3
Large dark stores as at 31 December 2023

Number of stores by federal district

As at 31 December	2019	2020	2021	2022	2023
Central	6,301	6,703	7,181	7,703	8,515
North-Western	1,836	1,910	1,998	2,081	2,310
Central and North-Western	8,137	8,613	9,179	9,784	10,825
Volga	4,306	4,621	4,895	5,256	5,919
Ural	1,358	1,535	1,672	1,885	2,195
Southern	1,501	1,718	1,951	2,211	2,912
North Caucasus	293	334	388	433	490
Siberian	702	886	1,036	1,696	1,978
Far Eastern[1]				58	153
Total	16,297	17,707	19,121	21,323	24,472

1 Krasny Yar and Slata.

Note: based on federal districts of the Russian Federation.

Net retail sales by federal district in 2023, %

Federal district	Shareof net retail sales, %	% of Russian population	RUB mln per 1,000 people
Central	44.4	27.5	34.6
Volga	18.3	19.6	20.0
North-Western	12.5	9.5	28.3
Ural	7.8	8.4	20.0
Southern	8.6	11.4	16.2
North Caucasus	1.3	7.0	4.0
Siberian	6.5	11.4	12.3
Far Eastern	0.3	5.4	1.4

X5 Today

21,308
Pyaterochka stores

972
Perekrestok supermarkets

610
Krasny Yar and Slata stores

1,500
Chizhik hard discounters

3
Large Vprok.ru dark stores

41
Express delivery dark stores

73
Mnogo Lososya dark kitchens

Multi-format presence in 8 federal districts (FDs)

24,472
Total stores
As at 31 December 2023

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	477	2,663	7,292	5,364	2,147	1,918	1,358	89
Perekrestok	10	65	541	129	157	70	–	–
Chizhik	3	184	607	425	–	207	74	–
Krasny Yar and Slata	–	–	–	–	–	–	546	64
Number of DCs[1]	1	7	19	17	6	7	4	1
Number of dark stores	–	–	8	1	3	–	–	–
Number of dark kitchens	–	–	67	–	3	–	–	–
Number of pickup points/ parcel lockers	554	2,849	9,806	6,560	2,790	2,592	907	–

1 Pyaterochka, Perekrestok, and Chizhik only.

Express delivery services available from 8,515 stores and 41 dark stores spanning 69 regions

Over 26 thousand 5Post pickup points, including over 5 thousand multi-parcel lockers, available from 20.3 thousand stores across 66 regions

Pyaterochka

Pyaterochka is Russia's largest proximity retailer by revenue and number of stores.

Today, the proximity format operates 21,308 stores in 69 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 7,409 stores through both X5's in-house delivery service and aggregators. In 2023, total GMV reached RUB 68.3 billion.

AS AT 31 DECEMBER 2023

21,308
Pyaterochka stores in 69 regions

380–420 SQM
Average selling space

Key 2023 highlights

CUSTOMER METRICS

6.2 BLN
Customer visits
+12.2%, 2022/23

461 RUB
Average ticket
+4.5%, 2022/23

44.3 MLN
Active loyalty card users[1]
+10.5%, 2022/23

84.9 %
Loyalty card penetration in sales

27.2
NPS
+9.4, 2022/23

OPERATIONAL METRICS

21,308
Stores in operation
+11.2%, 2022/23

8,339 THS SQM
Selling space
+11.2%, 2022/23

9.8 %
LFL sales growth

FINANCIAL METRICS

2,494 RUB BLN
Revenue
+17.4%, 2022/23

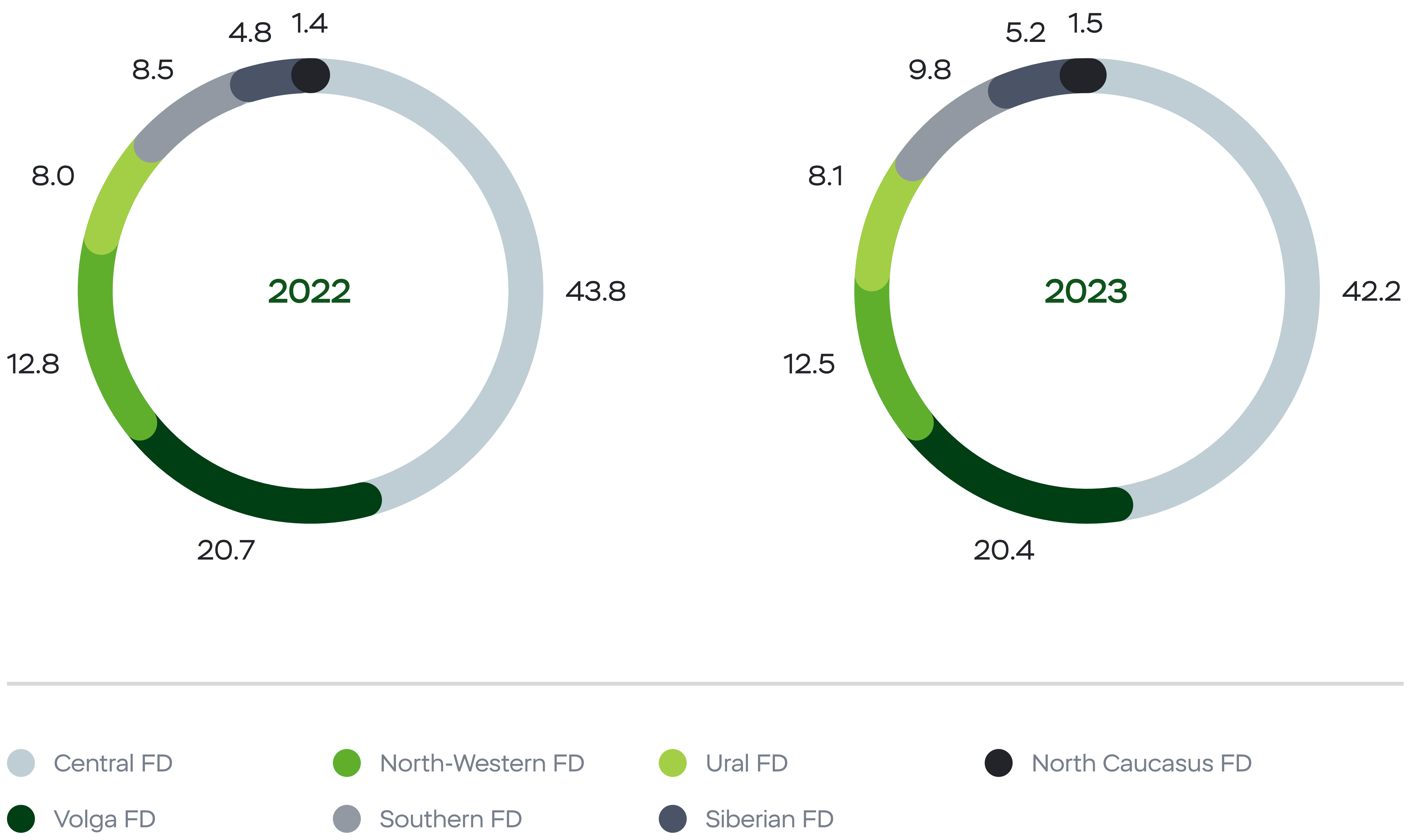
8.6 %
EBITDA margin pre-IFRS 16[2]

1 At least one purchase made in December 2023.
2 Excl. allocation of expenses of the corporate centre and centralized functions.

Key operating results

	2019	2020	2021	2022	2023	CAGR
Number of stores, eop	15,354	16,709	17,972	19,164	21,308	8.54%
Selling space, ths sqm, eop	5,975	6,542	7,048	7,497	8,339	8.69%
Net retail sales, RUB bln	1,367	1,597	1,794	2,123	2,491	16.19%
Customer visits, mln	4,460	4,662	5,029	5,524	6,190	8.54%

Net retail sales by region, %



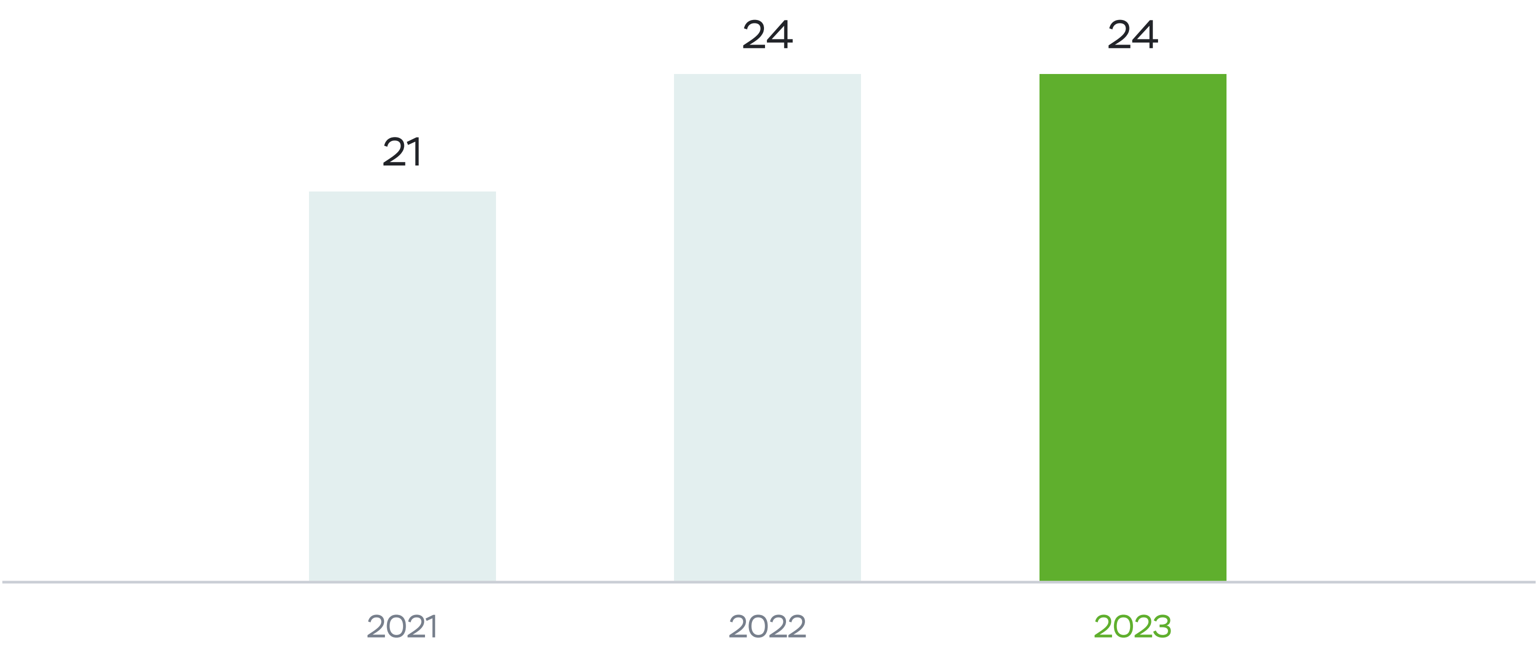
Strategic priorities

Our goal is to outpace the growing proximity segment by boosting LFL sales and store expansion.

Value proposition

- Store with bargain prices
- A wider selection of products compared to discounters
- Easy choice and proximity to home
- Convenient and fast shopping (offline and online)

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

Measures to improve key drivers (capacity utilisation, pallet efficiency, inventory turnover ratio, and freight breakdown)

LABOUR PRODUCTIVITY

Automation and introduction of day and night non-contact picking, resulting in reduced average headcount per store

LEASES

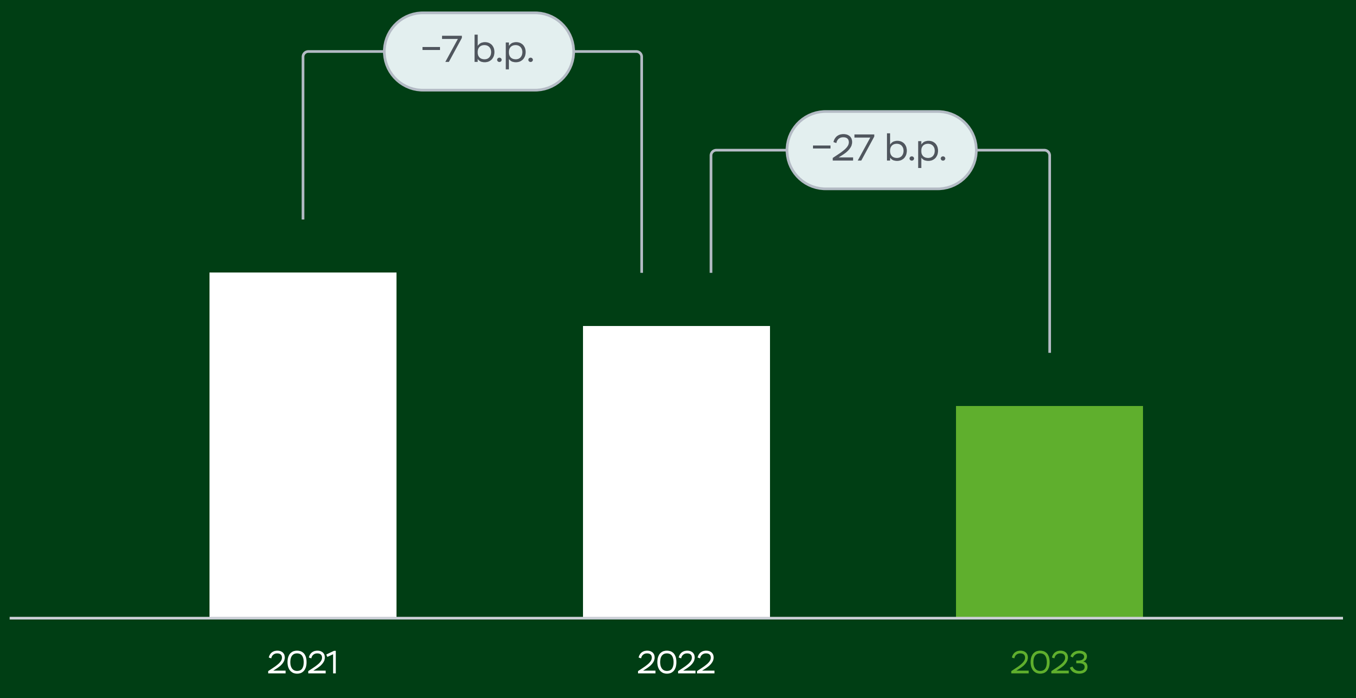
Further optimisation of lease expenses and sublease income growth

RANGE EFFICIENCY

Smart assortment optimisation

Reduced inventory and shrinkage through an end-to-end supply planning process

Shrinkage



Shifting to a partnership model for store management

Pyaterochka continues scaling its Store Director – Partner programme, which is focused on fostering a partnership culture.

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.

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, and have discretion to recruit and motivate staff, influence the product mix to increase the share of individual product groups, etc.

In 2023, the Store Director – Partner project brought the Company solid results. By the year-end, the programme covered 27% of Pyaterochka stores, and the transformation of the store director's role generated over RUB 5.9 billion in incremental EBITDAR[1] for 2023.

The Company plans to turn as many as 100% of store directors across Russia into partners by 2027. 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 from existing partner managers across the entire chain, boosting the programme's performance.

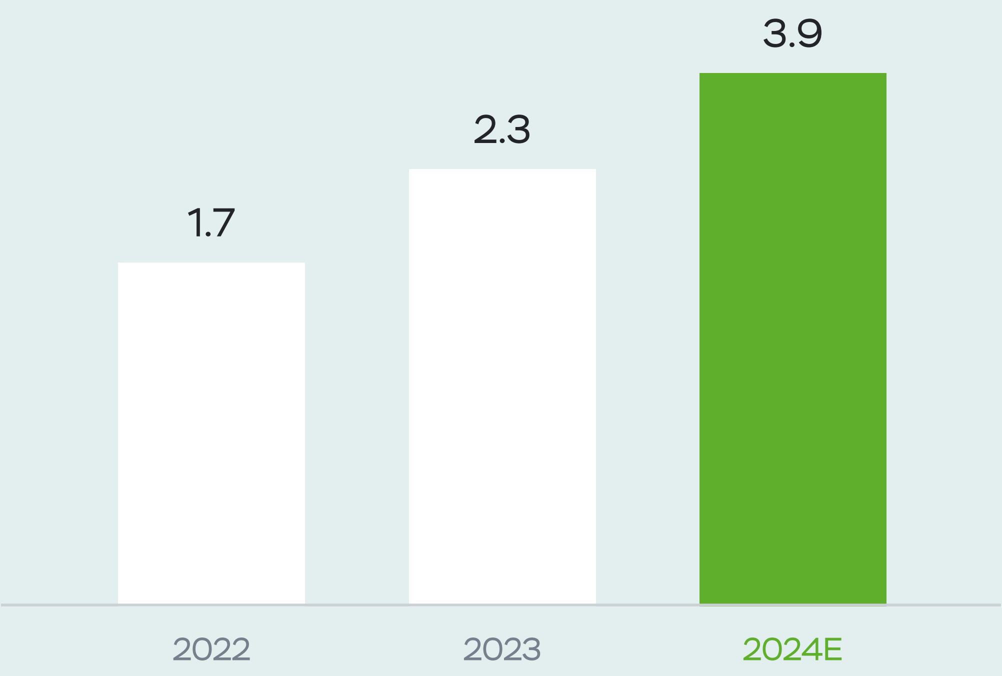
1 Earnings before interest, tax, depreciation, amortisation, and rent costs.

Ready-to-eat

Driven by the growing demand for ready-to-eat food, Pyaterochka is working to expand the assortment in this segment. We consider customer feedback received via the app and surveys to further improve our offering.

- Bakeries: increasing the number of bakeries at Pyaterochka stores
- Packaged meals: growing the assortment of meals, with breakfasts, snacks, rolls, and burgers being the main growth drivers
- Coffee: increasing the share of stores with coffee points

Share of ready-to-eat sales in revenue, %



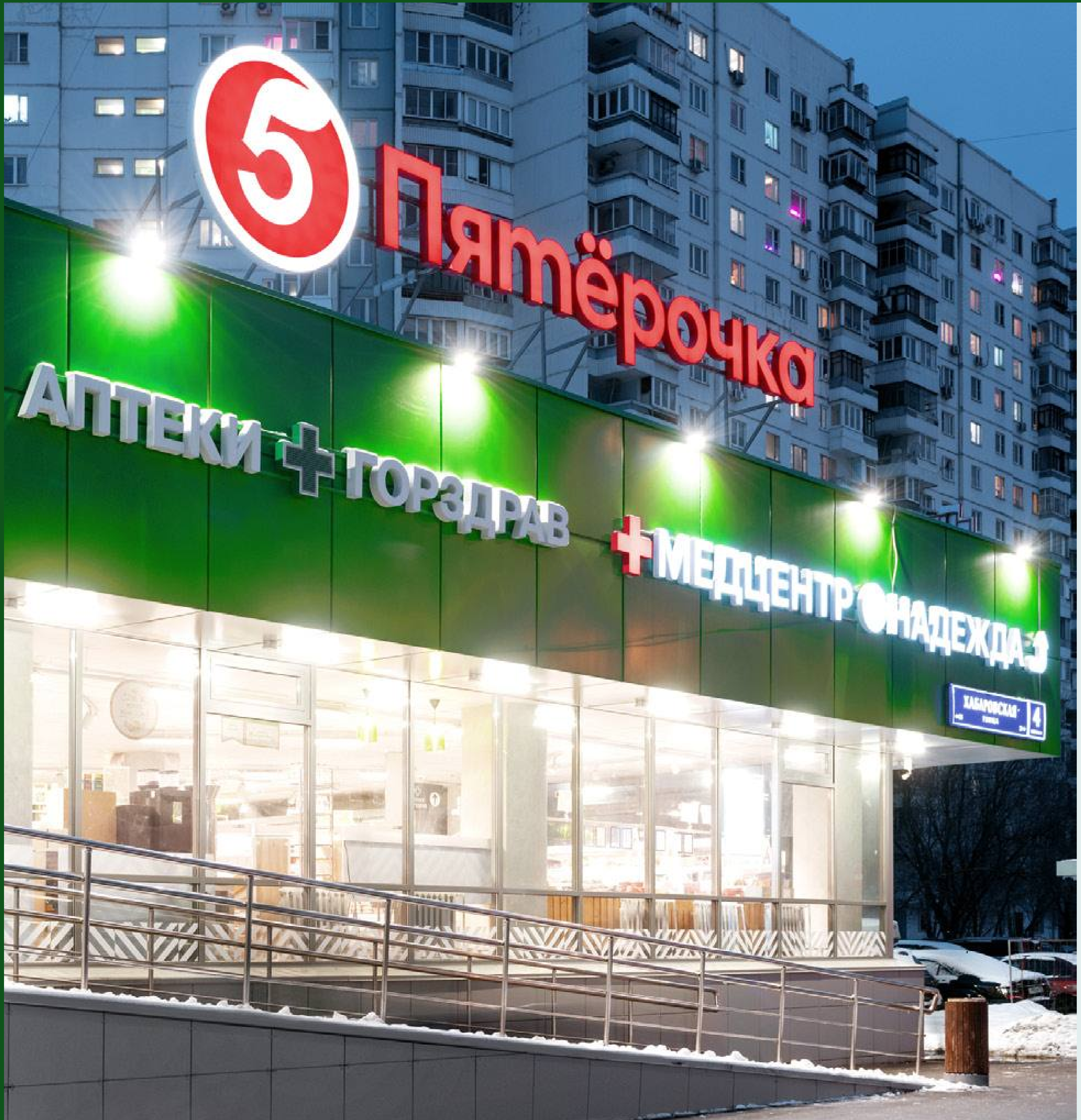
Geographic expansion and M&A

In 2023, Pyaterochka continued to drive expansion through both organic growth and strategic M&A deals. In April 2023, X5 acquired Tamerlan, which operates several discounter chains and a supermarket chain in southern Russia. In August, X5 acquired Victoria Baltia, consolidating its position in the promising Kaliningrad Region. Both companies are now operated by Pyaterochka.

In March 2023, Pyaterochka opened its first stores in the Russian Far East, making X5 the first national grocery retailer to gain a foothold in this region and make quality products at low prices more accessible to local customers. Pyaterochka further strengthened its presence in this region by acquiring the Amba retail chain in Q4 2023.

In autumn 2023, X5 also acquired long-term leases on more than 100 stores of the Grozd retail chain in the south-west of Russia, which are planned to be integrated into the Pyaterochka chain.

Along with organic growth, X5 will continue to explore expansion opportunities via M&A deals and strategic partnerships in the Russian market.



Plans for 2024

Open around 1,500 own stores and over 300 reverse franchise stores

Increasing the proportion of the chain’s locations with in-store bakeries and coffee points

Develop the online channel and separate online and offline channel operating models in line with CVP

Enhance operational efficiency by cutting operating costs, optimising logistics, and reducing shrinkage

Integrate the retail chains acquired in 2023

Perekrestok

With 972 stores as at 31 December 2023, Perekrestok is Russia's largest supermarket chain, with a focus on the country's large metropolitan areas.

The majority of Perekrestok supermarkets have an assortment ranging from 11,000 to 14,000 SKUs depending on store size and format, and the average selling space is 1,116 square metres. The chain continues to successfully refurbish its supermarkets in line with the chain's new format concept, having increased the share of refurbished stores in its network to 30% as at year-end. Express delivery is available from 923 stores through both X5's in-house delivery service and online aggregators. In 2023, total GMV reached RUB 40.0 billion.

AS AT 31 DECEMBER 2023

972

Perekrestok stores in 46 regions

1,116 SQM

Average selling space

Key 2023 highlights

CUSTOMER METRICS

672 MLN
Customer visits
+2.2%, 2022/23

713 RUB
Average ticket
+6.3%, 2022/23

10.1 MLN
Active loyalty card users[1]
+6.3%, 2022/23

90 %
Loyalty card penetration in sales

33.5
NPS
+6.6, 2022/23

OPERATIONAL METRICS

972
Stores in operation
+0.1%, 2022/23

1,085 THS SQM
Selling space
−0.1%, 2022/23

8.3 %
LFL sales growth

FINANCIAL METRICS

419.8 RUB BLN
Revenue
+8.7%, 2022/23

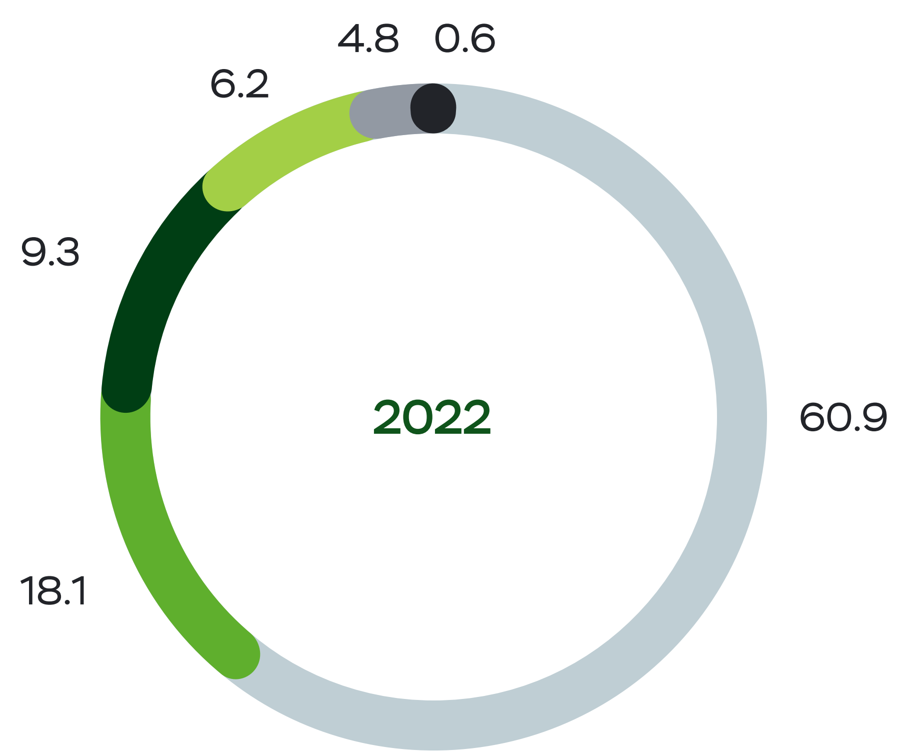
7.0 %
EBITDA margin pre-IFRS 16[2]

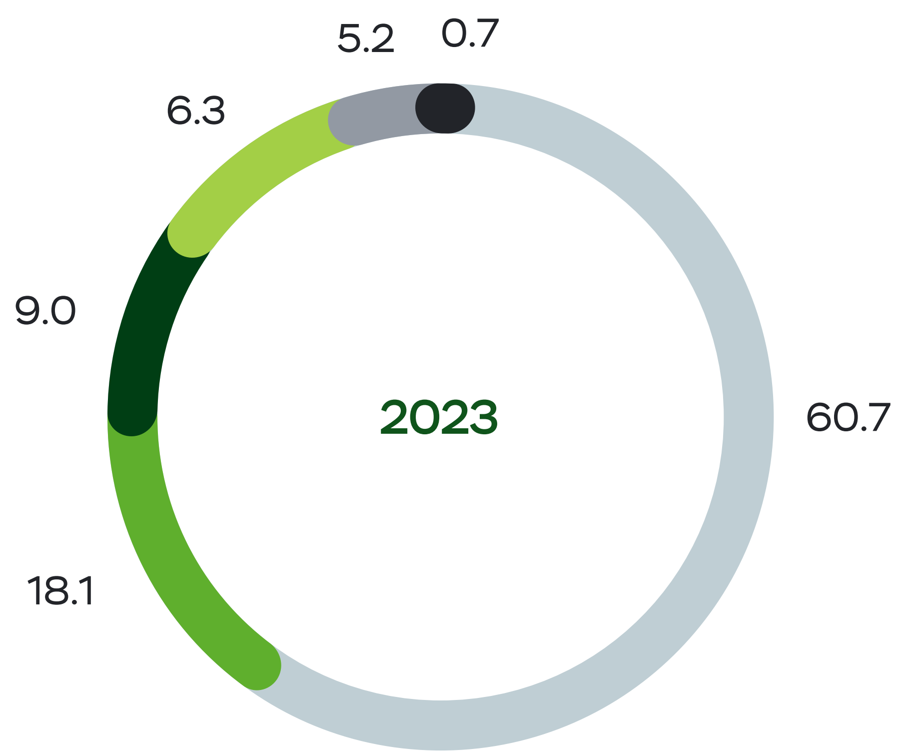
1 At least one purchase made in December 2023.
2 Excl. allocation of expenses of the corporate centre and centralized functions.

Key operating results

	2019	2020	2021	2022	2023	CAGR
Number of stores, eop	852	933	990	971	972	3.3%
Selling space, ths sqm, eop	879	1,014	1,099	1,085	1,085	5.4%
Net retail sales, RUB bln	273	320	349	385	419	11.3%
Customer visits, mln	589	562	636	658	672	3.3%

Net retail sales by region, %

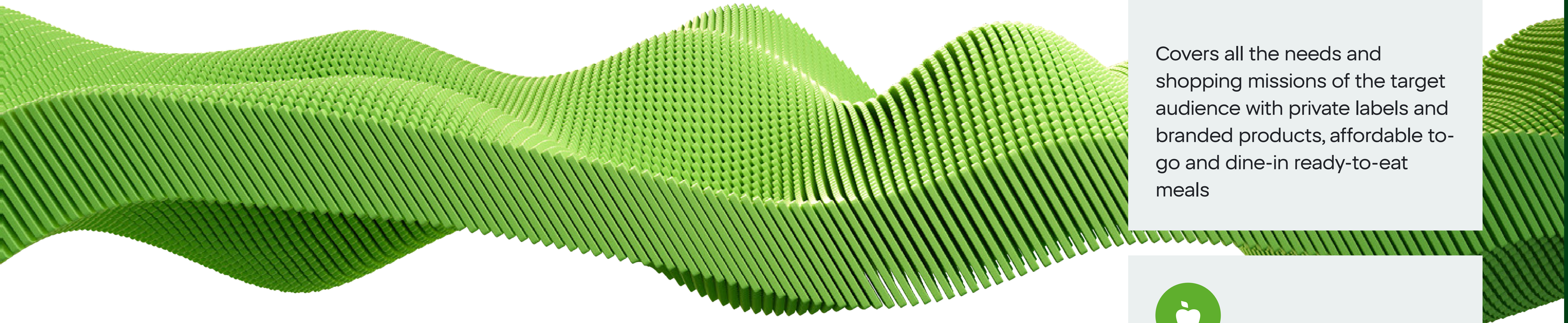




Central FD
North-Western FD
Ural FD
Volga FD
Southern FD
North Caucasus FD

Strategic priorities

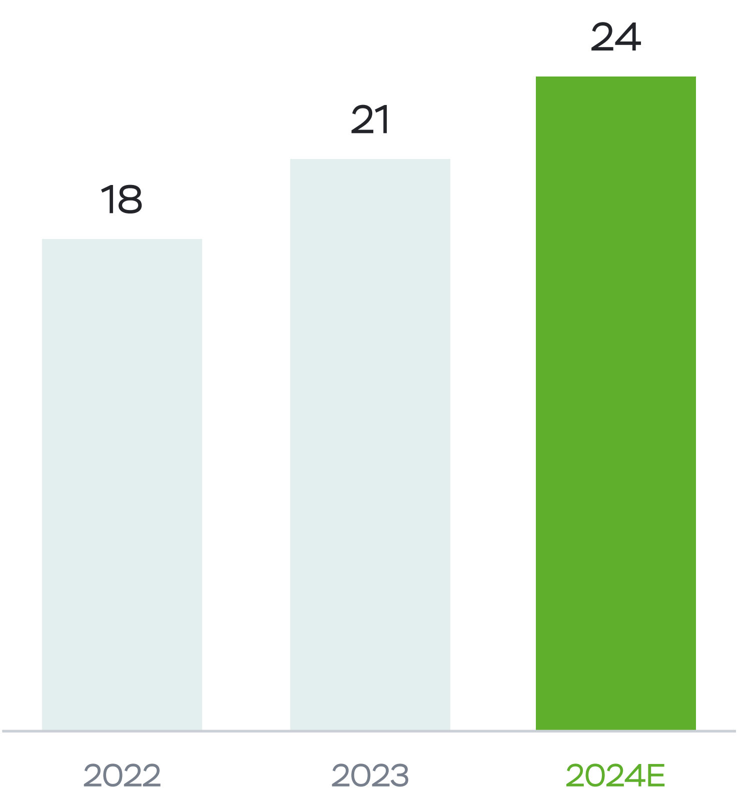
Our goal is to lead in the supermarket segment through LFL growth and consolidation of the target audience, for whom Perekrestok is the go-to store.



The expectations of our target customers underlie Perekrestok's customer proposition

- Higher product quality
- More natural ingredients
- Wider selection
- More new products
- Unusual flavours
- Freshness and service

Private label share of sales (year average), %



Value proposition

Covers all the needs and shopping missions of the target audience with private labels and branded products, affordable to-go and dine-in ready-to-eat meals

Focus on quality, freshness, and a unique offering in point-of-difference categories: Ultra-Fresh, Fruit and Vegetables, Fresh, and Ready-to-Eat

Fast delivery in 60 minutes

Enhancing the value proposition of Perekrestok supermarkets

We have optimised the assortment and more than halved the lead times for new SKUs

We invest in our people as well as in service quality to boost retail sales:

- Store Director – Partner programme and partner motivation
- Face-to-face training programme for employees in focus categories: technology and active sales

We have improved operational processes

We engage relevant in-store specialists to work with the focus assortment

We have updated our private-label and ready-to-eat strategies

Personnel

Our employees are one of the keys to our success in providing a consistently high level of customer service in Perekrestok supermarkets. We are updating our team sourcing and training strategy to develop an atmosphere of hospitality and boost active sales, including via new product recommendations, deals of the day and cross sales.

Training our supermarket directors is one of our key priorities. In 2023, store directors completed modular training under the PerekrestokPRO programme (Supermarket management through P&L, Team management). In addition, during 2023, preparatory work was carried out to update the Director – Partner programme. This programme aims to set a new standard of store management that unleashes each store manager's entrepreneurial mindset and the fundamental impact it can have on the key elements of success for a supermarket. The launch of the new programme is planned for early 2024.

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.

In 2023, Perekrestok's express delivery online business processed 21.4 million orders placed via our in-house delivery service or aggregators.

Perekrestok will continue to ramp up its online sales, focusing on Moscow and the Moscow Region, including through aggregator websites.

Ready-to-eat meals

In Perekrestok customers can enjoy new products more often, as the assortment is rotated on a regular basis (every quarter). We continuously add new categories, including snacks, a children's menu, and seasonal and premium product lines.

PACKAGED READY-TO-EAT MEALS

We are reducing the number of counters where products are sold by weight in favour of packaged food, and focusing on better in-store displays and dependable quality (switching to ready-to-cook meals and fine-tuning quality standards as we go).

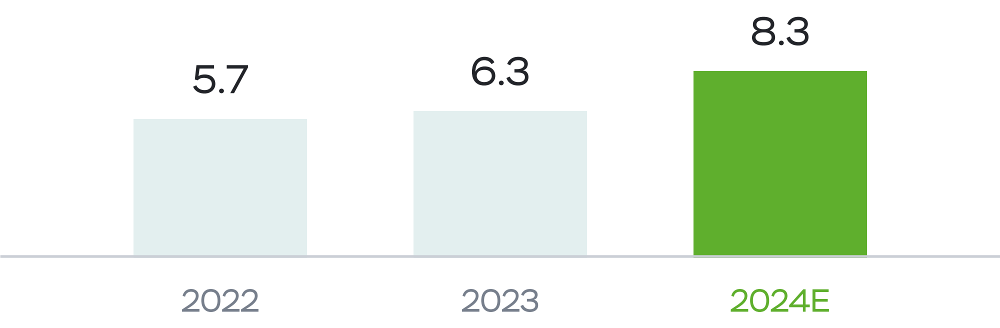
CAFÉS

We are launching in-store cafés and promoting coffee-based drinks, breakfasts, and desserts.

BAKERIES

We continuously update the assortment, improve shelf displays (through new packaging and a more spacious display), and launch attractive in-store promotions.

Share of ready-to-eat sales in revenue,[1] %



1 Including bakery.

Plans for 2024

Update our CVP with a focus on:

- Quality offering in fruits and vegetables, fresh fish, bakery and unique products
- Quality assortment and strategic relationships with partners
- Affordable prices and attractive promos

Further develop our online services to reinforce presence in this segment in Moscow and the Moscow Region

Expand and upgrade our infrastructure, including across stores and DCs

Boost operational efficiency

Chizhik

As rational spending continued to gain more traction among consumers, the hard discount format won over an increasing number of shoppers in 2023. Chizhik is perfectly positioned to capitalise on this trend as a chain with high quality yet affordable products.

By the end of 2023, the retail chain operated 1,500 stores across 43 Russian regions. The average selling space of a Chizhik store stands at 250–300 square metres, with a limited range of products.

AS AT 31 DECEMBER 2023

1,500

Stores in 43 regions

250–300 SQM

Average selling space

Key 2023 highlights

118.4 RUB BLN

Revenue

3x 2022/2023

1,500

Stores

3x 2022/2023

231.9 MLN

Customer visits

4x 2022/2023

442 THS SQM

Selling space

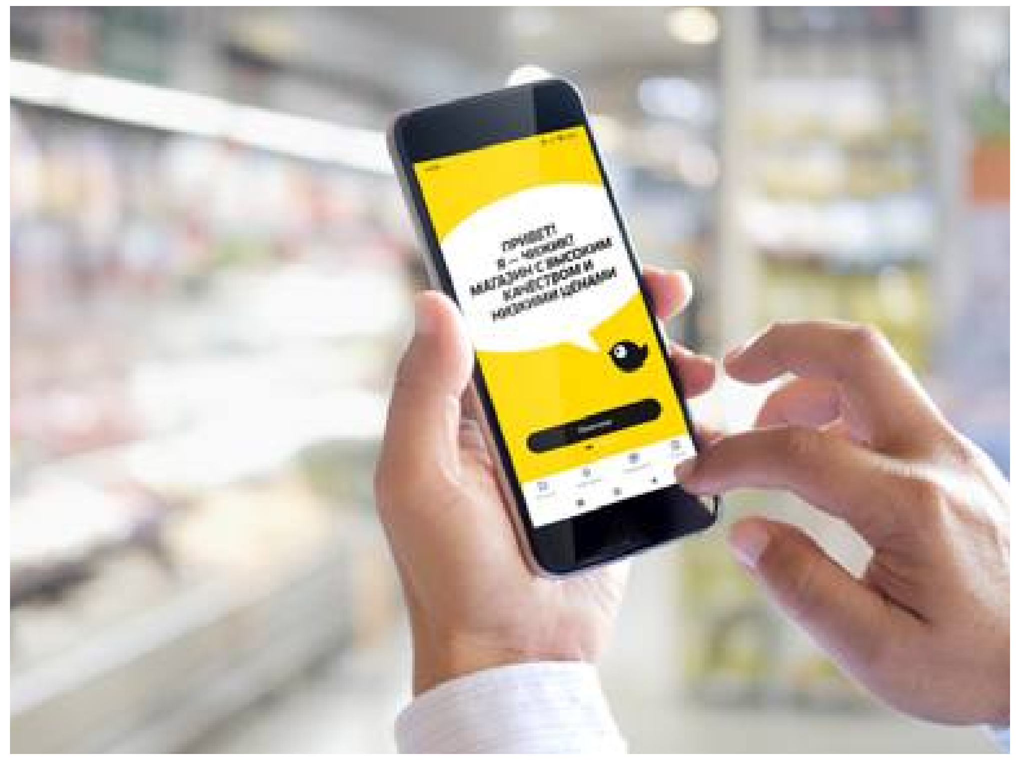
3x 2022/2023

Strategic priorities

Gain leadership in the hard discounter segment Build an efficient and highly competitive business model in the Russian retail market.

CVP

- Hard discounter with better ambience than the competition: stores are clean and products can be conveniently picked up from shelves
- Quick and easy shopping: one PLU per basic shopping need
- Best price-to-quality ratio: lowest price for comparable quality
- Own brand quality that matches or exceeds that of well-known brands



Network expansion

Chizhik continued to grow aggressively in 2023, tripling the size of its store network. We opened 983 stores, bringing the total count to 1,500. The chain entered 30 new Russian regions, operated 12 DCs (including one 3PL), and reached a total footprint of 43 territories by year-end.

In October 2023, our hard discounter launched its first store in Siberia and plans a further massive expansion in the region.

We also launched a mobile app and piloted own delivery from stores in Moscow and the Moscow Region. The mobile app shows the prices and availability of the entire product range at the user's chosen store. Mobile customer feedback allows us to improve the quality of products and the shopping experience, as well as better control our suppliers. We also provide support to mobile shoppers via the app.

Own brands

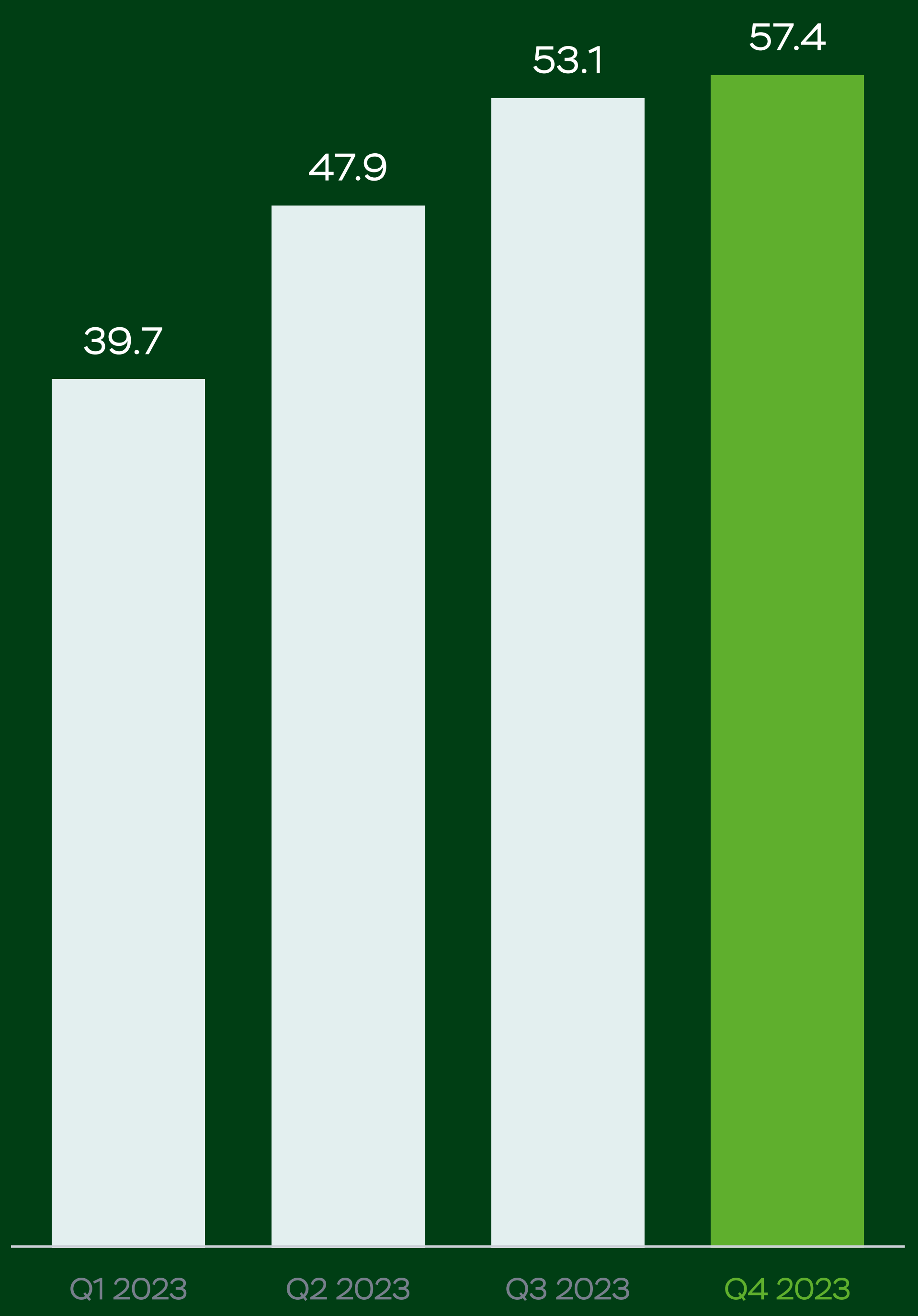
One of our key competences is accurately selecting products and conducting continuous quality control. Only goods that earned the highest marks in procurement tenders may go to our shelves. All of our suppliers are audited against a range of strict criteria, and their foods are rigorously tested in independent labs. We also rely on customer feedback to flag and additionally test food suppliers that do not meet our stringent quality standards. Our customers help us to develop and improve recipes and packaging, and we are always prepared to refund shoppers if they are unhappy with the taste or quality of any product purchased at the chain.

We launched 164 own brand SKUs in 2023, to total over 500 own brand SKUs by year-end. During 2023, we introduced five Chizhik own brands while increasing own brands overall to 31. The share of own brands in the assortment topped 77%.

Higher brand awareness

Chizhik has already reached decent levels of brand awareness and customer loyalty, which are evidenced by the chain's performance. During 2023, prompted brand awareness rose by 18 p.p.

Prompted brand awareness (comparable locations), %



Plans for 2024

Boost operational excellence by

- Launching ten new DCs
- Increasing labour productivity in-store and at DCs

Drive a massive expansion across all locations

Raise awareness and strengthen trust in the Chizik brand and Chizik own brands

Krasny Yar and Slata

Slata retail chain

CUSTOMER METRICS

113.7 MLN

Customer visits

+9.2%, 2022/23

440 RUB

Average ticket

+1.4%, 2022/23

OPERATIONAL METRICS

366

Stores in operation[1]

+1.1%, 2022/23

133 THS SQM

Selling space

+0.5%, 2022/23

10.5 %

LFL sales growth

1 Including one Slata Mini store.

Slata supermarket format

Slata is a leading supermarket retail chain in the Irkutsk Region and one of the largest in Siberia. It offers its customers a wide selection of quality food and related non-food products. Slata's 80 stores promise customers a comfortable atmosphere and attractive offers. The average selling space of a Slata supermarket stands at 650 square metres, with a product range of 7,500 SKUs.

80

Stores

650 SQM

Average selling space

In 2023, we continued to grow the fresh category and invest in own production, strengthening Slata's competitive edge and making the supermarket even more attractive to customers.

The year 2023 saw the launch of a chain-wide initiative built on the philosophy that the deli area attracts customers ("Deli as a Magnet for Customers"). We introduced the Meat and Fish Deli category, which made us a reliable and convenient place to purchase all kinds of products to prepare delicious meals. By stocking unique Asian food, we also satisfied the needs of many of our customers.

Customer feedback allows us to fine-tune our strategies. For example, we responded to customer requests for great deals by increasing promotions and introducing an everyday low price (EDLP) approach in some categories. As a result, the share of promotions reached 27% in 2023.

We also monitor customer service and product quality to improve the shopping experience. We strive to create a welcoming and inviting atmosphere so that customers feel comfortable and enjoy their time in our stores. All our events and promotions are aimed at evoking positive emotions, broadening and strengthening our interaction with customers.

In 2023, Slata achieved an excellent customer satisfaction benchmark with an NPS of 64, one of the highest in the Russian retail. The key drivers of customer loyalty were our convenient locations, diverse product range, and smart staff performance.

KhlebSol discount store format

The discounter format complements our supermarkets and, in line with retail market trends, has become the linchpin of our expansion strategy. KhlebSol is the leading soft discounter in the regions where it operates, with 285 stores averaging a selling space of 280 square metres and a product range of 1,800 SKUs per store.

285

Stores

280 SQM

Average selling space

KhlebSol's core focus is on fresh foods, a cornerstone of our product offering, with an emphasis on private labels. The chain's hallmark reasonable prices are driven by an EDLP approach that still finds space for promos and discounts.

The format's strengths encompass its unique price image, convenient locations, and high share of Fruit and Vegetables in sales. The key success factor in 2023 was the synergy achieved within the strategic partnership with the broader X5 Group and expansion in key categories, including a higher share of direct imports, as well as a change in the approach to managing shrinkage level.

Krasny Yar retail chain

CUSTOMER METRICS

80.9 MLN
Customer visits
+3.1%, 2022/23

511 RUB
Average ticket
+6.3%, 2022/23

OPERATIONAL METRICS

244
Stores in operation
+4.7%, 2022/23

102 THS SQM
Selling space
+3.7%, 2022/23

5.4 %
LFL sales growth

Krasny Yar supermarkets

Красный Яр
гастрономы нашего города

Krasny Yar is one of the Krasnoyarsk Territory's leading supermarkets in terms of revenue. At the end of 2023, the chain operated 63 stores, with an average store area of 566 square metres and a product range of 8,000–12,000 SKUs. The chain continues to improve its key category – own production.

63

Stores

566 SQM

Average selling space

By the end of 2023, the assortment at each Krasny Yar store included fresh baked goods, own confectionery, and deli products. Own production was a key driver of retail LFL sales growth; at the end of the year, own confectionery had grown 32.5%, deli products 18.6%, and baked goods 15%.

In 2023, the team's main efforts were aimed at improving the operational efficiency of the format and its appeal to customers. The chain responded quickly to the rapidly changing macroeconomic situation and will continue to do so in the future. Krasny Yar's vision is to offer a fairly wide range of products at competitive prices at any time. The chain also seeks to improve its offering of Fresh and Ultra-Fresh goods, including own production, since such products are key strategic categories that underpin Krasny Yar's competitive advantages. Promotions and price positioning will continue to be an important focus area to propel the chain into the lead in price perception in the supermarket sector across its footprint. During the year, the company systematically increased the share of everyday low price categories, which allowed the format to win customers in a competitive environment.

In 2023, the chain delivered significant operational efficiency gains by better scheduling employee working hours and optimising processes, which led to increased productivity. In 2024, the chain's team plans to roll out labour automation initiatives to reduce reliance on manual processes. By the end of 2023, more than half of Krasny Yar supermarkets were equipped with self-checkouts.

Baton discounters

БАТОН

Baton is a soft discounter neighbourhood store that offers its customers everyday low prices while avoiding promos and special offer campaigns. The chain has an average selling space of about 370 square metres per store and sells about 1,500 SKUs. In Baton stores, you can find fruits and vegetables, as well as bakeries, which are fitted across half the chain. The chain operates in the Krasnoyarsk Territory, the Republic of Khakassia, and the Republic of Tyva. In 2023, Baton saw expansion in these regions, with the total number of operating stores hitting 181.

181

Stores

370 SQM

Average selling space

The Baton format boasts a robust and efficient business model, which sets itself apart through simplified customer service, limited assortment, and pallet and boxed displays. The format leans on Fresh, increasing its offer of fresh baked goods, fruit and vegetables, and meat and dairy products. The chain targets low- and middle-income customers who want to save money on everyday purchases without wasting time looking for promotions. An important component of the format's business model is high sales density underpinned by high operational efficiency. This approach allows the chain to invest in everyday low prices, which is especially important amid falling disposable incomes.

The format's CVP is built around:

- price leadership in its regions of operation
- a focus on products in the first-price, low-price, and medium-price segments
- a high level of availability and affordability of Fresh and Ultra-Fresh products
- satisfying more customer needs by covering one need with one or two products
- accessibility within walking distance
- working with supermarkets to offer a single loyalty programme; driving insights into the customer base through big data analysis.

Operational efficiency is the most important strength at Baton. Year-in, year-out the chain strives to simplify processes and optimise its headcount: a typical store has as few as seven employees. The chain's approach to workforce planning has been revised and store equipment has been upgraded, leading to further productivity gains in 2024. The chain will continue to improve the balance between costs and customer service in order to offer customers unbeatable value for money.

Premiya single loyalty programme

At the end of 2023, the number of active Premiya loyalty programme members topped 1.2 million and sales penetration exceeded 90%.

X5 Club

The loyalty programme X5 Club today combines the customer experience of retail chains Pyaterochka and Perekrestok, sushi delivery service Mnogo Lososya, media platform Food.ru, delivery service 5Post, and online hypermarket Vprok.ru. The largest Russian delivery aggregators are also partners of this programme.

Key 2023 highlights

- **77 MLN** Users
- **69** Regions of Russia
- **2.6x** Higher average ticket
- **85.7%** Sales penetration

In 2023, the loyalty programme proved its effectiveness, resulting in a more active core customer base and a significant increase in the number of cross-format clients. X5 Club currently has over 77 million members and over 48.7 million monthly active users.

Analytics show that loyalty programme members have a 2.6x higher average ticket and visit X5 Group stores more often (8–9 times a month) than customers who are not signed up (2–2.5 times a month). The average ticket of customers who have selected their favourite categories in-app was 8% higher.

This performance led X5 Club to top for the second time INFOLine's annual ranking of loyalty programmes with a high level of regional coverage (the programme is available in 69 Russian regions).

On top of this, an important update was rolled out in 2023: X5 Club introduced the ability to spend bonus points on non-product services from programme partners. This includes offers from popular online streaming platforms, an e-book service, a game store, and many others.

In August 2023, X5 Club implemented a new rewards system involving a list of tasks that the user must complete to earn a prize.

In a bid to grow the loyalty programme, X5 Club and Pyaterochka launched two digital communities between September and November 2023, Fluffy Club and Children's Club, which can be accessed via Pyaterochka's own app.

In November 2023, X5 Group relaunched its bank card to combine the functionalities of a regular debit or credit card and an X5 Club loyalty card.

Plans for 2024

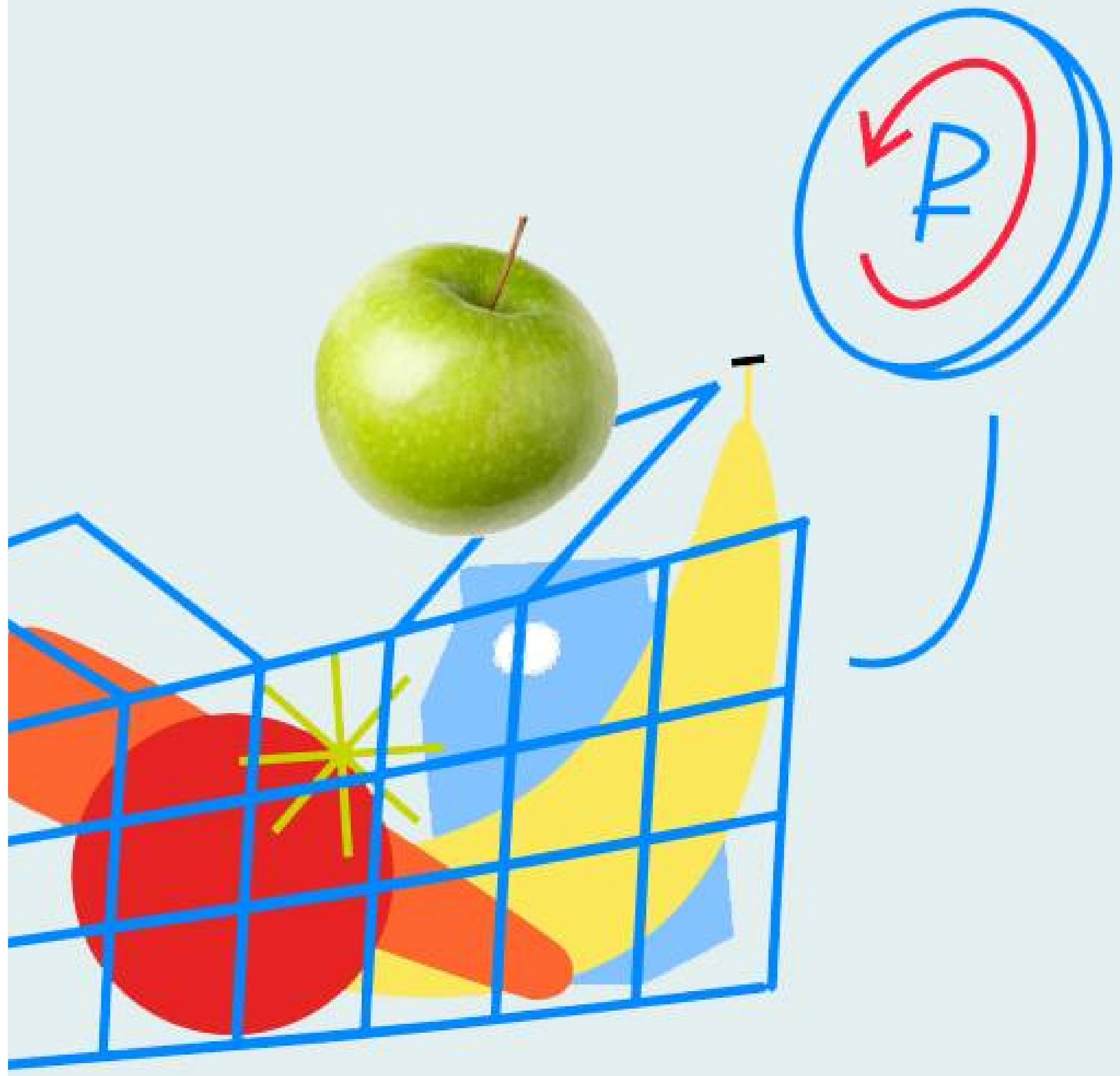
We will focus on consolidating our existing customer base while driving digital personalisation for customers.

Paket

Paket is X5's unique paid loyalty subscription service launched in 2021 to offer customers extra cashback on regular purchases at Pyaterochka and Perekrestok, along with additional perks and bonuses from various partners.

Customers receive 5% cashback on non-sale items and up to 50% cashback in other categories. Paket service provides access to the extensive ecosystem of X5 products, offering privileges and benefits both offline and online.

The service is available for a modest monthly subscription fee of just RUB 120.



Plans for 2024

- 2 million active subscribers by year-end
- Expand our partnership with Yandex Plus
- Scale up our partner distribution system
- Launch and distribute special Paket-branded products with extra price privileges for subscribers
- Increase the sales of Paket subscriptions as an SKU
- Enhance and further develop Paket with new paid features

Key 2023 highlights

- Surpassed one million active subscribers by year-end
- Launched service distribution through partnerships with Yandex, MegaFon, Gazprom Bonus, and Shokoladnitsa
- Ran two 360 advertising campaigns in collaboration with Yandex Plus at Pyaterochka and Perekrestok
- Ran two national advertisement campaigns on TV in collaboration with X5 Club (X5 Group loyalty platform)
- Launched sales of Paket subscription as an SKU at the checkouts in stores
- Introduced extended subscription options for Paket, including 6- and 12-month plans
- Provided all X5 employees with complimentary temporary access to Paket

X5 Digital

X5 Digital operates an express delivery technology platform, a network of small dark stores that enables the delivery of Pyaterochka and Perekrestok products within 40–60 minutes, and a network of large dark stores with an expanded assortment under the Vprok.ru brand.

Key 2023 highlights

135.3 RUB BLN

GMV

+76.4% y-o-y

75.1 MLN

Total orders

+118.2% y-o-y

1,519 RUB

Average ticket (express delivery)

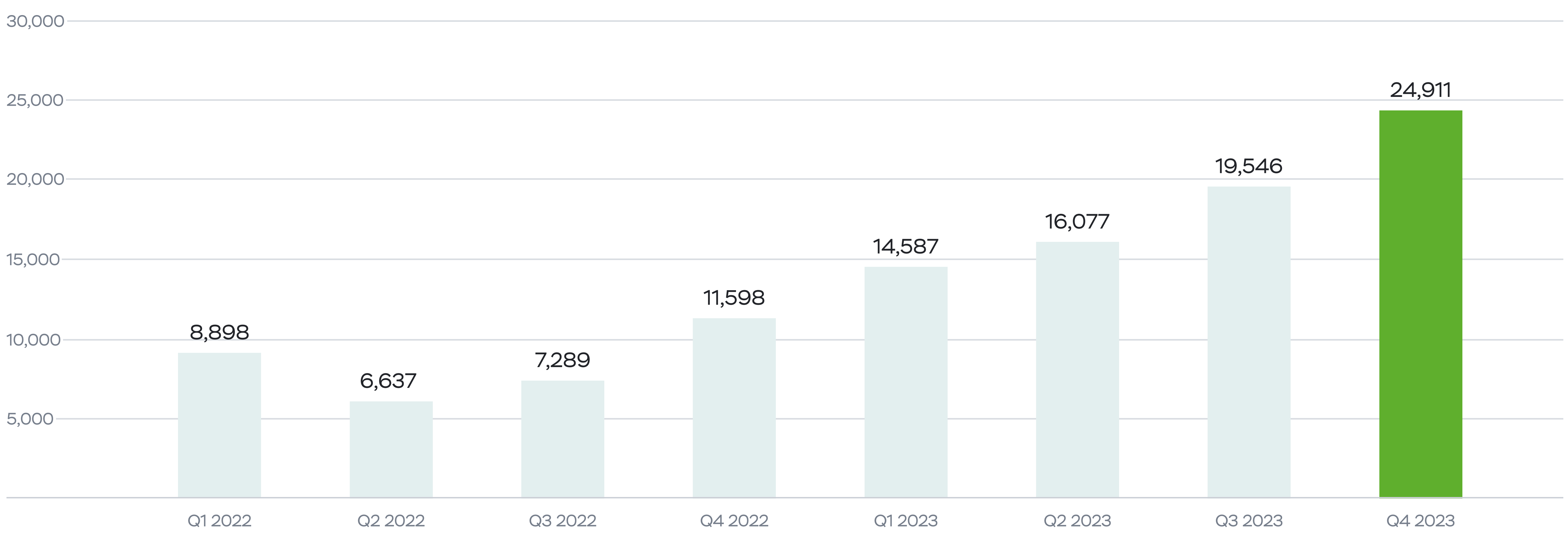
–10.3% y-o-y

5,926 RUB

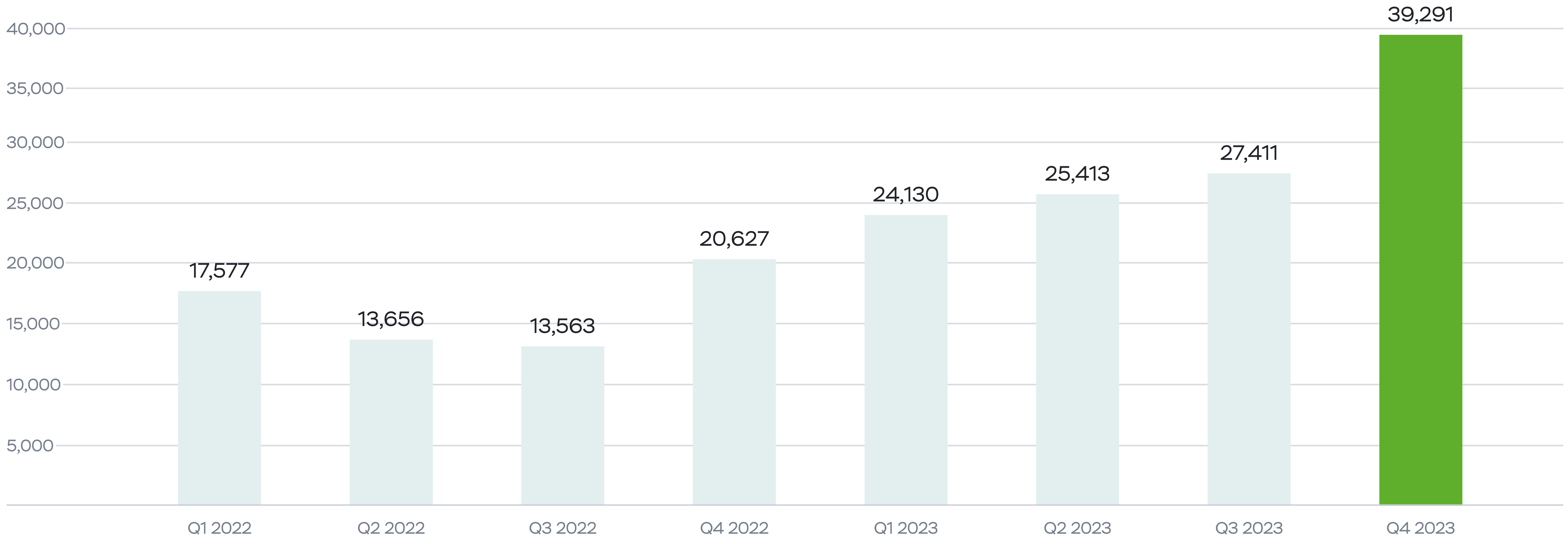
Average ticket (Vprok.ru)

+23.6% y-o-y

Delivery orders, ths



Net sales, RUB mln



Express delivery

Express delivery continues to strengthen its position in the online segment.

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.

The strategic goal of e-grocery is to gain leadership among omnichannel food retailers in Moscow and the Moscow Region by the end of 2025 and to achieve positive margins in the Russian regions.

Plans for 2024

We expect the express delivery segment of the e-grocery market to keep growing. We will continue expanding our dark store infrastructure under a new format. We will grow the bottom line of the service by attracting more consumers and improving business processes.

Maintaining in-house 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.

THE EXPRESS DELIVERY SERVICE WAS AVAILABLE FROM:

8,515

Stores across 69 regions

as at 31 December 2023

32

Pyaterochka dark stores and nine joint dark stores

as at 31 December 2023

Vprok.ru

Vprok.ru is an online hypermarket designed to meet consumer demand for food and consumer goods by offering a rich variety of goods and convenient delivery to your door. Vprok.ru has built out infrastructure that enables same-day or next-day fulfilment in its core regions of operation.

In 2023, Vprok.ru launched new business lines and improved its profitability:

- Partner aggregators were onboarded as additional sources of customer acquisition
- The Vprok.ru assortment introduced public catering in the middle of the year
- Efficiency gains in our core business unlocked incremental order margin

Vprok.ru
Перекрёсток

BUSINESS MODEL

Same- or next-day delivery

- Order placed by customer via X5 app or website
- Order received at the nearest dark store
- Order picked at dark store
- Order received by X5 courier
- Order delivered

Key competitive advantages

- Vprok.ru is a well-known brand in the e-grocery market
- A wide assortment of 37 thousand SKUs
- Advanced own logistics infrastructure and in-house last-mile delivery
- A vast addressable market in our cities of presence
- Customer engagement via proprietary mobile app and website
- Favourable conditions for suppliers and scope to leverage purchasing power
- A high Net Promoter Score (NPS) driven by assortment, pricing, promotions, and supply chain control

Plans for 2024

The company's focus in 2024 will be on consolidating the customer base and improving operational efficiency by:

- Strengthening existing customer engagement while driving customer growth and acquisition
- Piloting new operating models and faster delivery speeds for a better customer experience

Mnogo Lososya

Mnogo Lososya is a tech-powered food business encompassing a network of dark kitchens and café points serving ready-to-eat food.

At the end of 2023, the project operated 73 dark kitchens (including three franchisees) and 325 café points in Perekrestok stores.

Most of the dark kitchens are located in Moscow and Moscow region (67 locations) and offer over 220 ready-to-eat meals for delivery, leveraging both their proprietary mobile application and various aggregator platforms. The café points at Perekrestok stores across 18 cities offer an array of fresh food options on-site, including sushi, pizza, shawarma, and other meals.

In 2023, the brand invested heavily in boosting its recognition through comprehensive marketing campaigns and engaging viral media campaigns.

During the year, Mnogo Lososya concentrated on the expansion of less marginal network of café points, adding over 95 new locations and extending its reach to six new cities. Significant enhancements were also made to in-house delivery services and the mobile app.

Много лосося

95 CAFÉ POINTS

Opened in six new cities in 2023

Key 2023 highlights

73
Dark kitchens in operation
incl. three franchisees

1.8 MLN
Delivery orders
+24% y-o-y

7.3 RUB BLN
GMV
+79% y-o-y

2,228 RUB
Average ticket for delivery
+16% y-o-y

Plans for 2024 and beyond

- Achieve a positive EBITDA with double-digit revenue growth rates to match or exceed those of X5
- Achieve sustainable and balanced unit economics for both dark kitchens and café points, without compromising on quality and service
- Expand presence on X5 platforms, integrate into current processes, and increase the share in X5 ready-to-eat food sales
- Explore new products to support the development of X5's ready-to-eat strategy addressing the rapidly evolving market demand

5Post

5Post, X5's last-mile delivery service for domestic and international e-commerce platforms, facilitates the distribution of packages via an extensive array of pickup points and automated parcel lockers.

These are strategically positioned within X5's vast retail network, including at the checkout areas of Perekrestok and Pyaterochka stores. X5's infrastructure enabled the rapid and cost-effective development of a nationwide logistics service for e-commerce that has seen demand from millions of customers.

Key 2023 highlights

By the end of 2023, 5Post achieved strong EBITDA margin levels and considerably expanded its delivery operations. Throughout the year, the company made successful strides by branching into the consumer-to-consumer (C2C) delivery segment with a specialised delivery product for Avito, a major Russian classifieds site. We also significantly strengthened our infrastructure, broadened customer base, and streamlined operations for increased efficiency.

4.0 RUB BLN

Revenue

+48% y-o-y

29.6 MLN

Parcels delivered

+14% y-o-y

44

Sorting facilities

>700

Commercial partners

26,058

Pickup points

including 5,789 parcel lockers

5Post's development strategy is based on:

- A nationwide network of pickup points, strategically positioned for the utmost convenience
- Leveraging X5's existing infrastructure, including DCs, logistics, and stores
- A substantial base of loyal customers
- Multichannel pickup options that include checkout counters, parcel lockers, and pickup points
- Exceptional quality in the last-mile delivery segment

In 2023, 5Post's financials saw a marked improvement, driven by an increased share of local service partners and the rollout of promotional services tailored to these collaborations. 5Post is on a growth trajectory, handling a higher volume of parcels from its established partners while also forging and expediting partnerships with new entities.

Key partners in 2023

AliExpress, Мега Маркет, lamoda, Золотое Яблоко Парфюмерный супермаркет, Я Маркет, ORIFLAME SWEDEN, AVON, Avito, детский мир, LEOMAX

Our key goals and initiatives for 2024:

- Scale services for C2C transactions
- Accelerate the onboarding of new partners and increase 5Post’s share within existing partnerships
- Develop new 5Post services
- Expand 5Post’s geographic footprint, continue expansion in Siberian regions, and enter new regions
- Concentrate on business efficiency and achieve EBITDA margin targets
- Achieve an EBITDA level above CAPEX
- Develop products for small and medium-sized businesses
- Further optimise 5Post’s warehouse and transport infrastructure processes as well as back-office services

5Post’s competitive advantages

Coverage

A nationwide network of pickup points that ensures extensive coverage and a wide geographic footprint

Efficiency

Efficiency achieved by leveraging optimised last-mile infrastructure and improved performance management

Convenience

A flexible order fulfilment model that encompasses in-store checkout counters, parcel lockers, and pickup points

Accessibility

5Post pickup locations are conveniently located in proximity to households

Food.ru

Food.ru is a media platform created by X5 to engage with customers at different stages of their shopping journey, beginning with the meal planning stage.

Food.ru draws new customers to our value propositions and enables us to improve the customer experience by providing attractive content and developing services, such as smart meal planning.

The media platform helps to generate incremental sales across X5 Retail businesses: it appeals to new customers, all while fostering customer loyalty and increasing the number of visits and/or the average ticket.

Food.ru is building a community of loyal shoppers and publishes content on various platforms, which provides us with opportunities to test different engagement mechanisms. Food.ru also provides marketing services and produces media content for our retail chains: adverts, articles, short films, interactive games with native branding and promo integrations, as well as other formats.

Plans for 2024

- Develop Promotion and Meal Plan services and run phygital (physical plus digital) integrations with X5 retail businesses to generate incremental sales
- Achieve a 25% y-o-y increase in the volume of marketing services provided for X5 businesses
- Monetise our X5 Media commercial offering by providing advertising services for suppliers and external partners on the Food.ru and X5 Blogger platforms
- Develop the Food.ru community to reach more than 20 million monthly users by December 2024, as well as boosting engagement and retention metrics
- Grow organic website traffic by 50% through content and product development
- Increase the size of the registered user audience, aiming for a total of more than 2 million registered users by December 2024
- Expand the mobile app audience to reach more than 2 million new downloads over the year

Key 2023 highlights

LAUNCH OF THE INFLUENCER PLATFORM X5 BLOGGER

>50 THS

Influencer integrations since July 2023

With 70 brand advertising campaigns completed

ESTIMATED EFFECT OF FOOD.RU MARKETING ACTIVATIONS

1.4 RUB BLN

Of incremental EBITDA for X5 Retail businesses

Acquisition of new customers, reactivation, and sales lift[1]

#1 ON GOOGLE PLAY AND #2 ON THE APPSTORE FOR THE KEY SEARCH TERM "RECIPES"

2.2 MLN

Mobile app downloads

MEDIA CONTENT

>125 THS

Pieces of media content

Including 34,000 recipes published by Food.ru users themselves

PRODUCT DEVELOPMENT

Integration with the X5 Club customer loyalty programme, with bonus points awarded for posting recipes; incorporation of promotions and special offers from X5 retail chains into the platform; and the launch of new services – including the Weekly Menu and Calorie Calculator

Monthly audience growth

10.5 MLN

Unique users per month on Food.ru website

+86% y-o-y

550 THS

Unique users per month on Food.ru app

+62% y-o-y

1 According to the methodology introduced at X5 Media's board of directors in November 2023.

Logistics and transport

Pyaterochka

As at 31 December 2023, Pyaterochka's logistics operations encompassed 42 distribution centres (DCs) serving 21,308 stores in 69 Russian regions.

2023 was marked by acute shortages of necessary resources for Pyaterochka and its suppliers, as well as by the ongoing departure of international companies from the Russian market. In this environment, our efforts were aimed at building strategic partnerships with suppliers, outsourcing agencies and freight companies, ensuring operational continuity and moving forward with import substitution of key digital products. This enabled us to not only maintain but improve product availability in our stores compared to the previous year by 0.9 p.p., from 93.7% in 2022 to 94.6% in 2023.

Our suppliers are highly appreciative of our reliability and customer focus. We consistently secure high rankings in industry supplier surveys. In 2023, Pyaterochka placed second in the Advantage survey for Forecasting, Supply Collaboration, and Digitalisation. In supplier surveys by SCM Survey, we took first place in the Drinks category, second place in Alco, and third place in Fresh. We strive to develop mutually beneficial relationships with suppliers and implement a number of projects to increase our overall efficiency and drive synergies.

In addition, Pyaterochka team members spoke on key topics in retail and logistics at a number of conferences, including the Moscow International Logistics Forum (MMLF), Retail TECH, TransRussia, Novo BI Supply & Demand Planning Conference, CFO-Russia, Retail Week, and SCM Alco.

In 2023, we set up supplies to territories in the Russian Far East in record time, building on our Khabarovsk- and Artem-based infrastructures. To maintain business continuity, we expanded our logistics infrastructure with an unprecedented six new distribution centres in Volgograd, Krasnodar, Samara, Orenburg, Omsk, and Yekaterinburg.

Expanding digitalisation

Digitalisation has played a decisive role in maintaining supply chain continuity. We make every effort to further develop our own solutions.

- Suppliers participating in our embedding programme allocate an employee to whom we grant access to relevant internal processes at Pyaterochka. Embedding offers opportunities to analyse Pyaterochka's interaction with the represented supplier. This drives new solutions to sidestep or remove various stumbling blocks. The main goal of the programme is to boost KPIs linked to in-store availability (ISA) and service level (SL). In 2023, we worked with 20 suppliers as part of the embedding programme.
- In 2023, we fully deployed the Demand and Replenishment Planning solution, which leverages machine learning and big data to analyse over 200 variables, including recent sales trends, seasonality, in-store inventory availability, prices, time of year, and holiday and weekend sales. This system allows us to calculate optimal stock levels at each store several weeks in advance and eliminates the risks of under- or overstocking.
- We also launched the development of a proprietary logistics management system (X5 VRS) and warehouse management system (X5 WMS Nexus).
- We continued to develop projects in partnership with RVI, X5 Group's importing company. Our end-to-end stock model and sales and operations planning process help make imported goods more affordable while managing inventory across the supply chain. In 2023, those projects resulted in ISA growth of 6.7 p.p.
- We launched the Hard Pickup programme in 2023 as a way to engage suppliers in supply planning. Pyaterochka undertakes to place orders according to the agreed plan, and the supplier guarantees a level of service within the limits approved by the parties. This approach enables us to build trust-based relationships with suppliers and effectively navigate supply-chain challenges. The programme encompasses 41 suppliers with more than 1,300 PLUs.
- We launched a unified supply chain platform for suppliers in 2023. This solution enables suppliers to send requests directly to Company employees responsible for the supplier relationship and guarantees a timely response.

Operational efficiency

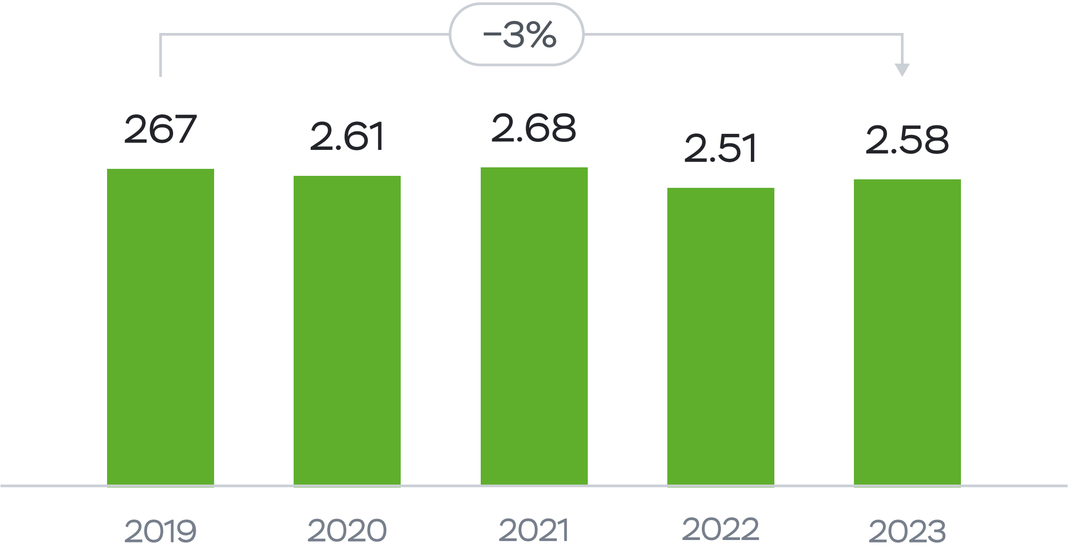
In 2023, we delivered solid gains in operational efficiency. Investments amounted to RUB 2 billion, which enabled us to cover warehouse and transport staffing costs amidst a scarce labour market and consolidate the positive logistics optimisation we have seen over the years. Despite an increase in labour costs, we met all budget targets for logistics.

The throughput of distribution centres and the overall productivity of warehouses also remained consistently high in 2023.

To drive continued operational efficiency gains and contain headcount growth, we launched the following initiatives in the second half of 2023:

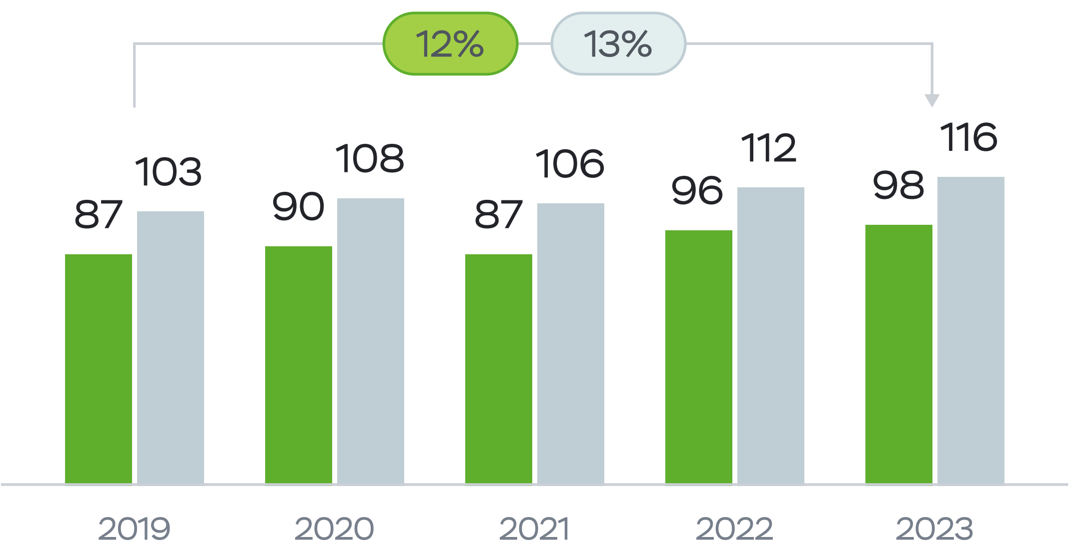
- Task mining to identify potential operations and routine tasks amenable to automation (RPA)
- Automating requests for replenishment from our stores and partner stores through the single portal for suppliers

Storage and transport costs
(excl. pickup, incl. recyclable materials), % of sales



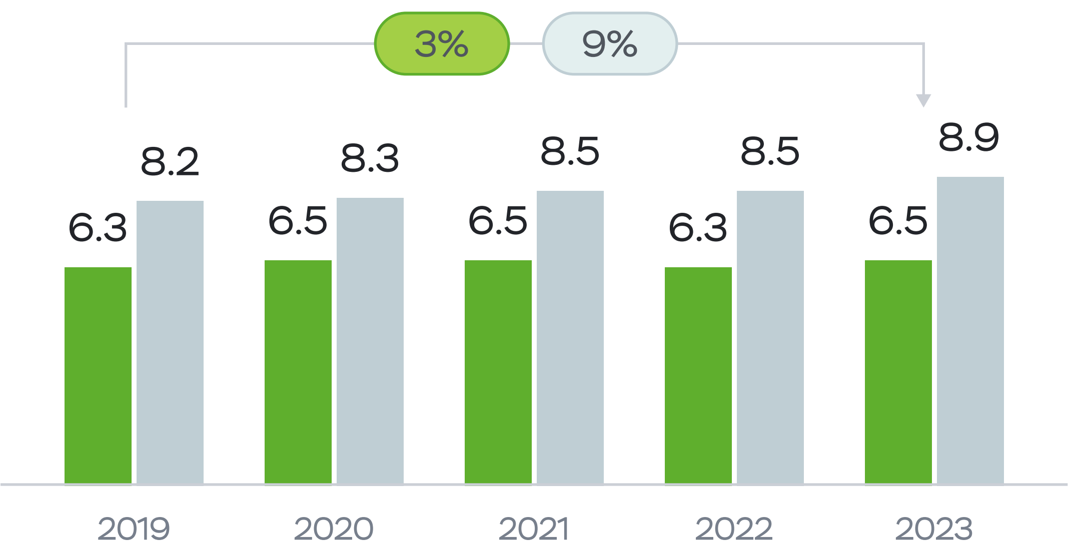
OWR, boxes/hour

Company average   3 best DCs



DC throughput, boxes/sqm

Company average   3 best DCs



Achieving sustainability goals

In terms of environmental impact, we reduced water consumption across distribution centres by an average of 15% after installing water-saving equipment. We continued our transition to carbon-free energy, with three distribution centres in Lobnya, Podolsk, and Kursk switched over in 2023.

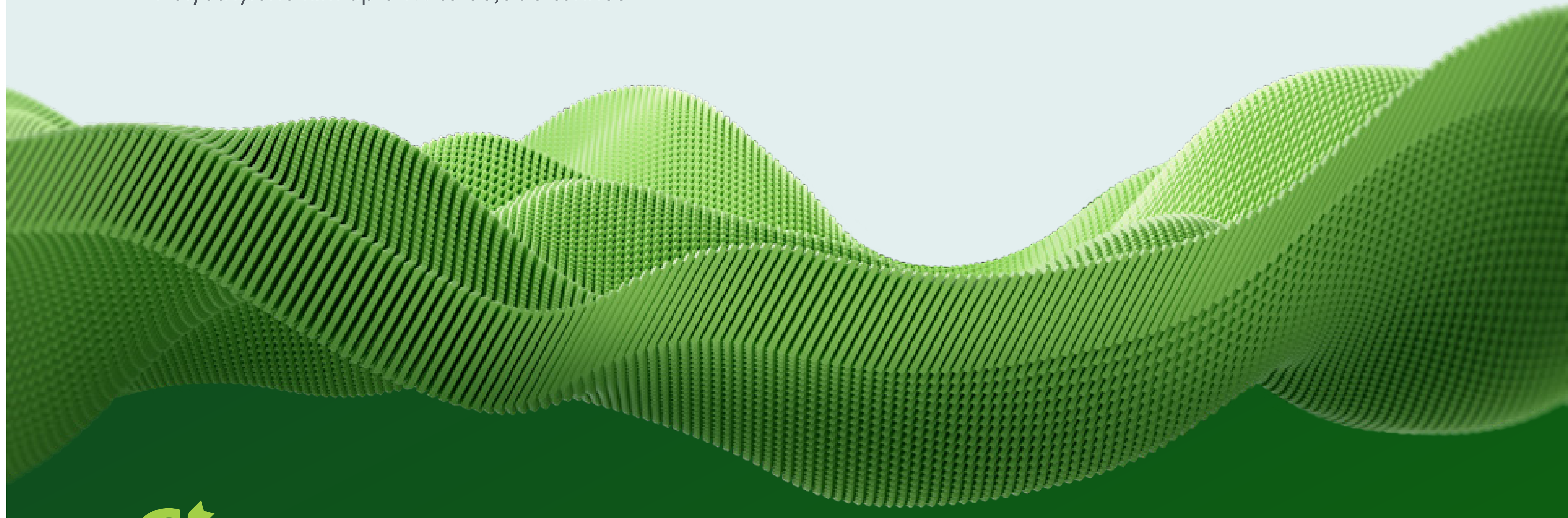
Our key environmental project in 2023 was sorting, cleaning, and compacting recyclable materials. We installed the necessary equipment for this in 30 distribution centres. It allowed us to significantly increase the volume of recyclable materials sent for recycling:

- Cardboard up 56% to 325,000 tonnes
- Polyethylene film up 54% to 35,000 tonnes

The management teams of distribution centres underwent training on environmental safety.

Regarding social impact, we continued to improve working conditions based on staff surveys: we improved the quality of workwear, swapped out some of the vehicle fleet, and equipped staff break rooms, among other improvements.

We also launched an initiative to recruit employees with disabilities in 2023 to build a more inclusive and diverse workforce.



PLANS FOR 2024

- Transfer all types of sales forecasts (private labels, brands, and promotions) to the supply chain management department, which will unlock a single sales forecast that is more accurate and includes strategic partnerships with suppliers
- Add employees from all departments to the single portal for suppliers, building a complete chain for handling requests

Perekrestok

In 2023, Perekrestok focused on boosting efficiency across operations and implementing cost optimisation initiatives. By the end of 2023, the logistics system served 972 supermarkets across 46 regions of Russia.

Physical logistics

- A grand opening was held for a new DC in Nizhny Novgorod, spanning a total area of 10,000 square metres and designed to serve 48 supermarkets in the region
- Revenue from the sale of recyclables and returnable packaging outperformed the DCs target by 28%
- The first test phase of the new warehouse management system (WMS) took place at the Voronezh DC
- Perekrestok transitioned to daily deliveries of fresh products and fruit and vegetables
- The Expertise Centre for the Inventory Management Group was launched
- The 2024–2030 Infrastructure Strategy was approved
- Tests for partial warehouse automation (equipment telemetry and pallet wrappers) took place
- A cross-network delivery service 5Post was rolled out across all distribution centres

Planning

- The embedding programme was expanded (+17 suppliers since the start of the project)
- On-shelf availability increased 2.4%
- Inventory stocks declined 1.9%
- Inbound service improved 5.2%
- Full operational support was achieved for Mnogo Lososya
- A unified supply chain platform was launched
- Perekrestok transitioned to the partner.x5.ru portal to manage alternative supplier schedules
- Forecast accuracy increased 2.1%, in part thanks to neural network technology
- Statistical forecasts for promo activities increased 7.9%

HR

- Operational staff headcount increased by 230 (in-house staff)
- New incentive system rolled out for line staff
- Two drives to boost the in-house staff headcount were launched targeting students and migrant workers
- Supply Chain Academy launched

PLANS FOR 2024

- Launch refurbishment projects at the Sofyino, St Petersburg, Nizhny Novgorod, and Kosulino DCs
- Optimise the flow of goods and products between branches
- Deploy the SAP Integration Suite to connect processes between the Sofyino and St Petersburg DCs
- Launch the Lean DC programme to enhance warehouse logistics efficiency
- Expand the use of the following IT systems and solutions: Sales and Operations Planning (S&OP), Integrated Business Planning (IBP), Transportation Management System (TMS, a new system), and WMS Nexus (a new system)
- Partially automate and robotise DCs
- Deploy the advanced operational reporting dashboard
- Increase the coverage of manual operations through an automated store replenishment system
- Expand the embedding programme with suppliers and formalise entry criteria for the programme to improve availability and reduce losses
- Support the Store Director – Partner programme
- Run cross-network projects with Chizhik
- Increase productivity and reduce downtime

Chizhik

In 2023, Chizhik's revenue grew three times supporting its role as a provider of high-quality products at reasonable prices. As at year-end 2023, Chizhik managed a logistics network comprising 12 (including one 3PL) operational DCs servicing 43 regions across Russia.

The primary focus for Chizhik's logistics throughout 2023 was supporting network growth. This was achieved by opening new DCs, boosting the capacity of existing infrastructure, and implementing a new WMS aimed at driving efficiency.

Looking ahead to 2024, Chizhik's logistics division plans to cut the ribbon on ten more DCs and revamp existing ones. This expansion drive is expected to support continued growth in both existing and new regions, as well as to boost productivity across warehouses and logistics operations.

KEY 2023 HIGHLIGHTS

- Five new DCs launched, while the Ufa DC was expanded.
- Construction and renovation works for ten DCs started, ready to support network growth between 2024 and 2026.
- Over 70 standard operating procedure and guideline documents were drafted to establish uniform logistics processes during expansion.
- The new WMS system was successfully deployed at four DCs.

PLANS FOR 2024

- Launch nine new DCs and one hub, expand the Volgograd DC. By year-end, Chizhik aims to operate 17 DCs and one hub
- Further roll out the new WMS system
- Maintain a focus on improving efficiency at DCs opened in 2022 and 2023
- Boost reliability and efficiency across the logistics system by standardising operating procedures

X5 Transport

Providing efficient and reliable transportation for our chains is a key priority for X5 Transport. The company excels in logistics management amidst market volatility by leveraging its competitive advantages, investing in new equipment, and offering competitive pay to its people.

AS AT 31 DECEMBER 2023, X5 TRANSPORT'S FLEET INCLUDED

5,344

Trucks which handled approximately 77% of the Company's shipments throughout the year

Key 2023 highlights

- The year 2023 marked the company's largest ever purchase of vehicles to renew the truck fleet – 1,634 trucks – which are slated for delivery in 2024. A total 1,431 trucks for all X5 retail chains were supplied in 2023.
- X5 Transport, along with the broader transport industry, encountered difficulties sourcing workforce. In response, we refined our approach to investing in our people, attracting drivers from abroad, and creating more appealing working conditions for women.
- Transport and logistics operations were successfully launched in the Far Eastern Federal District.
- X5 Group pioneered regular self-driving freight in Russian food retail, with goods transported on the M11 Neva Highway between Moscow and Saint Petersburg.
- X5 remained committed to spearheading digital transformation in logistics, promoting paperless documentation and driving forward other electronic document initiatives. Now, transport document packages include electronic waybills, the Universal Transfer Document (UTD) and, where necessary, veterinary QR codes.

PLANS FOR 2024

- We anticipate challenges sourcing trucks and plan substantial fleet upgrades from Russian and Chinese manufacturers
- Our strategy will adopt flexible management and market-responsive approaches to offer competitive pay and hire drivers
- We aim to enhance our repair infrastructure by establishing our own service and repair stations
- The company is committed to improving working conditions for drivers, technicians, and office staff in all regions of operation
- We plan to extend our self-driving transport partnerships, open new routes, and increase self-driving freight volumes
- Pilot projects for electric trucks are in the pipeline, tailored to X5's specific operating model
- X5 Transport intends to expand the use of paperless transport documentation throughout the supply chain
- The company is supporting the expansion of X5's retail chains in the Russian Far East, alongside providing transport and logistics infrastructure for other new regions
- We are actively engaging with the ESG agenda, aiming to reduce empty runs, promote responsible resource use, and equip new trucks with driver drowsiness detection systems

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 and a resident of the Innopolis Special Economic Zone in the Republic of Tatarstan.

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

For its 2023 performance, X5 Tech climbed 10 places compared to 2022 to 21st on the Habr and ECOPSY IT employer ranking, with its brand recognition among the IT community up 9 p.p. year-on-year to 87%. The company's brand strength reached 59% (up 6 p.p. year-on-year). X5 Tech has also made it into the top three online and retail businesses.

Key 2023 highlights

5.3 RUB BLN

Incremental EBITDA brought by AI-enabled products in 2023

99.96%

IT service and system availability

TO 100,000

X5 Group employees the X5 Key system was rolled out

>560

Projects and 125 information systems are hosted on X5 Salt, our private-cloud platform

X5 Tech also boasts over 8,000 virtual machines, 376 Kubernetes clusters, and 199 PostgreSQL DBMSs

1,300

New hires

>2,500

Updates were released

x2

Increase in MAU of our big data platform

As part of an IBP project, X5 Tech has developed a proprietary integrated business planning system, which brought RUB 894 million in savings through a lower purchase cost for fruit and vegetables and imported products in 2023.

Artificial intelligence and data-driven modelling are key priority for X5 Technologies. X5 and ITMO University teamed up to launch an AI development lab in the summer of 2023 to generate new hypotheses and products for retail through research and development.

X5 deployed its own infrastructure to train AI models.

A proprietary A/B testing platform was used during 2023 to vet over 300 business initiatives for X5 retail chains, driving faster go/no-go decisions on these initiatives based on data and statistics, with human error drastically reduced.

Just AI was successfully piloted in 2023, providing X5 employees with access to ChatGPT and Midjourney functionalities. GPT-4 Turbo and DALL·E 3 were also deployed within X5.

X5 Tech primarily focuses on creating technology solutions for X5 retail chains and businesses. In 2023, all self-checkouts at Perekrestok were migrated to a single UDMF microservice platform for checkouts. Several versions have been developed and are being deployed for other checkout types across Pyaterochka and Perekrestok retail chains. All new checkouts are slated for migration in 2024. The new solution reduces the cost of developing new checkout functionality while accelerating lead times for new features.

During 2023, the company was able to transform the network architecture across all Group retail facilities while ensuring that all business processes continue to run smoothly and without interruption. The legacy network architecture was no longer adequate to fully protect the Group against cyber threats. The entire store network architecture has been fully redesigned to build a uniform conceptual approach. The project is focused on network segmenting at each retail facility.

In March 2023, X5 Technologies' team supported new store openings in the Far Eastern Federal District. In a short turnaround time, the company successfully set up IT systems and infrastructure for the new branch. The process involved all IT units, with all necessary updates made and monitoring and notification features set up.

In 2023, X5 Tech drove operational resilience across all retail facilities, primarily via new backup communication channels as well as through a newly developed and deployed tool to automatically switch to the backup channel in the event the main channel fully or partially fails.

In 2023, the company successfully launched a new data centre (Nubes) that is fully compliant with all safety requirements. Alongside providing ongoing support to IT teams, the data centre will help onboard innovative technology faster.

A product thermometer was launched in 2023. The company introduced domain management by objectives such as technical debt, forecast accuracy, number of supported systems, and portfolio management quality.

A new warehouse management system, Nexus WMS, has been piloted at two distribution centres. The project now has 45% of its full functionality implemented, encompassing a goods acceptance procedure, retail chain stock levels, and the pick-by-voice feature. In the target state, the system will not only improve the performance of existing warehouse processes but will also provide a technology platform for a new strategic focus area in Supply Chains, namely warehouse robotic process automation.

During 2023, the company developed X5 Salt, its private-cloud infrastructure. This has driven an over 13% increase in service usage. The team was strongly focused on implementing high availability and disaster tolerance services. Another cloud region (a new data centre) is slated for launch in 2024.

In 2024, X5 Technologies will continue to provide technology support and drive digital transformation across all Group businesses and retail chains.

Innovations

X5 remains committed to improving business efficiency through innovative solutions and nurturing innovative culture across the Group. In 2023, X5 focused on green technology, digitisation of both in-store and back-office processes, labour optimisation, and development of proprietary equipment.

In 2023, the Company maintained its focus on registering proprietary solutions as its intellectual property, obtaining two new patents for inventions and two for industrial designs, while six new patents are pending. Currently, X5 holds 31 patents in Russia and the CIS that drive the Company's competitive edge in technology and innovation.

SOME KEY PROJECTS IN 2023 INCLUDED:

- Development of own scanner scales, an ARM-based PC, and a price checker, whose prototypes were successfully tested in the laboratory and proved fit for purpose
- Development and implementation of a new voice picking technology solution at distribution centres
- Development of self-checkouts that leverage artificial intelligence to assist customers and self-service checkout (SCC) assistants
- Launch of the smile-to-pay service at more than 15,000 self-checkouts – the world's largest biometric payment project

Innovation scouting

In 2023, X5's scouting function shifted from simple technology assessment to rapid business case and proof-of-concept (POC) trials. Over the year, the scouting team conducted 18 POCs, choosing at least seven technologies to be implemented in the Group's retail chains in 2024.

Overall, more than 120 projects and over 80 initiatives from the scientific community passed through the innovation funnel, and 29 trend studies and targeted searches were conducted in operations, marketing, logistics, ESG, customer experience, quality, express delivery, and other areas. The Group searches for solutions for specific tasks and also investigates innovative technologies used by retailers around the world, keeping abreast of cutting-edge technology trends in retail.

Joint innovations

The Russian technology market has proven its quick adaptability against the backdrop of objective market difficulties concerning the availability of some digital solutions. The Retail Innovation Tech Alliance (RITA) has also shown itself to be highly resilient. After new partners joined RITA, the number of retail sector members increased to seven, including X5 Group, Hoff, Magnum Cash & Carry, ROLF, PROTEK, and M.Video-Eldorado Group. The Alliance has signed partnership agreements on investing in startups with several Russian funds. Alliance membership reduces the cost of identifying, piloting, and implementing technology innovations. For startups, the Alliance provides access to one of the world's largest markets for their technologies.

In 2023, RITA conducted nine technology watch studies and six case study club meetings to share experiences in ROPO technology implementation, in-store operations, solutions for employees with disabilities, technologies to improve customer experience, and much more.

In 2023, the Alliance developed its new strategy for extensive development in 2024. RITA is strategically focused on driving technology advances, betting on collaborative innovation as a key driver of Russia's technology leadership in 2024 and beyond.

X5 Science Days

In 2023, X5 Group launched X5 Science Days, a new format to engage with the scientific community through a series of events to offer Russian researchers a glimpse into technological and operating processes at X5 Group, discuss the Company's technology performance objectives, and target promising areas for further research.

The first X5 Science Day, held at Pyaterochka's largest distribution centre in the Moscow Region, was focused on improving fruit and vegetable delivery and storage processes. The guided tour around the DC and the subsequent discussion were attended by more than 30 representatives of universities, including Lomonosov Moscow State University, Plekhanov Russian University of Economics, Russian Timiryazev State Agricultural University, Southern Federal University, Dubna State University, Mendeleev University, Skoltech, All-Russian Research Institute of Vegetable Growing, and others.

Fostering intrapreneurship

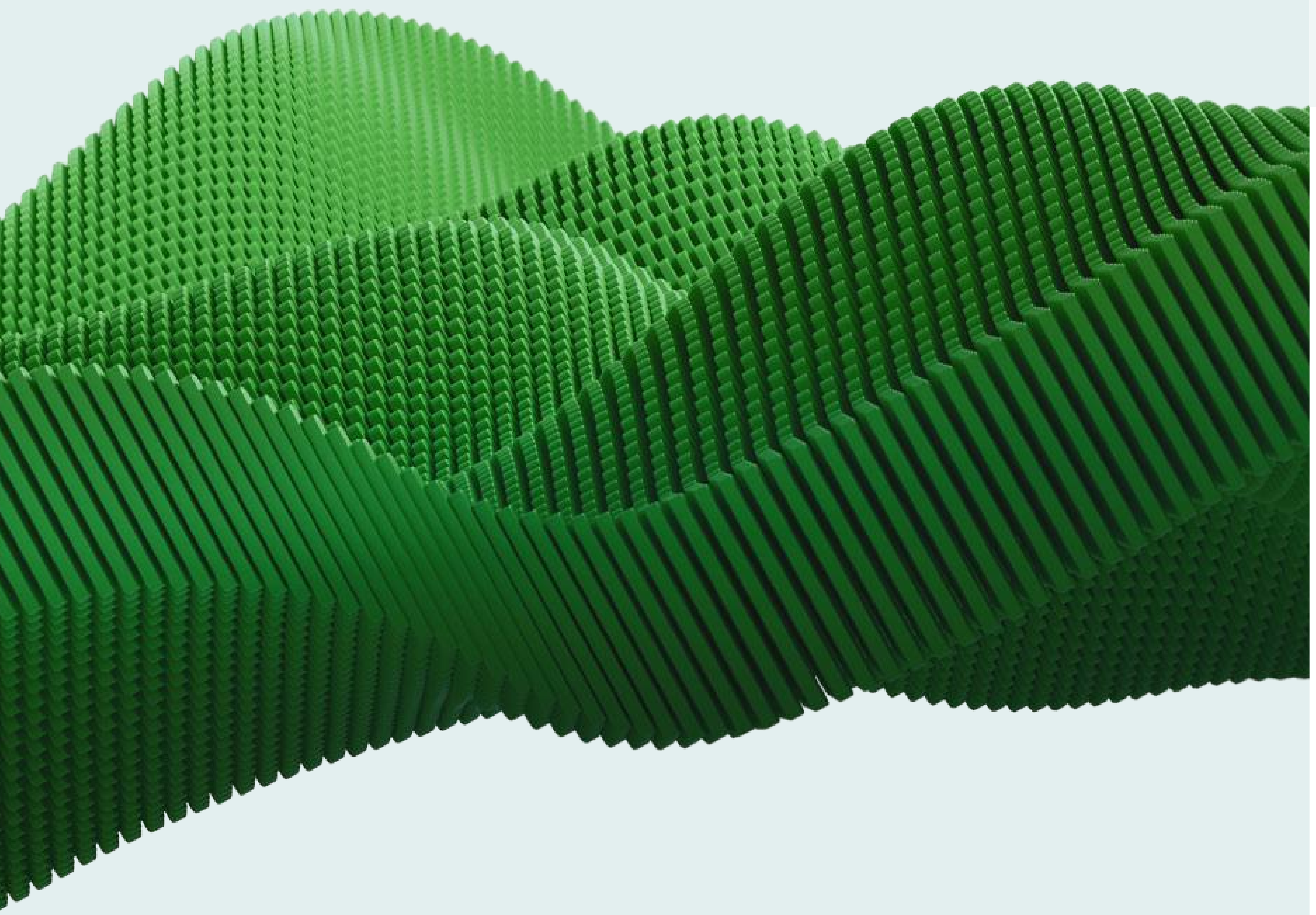
In 2023, X5 continued to develop its X5 Idea Challenge internal innovation engine, providing employees with an opportunity to share their suggestions at any time. Between April and December 2023, X5 Group employees submitted 219 applications, with 38 of them making it to the accelerator programme and nine teams reaching the pilot stage. To launch the asynchronous accelerator, the Company developed its own employee application portal and an e-course at the Polka ("Shelf") corporate university.

Another new launch was the X5 Idea Challenge community of innovators, with more than 750 Company employees already participating. The Company also set up an internal centre of excellence in tracking, where 196 Company employees stepped up as business trackers to share their experience with colleagues.

In 2023, the innovation team held a series of workshops to foster creativity and idea generation. The Company hosts partner events and tours, publishes a regular news digest reviewing trends in retail innovation, and runs its own podcast dedicated to innovative technology.

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 of 31 December 2023 and for the years ended 31 December 2023 and 31 December 2022. The consolidated financial statements and related notes thereto are available on pages 137–206 of this document and were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.



Key 2023 highlights

REVENUE

3,146 RUB BLN

+20.8% 2022/2023

GROSS PROFIT MARGIN

24.4% IFRS 16 — +3 b.p. 2022/2023

24.1% pre-IFRS 16 — +3 b.p. 2022/2023

NET DEBT/EBITDA

2.49x IFRS 16

0.87x pre-IFRS 16

CAPITAL EXPENDITURE

148.4 pre-IFRS 16

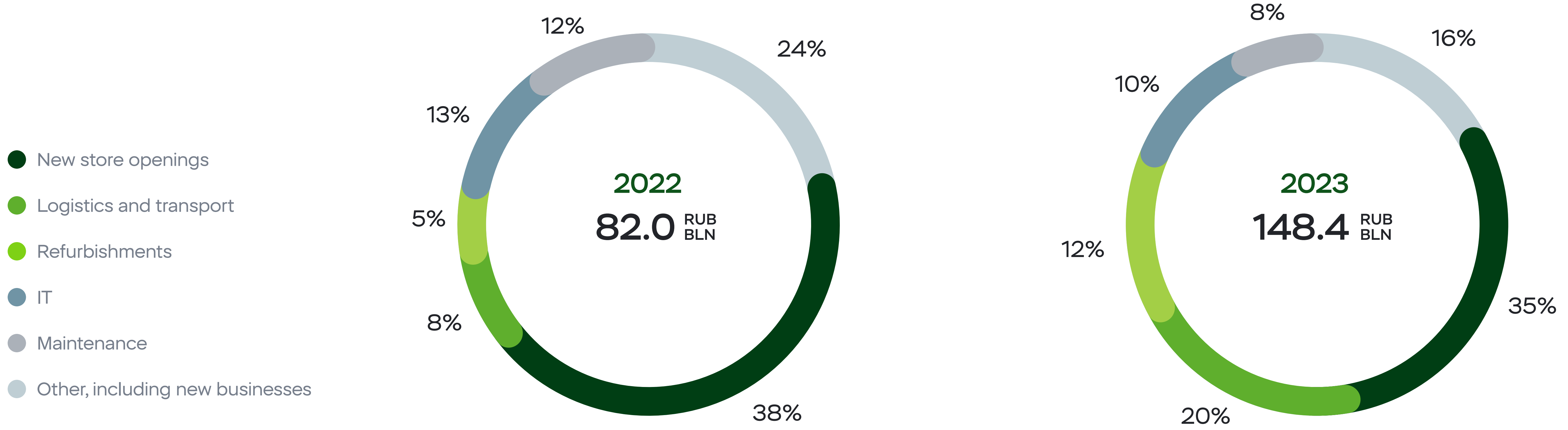
+80.9% 2022/2023

ADJUSTED EBITDA MARGIN

11.0% IFRS 16 — −69 b.p. 2022/2023

6.9 pre-IFRS 16 — −34 b.p. 2022/2023

Capital expenditure structure, %



Results of operations for the year ended 31 December 2023 compared with the year ended 31 December 2022

The following table and discussion provide a summary of our consolidated results of operations for the years ended 31 December 2023 and 31 December 2022.

Key financial results highlights

Russian roubles (RUB), millions[1]	IFRS 16 2023	IFRS 16 2022	IFRS 16 % change, y-o-y	pre-IFRS 16 2023	pre-IFRS 16 2022	pre-IFRS 16 % change, y-o-y
Revenue	3,145,859	2,605,232	20.8	3,145,859	2,605,232	20.8
incl. net retail sales[2]	3,128,847	2,596,086	20.5	3,128,847	2,596,086	20.5
Pyaterochka[3]	2,491,009	2,122,793	17.3	2,491,009	2,122,793	17.3
Perekrestok	418,938	385,495	8.7	418,938	385,495	8.7
Chizhik	118,425	35,893	3x	118,425	35,893	3x
Gross profit	768,040	635,196	20.9	757,776	626,744	20.9
Gross profit margin, %	24.4	24.4	3 b.p.	24.1	24.1	3 b.p.
Adj. SG&A[4]	(444,241)	(352,346)	26.1	(562,225)	(457,640)	22.9
Adj. SG&A, % of revenue	14.1	13.5	60 b.p.	17.9	17.6	31 b.p.
Adj. EBITDA	347,345	305,529	13.7	217,952	189,468	15.0
Adj. EBITDA margin, %	11.0	11.7	(69) b.p.	6.9	7.3	(34) b.p.
EBITDA	344,157	302,849	13.6	214,764	186,788	15.0
EBITDA margin, %	10.9	11.6	(68) b.p.	6.8	7.2	(34) b.p.
Operating profit	178,201	138,118	29.0	130,104	97,632	33.3
Operating profit margin, %	5.7	5.3	36 b.p.	4.1	3.7	39 b.p.
Adj. net profit[5]	74,154	47,210	57.1	85,845	54,270	58.2
Adj. net profit margin, %	2.4	1.8	55 b.p.	2.7	2.1	65 b.p.
Net profit	78,593	45,188	73.9	90,284	52,248	72.8
Net profit margin, %	2.5	1.7	76 b.p.	2.9	2.0	86 b.p.

Revenue and net retail sales

In 2023, X5's revenue increased by 20.8% year-on-year to RUB 3,146 billion. Net retail sales for 2023 grew by 20.5% year-on-year, driven by a 9.6% increase in like-for-like (LFL) sales and a 10.9% sales growth contribution from an 12.1% rise in selling space.

The Company's proximity store format, Pyaterochka, was the main growth driver in 2023: Pyaterochka's net retail sales rose by 17.3% year-on-year, driven by a 9.8% increase in LFL sales and a 7.5% contribution to sales growth from a 11.2% expansion in selling space. LFL traffic increased by 4.9% year-on-year, while the LFL basket grew by 4.7% year-on-year.

Perekrestok's net sales increased by 8.7% in 2023, driven by an 8.3% increase in LFL sales on the back of 6.0% LFL basket and 2.2% LFL traffic growth.

In 2023, Chizhik's net sales rose 3x year-on-year. The number of stores reached 1,500 as of 31 December 2023.

Gross profit

The Company's gross profit margin under IFRS 16 in 2023 remained flat year-on-year at 24.4% (24.1% under pre-IFRS 16). The growth of commercial margin on the back of optimisation of assortment and promotions, and lower shrinkage at Pyaterochka was offset by higher logistics costs and a higher share of the hard discounter format in revenue.

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. Including Karusel in 2022.
3 Including Pokupochka, PokupALKO, Victoria, Kvartal, Deshevo, and CASH.
4 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 75–78.
5 Adjusted net profit is net profit before the impact of the Karusel transformation and tax accruals related to previous periods, including X5's reorganisation.

Summary of operating results

2023 net retail sales and sales drivers

% change, y-o-y	Average ticket	Number of customers	Net retail sales
Pyaterochka[1]	4.5	12.2	17.3
Perekrestok	6.3	2.2	8.7
Chizhik	(7.9)	4x	3x
X5 Group[2]	**4.1**	**15.8**	**20.5**

2023 LFL[4] results

% growth, y-o-y	Sales	Traffic	Basket
Pyaterochka	9.8	4.9	4.7
Perekrestok	8.3	2.2	6.0
X5 Group[5]	**9.6**	**4.6**	**4.8**

Selling space (end of period)

square metres	31-Dec-23	31-Dec-22	% change, y-o-y
Pyaterochka[1]	8,339,205	7,497,056	11.2
Perekrestok	1,084,913	1,085,496	(0.1)
Chizhik	442,110	152,370	3x
Joint dark stores	10,258	8,087	26.8
X5 Group[3]	**10,206,011**	**9,107,479**	**12.1**

Sales of offline and digital businesses

RUB mln	2023	2022	% change, y-o-y
Pyaterochka	2,432,093	2,100,019	15.8
Perekrestok	384,321	365,283	5.2
Chizhik	118,207	35,893	3x
Offline net sales[6]	**3,014,928**	**2,531,369**	**19.1**
Digital businesses' net sales	**123,588**	**70,354**	**75.7**
Total net sales	**3,138,517**	**2,601,723**	**20.6**

1 Including Pokupochka, PokupALKO, Victoria, Kvartal, Deshevo, and CASH.

2 Including Krasny Yar and Slata. Including Karusel in 2022.

3 Including Vprok.ru, Mnogo Lososya, Krasny Yar and Slata. Including Karusel in 2022.

4 LFL comparisons of retail sales between two periods are comparisons of retail sales in local currency (including VAT) generated by the relevant stores. The stores that are included in LFL comparisons are those that have operated for at least 12 full months. Their sales are included in LFL calculations starting from the day of the store's opening. We include all stores that fit our LFL criteria in each reporting period. Express delivery sales from stores and dark stores that have operated for less than 12 full months are also included in LFL calculations.

5 Excluding Krasny Yar and Slata, Vprok.ru, and Mnogo Lososya; including Chizhik.

6 Including Krasny Yar and Slata.

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

RUB mln	IFRS 16 2023	IFRS 16 2022	IFRS 16 % change, y-o-y	pre-IFRS 16 2023	pre-IFRS 16 2022	pre-IFRS 16 % change, y-o-y
Staff costs	(266,357)	(209,940)	26.9	(266,357)	(209,940)	26.9
% of revenue	8.5	8.1	41 b.p.	8.5	8.1	41 b.p.
incl. LTI and share-based payments	(5,056)	(2,517)	100.9	(5,056)	(2,517)	100.9
staff costs excl. LTI % of revenue	8.3	8.0	34 b.p.	8.3	8.0	34 b.p.
Lease expenses	(26,922)	(19,624)	37.2	(134,995)	(117,825)	14.6
% of revenue	0.9	0.8	10 b.p.	4.3	4.5	(23) b.p.
Utilities	(61,518)	(51,309)	19.9	(61,518)	(51,309)	19.9
% of revenue	2.0	2.0	(1) b.p.	2.0	2.0	(1) b.p.
Other store costs	(27,168)	(23,685)	14.7	(28,030)	(24,573)	14.1
% of revenue	0.9	0.9	(5) b.p.	0.9	0.9	(5) b.p.
Third-party services	(26,710)	(20,187)	32.3	(26,256)	(19,796)	32.6
% of revenue	0.8	0.8	7 b.p.	0.8	0.8	7 b.p.
Other expenses	(40,622)	(30,118)	34.9	(50,125)	(36,714)	36.5
% of revenue	1.3	1.2	14 b.p.	1.6	1.4	18 b.p.
SG&A (excl. D&A&I and the impact of the Karusel transformation)	(449,297)	(354,863)	26.6	(567,281)	(460,157)	23.3
% of revenue	14.3	13.6	66 b.p.	18.0	17.7	37 b.p.
Adj. SG&A (excl. D&A&I, LTI, share-based payments, and the impact of the Karusel transformation)	(444,241)	(352,346)	26.1	(562,225)	(457,640)	22.9
% of revenue	14.1	13.5	60 b.p.	17.9	17.6	31 b.p.

Analysis of SG&A expenses

In 2023, adjusted SG&A expenses under IFRS 16 as a percentage of revenue increased by 60 b.p. year-on-year to 14.1% (by 31 b.p. to 17.9% pre-IFRS 16), mainly due to higher staff costs, other expenses, lease expenses (only under IFRS 16), and third-party services as a percentage of revenue.

Staff costs (excluding LTI and share-based payments) in 2023 as a percentage of revenue increased by 34 b.p. year-on-year to 8.3% due to the indexation of salaries for store employees.

Lease expenses under IFRS 16 as a percentage of revenue in 2023 increased by 10 b.p. year-on-year to 0.9% (decreased by 23 b.p. to 4.3% pre-IFRS 16), mainly due to an increase in the number of reverse franchising stores and a higher number of revenue-linked leases. The decrease in pre-IFRS 16 lease expenses by 23 b.p. to 4.3% was caused by a positive operating leverage effect for fixed lease rates partially compensated by a higher number of revenue-linked leases.

Utilities costs as a percentage of revenue in 2023 remained flat at 2.0%.

In 2023, other store costs under IFRS 16 as a percentage of revenue decreased by 5 b.p. year-on-year to 0.9% (by 5 b.p. to 0.9% pre-IFRS 16), mainly due to the optimisation of store security operations.

In 2023, third-party services under IFRS 16 as a percentage of revenue increased by 7 b.p. year-on-year to 0.8% (by 7 b.p. to 0.8% pre-IFRS 16), mainly due to marketing and promotional activities.

Other expenses under IFRS 16 as a percentage of revenue increased by 14 b.p. year-on-year p (by 18 b.p. pre-IFRS 16), mainly due to a growing share of courier service costs and aggregator commissions for express delivery. Under pre-IFRS 16, the effect also includes higher reverse franchising agency fees.

[1] Excludes the effects of the LTI programmes and share-based payments, the impact of the Karusel transformation, as well as depreciation, amortisation and impairment.

Long-term incentive (LTI) programme

The consolidated financial statements for the year ended 31 December 2023 included accruals for liabilities related to deferred conditional payouts for the largest LTI programme covering 2021–2023, as well as the new LTI programmes for new businesses (Chizhik, Krasny Yar, Slata, Mnogo Lososya, and 5Post). In total, RUB 5,056 million was accrued in 2023 for the LTI programmes and share-based payments.

The LTI programme 2021–2023 is a cash incentive programme run over a three-year period ending 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. Following the unexpected geopolitical developments taking place since February 2022, and their impact on the Company's trading and market capitalisation, 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 results and balance sheet management.

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 expenses (including social security contributions (SSC) and excluding share-based payments)

RUB mln	2023	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	3,687	2,122	1,350	-	-	-	-	-	-
New businesses	1,305	314	515	-	-	-	-	-	-
Total LTI	4,992	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	2023	2022	% change, y-o-y	2023	2022	% change, y-o-y
Gross profit	768,040	635,196	20.9	757,776	626,744	20.9
Gross profit margin, %	24.4	24.4	3 b.p.	24.1	24.1	3 b.p.
Adj. SG&A (excl. D&A&I, LTI, share-based payments, and the impact of the Karusel transformation)	(444,241)	(352,346)	26.1	(562,225)	(457,640)	22.9
% of revenue	14.1	13.5	60 b.p.	17.9	17.6	31 b.p.
Net impairment losses on financial assets	(97)	(346)	(72.0)	(97)	(346)	(72.0)
% of revenue	0.00	0.01	(1) b.p.	0.00	0.01	(1) b.p.
Lease/sublease and other income	23,643	23,025	2.7	22,498	20,710	8.6
% of revenue	0.8	0.9	(13) b.p.	0.7	0.8	(8) b.p.
Adj. EBITDA	347,345	305,529	13.7	217,952	189,468	15.0
Adj. EBITDA margin, %	11.0	11.7	(69) b.p.	6.9	7.3	(34) b.p.
LTI, share-based payments, and other one-off remuneration payment expenses and SSC	(5,056)	(2,517)	100.9	(5,056)	(2,517)	100.9
% of revenue	0.2	0.1	6 b.p.	0.2	0.1	6 b.p.
Impact of the Karusel transformation	1,868	(163)	n/m	1,868	(163)	n/m
% of revenue	0.06	(0.01)	7 b.p.	0.06	(0.01)	7 b.p.
EBITDA	344,157	302,849	13.6	214,764	186,788	15.0
EBITDA margin, %	10.9	11.6	(68) b.p.	6.8	7.2	(34) 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 13 b.p. year-on-year, totalling 0.8% (by 8 b.p. year-on-year totalling 0.7% under pre-IFRS 16), driven by lower income from sales of recyclables and a negative operating leverage effect for fixed lease rates as well as a lower impact from the termination of lease agreements (only under IFRS 16).

EBITDA analysis

EBITDA under IFRS 16 in 2023 grew by 13.6% year-on-year to RUB 344,157 million (up 15.0% to RUB 214,764 million pre-IFRS 16), while EBITDA margin under IFRS 16 decreased by 68 b.p. year-on-year to 10.9% (down 34 b.p. to 6.8% 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 excluding expenses related to the LTI for key employees, as it more accurately reflects the true nature of the Company's business and retail formats.

The accounting policies used for segments are the same as accounting policies applied to the consolidated financial statements except for the inclusion of foreign exchange loss or gain related to goods sold by segments during the period in pre-IFRS 16 EBITDA of the segments with elimination of this effect as part of adjustments. Starting from 2023, expenses for LTI, overhead expenses, and financial results of centralised functions are disclosed separately without allocation on key segments for more accurate performance measurements for segments and centralised functions. The comparative figures for earlier periods have been adjusted in order to provide meaningful comparative information.

Pyaterochka (pre-IFRS 16)

RUB mln	2023	2022	% change, y-o-y
Revenue	2,493,729	2,124,045	17.4
EBITDA	215,441	179,992	19.7
EBITDA margin (excl. LTI), %	8.6	8.5	17 b.p.

Pyaterochka's EBITDA margin increased by 17 b.p. year-on-year in 2023 to 8.6%, mainly due to improved commercial margin and lower shrinkage.

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

RUB mln	2023	2022	% change, y-o-y
Revenue	228,968	94,358	142.7
EBITDA	(9,252)	(6,090)	51.9
EBITDA margin (excl. LTI), %	(4.0)	(6.5)	241 b.p.

The negative EBITDA in the Other segments improved by 241 b.p. year-on-year in 2023 to −4.0%, driven by improvements in the EBITDA margins of all businesses.

Perekrestok (pre-IFRS 16)

RUB mln	2023	2022	% change, y-o-y
Revenue	419,780	386,095	8.7
EBITDA	29,240	29,967	(2.4)
EBITDA margin (excl. LTI), %	7.0	7.8	(80) b.p.

Perekrestok's EBITDA margin decreased by 80 b.p. year-on-year in 2023 to 7.0%, mainly due to higher staff costs, logistics costs, and shrinkage.

Corporate Centre (pre-IFRS 16)

RUB mln	2023	2022	% change, y-o-y
EBITDA (excl. LTI)	(8,505)	(6,370)	33.5

Corporate expenses increased by 33.5% year-on-year in 2023 due to higher staff costs and marketing expenses for the Paket subscription service.

Centralised functions (pre-IFRS 16)

RUB mln	2023	2022	% change, y-o-y
EBITDA (excl. LTI)	(11,423)	(9,256)	23.4

Centralised functions' expenses increased by 23.4% year-on-year in 2023 due to increased staff costs and the costs of maintaining intangible assets.

Depreciation, amortisation and impairment costs

Depreciation, amortisation and impairment costs under IFRS 16 in 2023 totalled RUB 165,956 million (RUB 84,660 million pre-IFRS 16), decreasing as a percentage of revenue by 105 b.p. year-on-year to 5.3% (by 73 b.p. to 2.7% pre-IFRS 16). The change was primarily driven by the high base of 2022 due to one-off impairment, the optimisation of the Company's refurbishment plan, and the fact that revenue growth outpaced growth in the gross book value of assets.

Non-operating gains and losses

	IFRS 16			pre-IFRS 16		
RUB mln	2023	2022	% change, y-o-y	2023	2022	% change, y-o-y
Operating profit	178,201	138,118	29.0	130,104	97,632	33.3
Operating profit margin, %	5.7	5.3	36 b.p.	4.1	3.7	39 b.p.
Net finance costs	(70,187)	(68,417)	2.6	(9,445)	(18,439)	(48.8)
Net FX result	(4,154)	(2,032)	104.4	(2,185)	(2,699)	(19.0)
Profit before tax	103,860	67,669	53.5	118,474	76,494	54.9
Income tax expense	(25,267)	(22,481)	12.4	(28,190)	(24,246)	16.3
Net profit	78,593	45,188	73.9	90,284	52,248	72.8
Net profit margin, %	2.5	1.7	76 b.p.	2.9	2.0	86 b.p.
Impact of the Karusel transformation and tax accrual related to X5's reorganisation in previous periods	(4,439)	2,022	n/a	(4,439)	2,022	n/a
% of revenue	(0.1)	0.1	(22) b.p.	(0.1)	0.1	(22) b.p.
Adj. net profit	74,154	47,210	57.1	85,845	54,270	58.2
Adj. net profit margin, %	2.4	1.8	55 b.p.	2.7	2.1	65 b.p.

Analysis of non-operating gains and losses

Net finance costs under IFRS 16 in 2023 amounted to RUB 70,187 million, a 2.6% increase from 2022 (RUB 9,445 million, a 48.8% decrease from 2022 pre-IFRS 16), driven by increasing interest on lease liabilities under IFRS 16. Under pre-IFRS 16, the decrease is driven by higher interest income on short-term financial investments and lower interest costs due to lower total debt.

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

Income tax expenses under IFRS 16 increased by 12.4% in 2023 driven by business growth that was partially offset by the high base of 2022 due to one-off effect. In 2023, X5's effective tax rate under IFRS 16 decreased to 24.3% from 33.2% in 2022 (to 23.8% from 31.7% in 2022 pre-IFRS 16).

Net profit in 2023 under IFRS 16 included one-off adjustments totalling RUB 4,439 million (RUB 4,439 million pre-IFRS 16) related to the Karusel transformation and a tax accrual related to X5's reorganisation in prior periods.

Key cash flow highlights

	IFRS 16			pre-IFRS 16		
RUB mln	2023	2022	% change, y-o-y	2023	2022	% change, y-o-y
Net cash from operating activities before changes in working capital	341,711	300,768	13.6	213,464	187,026	14.1
Change in working capital	24,443	5,924	4x	22,901	4,088	6x
Adj. net interest and income tax paid	(102,624)	(85,768)	19.7	(41,969)	(35,887)	16.9
Interest received on short-term financial investments	5,747	-	n/a	5,747	-	n/a
Net interest and income tax paid	(96,877)	(85,768)	13.0	(36,222)	(35,887)	0.9
Adj. net cash flows generated from operating activities	263,530	220,924	19.3	194,396	155,227	25.2
Net cash flows generated from operating activities	269,277	220,924	21.9	200,143	155,227	28.9
Adj. net cash used in investing activities	(127,864)	(75,978)	68.3	(128,561)	(76,295)	68.5
(Payment for)/Repayment of short-term financial investments	(65,747)	-	n/a	(65,747)	-	n/a
Net cash used in investing activities	(193,611)	(75,978)	154.8	(194,308)	(76,295)	154.7
Net cash generated from/(used in) financing activities	(78,448)	(127,655)	(38.5)	(8,617)	(61,641)	(86.0)
Effect of exchange rate changes on cash and cash equivalents	302	(98)	n/a	302	(98)	n/a
Net increase in cash and cash equivalents	(2,480)	17,193	n/a	(2,480)	17,193	n/a

Cash flow analysis

In 2023, the Company's net cash from operating activities before changes in working capital under IFRS 16 increased by RUB 40,943 million, or 13.6% year-on-year, to RUB 341,711 million (by RUB 26,438 million, or 14.1%, to RUB 213,464 million pre-IFRS 16), reflecting overall business growth. Changes in working capital under IFRS 16 totalled RUB 24,443 million in 2023 compared with RUB 5,924 million in 2022. Under pre-IFRS 16, changes in working capital in 2023 totalled RUB 22,901 million compared with RUB 4,088 million in 2022. The increase in the positive change in working capital was mainly caused by a higher increase in trade account payables due to the effect of an additional non-working day at the end of December 2023 and a lower increase in inventories due to logistics problems caused by unfavourable weather conditions and high base effect of 2022. Adjusted net interest and income tax paid under IFRS 16 in 2023 increased by RUB 16,856 million, or 19.7% year-on-year, to RUB 102,624 million (up by RUB 6,082 million, or 16.9%, to RUB 41,969 million pre-IFRS 16), driven by a higher interest expense on lease liabilities (only under IFRS 16) and an increase in income tax due to business growth, partially compensated by lower interest paid driven by lower total debt. As a result, adjusted net cash flows generated from operating activities in 2023 increased to RUB 263,530 million under IFRS 16 (RUB 194,396 million pre-IFRS 16), compared with RUB 220,924 million under IFRS 16 (RUB 155,227 million pre-IFRS 16) for the same period in 2022.

Adjusted net cash used in investing activities under IFRS 16, which generally consists of payments for property, plant and equipment, totalled RUB 127,864 million in 2023, compared with RUB 75,978 million (RUB 128,561 in 2023 compared with RUB 76,295 million in 2022 under pre-IFRS 16) in 2022, mainly driven by accelerated organic expansion as well as the renewal of the truck fleet.

Net cash used in financing activities under IFRS 16 totalled RUB 78,448 million (RUB 8,617 million pre-IFRS 16) in 2023, compared with RUB 127,655 million under IFRS 16 (RUB 61,641 million pre-IFRS 16) in 2022.

Liquidity analysis

As of 31 December 2023, the Company's total debt pre-IFRS 16 amounted to RUB 228,229 million, 44.2% of which was short-term debt and 55.8% was long-term debt. The Company's debt (pre-IFRS 16) is 100% denominated in Russian roubles.

As of 31 December 2023, the Company had access to RUB 549,740 million in available credit limits with major banks.

Liquidity update

RUB mln	31-Dec-23	% of total	31-Dec-22	% of total	31-Dec-21	% of total
Total debt	228,229		234,532		294,338	
Short-term debt	100,833	44.2	87,146	37.2	87,767	29.8
Long-term debt	127,396	55.8	147,386	62.8	206,571	70.2
Net debt (pre-IFRS 16)	187,454		191,277		268,276	
Net debt/EBITDA (pre-IFRS 16)	0.87x		1.02x		1.67x	
Lease liabilities (IFRS 16)	670,961		591,160		577,363	
Net debt/EBITDA (IFRS 16)	2.49x		2.58x		3.16x	

Information on alternative performance measures

Financial results presented in this report are prepared in accordance with current IFRS (hereinafter, “IFRS 16”) and if new lease standard IFRS 16 was not adopted and the superseded lease standard IAS 17 remained in force (hereinafter, “pre-IFRS 16”). The adjusted indicators in this report exclude the effects of the LTI programmes and share-based payments, the impact 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. Alternative performance measures (APMs) that are not defined or specified under IFRS requirements are also used in this report. These APMs provide readers with a more detailed and accurate understanding of the Company’s financial and operating performance. In accordance with the European Securities Markets Authority 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. X5 believes that showing EBITDA and EBITDA margin performance provides greater detail about the Company’s performance.

	IFRS 16		pre-IFRS 16	
RUB mln	2023	2022	2023	2022
Operating profit	178,201	138,118	130,104	97,632
Depreciation, amortisation and impairment	165,956	164,731	84,660	89,156
EBITDA	**344,157**	**302,849**	**214,764**	**186,788**

	IFRS 16		pre-IFRS 16	
RUB mln	2023	2022	2023	2022
Revenue	3,145,859	2,605,232	3,145,859	2,605,232
EBITDA	344,157	302,849	214,764	186,788
EBITDA margin, %	**10.9**	**11.6**	**6.8**	**7.2**

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, and also excluding the effects of the LTI programmes 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	2023	2022	2023	2022
EBITDA	**344,157**	**302,849**	**214,764**	**186,788**
Adjustments:				
LTI, share-based payments, and other one-off remuneration payment expenses and SSC	5,056	2,517	5,056	2,517
Impact of the Karusel transformation	(1,868)	163	(1,868)	163
Adj. EBITDA	**347,345**	**305,529**	**217,952**	**189,468**

	IFRS 16		pre-IFRS 16	
RUB mln	2023	2022	2023	2022
Revenue	3,145,859	2,605,232	3,145,859	2,605,232
Adj. EBITDA	**347,345**	**305,529**	**217,952**	**189,468**
Adj. EBITDA margin, %	**11.0**	**11.7**	**6.9**	**7.3**

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 impact 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	2023	2022	2023	2022
Net profit	78,593	45,188	90,284	52,248
Adjustments:				
Impact of the Karusel transformation and tax accrual related to X5's reorganisation in previous periods	(4,439)	2,022	(4,439)	2,022
Adj. net profit	74,154	47,210	85,845	54,270

	IFRS 16		pre-IFRS 16	
RUB mln	2023	2022	2023	2022
Revenue	3,145,859	2,605,232	3,145,859	2,605,232
Adj. net profit	74,154	47,210	85,845	54,270
Adj. net profit margin, %	2.4	1.8	2.7	2.1

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

SG&A is 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 programmes 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	2023	2022	2023	2022
SG&A	613,385	519,757	650,073	549,476
Adjustments:				
LTI, share-based payments, and other one-off remuneration payment expenses and SSC	(5,056)	(2,517)	(5,056)	(2,517)
Impact of the Karusel transformation	1,868	(163)	1,868	(163)
Depreciation, amortisation and impairment	(165,956)	(164,731)	(84,660)	(89,156)
Adjusted SG&A	444,241	352,346	562,225	457,640

	IFRS 16		pre-IFRS 16	
RUB mln	2023	2022	2023	2022
Revenue	3,145,859	2,605,232	3,145,859	2,605,232
Adjusted SG&A	444,241	352,346	562,225	457,640
Adjusted SG&A expenses as % of revenue	14.1	13.5	17.9	17.6

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 over a specific period. It is a way to evaluate the change in the 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	2023	2022	2023	2022
Net cash used in investing activities	193,611	75,978	194,308	76,295
Adjustments:				
Short-term financial investments	(65,747)	-	(65,747)	-
Adjusted net cash used in investing activities	127,864	75,978	128,561	76,295

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	2023	2022	2023	2022
FCF	75,666	144,946	5,835	78,932
Adjustments:				
Payments for financial assets	(65,747)	-	(65,747)	-
Interest received on short-term financial investments	5,747	-	5,747	-
Adjusted FCF	135,666	144,946	65,835	78,932

Return on invested capital (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 the Company is using its capital to generate profits.

	IFRS 16		pre-IFRS 16	
RUB mln	2023	2022	2023	2022
Net operating profit after tax (NOPAT)	134,848	92,232	99,147	66,686
Invested capital (average equity + net debt)	908,794	874,378	357,022	360,029
ROIC	14.8%	10.5%	27.8%	18.5%

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. It is a way to evaluate how well the 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	
RUB mln	2023	2022	2023	2022
NOPAT	134,848	92,232	99,147	66,686
Adjustments:				
Impact of the Karusel transformation, tax on investments, and tax accrual related to X5’s reorganisation in previous periods	(5,241)	3,721	(3,837)	2,502
Adjusted NOPAT	129,608	95,953	95,310	69,188
Invested capital (average equity + net debt)	908,794	874,378	357,022	360,029
Adjusted ROIC	14.3%	11.0%	26.7%	19.2%

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, long-term and short-term lease liabilities (applicable for IFRS 16), 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	
RUB mln	31-Dec-23	31-Dec-22	31-Dec-23	31-Dec-22
Total debt, incl.:	228,229	234,532	228,229	234,532
Short-term borrowings	100,833	87,146	100,833	87,146
Long-term borrowings	127,396	147,386	127,396	147,386
Lease liabilities	670,961	591,160	-	-
Cash and cash equivalents	40,775	43,255	40,775	43,255
Net debt	**858,415**	**782,437**	**187,454**	**191,277**
EBITDA	344,157	302,849	214,764	186,788
Net debt/EBITDA	**2.49x**	**2.58x**	**0.87x**	**1.02x**

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.

RUB mln	2023	2022
Revenue	**3,145,859**	**2,605,232**
Adjustments:		
Revenue from wholesale operations and other services	(16,998)	(9,136)
Revenue from franchise services	(14)	(10)
Net retail sales	**3,128,847**	**2,596,086**

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 date 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.

%	2023	2022
Net retail sales growth	20.5	18.3
Less contribution from an increase in selling space	10.9	7.5
LFL	**9.6**	**10.8**

Sustainable strategy

X5's business strategy incorporates a sustainability-led approach based on responsible business practices, effectively driving the Company's long-term value creation for shareholders and a broad range of stakeholders, and contributing to the UN Sustainable Development Goals (SDGs) and Russia's national development goals.

We see it as our mission to make high-quality food increasingly more available to consumers while consistently reducing our environmental impact by cutting food and non-food waste, as well as greenhouse gas and pollutant emissions. As another equally important focus area we promote responsible practices among suppliers to compound the impact of our environmental and social initiatives. As we grow our business, we also support the communities of which we are a part. We are committed to compliance with tax laws and regulations, including the timely payment of all the taxes that we are due as a Company; openness and transparency about our approach to tax is important and is supported by our overall business and ESG sustainability strategy.[1]

Our approach to sustainability management integrates the focus on best practices recommended by the Dutch Corporate Governance Code and the recommendations of the Corporate Sustainability Reporting Directive (CSRD), in line with which the Company's plans to disclose relevant information as soon as required. Currently, X5 Group details its sustainability performance in a dedicated report that is prepared in accordance with the Global Reporting Initiative (GRI) methodology and independently verified by an external auditor.

In 2023, the Company continued to align its reporting with the EU Taxonomy, disclosing relevant information in a dedicated section of the Sustainability Report.

1 For more details on the approach to transparent taxation, see the relevant section of the Sustainability Report.

The Company's strategic goals

In 2023, the Company reviewed its progress towards its ESG strategic goals,[1] set goals to 2025, and updated several of its goals to 2030. These goals are highlighted by analysing the impact on key stakeholders and the areas in which X5 Group can make the biggest difference, taking into account the specifics of its business.

We take a risk-based approach to assess our potential impacts in a timely manner and manage associated risks effectively. In addition to risks, we also assess opportunities: the sustainability agenda is one of the Company's most important innovation drivers. For example, in the reporting year, we continued searching for and testing technologies aimed at improving resource efficiency, reducing waste generation, and managing waste sustainably, as well as developing logistics solutions.

Priority	Goals to 2025		Goals to 2030	UN SDGs
Planet	• Reduce GHG emissions (Scope 1 and 2) intensity per sqm of selling space by 15% compared with 2019 through improved energy efficiency • Reduce other indirect (Scope 3) GHG emissions intensity compared with 2020, t of CO_2e per sqm of selling space • Increase the share of renewable and low-carbon energy used in operations to 5% • Reduce the ratio of waste generated by retail chains to retail sales by 15% compared with 2019[2] • Send up to 95% of recyclable materials generated in own operations of X5's retail chains for recycling	• Increase the proportion of food products that can be reprocessed when no longer in saleable condition prior to their expiry date to 25% • Make 60% of private-label packaging sustainable by the end of 2025[3] • Improve water efficiency and reduce pressure on water resources • Make up to 100% of own production ready meal packaging recyclable by the end of 2025	• Reduce GHG emissions (Scope 1 and 2) intensity per sqm of selling space by 30% compared with 2019 through improved energy efficiency • Increase the share of renewable and low-carbon energy used in operations to 30% • Reduce the ratio of waste generated by retail chains to retail sales by 30% compared with 2019	SDG 7, 11, 12, 13, 14, 15
Health	• Increase sales of healthy lifestyle products[4] • Continuously improve a system to ensure the quality, freshness, and food safety of products	• Increase the number of regions covered by Pyaterochka's healthy lifestyle lessons for school students • Develop principles and practices to monitor that suppliers source goods responsibly[5]	• Ramp up sales of healthy lifestyle products listed on the Avocado Index	SDG 3, 12
Employees	• Maintain an employee engagement rate of at least 80% • Enhance the recognition and appeal of X5 Group's employer brand	• Maintain an eNPS of at least 40 p.p. as the business grows[6]	• Enhance the recognition and appeal of X5 Group's employer brand • Establish a safe and healthy workplace	SDG 5, 8, 10
Community	• Grow the number of beneficiaries of food aid programmes by 10% annually • Roll out the Safety Zone programme to all Pyaterochka and Perekrestok stores[7] • Expand community care programmes; in particular, develop the Local Community Centres programme at Pyaterochka	• Develop partnership programmes with small and medium-sized businesses, farmers, and local producers • Develop accessible stores and services[8]	• Grow the number of beneficiaries of food aid programmes by 10% annually	SDG 2

1 For more details on the 2023 goals and progress against them, see the 2023 Sustainability Report.
2 The calculations include Pyaterochka, Perekrestok, and Chizhik.
3 The calculations include the 150 top-selling PLUs in retail sales of private labels at Pyaterochka, Perekrestok, and Chizhik. The figure represents the proportion of PLUs in preferred packaging (in line with X5 Group's Recommendations) among the 150 top-selling retail PLUs. Calculated annually.
4 Breakdown by category based on the Avocado Index. The Avocado Index is a list of healthy products across 84 categories, compiled according to WHO recommendations and verified by a nutritionist.
5 Developing principles and practices for responsible sourcing refers to monitoring that goods comply with national certification.
6 Taking into account the differentiating metrics for businesses with a higher eNPS.
7 Chizhik will also join the programme by setting up internal communication events for employees to teach them to interact with people who appear lost.
8 The calculation uses the NPS survey results for the question "Which stores care about people with special needs, pensioners, and parents with small children?"

A long-term value creation model

This model helps to articulate our business metrics, enabling us to monitor sustainability risks, ensure business continuity, and quickly adjust our priorities.

VALUE CREATION STAGE

	Procurement	Delivery to distribution centres and stores	Sales	Consumption
OUR IMPACT	Engaging with suppliers on: • product quality control • using eco-friendly packaging • ensuring respect for human rights and reducing environmental impacts through sustainability guidelines	Optimising supply chain legs to minimise losses	Minimising food waste	Providing quality products to all demographics, including vulnerable groups

AT ALL VALUE CREATION STAGES

- Respecting human rights
- Complying with business ethics standards
- Reducing energy and water consumption
- Reducing carbon footprint
- Minimising waste generation and managing waste sustainably
- Caring for our people and minimising injuries
- Engaging in dialogue with stakeholders using feedback tools

Sustainability management

Governance

Embedded in the business strategy, the Company's agenda of sustainable long-term value creation is implemented by the Company's executive team, included in the LTI programme 2021–2023, and reviewed by the Supervisory Board and its committees, also as part of the Supervisory Board's responsibility in setting performance indicators under the Company's remuneration policies.[1]

When implementing its sustainability strategy, X5's executive team is supported by a dedicated Sustainability Committee operating in a cross-functional, cross-format manner, providing an effective interface between different business units and setting priorities and coordinating overall efforts to achieve strategic goals.

Each of the Company's business units and retail chains has dedicated teams responsible for their units' contribution to wider corporate goals by implementing various sustainability programmes. These teams can also make suggestions based on the strategy and propose and implement additional initiatives that play into the strategy.

PERFORMANCE BENCHMARKING OF GOVERNANCE

Long-term ESG KPIs for X5 Group's management are part of the long-term incentive programme 2021–2023. These KPIs include targets related to driving decarbonisation, increasing the share of recyclable packaging across private labels, and implementing projects to increase recycling rates.

In 2024, the Company plans to incorporate these KPIs into its short-term incentives for leaders of functions directly contributing to Company-wide sustainability strategy goals, primarily within X5's key retail chains Pyaterochka and Perekrestok.

5%

Of all management KPIs are linked to climate change

1 For more details on our sustainability management system, see the Sustainability Report.

Sustainability risk management

As part of the overall business strategy, sustainability aspects and related risks, such as those associated with employees, information security, or business ethics, are addressed within a single risk management framework, which is detailed in the relevant section of this Annual Report.

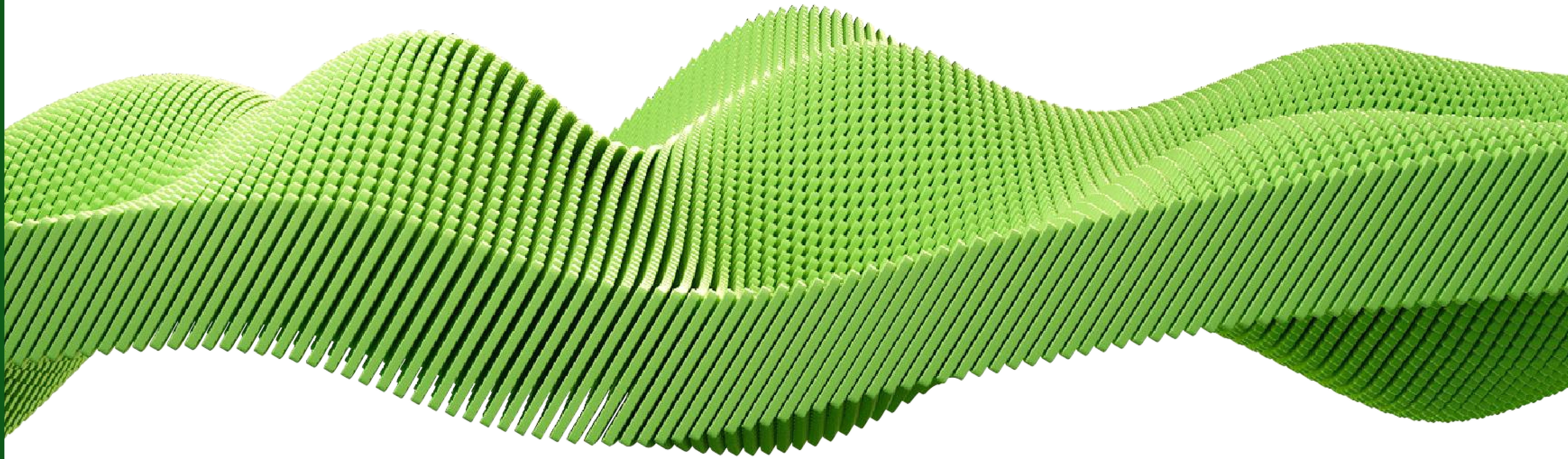
Given the scale of potential impact, the Company takes climate-related risks and opportunities particularly serious and reviews them on an annual basis to adjust the business strategy accordingly. For more details, see the section of this Annual Report containing disclosures prepared in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Principal regulatory documents

X5's sustainability management system focuses on compliance with applicable laws as well as best practices described in dedicated internal regulations. Key documents include:

- Code of Business Conduct and Ethics
- Human Rights Policy
- Sustainable Development Policy
- Supplier Policy
- Equal Opportunities Policy
- Energy Efficiency and Climate Change Prevention Policy
- Waste Minimisation Policy
- Occupational Health and Safety Policy

These and other principal documents covering sustainability topics are available on the corporate website and are regularly reviewed and updated to adapt to changing laws or internal processes.



Stakeholder engagement

X5 Group's key stakeholders are its customers, employees, shareholders, investors, suppliers, local communities, regulatory bodies, and state authorities. The Company places a particular focus on engaging with vulnerable groups, such as elderly people, people with disabilities, and families in need.

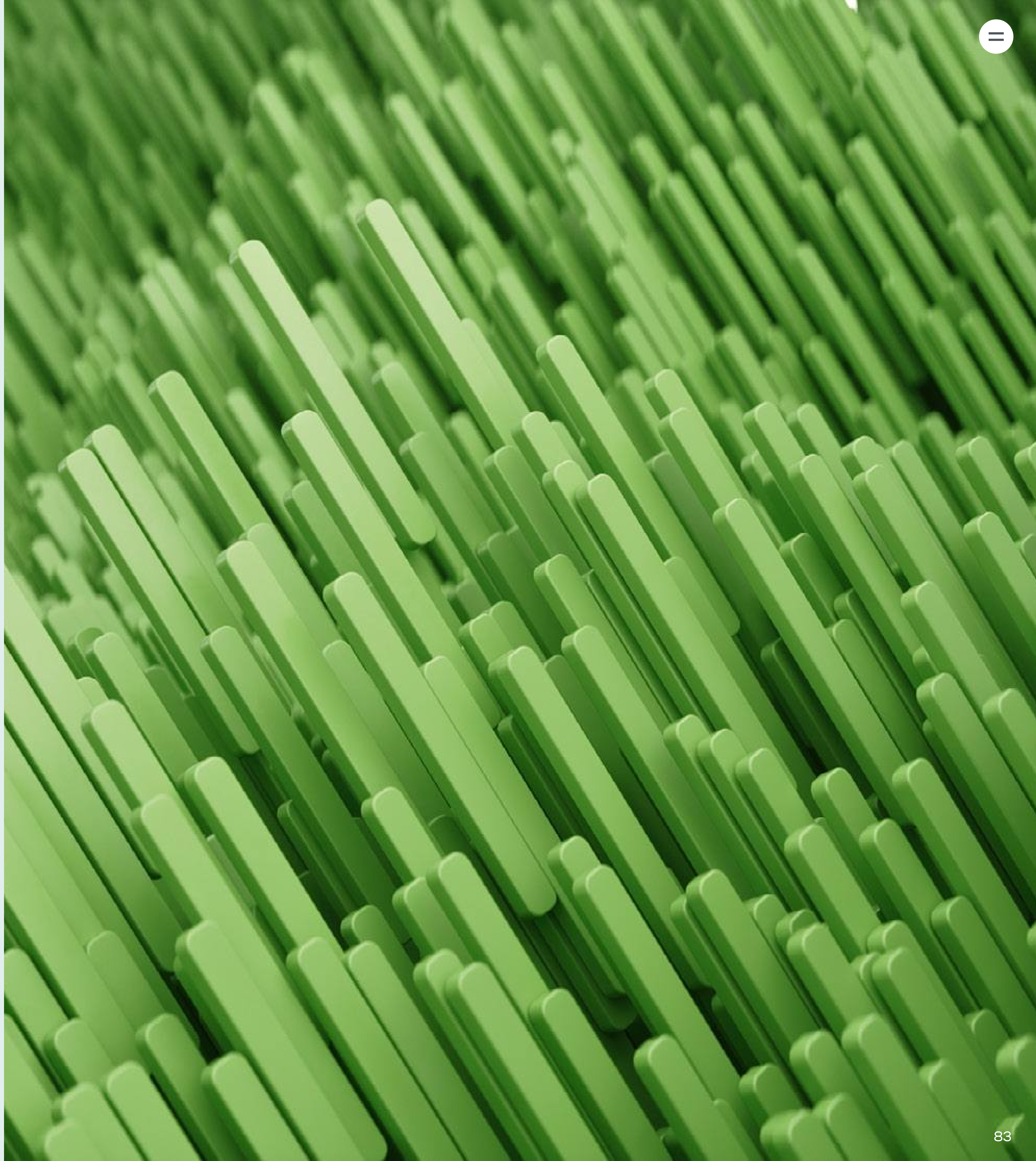
X5 engages with stakeholders, taking their opinions into account in its work and development plans. A special website has been created for communication on sustainable development issues, where the Company publishes information on its sustainable development activities, goals and results of the Sustainable Development Strategy, as well as relevant internal documents. The website also provides contacts for stakeholders to send feedback, suggestions, or questions.

The Company also takes into account the interests of each stakeholder by engaging with them through various formats. For example, X5 regularly conducts customer and employee surveys, analyses all requests received through feedback channels and comments posted in open sources, organises personal meetings between employees and management, holds presentations for investors, develops a portal for suppliers, cooperates with charitable foundations, and participates in expert groups and councils.

In addition, the Company's dialogue with stakeholders takes the form of direct interaction with individual participants who are involved in carrying out everyday business tasks. Stakeholders' opinions and suggestions are taken into account during strategic planning.

In an effort to create value for all of its stakeholders, X5 engages in a direct dialogue with them while also encouraging dialogues between different stakeholders. For instance, the Company informs suppliers about packaging trends and consumer attitudes towards ESG and living a healthy lifestyle, and helps to communicate the position of small agricultural companies to relevant decisionmakers in the government, thus helping all parties find effective solutions and support measures for urgent needs.

In 2023, the Company developed its Stakeholder Engagement Policy describing its approach to stakeholder engagement. For more details on our stakeholder engagement methods and outcomes, please refer to our 2023 Sustainability Report.



Community

X5 Group contributes to the development of local communities through a wide variety of charitable and social projects, as well as by supporting local producers and small businesses. In the reporting year, the Company continued to grow previously launched initiatives by expanding their geographic footprint and increasing their reach, and paid special attention to promoting inclusion in its stores to offer an even more inclusive space for employees and customers with special needs.

A particular focus was placed on automating data collection to unlock continuous tracking of social initiatives against goals and related KPIs, as well as on evaluating the performance of programmes implemented over the past five years.

SUPPORTING LOCAL PRODUCERS AND SMALL BUSINESSES

Supporting local producers and small businesses, the Company offers special franchise fees and rental rates, signs direct contracts for certain volumes of produce under the Agro-Aggregator programme, and runs special factoring programmes, as well as a Farmers' Market programme, enabling small local producers to broaden their consumer audience.

In addition, the Company holds regular events for small businesses, advising them how to become X5 Group partners and suppliers, explaining the required procedures, and answering questions from participants.

CHARITABLE AND SOCIAL PROJECTS

The Company's involvement in charitable and social projects is guided by the relevant internal policy outlining general principles and rules for such activities, priorities, and responsible employees.

When implementing social projects, priority is given to areas where the Company can make the strongest impact while meeting beneficiaries' actual needs to the extent possible. First of all, these projects include food support in a bid to promote food sharing and the Basket of Kindness project. The Company also implements numerous projects in other areas, including support in the search for missing people and the development of local community centres in X5 stores in selected locations.

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

53 %
the share of small businesses among X5 suppliers

56 THS KG
of food was donated to people in need

>1,300
stores engaged in the Local Community Centres project

3,000
families received pre-loaded payment card

KEY 2023 HIGHLIGHTS AND RESULTS

- The share of small businesses among X5 suppliers grew to 53%, with small enterprises accounting for 27% and micro enterprises 26%.
- The Agro-Aggregator project was successfully piloted, enabling small agricultural producers to sell their produce at X5 Group chains via an aggregator company with which the Company has guaranteed order volumes.
- Over 56,000 kg of food was donated to people in need as part of the food-sharing project, benefiting more than 95,000 people. The project took the second of the top prizes at the Retail Week Awards in the Retail ESG Project of the Year category.
- Charitable support within the Basket of Kindness project was expanded to include new forms of support: along with food assistance in kind, beneficiaries can now receive a pre-loaded payment card designed to help cardholders purchase staple food items from one of 14 categories (excluding tobacco and alcohol) at X5 stores. In the reporting year, such cards were issued to over 3,000 families.
- We launched training courses and taught our employees to engage with customers with disabilities. A customised training course is available for each level of management, from cluster directors to line employees and couriers, taking into account the specifics of the employee's role.
- The Local Community Centres project was rolled out to over 1,300 stores. They served as venues for more than 5,000 events that reached over 680,000 participants.

PLANS FOR 2024

- Scale up the Agro-Aggregator project and start collaborating with at least ten aggregators across Russian regions
- Continue running regional training sessions to inform local producers about how to comply with X5 Group standards and become a partner. We plan to hold at least 10 to 15 such sessions
- Develop the Farmers' Market project and open at least 20 markets
- Increase the number of food assistance beneficiaries and expand the geography of participating stores, in particular leveraging dark stores and distribution centres
- Increase the number of volunteers among store employees, including by enhancing the incentive system
- Adapt delivery services, the mobile app, and the system of additional discounts for customers with disabilities and hold inclusive events as part of the Local Community Centres project

Planet

In line with its Sustainable Development Strategy, X5 Group continues to adopt approaches that contribute to its priority UN SDG: Responsible Consumption and Production. To do this, we focus on three key areas, deploying available innovations and seeking to maximise the impact of our efforts by engaging a wide range of stakeholders in each area. Our priorities in the reporting year included boosting efficiency, preventing food waste generation, rolling out energy-efficient solutions across retail chain stores, mitigating climate impact by increasing the share of renewable and low-carbon energy, switching to natural refrigerants, and optimising logistics.

REDUCING ENERGY CONSUMPTION

All new stores, as well as stores undergoing scheduled renovations, are equipped with a comprehensive Smart Store system that uses sensors and monitoring software to bring stores in line with current operational and maintenance processes and save energy through efficiency gains. Installation of refrigerated display cabinets with retrofit glass at new and refurbished Perekrestok stores.

REDUCING WASTE AND PROMOTING SUSTAINABLE PACKAGING

The Company makes continuous efforts to improve the accuracy of inventory management and enhance logistics and warehousing tools to reduce waste generation while running a number of programmes to roll out various innovative solutions for efficient waste management.

Each of our retail chain stores monitors how much recyclable waste is being generated, and employees take recycling training.

RECOMMEN-DATIONS FOR SUPPLIERS

The Company encourages suppliers to adopt a responsible approach to their environmental footprint via recommendations stemming from best practices, expert opinions, and open discussion with partners at regular meetings. The recommendations cover voluntary certifications confirming suppliers take a responsible approach to production processes and packaging materials used, and contain specific examples of practices available in Russia.

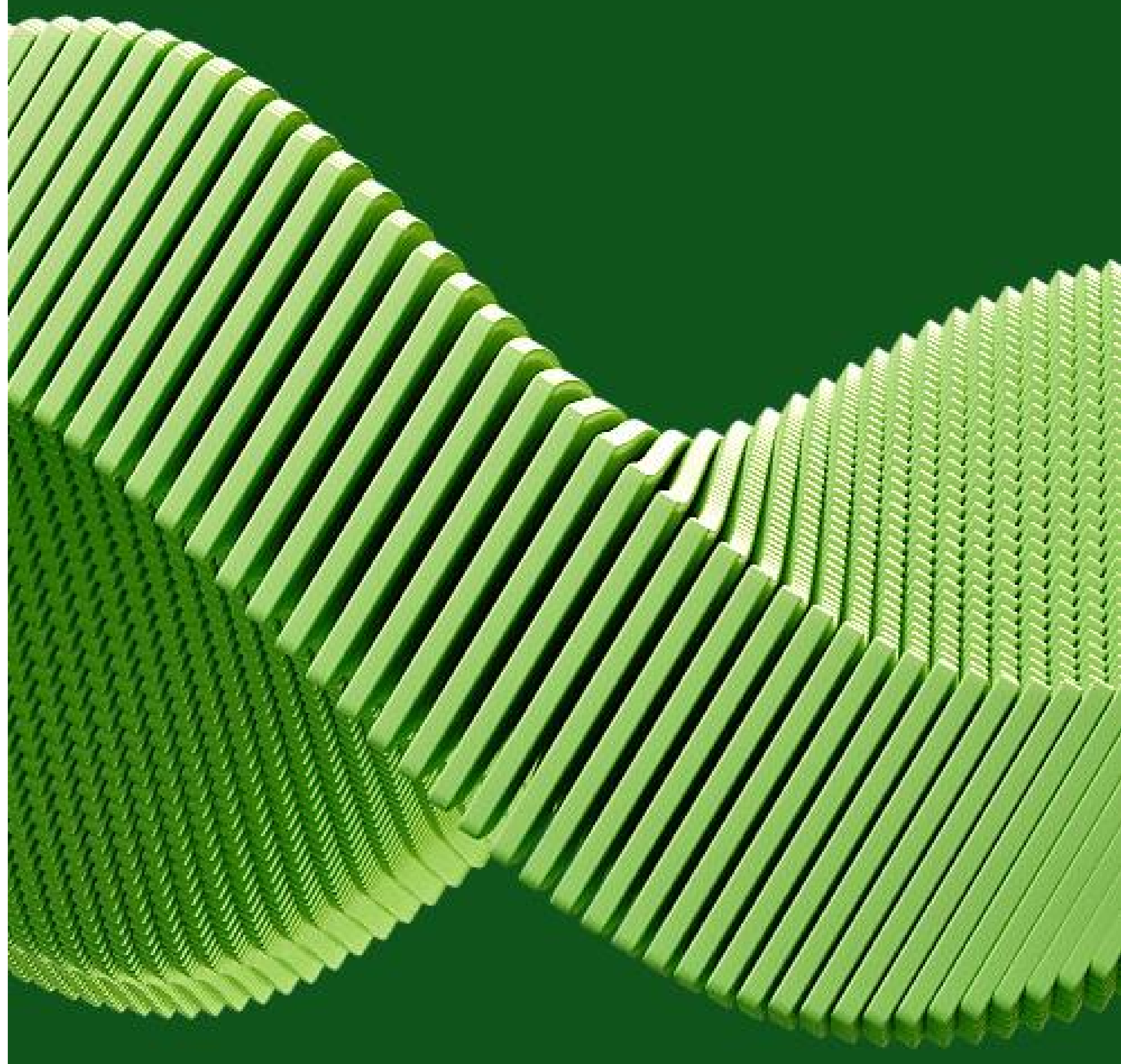
In addition, customised sustainability training materials are available to all existing and potential X5 Group suppliers on the Company website.

Key 2023 highlights and results

- Pyaterochka received over 30 million kWh of green energy from ROSATOM, while ten Pyaterochka distribution centres are powered by hydropower.
- The Smart Store system was rolled out to over 6,400 Pyaterochka stores.
- More than 1,000 Pyaterochka stores participate in a project to switch to eco-friendly advertising materials.
- Pyaterochka launched a pilot project to convert refrigeration equipment to use natural refrigerants with zero ozone depletion potential and low global warming potential.
- Over 96% of X5 Group's ready-to-eat meals are sold in recyclable packaging.
- Pyaterochka has started adding a special label to its ready-to-eat meal packaging urging customers to dispose of it properly by recycling it. The label includes a link to eco.5ka.ru, a website that provides a detailed description of how to properly dispose of different materials.
- The Company has decided to change the terms of reference for private labels and ready-to-eat meals to make its packaging more eco-friendly.
- The list of recyclables has grown, and the amount of materials sent for recycling has increased.
- Over 900 Perekrestok stores have signed up to a programme that donates products that are within their expiry date but no longer fit for sale to farms; we have drafted a standardised list of fractions that can be donated, and the amount of donations in these categories has tripled.
- The amount of recyclables sent for recycling by Perekrestok Vprok has grown by 6%.
- Newsletters have been set up for suppliers to communicate information on legislative changes with regard to packaging, featuring explainers and advice; regular webinars are held to openly discuss sustainability with suppliers; and sustainable packaging has been made a key topic at the annual conference of X5 Group suppliers.

TCFD disclosure

Climate-related issues, in particular the systematic assessment of climate risk impact on the Company's operations and the management of such risks in 2023, remain essential and relevant for X5 Group. The Company strives to improve the level and scope of climate-related disclosures every year while developing and implementing relevant climate-related initiatives. The information in this section is correct as at 31 December 2023, unless stated otherwise.



Governance

The corporate governance framework is key to the success of decarbonisation measures taken as part of X5's long-term sustainable development strategy. Responsibility for managing climate-related issues as well as for climate risk review and assessment lies with the Company's senior management as well as its business units. The "three lines of defence" model used in X5's risk management system drives the effectiveness of our climate risk management. Learn more on X5's risk management system on pages 106–112.

As the second line of defence within X5's risk management framework, X5's Sustainability Department is responsible for the processes around identifying, analysing, and assessing climate risks. The Department informs the Supervisory Board and executive team about risks that may threaten the Company's business continuity in general and is also involved in relevant risk management efforts. The Department collaborates with the Risk Management team to provide methodological support to the business as regards ESG risk management.

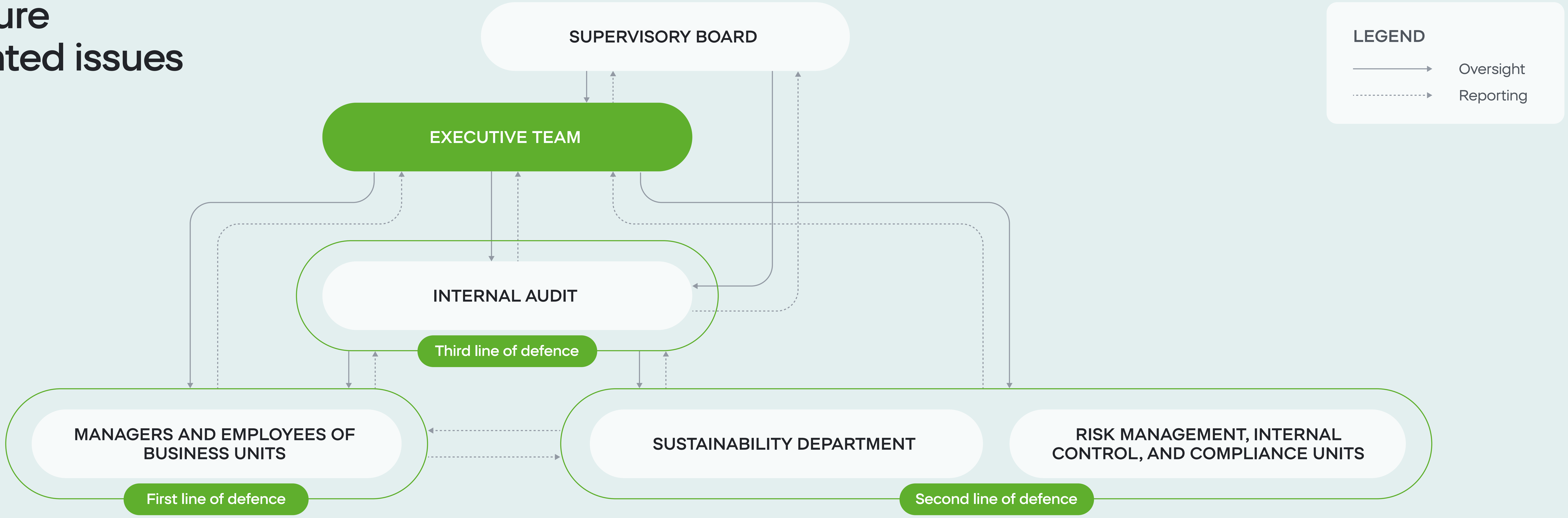
As part of adjustments in X5's overall risk management system in 2023, a substantial number of risk-related tasks were cascaded into the Group's retail chains and business units; future plans include transferring the tasks around day-to-day operational management of sustainability risks to them as well. Therefore, ESG risks will be addressed at the management level across retail chains and business units (first line of defence), getting these process participants more deeply involved in the Company's ESG activities while also enabling them to respond and adapt to external challenges faster and better. Climate-related issues that become more material are escalated to senior managers who decide how to address such issues.

Members of the executive team are responsible for strategy implementation and management of sustainability issues, driving the implementation of the climate strategy and action. The Supervisory Board supervises the activities of the executive team as regards strategy development and implementation of ESG projects. 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.

The diagram below shows X5's governance structure around climate-related issues, including role and responsibility distribution among different levels of management.

Governance structure around climate-related issues

For more details on the Supervisory Board, see page 114.



Supervisory Board:

- approves X5's strategy of sustainable long-term value creation and supervises how such strategy is implemented
- supervises the corporate risk assessment process
- supervises performance across key projects and activities, including advances in climate risk mitigation measures while also overseeing progress against the sustainable development strategy and the impact of environmental projects
- approves the annual budget for the Company and its projects in line with the Group's strategic priorities, including climate-related initiatives

Executive team:

- is responsible for developing and implementing X5's strategy of sustainable long-term value creation, and handling day-to-day strategic and operational decisions that drive progress against the Company's overall strategy as well as its sustainable development strategy
- is involved in identifying and properly managing the risks that threaten the achievement of the Company's business objectives and the continuity of its operations
- holds monthly meetings and provides regular progress updates to the Supervisory Board regarding ongoing projects and material risks, including climate risks if they are material for the business in general

Internal Audit:

- conducts audits across all retail chains and business units
- runs tests of internal control systems
- evaluates the performance of the risk management system

Sustainability Department:

- supports the executive team in driving and coordinating ESG-related work across the Group and such
- coordinates and implements climate risk analyses and assessments and supports the preparation of non-financial reporting, including climate-related disclosures
- initiates new ideas and solutions to help promote the ESG agenda both within and outside the Company
- organises the development of a sustainable development strategy, which contains decarbonisation goals and activities
- organises and supports the implementation of climate-related activities and initiatives

Risk management, internal control, and compliance units:

- control and monitor sustainability risks, climate risks in particular

Managers and employees of business units:

- manage ESG risks on a regular basis
- are responsible for the implementation of ESG-related initiatives, including climate action and measures to mitigate climate risks

Strategy and climate risk assessment

X5's sustainable development strategy goes hand in hand with constantly evolving climate risk assessment processes. The impact of such risks on the Company's business, overall strategy, and financial planning are among the drivers behind the decarbonisation targets and measures set out in the strategy. Climate risk analysis and assessment help prioritise focus areas and response measures. We systematically review these risks and assess their financial implications for our strategy.

X5's 2030 sustainability goals can be found in our 30x30 agenda and other sections of the Planet chapter. Climate-related issues are also included in our updated short-term strategy to 2025.

As regards the impact on the Group's financial planning and investment decisions, in 2023, we amended the Company's investment policy to include more lenient payback criteria for sustainability projects, specifically those with a decarbonisation focus. In addition, the Company's budgeting process considers climate-related issues (e.g., the financial and operational feasibility of converting facilities to alternative energy sources is assessed).

Climate risk assessment

The climate risk assessment process is aligned with the Group's overall risk assessment process and complies with the requirements for the relevant procedures. Additional information on the Group's risk management system can be found on pages 106–112.

Analysing climate-related risks and opportunities helps the Company build specific steps to support the low-carbon transition. X5's decarbonisation activities and initiatives are driven by climate risk. For more details on the Company's approach to climate risk assessment, see pages 94–95 of our 2022 Sustainability Report.

The Company's business strategy and climate risk assessment are structured across three time horizons:

- **Up to 2025**, short term
- **2025–2030**, medium term
- **2030–2050**, long term

X5 conducts scenario analysis to efficiently identify and manage climate risks and develop effective decarbonisation measures. Our risk assessment process is informed by the following climate scenarios from the IPCC's Sixth Assessment Report (AR6) and IEA's up-to-date outlooks:

- The **1.5 °C scenario (scenario SSP1–2.6)** is the most ambitious scenario in terms of achieving the goals of the Paris Agreement, involving considerable adjustments to the Company's activities.
- X5 considers the **2.0 °C scenario (SSP2–4.5 scenario)** the primary one for the industry. This scenario is used in climate risk assessment as the most relevant and realistic. It is less drastic compared with the 1.5 °C scenario.
- **4.0°C scenario (SSP5–8.5)**: under this scenario, the Company's activities do not need to change significantly, and operations would proceed as usual.

A detailed description of each of the three climate scenarios is available on page 91 of our 2022 Sustainability Report.

When analysing and assessing climate risks, the Company considers both physical and transition climate risks in line with global best practice. The impact of physical risks will be more significant over the longer term, which corresponds to the long-term time horizon (2030–2050) adopted by the Company. Transition risks are more volatile and are likely to manifest in the short or medium term, demanding more immediate focus and attention.

The Group introduced a climate risk analysis tool, which builds on previous quantitative and qualitative climate risk assessments and complements them with a geographic dimension. The tool factors in climate scenarios and their impacts on the Company's core business units as well as decarbonisation plans. A climate scenario can be selected on a dashboard to estimate the corresponding financial impact on specific assets over the selected time horizon. The tool enables fast and effective risk identification, assessment, and mitigation and provides the necessary data to make budget and investment decisions. Additional information on the Group's risk management system can be found on pages 106–112.

As part of its initial climate risk assessment, 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 transition 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 2022 Sustainability Report on page 90.

The results of a subsequent qualitative re-assessment of climate risks are available on pages 92–93 of our 2022 Sustainability Report. These results as well as the list of transition and physical climate risks remain current as at 2023-end. No climate risk re-assessment was conducted in 2023, but a quantitative risk re-assessment is scheduled for 2024. The table below summarises the assessment results for material climate risks across three time horizons under the SSP2–4.5 (~2.0 °C) scenario (the primary scenario for the industry).

Climate risk assessment

Risk	Risk component	Consequences	Scenario SSP2–4.5 (~2,0 °C)	Risk management initiatives
Changes in regulatory requirements (transition risk) Regulatory risk is associated with the emergence of new and/or tightening of existing fiscal and non-fiscal requirements regarding GHG abatement and climate change adaptation.	Payments for GHG emissions	Additional costs of payments for GHG emissions as well as increased logistics costs	2025: Medium impact 2030: Medium impact 2050: Medium impact	• Monitoring the volume of GHG emissions (Scope 1, 2, and 3) • Regular reporting on GHG emissions and other climate-related issues as well as ESG considerations in compliance with the current national legislation and international standards • Ongoing monitoring of regulatory changes and climate-related disclosure trends • Conducting a systematic climate 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 transition 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 and low-carbon energy generation • Considering an internal carbon price when discussing projects
	Changes in climate-related disclosure requirements of stock exchanges	Temporary suspension of trading at stock exchanges if the Company fails to comply with the requirement to disclose climate-related aspects of its operations	2025: Lowest impact 2030: Medium impact 2050: Highest impact	
	Prohibition of the use of refrigerants with a high GWP	Higher cost and potential shortages of refrigerants due to restrictions on the supply and production of high-GWP refrigerants	2025: Highest impact 2030: Medium impact 2050: Medium impact	
	Higher electricity and heat costs	Potential increase in operating expenses driven by higher electricity and heat prices	2025: Lowest impact 2030: Lowest impact 2050: Medium impact	

● Lowest impact ● Medium impact ● Highest impact

Climate risk assessment

Risk	Risk component	Consequences	Scenario SSP2–4.5 (~2,0 °C)	Risk management initiatives
Changes in investor behaviour (transition risk) Investors may have tougher requirements regarding a company's climate strategy and actions, particularly in terms of the scope of climate disclosures. ESG scores may influence investors' decision making, in particular low ESG scores will alert investors to increased climate risks and poor quality of management.	Insufficient climate-related disclosures	Potentially lower investment appeal of the Company	2025 2030 2050	• 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 • Explaining 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
Macroeconomic risk (transition risk) Market risk is associated with structural changes in supply and demand for energy resources (changes in a country's energy mix) and the accompanying increase in the cost of goods and services purchased by a company.	Lower purchasing power of Russian consumers	Lower revenues and profits due to potential slowdown in household income growth	2025 2030 2050	• Ongoing analysis of market changes to develop appropriate responses • Developing budget-friendly stores
Changes in precipitation regime (physical risk) This risk refers to changes in the precipitation regime typical for each region: deviations from climatic norms in the volume and intensity of precipitation.	Increase in wintertime precipitation	Temporary logistical issues due to heavier snowfalls: difficulties in unloading products at stores and traffic congestion in the first few days after heavy snowfalls	2025 2030 2050	• Engaging with suppliers to ensure smooth performance of shared logistics infrastructure • Visualising and mapping climate risks to track potential supply chain disruptions

Lowest impact   Medium impact   Highest impact

Goals and metrics

Since 2019, X5 has been assessing its GHG emissions on an annual basis in accordance with the Corporate Accounting and Reporting Standard of the GHG Protocol. This procedure enables the Company to get a holistic view of the main sources of GHG emissions and emission levels, which in turn allows it to quantify specific strategic decarbonisation targets. The outcomes of the 2023 GHG emissions estimate and the methodological approach will be detailed in the 2023 Sustainability Report.

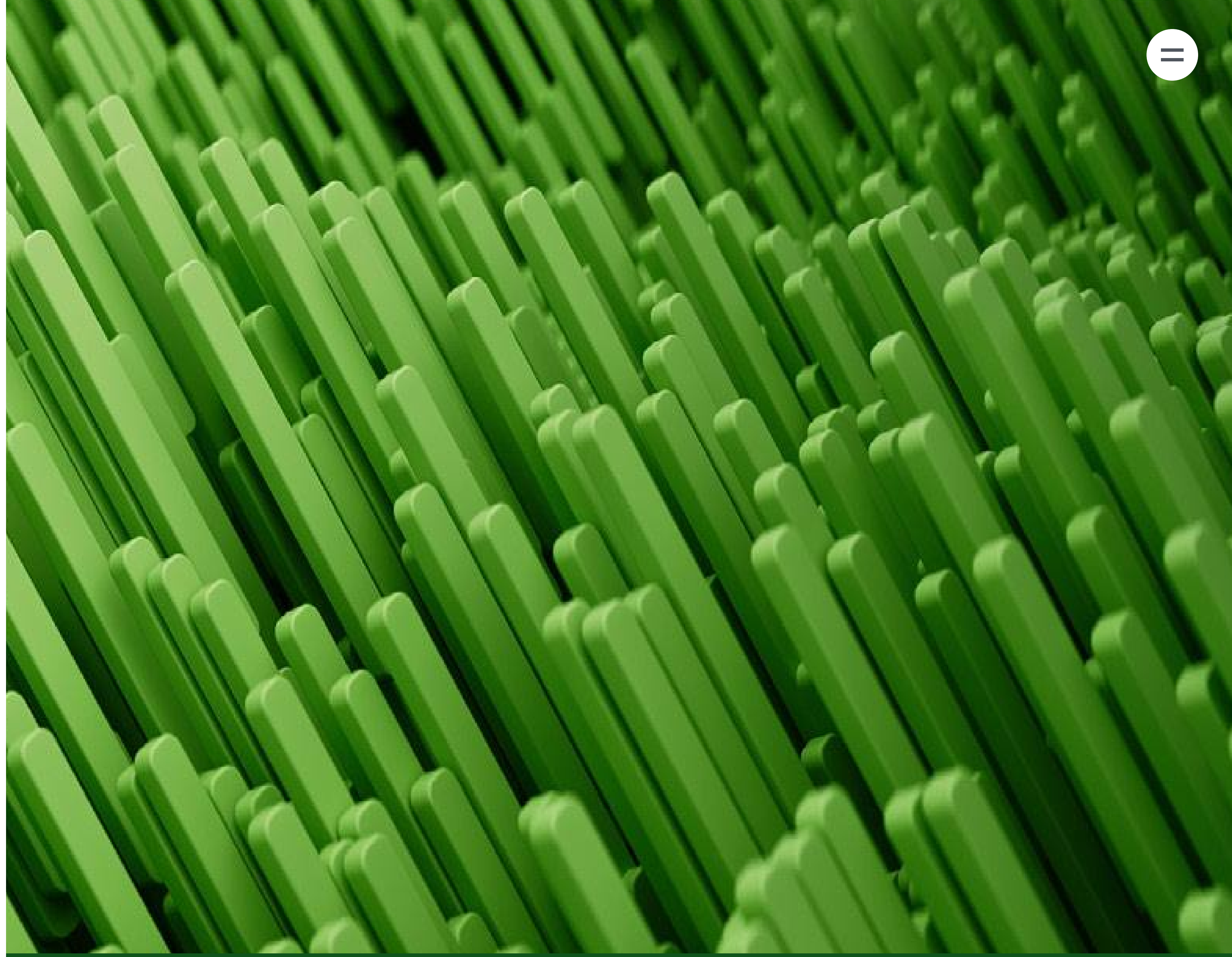
To enable better strategic decision making, the Company seeks to apply internal carbon pricing. The internal methodology and quantitative estimates are still contingent on continuous regulatory changes relating to GHG emissions; therefore, the instrument is still subject to regular review.

In 2023, X5 Group updated its targets under the 2025 sustainable development strategy, having set metrics for GHG emission reduction. Specifically, the Company strives to reduce GHG emissions (Scope 1 and 2) intensity per sqm of selling space by 15% compared with 2019 through improved energy efficiency. In addition, the updated strategy includes targets around waste management; their achievement will have a positive impact on Scope 3 emissions. For the full list of the Company's sustainability targets, see the X5 Sustainable Development Strategy.

In 2023, X5 took further confident steps to achieve the **set GHG emission reduction targets**, thus contributing, among other things, to climate risk mitigation:

- In 2023, the Company decided to launch a pilot to fit Pyaterochka stores with innovative refrigeration equipment using a natural refrigerant (R290) with a low global warming potential (GWP). The use of R290 refrigerant will improve energy efficiency and involve lower GWP, which will reduce direct emissions. As at the time of publication, **three retail facilities** featuring such equipment were already in operation, with plans **to roll out to ten more facilities**. On top of that, Pyaterochka is gradually replacing traditional freon in air conditioners within its spaces with more energy-efficient compressors using the R32 refrigerant with a lower GWP.
- In addition, the terms of reference for opening new Pyaterochka stores and Chizhik distribution centres were supplemented with requirements to prioritise low-carbon refrigeration equipment using propane (R290). These requirements are subject to building-specific utility system constraints.
- In 2023, freon level monitoring was rolled out to all retail chains (Pyaterochka, Perekrestok, and Chizhik) and distribution centres running on a proprietary data collection and business process automation system (WRS). These ambitions earlier 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 enables regular tracking and management of their environmental impact and will help curb contractors' future GHG emissions, where possible.
- The ESG dashboard launched in 2023 is used, among other things, to upload and aggregate electricity, freon, and heat consumption data across X5's retail chains. The dashboard tracks changes in consumption in real time and enables fast responses to deviations as well as automatic calculations of retail chains' GHG emissions. Furthermore, in the near future, the tool will be able to update and display renewable energy metrics – the number of renewable facilities in use, types of generation units, and the form of energy generation (self-generation or energy purchased under free bilateral agreements (FBAs)).

Additional information on X5's other environmental initiatives will be provided in various sections of the Planet chapter of our 2023 Sustainability Report.



PLANS FOR 2024

- Expand the Smart Store programme by opening new and refurbishing existing stores. The programme is planned to be expanded by 102 stores for Perekrestok alone
- Install waste compacting equipment at new distribution centres and purchase additional plastic grinding equipment
- Expand projects to donate unsold products to farms
- Roll out packaging labelling encouraging proper disposal to the entire assortment of Pyaterochka's ready-to-eat meals and all private-label SKUs
- Engage franchise stores in returning recyclables centrally to Pyaterochka distribution centres
- Update packaging recommendations to manufacturers

Health

One of the key purposes of the Company's sustainability strategy is making quality products increasingly more available to customers while encouraging healthy lifestyles. To achieve these goals, we are closely monitoring compliance with product safety and quality criteria, expanding our offering of healthy and affordable products, and sharing healthy lifestyle and eating tips. In 2023, we focused on automating quality control systems, increasing our assortment of healthy products, and promoting healthy eating and healthy lifestyle practices among our younger customers.

PRODUCT QUALITY

X5 Group's quality control system provides for both supplier audits and inspections of products on store shelves and own production of deli foods for compliance with the Hazard Analysis and Critical Control Points (HACCP) principles. Quality control also covers the performance of private labels, including regular checks for compliance with corporate requirements regarding composition of ingredients, production process, and taste.

Additionally, we carefully review all feedback that we constantly receive from consumers. All incoming queries are received and processed by a single automated system. The resulting reports are used to review the number of queries received and spot any trends in these data to flag up product groups generating complaints, identify goods or stores that trigger the most feedback, and follow up on turnaround times by quality control employees.

HEALTHY PRODUCTS

X5 Group has been continuously expanding its offering of fresh, organic, and farm products across its stores, including under private labels. The formulations of products offered under private labels are reviewed by Company experts on a regular basis, with requests and recommendations prepared to encourage suppliers to use healthier and more nutritious alternatives.

We launch special festivals and awareness campaigns on a regular basis to promote healthy eating and products, emphasising that healthy products can be affordable to anyone.

KEY 2023 HIGHLIGHTS AND RESULTS

- Quality control over private-label suppliers has been reinforced. For Perekrestok alone, the number of audits has doubled.
- The quality control system has been updated at all direct import hubs, including procedures around monitoring leftover stocks, pre-shipment checks, processing checks, etc.
- Additional quality certificates have been prepared for fruit and vegetables.
- Our own quality lab project has been rolled out to all X5 Group's retail chains to automate laboratory workflows and expand research areas to match our growing assortment and evolving needs.
- Over 18,000 quality-related queries from consumers were handled by Pyaterochka's automated control system during the year, pushing the number of responses for key product categories sent within our target turnaround time to 98%.
- Perekrestok's assortment of healthy products marketed under its Green Line private label has been expanded by more than 200 SKUs.
- Over 300 lessons were delivered to school students to help them build healthy eating and lifestyle habits.
- Our platform Food.ru has launched a special section – Affordable Healthy Living – spotlighting healthy recipes verified by a nutrition specialist.

PLANS FOR 2024

- Develop key focus areas to automate residual shelf live monitoring
- Increase the number of product quality diagnostic tools based on customer feedback
- Scale up the supplier rating system within the direct import business
- Develop and deploy a HACCP-based quality management system at Perekrestok Vprok and train dark store staff on quality management
- Ramp up sales of healthy lifestyle products listed on the Avocado Index
- Scale up the programme of lessons for school students on healthy eating and healthy lifestyle practices

Employees

X5 Group continues to reinforce its image as a stable and reliable employer to drive sustainable business growth. To this end, we consistently work on strengthening our employer brand by improving working conditions, expanding career growth opportunities, and building our corporate culture. In 2023, a special focus was placed on programmes to mitigate staff shortage risks, enhance employee engagement and motivation, and promote inclusion.

It is important for us that people of different ages, nationalities and health conditions can work together comfortably in X5 Group. The Company creates opportunities for the continuous development of all employees. As described in the Company's Equal Opportunities Policy, as updated in 2023, we apply a zero-tolerance policy towards discrimination or harassment, and guarantee equal treatment of employees regardless of gender, race, religion and other personal characteristics. X5 actively develops a safe, inclusive and comfortable working environment in its stores and business units, also complying with all legal requirements to provide workplaces for people with disabilities.

TRAINING AND DEVELOPMENT

X5 Group aims to provide its employees with extensive opportunities for professional development and career growth, both within their current units as well as at other Company units.

Most existing training programmes are consolidated into the X5 Shelf online corporate university / development portal, designed as an education marketplace. The portal featured more than 2,000 pieces of content at year-end, while the number of users increased from 15,000 to 80,000 year-on-year.

The system of committees set up at the Company to address employee development enables us to identify the most talented and motivated succession pool candidates, as well as determine areas for growth for incumbent managers under the succession programme.

MAINTAINING A SAFE AND HEALTHY WORKPLACE

Employee health and safety is top of mind for us. As a responsible employer, X5 upholds the right of every employee to a favourable working environment that meets national health and safety regulations. Our key principles and commitments in this area are set out in our Occupational Health and Safety Policy.

Our occupational health and safety (OHS) management system complies with OHSAS 18001 and rapidly identifies potential hazards while enabling quick responses to bring working conditions in line with existing requirements. The Company provides its managers and employees with regular health and safety training, including specialised training tailored to their roles and responsibilities.

MOTIVATION AND FAIR REMUNERATION

The remuneration and motivation system at X5 Group is built on unified corporate rules and is focused on increasing employee productivity and efficiency. It takes into account the specifics of each of our divisions: retail formats, digital business and developing business units.

Moreover, the Company ensures that its employees' pay keeps pace with industry benchmarks and offers them other support and motivation measures depending on the employee's specific role, such as flexible working, hybrid working, and corporate and partner discounts.

EMPLOYER BRAND AND RECRUITMENT

During the year, we focused on programmes to reinforce our employer brand strength among young people, as well as on working with training units and offering internships and jobs for young talents and graduates.

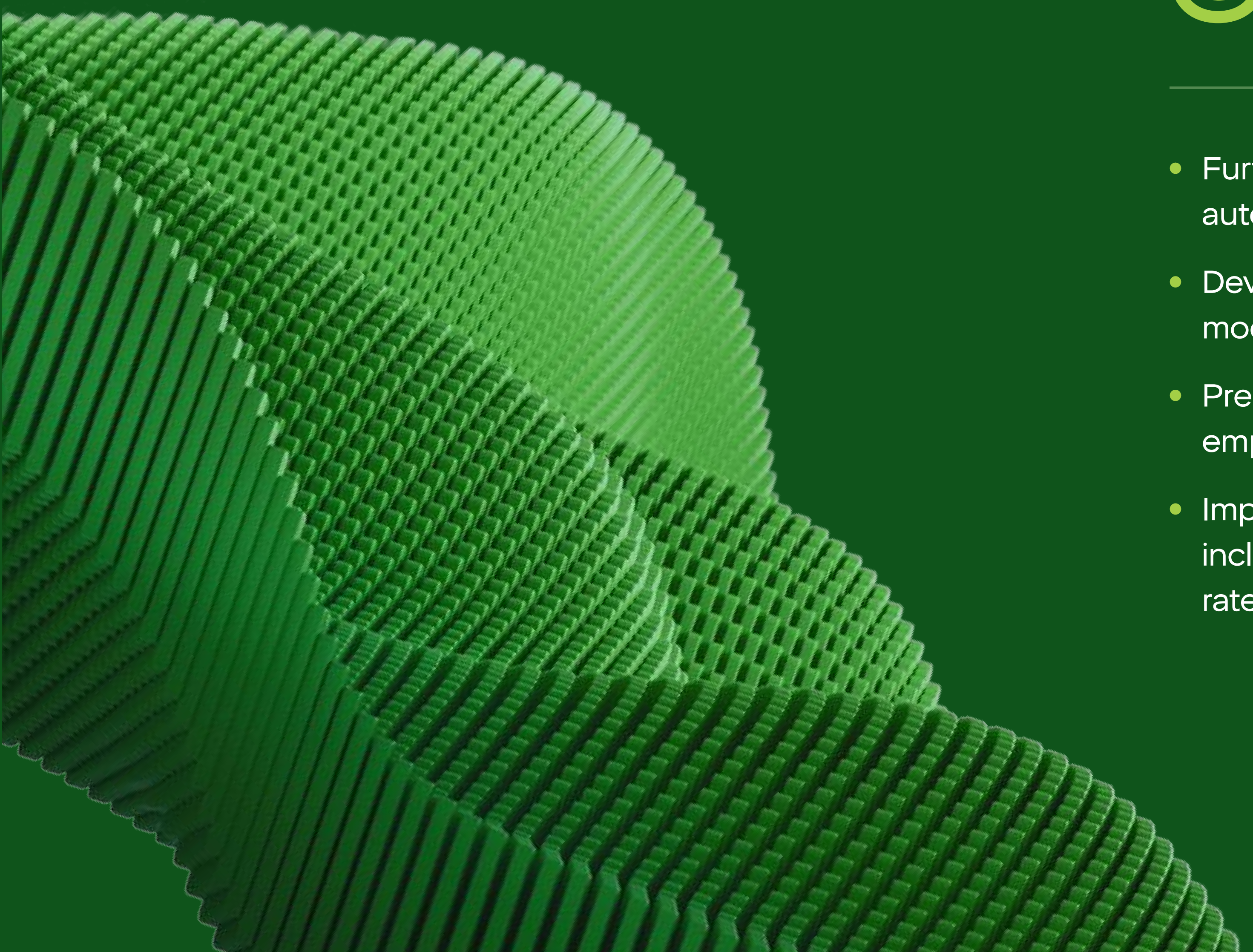
BUILDING CULTURE

Company units share a common strategy, purpose and mission, as well as values, leadership and engagement practices, and an open forum for feedback. Our employees may ask any question or bring any suggestion via several dedicated feedback channels, from anonymous online channels to in-person meetings with management.

We run employee surveys several times a year to gauge job satisfaction at the Company, review opinions and suggestions, and develop measures to handle the most relevant and pressing issues.

KEY 2023 HIGHLIGHTS AND RESULTS

- Updated the Company's mission, vision and values.
- Launched the X5 Booster pilot project to enhance efficiency, as well as the Line Staff project to ensure that the Company has line staff by 2027.
- Continued to develop the Store Director – Partner programme. By the end of 2023, Pyaterochka already had more than 5,700 Director – Partners, while Perekrestok formed a "Store Director – Partner Club," which includes 65 of the retail network's most effective store directors.
- Resumed the executive training programme Leaders of X5. Skolkovo.
- Renewed the CEO-1 and CEO-2 succession programme.
- Launched a unified recruitment system for X5 Group.
- X5 Technologies opened an artificial intelligence lab based on AI Talent Hub, an ML-master's programme from ITMO and Napoleon IT. The lab is organised to develop AI-based products and train ML and DS specialists capable of posing and solving applied problems in the field of artificial intelligence in retail.
- Our annual project to help stores during the high season, X5 Friday, attracted a record number of participants among office employees, with 11,000 participants and 21,000 entries.
- Completed the transformation of the Karusel hypermarket format: in February 2023, the last store under this brand was closed. During the transformation period, 30% of released employees were employed by other businesses of X5 Group.



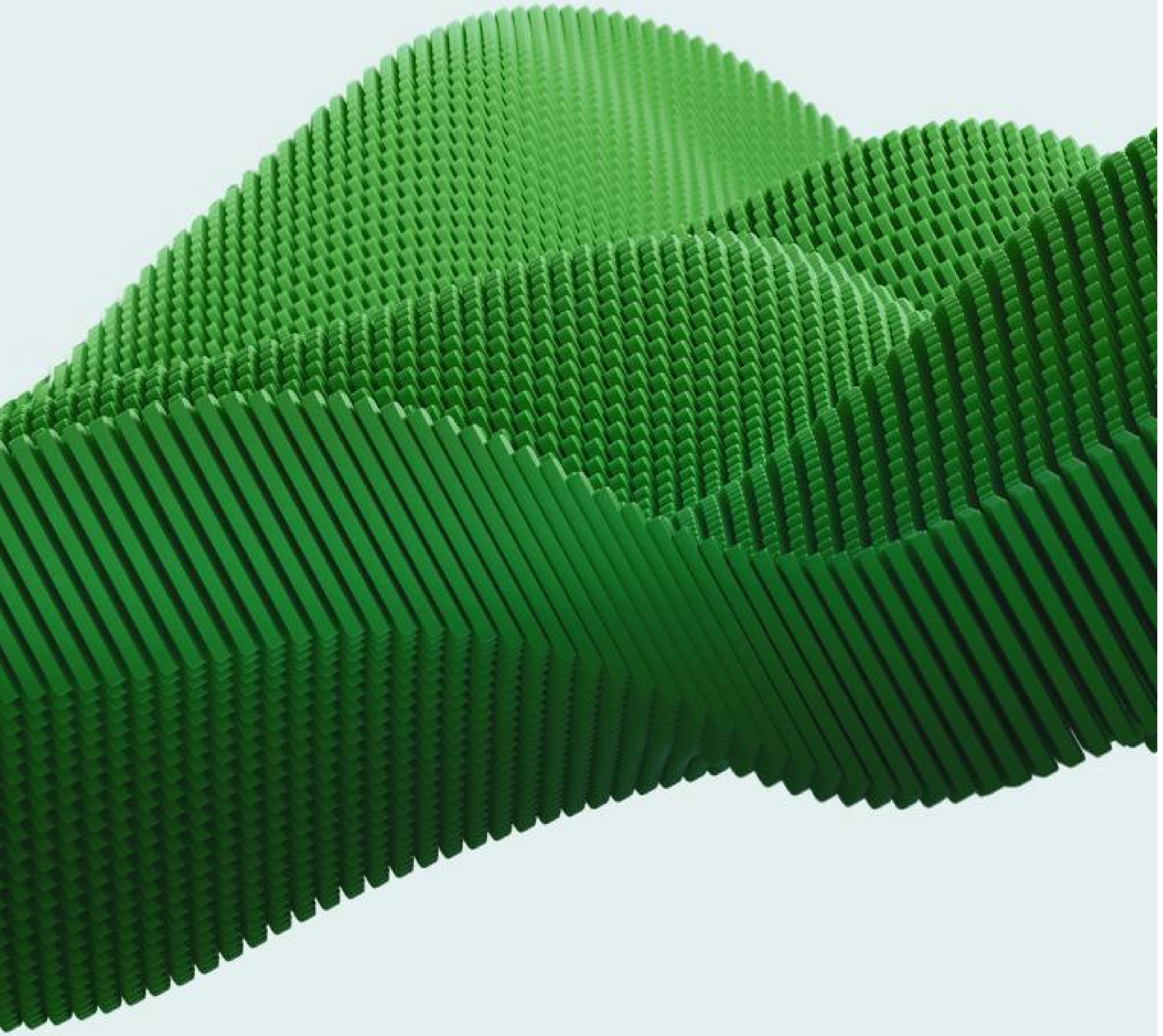
PLANS FOR 2024

- Further increase labour productivity and efficiency, roll out automation and RPA solutions
- Develop the Store Director – Partner programme to modernise the role of store manager
- Prepare special guidelines for recruiting disabled employees to accommodate for their special needs
- Improve the driving safety monitoring programme and include additional control parameters to reduce accident rates

CORPORATE GOVERNANCE

02

Letter from the Chair of the Supervisory Board



Dear stakeholders,

This has been another significant year for X5, once again shaped by circumstances outside of our control. As I look back on my third year as Chair of the Supervisory Board, I reflect on a year when X5 continued to grow impressively against a backdrop of significant challenges that currently characterise our market. While economic uncertainty, inflation and a tight labour market contributed to severe headwinds in our sector, I am proud that our teams across all businesses were able to effectively navigate through the volatility and sustain a high level of service and provision of healthy and affordable groceries in each of our retail formats. Through the strength of our operations and by remaining customer-focused, the Company delivered robust results and strong sales growth while maintaining its underlying operating margin. These results demonstrate that in preceding years, the necessary adjustments were made which were crucial to adapting to the changing landscapes of our industry and the new economic climate, and created a resilient framework that positions X5 for sustainable growth and success.

Meanwhile, the Supervisory Board is conscious of the difficult geopolitical context of the Group with its operations in Russia and the UK-listed parent company in the Netherlands. We are constantly monitoring the impact hereof on X5's corporate and ownership structure and reviewing potential solutions to safeguard the sustainable interests of the Company, its shareholders and all other stakeholders. That being said, in view of restrictions that limit our ability to upstream funds from our Russian subsidiaries to our Dutch parent company, and consistent with last year's profit allocation, we continue to deviate from our dividend policy and will not declare a dividend with respect to the financial year 2023.

While X5 used its operational strength to deal with the immediate challenges it faced during the year, the Company continued to build for the future. It invested in operations, digital capabilities, sustainability, new store concepts and distribution capacity, while continuing to expand its store networks in both local markets and new regions. And it invested in people, both to support employee development and to meet customer expectations by offering a great shopping experience. I am confident that all of these investments will help the Company grow in a sustainable way, with motivated employees and satisfied customers.

In 2023, the Supervisory Board continued to focus on X5's key priorities. Strategic deep dives into all areas of the business continued throughout the year, with a dashboard of progress against our strategic drivers being presented at each meeting, which we have debated and challenged. In view of the ongoing macroeconomic uncertainties, we continued to focus on maintaining strict financial discipline and prudent capital allocation, as well as improving the efficiency of our businesses. Meanwhile, sustainability remained a key theme of our Board discussions. X5 is committed to pursuing ESG leadership in all of its business activities, addressing the impact of climate change and the contribution we can make as a business to mitigate our own impact and that of our supply chains. Our sustainability ambitions are shared across the Group and are reflected in our updated Sustainable Development Strategy approved in September.

As a Board, we are convinced that X5's focus on people and leadership development is critical to its success as a fast-growing organisation. We are working hard with the executive team 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 demands 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.

Letter from the Chair of the Supervisory Board

My role as Chair is to maintain high standards of corporate governance and ensure the Board is properly equipped to discharge its duties and is 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 Board and its committees to oversee the business effectively, providing challenge where necessary.

The Supervisory Board's role is not to run the Company, but to provide oversight, evaluate performance and give advice where required or requested. One of the Chair's key responsibilities is to create a safe space where discussion can take place freely and openly. Mutual trust and respect are absolutely central here; management has to be confident that we are a valuable sounding board, and in turn we have to trust management to take heed of our advice, focus on the right things and work towards viable solutions. Throughout my tenure as Chair, I have seen that the relationship is working well and that we share a vision of the challenges and opportunities facing X5.

During the year, I was grateful for the constructive cooperation among our Supervisory Board members. In March, we said farewell to Fedor Ovchinnikov, whose tenure was cut short due to executive responsibilities outside the Company; we thank him for his valuable contribution and wish him success in his new projects. To fill the vacancy and as part of our ongoing efforts to strengthen and diversify the Board's composition, I am proud to say that we plan to nominate and introduce three highly qualified individuals, bringing the total number of Board members to nine if and when the nominees are appointed at the Extraordinary Meeting of Shareholders to be held in early 2024. I look forward to working with the expanded team to support the Company and its leadership during these challenging times and to capitalise on the opportunities presented by evolving trends in our markets. The Board unanimously supports the focus on our 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 26.

The year 2024 will undoubtedly continue to be challenging and volatile on several fronts. While we anticipate the rate of inflation to rise, the overall cost of living is expected to remain higher and will continue to impact our customers, employees and communities. We will continue to monitor business performance and internal and external conditions throughout the year and take appropriate action where and when we deem prudent and appropriate.

I would like to close by thanking my fellow Board members, the executive team and all employees whose hard work and outstanding efforts have been instrumental in addressing the needs of our customers while continuing to build a successful future for X5.

Peter Demchenkov
Chair of the Supervisory Board

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/en/.

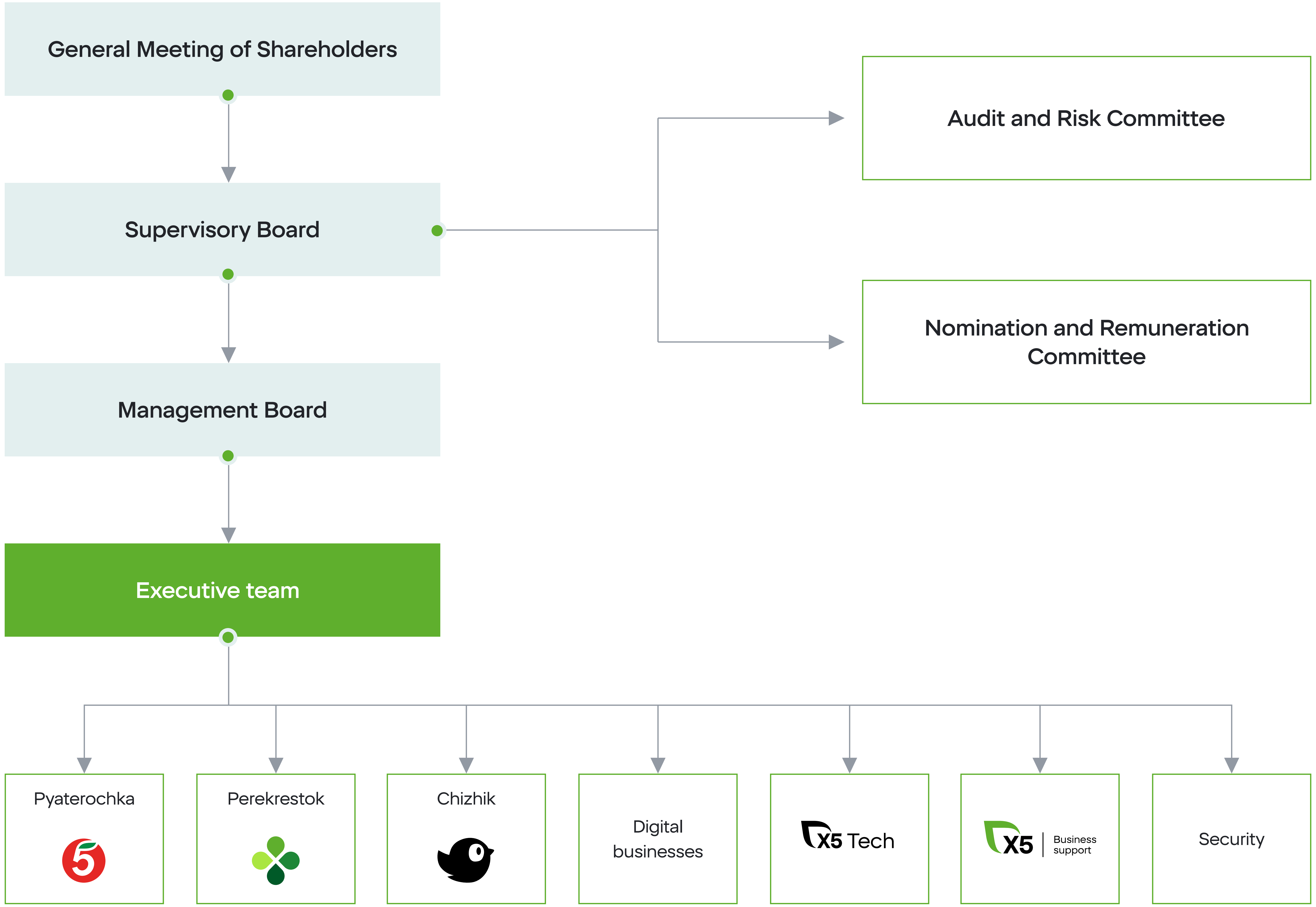
In accordance with the Code, a broad outline of the Company's corporate governance structure is presented in this section, including any deviations from the Code's principles and best practices. X5 aspires to high standards of corporate governance and is committed to a corporate governance structure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

In late 2022, the Dutch Corporate Governance Code Monitoring Committee approved the updated Dutch Corporate Governance Code. At X5, we welcome these modifications, as they signify a commitment to enhanced corporate governance practices. This report details how these changes have been adopted, underscoring our dedication to upholding the highest standards of governance and transparency.

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 day-to-day operations, the Management Board is supported by the executive team, 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, including their biographies, can be found on page 115.

Composition and reappointment schedule of the Management Board

Name	Year of birth	Year of first appointment	End of current term
Igor Shekhterman	1970	2015	2025
Frank Lhoëst	1962	2007	2025
Quinten Peer	1974	2019	2025
Ekaterina Lobacheva	1982	2022	2026

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 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. The Supervisory Board conducted its annual assessment by means of a self-evaluation in 2023. For further details, please refer to the Supervisory Board Report on pages 116–123.

The Supervisory Board determines its number of members and currently consists of six members, with a majority of four independent members. The current members, including their biographies, can be found on page 114.

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	Year of possible reappointment
Peter Demchenkov (Chair)	1973	2015	2025
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.

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 policies for both the Management Board and the Supervisory 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 team.

Diversity

The Company operates equal opportunity policies that aim for a diverse composition of the Supervisory Board, the Management Board, and the senior management team. These policies set the Company specific, relevant, and ambitious targets in order to achieve a good balance in gender diversity. The policies reflect our commitment to creating a culture in which every employee feels valued and respected, ensuring equal opportunities for employees and directors alike, regardless of identity, and facilitating diversity in employee progression to the top of the organisation.

Appointments to the Management Board and to 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 to 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 not gender balanced, with a female occupation of 25% and 22%, respectively, we strive to achieve diversity by aiming for a composition where at least one-third of each gender is represented. 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, as reflected in the composition of the executive team which meets the one-third gender balance target. 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 of 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 Code nor the Articles of Association limit the total term of office for Management Board members.

Each member of the Supervisory Board and of 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 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.

Culture

The Supervisory Board of X5 is dedicated to upholding the highest standards of corporate governance when managing Company affairs. Recognising its accountability to all stakeholders, the Supervisory Board ensures that the Group is well managed and achieves its objectives with the right culture and behaviours. Understanding stakeholders and their priorities is paramount to success. Alongside our Code of Business Conduct, the Supervisory Board has adopted a stakeholder engagement policy, mandated by the revised Corporate Governance Code. This policy underscores X5's active engagement with various stakeholders, fostering ongoing dialogue essential for sustainable growth and long-term value creation. Regular interaction enables us to address diverse needs, expectations, and concerns, promoting collaboration to unlock success for X5 and our stakeholders more broadly.

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 financial statements, decide on any proposal concerning profit allocation, and discharge members of the Management Board and of 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 of 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 Corporation, 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 (i) a merger or demerger, (ii) the authorisation to limit or exclude pre-emptive rights, and (iii) 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 Company's annual accounts 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 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 March 2022, the Supervisory Board decided to deviate from its dividend policy in light of the prevailing market environment and uncertainty. Consequently, while the Company remains committed to its long-term goal of returning Company profits to shareholders, it was considered to be in the Company's best interests not to distribute a dividend for the full year 2021. Going forward, any decision regarding dividend payments will be made taking into account relevant regulatory constraints at the time thereof.

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 following table lists the shareholders on record on 1 March 2024 in the FCA's public register that hold an interest of 5% or more in the share capital of the Company:[1]

Shareholder	Date of disclosure[2]	Capital interest[3]	Voting rights[3]
CTF Holdings S.A.	1 January 2021	47.86%	47.86%
The Axon Trust	1 January 2021	11.43%	11.43%

1 Capital interest in the table is calculated based on total share capital, including treasury stock.

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

3 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.

Securities owned by Board members

Members of the Management Board and of 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 of 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.

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

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.

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.

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.

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.

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.

On 30 June 2023, the General Meeting of Shareholders reappointed TSATR – Audit Services LLC ("B1") as the Group's component auditor in Russia and delegated the authority to appoint the Company's external auditor in the Netherlands to the Supervisory Board.

On 3 February 2023, the Supervisory Board, in accordance with the authority delegated by the Company's General Meeting of Shareholders, appointed Reanda Audit & Assurance B.V. ("Reanda") as its external group auditor in the Netherlands to audit the Company's 2022 consolidated financial statements and the Company's financial statements, which audit is currently in progress. The Supervisory Board has not yet appointed an external group auditor in the Netherlands to audit the Company's 2023 consolidated financial statements and the Company's financial statements.

As described under 'Legislative changes' in this Annual Report, providers of certain services -including statutory audit services- to Russian subsidiaries of EU legal entities must, pursuant to Article 5n of Council Regulation (EU) 833/2014 as amended on 18 December 2023, obtain a license for providing such services after 20 June 2024. This creates uncertainty as to the timing and completion of the statutory group audit by the Dutch auditor. Therefore, pending the issue of an audit opinion by the Dutch group auditor, and as the Company believes that the 2023 Financial Statements give a true and fair view of the financial position and results of the Group, the Company has decided to submit its 2023 Annual Report to the Company's Annual General Meeting of Shareholders without the auditor's report. The Company will submit its 2023 Annual Report with the Dutch auditor's report if and when such report will be issued by the group auditor.

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 Supervisory Board members 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 board chair to also chair the selection and appointment or nomination committee. In view hereof and the fact that the 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 constitute 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 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 team 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 extent to which the Company's strategic and operational objectives are being achieved is understood, that the Company's reporting is reliable, and that the Company complies with relevant laws and regulations.

In 2023, we strengthened our risk management system across retail chains and business units through the creation of centres of expertise in risk management and internal control. These centres of expertise work closely with management teams, provide risk management support, and play a key role in continuous learning and risk awareness at all levels throughout the Group. In addition, these ensure that the Management Board receives timely and complete information about the development of risk management, allowing for informed decisions and strategic management of risks at the Company level.

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 emerging risks, 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 in both business units and functions, 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 and centres of expertise in risk management, 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;
- risk assessments for both our strategic and short-term objectives are conducted;
- ongoing monitoring of emerging risks;
- adequate risk responses and risk mitigation activities;
- accurate and reliable reporting;
- full compliance with relevant laws and regulations.

Risk appetite

Risks are an integral part of the business, and managing them effectively is necessary to achieve strategic and operational goals. The approach to risk appetite is based on the principle of balanced risk taking, meaning the willingness to accept a certain level of risk in the process of achieving goals.

Category	Green zone	Yellow zone	Orange zone
Risk level	Low	Medium	High
Description	Minimal consequences for X5, no impact on the achievement of strategic and operational goals. The Company can continue its business as usual	Failure to achieve individual operational goals, disruption of investment initiatives, failures in individual business processes	Failure to achieve operational goals (subject to the fulfilment of strategic goals) and/or operational failures in certain areas of activity
Measures taken to achieve strategic goals	Monitoring of key risk indicators	Development of risk mitigation measures is required	Critical measures to reduce risk are required

In 2023, the approach to managing risk appetite was further improved and refined by setting clear criteria and thresholds for each key risk, as well as group risks by main areas:

Risk group	Risk appetite	Description
Strategic	High	Risks associated with significant changes in the macroeconomic environment as well as limitations on Company growth. Given the ambitious goals and the constantly changing external environment, management decided to set a high risk appetite for such types of risks, allowing for a more aggressive increase of market share. However, at the same time, measures to reduce this type of risk are regularly implemented.
Operational	Medium to low	Management strives to minimise the negative impact of operational risks, including those related to personnel, product safety, information security, etc.
Compliance	Medium to low	The Company strives for full compliance with all laws and regulations, as well as its internal policies and procedures.
Financial	Medium	The Company adheres to sound financial strategy ensuring its financial stability.

X5 applies a “three lines of defence” model to ensure the Company’s risk management and internal control systems are both effective and comprehensive:

Line	First line	Second line	Third line
Team	Business unit / risk owners	Risk Management (including risk management expertise centres at retail chains and business units), Internal Control and Compliance, security units (economic, physical, and information security), and the Sustainable Development Unit	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 our risk management framework is monitoring and assurance. We use a comprehensive business planning and performance review process to monitor the Company's performance. This process covers the adoption of strategy, budgeting, and the reporting of current and projected results. We assess business performance 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 information, 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 systemic 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.

2023 ESG leadership

X5 Group is committed to achieving ESG leadership across its business operations and remains aligned with the low-carbon transition. The Company's progression towards more responsible business practices is an ongoing journey, steered by its 2025 Sustainable Development Strategy and long-term objectives.

Despite a rapidly evolving landscape, new challenges, and the continuous expansion of its businesses, X5 ranked 1st among retailers in RAEX's Top 50 Climate ranking, as well as 23rd overall. In addition, X5 placed 17th in the Top 50 Energy ranking of Russian companies committed to the renewable energy transition.

The Company continues to meticulously track its environmental and climate impact by measuring greenhouse gas emissions, implementing innovative decarbonisation initiatives, and enhancing its understanding of the climate-related issues and associated risks. Climate change challenges are regularly reviewed at the highest levels of management, incorporating climate-related risks into the organisation's Group-wide risk assessment and classifying them as "principal risks" to the organisation.

The Company's principal risks

X5's principal risks – those that may prevent X5 from achieving its strategy, operations, compliance, and reporting objectives – are covered 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 assessment and trend	Risk movement in 2023	Key controls and mitigating factors
Strategy			
Market and macroeconomics Major changes in the economic environment may challenge the existing business strategy or have a material impact on financial performance.	Assessment Trend	In 2023, the economy continued to feel the impact of international restrictions. Real incomes have shown growth; however, fairly high inflation and rouble volatility have had a significant impact on consumer demand. Price remains a top priority for shoppers.	• We constantly monitor and forecast the economic environment and make adjustments to our strategy as needed. • In the current circumstances, the Group continues to implement measures aimed at increasing market share, developing CVP, improving efficiency, as well as ensuring long-term business sustainability. • We continue to actively develop the hard discounter format (Chizhik) and take other steps to meet customer expectations. • We are continuing to adjust the CVP of our main format to ensure its prices are only beaten by hard discounters and that it can boast the best in ready-to-eat food. • We are creating an attractive customer experience by rolling out in-store coffee points and bakeries to make us the best place to shop. • We are actively developing ready-to-eat food in order to meet customer preferences. • We are revising our CVP in the supermarket segment, with a goal to cover the full range of needs and missions of the target audience with private-label goods, the branded assortment, and affordable ready-to-eat food that can be enjoyed at home or in-store.
Management and ownership structure May be restructured to meet laws or regulations that may negatively affect the value, profitability, or liquidity of global depositary receipts (GDRs) owned by X5 shareholders. If we pursue a restructuring of the Group's ownership or management 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, or members of our governing bodies, this could materially adversely affect our operations as well as our corporate ownership structure.	Assessment Trend	In March 2024, X5 Corporate Centre LLC, the Company's primary subsidiary in Russia, was included in a list of companies that are subject to the new Russian federal law No. 470-FZ dated 4 August 2023 (the "Law"). The Law establishes the right for the management of X5 Corporate Centre LLC, shareholders of the Company or a Russian governmental entity, to commence legal proceedings that may adversely impact the ownership structure of the Group by claiming a redistribution of shares in X5 Corporate Centre LLC. A Court ruling under the Law would require Russian shareholders and allow non-Russian shareholders and beneficiaries of the Group to report and claim ownership of the shares in X5 Corporate Centre LLC. Certain X5 GDR holders may not be able to participate in the procedures offered by the Law or face significant difficulties in doing so. Non-Russian shareholders who participate in the distribution of shares in X5 Corporate Centre LLC would also be subject to temporary Russian restrictions relating to transactions with securities and the receipt of dividends, placing both the securities and any future dividends on so-called type-S accounts. The Law envisages a potential cash compensation at market value for the non-distributed shares in X5 Corporate Centre LLC. The payment of such compensation would require approvals pursuant to temporary Russian regulations on cross-border financial transactions. Ultimately, depositary receipt holders who do not participate in the distribution may end up not being able to recover their investment, and the value, profitability and liquidity of their GDRs may be adversely affected.	• The Management Board of the Company, with the support from legal advisors, will continue to closely monitor the situation and to update all the stakeholders on any potential further developments. Meanwhile, the Company and its subsidiaries will continue to function as one group of companies pursuant to its corporate governance structure. • The Company will continue to act in the best interests of X5 Group, its shareholders, and other stakeholders.

Principal risks	Risk assessment and trend	Risk movement in 2023	Key controls and mitigating factors
Competitive environment Actions taken by competitors or new entrants to the market affect the Company's competitive edge and performance.	Assessment Trend	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 customers.	• 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 continue scaling up Chizhik, our hard discounter, focusing on high-quality own brand products that are the best value in their price segment.
Business development investments Insufficient return from investments in new business lines, and capital costs for the development of our retail formats.	Assessment Trend		• We adhere to strong investment control procedures. All new business initiatives are subject to validation through pilot projects. • For underperforming stores, we implement action plans to increase their efficiency and profitability.
Operations			
Retail and customer service Ineffective and inconsistent operational management may affect X5's ability to provide its customers with an attractive shopping experience.	Assessment Trend		• 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 our 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 a minimum level of shrinkage and overstocking.	Assessment Trend	The year 2023 saw complex supply chains, especially for imports, amid difficulties with settling transactions in foreign currencies and with international logistics.	• We run comprehensive supply chain operations through decentralised logistics networks, allowing our retail formats to effectively manage inventories across the supply chain. • We continue to develop X5's direct import business to establish long-term and stable business relationships with major producers in other countries, an effort that is particularly important in light of international sanctions regimes and their impact on Russian supply chains. At the same time, X5 works diligently to ensure that we import only those products which are not subject to any international restrictions. As a result, we are better positioned to adapt to the new normal and to rebuild logistics. • We are optimising operations across the supply chain and are constantly reviewing ways to further leverage X5 Group's purchasing power and the scale of its infrastructure. See also "Retail Infrastructure" on pages 58–65.
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.	Assessment Trend	In 2023, the cost of labour significantly increased amid record low unemployment, an uptick in competition for staff, and companies hiking wages.	• 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 launched Line Staff, a Group-wide drive to improve the processes of attracting, hiring, onboarding, and retaining staff. • We automate business processes in order to increase efficiency. • 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 ensure safety and flexibility. • We are creating an attractive customer experience by rolling out in-store coffee points and bakeries to make us the best place to shop.

Principal risks	Risk assessment and trend	Risk movement in 2023	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.	Assessment Trend →		• We have implemented proprietary developments to ensure the continuity of business processes. • We have developed alternative logistics routes for importing goods. • 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 spreading awareness of this topic among Company employees. • We constantly monitor and control business processes. See also "X5 Technologies" on pages 63–64.
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.	Assessment Trend →		• We audit necessary and critical IT systems and constantly explore alternative solutions. • 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 levels 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.	Assessment Trend →		• 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 also "X5 Technologies" on pages 63–64.
Compliance			
Fraud and corruption 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.	Assessment Trend →		• We uphold a zero-tolerance policy for non-compliance with the principles of business ethics and continuously provide personnel with anti-bribery and corruption training. • We implement automated and manual controls in business processes and segregate rights to access information systems. • We require that all employees complete a declaration on conflicts of interest to monitor potential conflicts.

Principal risks	Risk assessment and trend	Risk movement in 2023	Key controls and mitigating factors
Legislation and litigation Inability to identify, quickly respond to, and attempt to modify proposed changes to applicable laws that may adversely 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.	Assessment Trend	The risks of state regulation of the retail market in the current macroeconomic and political environment are significant.	• 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.	Assessment Trend		• We regularly report on the progress of our security and privacy programmes to management and oversight committees. • Ongoing monitoring of our processes, including risk assessment and monitoring, continues to drive compliance throughout 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 of foreign exchange rates Liquidity risk and credit risk US Dollar/Euro clearing and bank correspondence	Assessment Trend	The volatility of the rouble exchange rate and central bank key rate hikes 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	Assessment Trend	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 79–94.

Statement of the Management Board

Over the course of 2023, 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 our 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.

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.

For more information on X5's risk management activities, internal control, risk management systems, and key risks, see "How We Manage Risk" 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 prevent all 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 except as disclosed in this Annual Report;
- it is appropriate for financial reporting to be prepared on a going concern basis, based on our review of the strategic plan, the 2024 budget, and our estimate of the economic outlook and uncertainties raised by inclusion of the primary Russian subsidiary in a list of entities subject to the new Russian federal law No. 470-FZ dated 4 August 2023.

In view of all of the above, the Management Board confirms that, to the best of its knowledge, the financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) as adopted by the European Union, 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's 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.

21 March 2024
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 Naftna Industrija Srbije (NIS) 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 Saint 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 roles 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.

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, where he served in various roles throughout the group, ultimately being appointed as Chairman and CEO of AB Vassilopoulos SA in 2018. Vassilis 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 Senior Director at CTF Consultancy LLC. From 2012 to 2021, he held senior positions at Alvarez & Marsal, including as Managing Director, and has extensive top management, financial, and operational experience, including work for McKinsey and private shareholders in various senior positions. Leonid graduated with honours from the Financial Academy under the Government of the Russian Federation (now the Financial University under the Government of the Russian Federation) and holds an MBA degree from INSEAD.

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 the Kaliningrad Technical Institute (1992) and degrees in Business Administration from the Institut d'Administration des Entreprises (France, 1994) and the 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-2 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

The Supervisory Board is responsible for determining its optimal number of members, which is dependent on the combined qualifications of the Board members in view of the required qualifications of the Board as a body. The preferred size is between seven and nine 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.

While the composition of the Supervisory Board was heavily impacted by geopolitical turbulence in 2022, it remained relatively stable in 2023. On 8 March 2023, Fedor Ovchinnikov stepped down as a member of the Supervisory Board due to responsibilities outside the Group. The Supervisory Board expresses its sincere gratitude for his contribution to the Company. At the subsequent Annual General Meeting of Shareholders, in June 2023, Peter Demchenkov was reappointed for an additional two-year term following his nomination in line with the Supervisory Board's rotation schedule.

In February 2024, the Supervisory Board resolved to strengthen its composition by nominating Julia Solovieva, Azer Talybov and Alexey Kornya as new Board members. Subject to their appointment by the General Meeting of Shareholders on 27 March 2024, the Supervisory Board will be comprised of nine members. Details on the profile and background of each of the nominee Board members are reflected in the convocation for the Extraordinary General Meeting of Shareholders that was released on 8 February 2024.

Simultaneously, in view of the current geopolitical environment and possible impact on the Group's governance and ownership structure, the Board resolved to establish a Board of Directors at the level of X5 Corporate Centre LLC, the Russian-based consolidation centre for X5's operational assets, to be composed of members of the Supervisory Board. The Supervisory Board believes that an extra layer of Board activity and oversight that is closer to the operational business will strengthen the continuity and governance of the Company's operations in Russia.

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 Board's profile; existing balance of skills, knowledge and experience; and the need for the 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 Board candidates.

The Supervisory Board is currently not gender-balanced: upon the appointment of three new Board members in March 2024, as described above, two of the nine Board members will be women. Meanwhile, the Board recognises the benefits of gender diversity and aims to achieve it. The 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, as well as the revised Dutch Corporate Governance Code, which entered into force on 1 January 2023, and the Board takes this into account in its succession planning.

An overview of the current composition of the Supervisory Board and a short biography of each member is presented in the Corporate Governance Report on page 114.

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.

As of 1 January 2023, Vassilis Stavrou and Leonid Afendikov were appointed to the Nomination and Remuneration Committee, while Leonid Afendikov also joined the Audit and Risk Committee.

An overview of the current composition of the Supervisory Board committees can be found in the Corporate Governance Report on page 100.

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. Given the Company's strategic imperative to create long-term value in a sustainable manner, and the need to monitor progress in a complex regulatory environment, the induction programme for new Board members also covers sustainability reporting.

In addition, nominee Board members, prior to their appointment, 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. Also, recognising that digitalisation is at the heart of the Company's strategy and business operations, Supervisory Board members receive adequate education on digitalisation and other issues related to new technologies, such as cybersecurity and data protection.

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 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.

Meetings of the Supervisory Board

In 2023, the Supervisory Board held six meetings, including four regular meetings and two virtual meetings. In addition, resolutions in writing were taken when necessary during the year. Each of the four regular meetings of the Supervisory Board was preceded by meetings of the Audit and Risk Committee and the Nomination and Remuneration Committee.

On each occasion 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; senior management and key executives were regularly invited to present on specific topics.

In 2023, 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 team. The external auditor attended the meeting in May at which the 2022 Annual Report and Accounts were recommended for adoption by the Annual General Meeting of Shareholders. 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 2023, the attendance rate was 100% for both Supervisory Board and committee meetings.

Activities in 2023

In 2023, the Supervisory Board continued to monitor the implementation of X5's corporate strategy, with a focus on long-term value creation through operational excellence and X5's capacity to continuously adjust to market trends and changing customer needs. In addition, the Supervisory Board reviewed various matters related to all significant aspects of the Company, its activities and operational results, its strategy going forward and the management team and its development.

Starting each regular Board meeting, the CEO and his key executive team provided an overview of the operational and financial performance of the business, giving oversight and the opportunity to challenge and track progress against the Group's strategic priorities. The Supervisory Board and management regularly discussed opportunities to ensure that the Company's vision and strategy drive long-term sustainable growth. The topics discussed included the implications and challenges of the current geopolitical and economic climate and the effects of inflation and labour market challenges on the Company's businesses, individual strategies for the Company's key formats and a strong omnichannel customer value proposition.

As part of these discussions, the Board conducted an extensive review of the operational performance of its key banners – Pyaterochka, Perekrestok and Chizhik – and initiatives to strengthen their position through adaptation of the CVP, organic growth or strategic acquisitions. The Board closely monitored the rapid growth of the Pyaterochka proximity store network, the strengthening of its presence in key regions of operation and its geographic expansion into Russia's Far East. Furthermore, in support of X5's strategy to gain market share by continuously adjusting to market trends and changing customer needs, the Board continued to monitor the process of CVP adaptation and how it translates into improved customer ratings and increased traffic and sales. Specific attention was dedicated to the leadership strategy for Perekrestok, with particular stress placed on tailored customer value propositions, operational efficiencies and entrepreneurship at the store level. Throughout the year, the Board closely reviewed the performance of and challenges facing the Group's fast-growing hard discounter format, Chizhik, approving its multi-year development model in December.

On regular occasions during 2023, the Board took a deep dive into specific areas of the Company's business. In June, the Board reviewed the Company's private label strategy and ways to create competitive advantages for each of the retail formats through the development of high-quality products within priority categories, enhanced marketing and a broader omnichannel offering. Also in June, expanding on an evidently irreversible consumer trend, the Board engaged in a detailed performance review of the Company's ready-to-eat offering and the further development of this business both within X5 and through partnerships operated from a central, dedicated business unit.

An ongoing focus during 2023 was the Company's digital strategy in the increasingly competitive omnichannel retail environment. The Supervisory Board had several discussions with management concerning opportunities to improve customer experience and accelerate growth. As part of these discussions, the Board conducted an extensive review of the Group's mobile applications and dark store operations, in combination with the expansion of its delivery services and partnerships with aggregators. A recurring dilemma that was discussed concerned how to develop the Group's omnichannel capabilities to ensure the right balance between traditional brick-and-mortar operations and e-commerce capabilities while maintaining a healthy margin.

The Board's strategy session in September focused on the Group's long-term leadership strategy, including its target portfolio of assets and businesses, the human resource requirements to support its growth plan and market share leadership as one of the Group's key strategic objectives. Conscious of capital allocation requirements for the Group's growth strategy, partially due to the macroeconomic environment, such as increased labour and logistics costs, particular attention was paid to the shifting balance between growth and profitability.

A key matter of concern throughout the year was the ongoing impact of external developments and in particular the economic and regulatory challenges following the geopolitical turbulence that started in 2022. The Supervisory Board continued to closely monitor 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. As part of its response to the volatile environment, the Board thoroughly reviewed the transformation of the Group's risk management system, promoting a culture of increased risk awareness across all levels of the Group while at the same time firmly embedding risk in the strategic discussions at the Board level.

As part of its risk management oversight during the year, the Supervisory Board took a deep dive into risks related to the increasing shortage of qualified personnel in the labour market, and how to mitigate such risks through efficiencies and innovative automation projects. Furthermore, as part of its regular risk management review prepared by the Audit and Risk Committee, the Board continued to monitor contingency planning to ensure business continuity, with particular attention given to supply chains, product availability and continuity of IT systems. During the year, the Board was constantly updated on risks related to domestic and international regulatory developments. In September, the Board reviewed the new Russian law concerning the possible distribution of ownership interests in Russian entities to their ultimate beneficiaries. In addition, against the background of the suspension of trading in the Company's shares on the London Stock Exchange and temporary restrictions on the distribution of dividends, the Board actively engaged with the Company's external auditor on control and going-concern implications at Group holding level, while regularly reviewing possible scenarios to safeguard the Group's corporate structure in the long-term interest of the Company, its shareholders and all other stakeholders.

Twice during the year, the Board reviewed X5's progress against the medium- and long-term goals set out in X5's sustainability strategy, making sure that the Group's sustainability targets are integrated into the Company's overall business strategy. In September, the Board approved X5's sustainability strategy with updated 2030 targets in terms of CO_2 emissions reduction and energy efficiency, in line with the Group's overall strategic objectives and Russia's National Development Goals.

Activities in 2023

Succession planning at the executive and senior management level continues to be a priority, and throughout the year the Board, through the work of its Nomination and Remuneration Committee, monitored the development of future business leaders and the available pool of talent within the Group to strengthen its various management pipelines. In addition, closely monitoring external developments, the Board reviewed necessary adjustments to executive remuneration policy, which will be submitted to the General Meeting of Shareholders in March 2024.

Furthermore, at its meetings in 2023, the Supervisory Board reviewed reports from its two committees and discussed the following (regular) topics:

- The financial reporting process, including the approval of the Company's audited 2022 consolidated financial statements and the unaudited 2022 Annual Report, and review of the 2023 half-yearly and quarterly financial reports
- The 2022 Sustainability Report approved and published in May
- The agenda and explanatory notes for the Annual General Meeting of Shareholders held in June
- Reports by the internal and external auditors
- The assessment of cooperation with and the independence of the external auditors, based on a report from the Audit and Risk Committee
- The composition of the Management Board, in particular the nomination and reappointment of Igor Shekhterman as a member of the Management Board and CEO at the 2023 AGM
- The composition of the executive team
- The composition, profile and effectiveness of the Supervisory Board and its committees, taking into account the results and recommendations following from the annual Board evaluation, and the nomination of Peter Demchenkov as a member and the Chairman of the Board at the 2023 AGM, as well as the subsequent nominations of Julia Solovieva, Azer Talybov and Alexey Kornya
- Periodic review of the financing strategy
- Updates on X5's risk management and risk appetite, as well as risk mitigation measures and internal controls
- X5's policies on equal opportunities and stakeholder engagement, in compliance with the revised Dutch Corporate Governance Code, which entered into force on 1 January 2023
- The annual budget for 2024

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 the autumn of 2023, the Board performed its annual self-assessment, mainly through questions building on the Board assessment performed in the previous year. Given the relatively new composition of the Board, it was decided not to pursue an external assessment. The key areas of focus during the evaluation included the profile and composition of the Supervisory Board, the expertise and contributions of individual Board members and the priorities and work processes of the Board. The self-assessment involved active participation on the part of each Supervisory Board member. Additionally, input was solicited and received from members of the executive team to ensure a holistic perspective.

The main conclusions of the evaluation were discussed by the Supervisory Board at its meeting in December, allowing for a collective reflection on the Board's performance and areas for potential enhancement. Overall, the Board felt that its work and performance during the year had been effective. Board discussions and its relationship with the executive team were open and constructive, and good progress was made in striking the right balance between the Board's operational oversight and strategic responsibilities. Key points of attention resulting from the evaluation included continued focus on the Board's composition and the need to strengthen both online and traditional retail expertise, strengthening the focus on risk as part of the Board's strategic discussion and enhanced focus on succession planning within the executive team.

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 team.

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 2023, the Audit and Risk Committee consisted of Olga Vysotskaya (Chair), Peter Demchenkov and Leonid Afendikov. In 2023, the Committee held five regular meetings, as well as one meeting by videoconference to discuss the audit of the 2022 financial statements. As a matter of standard procedure, 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 management present. 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 2023 was the timely audit of the Company's 2022 consolidated and company financial statements by the external Group auditor in the Netherlands. Whereas the 2022 consolidated financial statements were audited by TSATR – Audit Services LLC (B1), the Dutch auditor Reanda Audit & Assurance B.V. indicated that more time was 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. At a special meeting convened in May, the Committee recommended submitting the 2022 consolidated and company financial statements to the Annual General Meeting of Shareholders without the Dutch auditor's report, based on its assessment that the 2022 financial statements give a true and fair view of the Group's financial position and results.

Starting each regular Board meeting, the management team provides an overview of the financial performance of the business to ensure that the Committee is provided with the required financial overview and an opportunity to challenge and track progress. Other recurring topics include financing strategy updates and tax matters. Throughout the year, the Committee closely monitored risk and the risk management process, including timely follow-up on high-priority actions and risk mitigation measures based on quarterly progress updates. Key topics reviewed as part of this effort include, on a recurring basis, IT and business continuity, occupational health and safety, information security and cybersecurity, data protection and litigation. An important topic that was the focus of attention throughout the year was the transformation of the Group's risk management and internal control system, which was designed to increase risk awareness across all levels of the Group. The Committee was informed regularly on compliance and reviewed and received regular updates on the Company's whistleblower programmes. Furthermore, the Committee reviewed activities and initiatives relating to the detection and prevention of misconduct and irregularities, as well as risk mitigating measures to protect the Company in these areas.

As part of its review of the Company's corporate and ownership structure in the current geopolitical context, the Committee reviewed the Company's public listing status and potential risks of the suspended admission to trade of the Company's global depositary receipts (GDRs) on the London Stock Exchange, including risk mitigating measures such as the filing of a prospectus for GDRs that are admitted to trading on the Moscow Stock Exchange.

Meetings of the committees

Audit and Risk Committee

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 2024.

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 its audit of the 2022 consolidated financial statements
- the integrity and quality of the Company's sustainability reporting
- audit plans from the internal and external auditors, and the approval thereof
- the annual assessment of the functioning and independence of the external auditor.

The Audit and Risk Committee and its Chair held several private meetings with the CFO, the Internal Audit Director and the external auditor.

With respect to the external auditor's management letter regarding the 2022 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 did not review and/or approve related party transactions which, by their nature or materiality, could potentially have constituted a conflict of interest for members of the Supervisory Board and Management Board.

Meetings of the committees

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 2023, the Nomination and Remuneration Committee consisted of Peter Demchenkov (Chair), Vassilis Stavrou and Leonid Afendikov. In 2023, the Nomination and Remuneration Committee held four regular meetings. The CEO and the Director of 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.

In 2023, the Committee conducted an extensive review of the composition, profile and effectiveness of the Supervisory Board and its committees to ensure that they continue to provide informed and constructive support and challenge to the executive team, and taking into account the results and recommendations following from the annual Board evaluation. To strengthen the Board's leadership and composition, the Committee recommended the extension of Peter Demchenkov's mandate as a member and the chairman of the Board at the 2023 AGM, as well as the nominations of Julia Solovieva, Azer Talybov and Alexey Kornya as new Board members to be proposed at an extraordinary General Meeting of Shareholders to be held in March 2024.

Succession planning at the executive and senior management level continues to be a priority, and throughout the year the Committee monitored the development of future business leaders and the available pool of talent within the Group to strengthen X5's diverse management pipeline. Meanwhile, amid the volatile macroeconomic environment, the Committee focused on measures to maintain stability within X5's leadership team and closely monitored human resource challenges to ensure that the increasing risk of staff shortages was adequately addressed throughout all levels of the Group.

To strengthen the continuity of X5's leadership, the Committee recommended the extension of Igor Shekhterman's mandate as CEO for another two-year term. In addition, the Committee regularly discussed with the CEO the composition of the executive team.

In June, the Committee reflected with management on X5's position in employer ratings among Russian companies and on the proposed approach to increasing brand awareness and attractiveness of the employer brand through periodic employee engagement surveys and participation in employer ratings and awards. The Committee attaches great value to these surveys, recognising that loyal and committed employees are key to the Company's customer-centric business approach and brand promotion.

As part of its ongoing responsibilities, the Committee discussed the annual assessment of the Executive Board and its individual members, performance measures and targets of its individual members, and salary recommendations following the annual benchmarking analysis performed in spring. During the year, the Committee conducted an extensive review of the remuneration policy for the Executive Board, taking into account the new macroeconomic environment, with its instability and unpredictability, which are shortening planning horizons.
The Nomination and Remuneration Committee reviewed in particular the ratio of the various remuneration components within the Executive Board's total direct compensation, as well as the performance criteria for and targets of the new three-year cycle of the long-term incentive programme for the period 2024–2026.
The review resulted in adjustments to the remuneration policy that will be proposed to an extraordinary General Meeting of Shareholders to be held in March 2024.
Details of actual remuneration in 2023 can be found in note 8 to the financial statements.

Independence

The Supervisory Board endorses the principle that the composition of the Supervisory Board must be such that its members are able to think and act critically and independently of one another and of the Management and executive team 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 be only 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. Subject to the appointment of three new Board members in March 2024 (as described in this report), including Alexey Kornya, who is also affiliated with CTF Holdings S.A., a majority of six members of the Supervisory Board, out of nine members in total, will qualify as independent.

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 131–134, as well as in note 29 to the financial statements.

Financial statements

This Annual Report, including the 2023 consolidated financial statements audited by B1 (TSATR – Audit Services LLC), was approved by the Supervisory Board in the presence of the Management Board and the external auditor. B1's report can be found on pages 208–211.

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 dividends. 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 2023, the Supervisory Board also recommends, in the best interest of the Company and as proposed by the Management Board, to add the amount of RUB 78,281 million, representing the remaining profit in the 2023 financial year, to the Company's retained earnings.

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 2023.

The Supervisory Board is grateful to X5's business partners, suppliers and investors for their continued trust in the Company, its strategy and its management. Most of all, the Supervisory Board would like to thank the executive team and all X5 employees for their continued passion and dedication in delivering on X5's promises to customers and all other stakeholders.

Supervisory Board
21 March 2024

Remuneration Report

Statement from the Chairman of the Nomination and Remuneration Committee

On behalf of the Nomination and Remuneration Committee I present to you the Remuneration Report for 2023 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 2023.

Despite ongoing geopolitical turbulence and macroeconomic challenges in 2023, I am proud that our teams across all divisions were able to effectively navigate through the volatility and sustain a high level of service and provision of healthy and affordable groceries across each of our formats. At the same time, we continued to invest in our communities, employees, and key strategic priorities, all with a keen focus on long-term sustainable growth. By closing the year with strong results, we demonstrate that in preceding years the necessary adjustments were made, which were crucial for us to adapt to the changing landscapes of our industry and the new economic climate, and created a resilient framework that positions X5 Retail Group for sustainable growth and success.

During the year, we extensively reviewed our remuneration policy for the Executive Board, taking into account the new macroeconomic environment with its instability and unpredictability, which shortens planning horizons. The Nomination and Remuneration Committee particularly reviewed the ratio of the various remuneration components within the Executive Board's total direct compensation, as well as performance criteria and targets of the new three-year cycle of the long-term incentive programme for the period 2024–2026. The review resulted in a new remuneration policy that will be introduced at an extraordinary meeting of shareholders in early 2024.

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 during the first half of the year was the basis for salary adjustments necessary to safeguard the continuity of the senior management team.

On top of this, with the reappointment of Igor Shekhterman as Chief Executive Officer for an additional two-year term at the 2023 Annual General Meeting of Shareholders, we are confident that the continuity of X5's leadership in the current volatile environment will be to the benefit of the Company and all its stakeholders.

The Supervisory Board has maintained a stable composition, despite only one change with Fedor Ovchinnikov stepping down in March 2023. We extend our deepest gratitude to Mr. Ovchinnikov for his invaluable contributions during his tenure. To fill the vacancy, and as part of our ongoing efforts to strengthen and diversify the Board's composition, I am proud to say that in early 2024 we will nominate and introduce three highly qualified individuals, bringing the total number of Board members to nine if and when the new nominees are appointed at the Extraordinary General Meeting of Shareholders to be held in early 2024.

The year 2024 will undoubtedly continue to be challenging and volatile on several fronts. While we anticipate the rate of inflation to rise, the overall cost of living is expected to remain higher and will continue to impact our customers, employees, and communities. We will continue to monitor business performance and internal and external conditions throughout the year and take appropriate action where and when we deem prudent and appropriate. Meanwhile, in our commitment to ensuring that executive remuneration aligns effectively with the Company's strategy for long-term sustainable value creation, I look forward to keeping an open dialogue with our shareholders and other stakeholders.

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 team. In view of the relative size and composition of both boards, this Remuneration Report refers to the executive team, unless specific provisions apply to members of the Management Board only, which in such case will be indicated.

Objectives

The remuneration policy for members of the executive team is aligned with the Company's strategy of sustainable long-term development and value creation, 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 qualified talent to lead the Company towards its strategic objectives
- To provide for a balanced remuneration package that is focused on achieving sustainable financial results, aligned with the long-term strategy of the Company, and shall foster an alignment of interests between management and shareholders and other stakeholders, including customers, employees, and wider society

Remuneration in context

The table below reflects the total remuneration of the Management Board 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.

	2019	2020	2021	2022	2023
Company performance					
Revenue, RUB bln	1,734	1,978	2,205	2,605	3,146
Selling space, ths sqm	7,239	7,840	8,410	9,107	10,206
Number of stores	16,297	17,707	19,121	21,323	24,472
Net profit (pre-IFRS 16), RUB bln	26	39	49	52	90
Share price, USD, eop	34.5	36.1	26.5	–	–
Management Board remuneration, RUB mln	304	357	442	824	1,125
Internal pay ratio (CEO vs employee remuneration)[1]	211	198	273	290	320

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 and other one-off incentives, these 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 193 divided by the number of employees on an FTE basis.

Benchmarking

The basic components of the Total Direct Compensation provided to Executive Board members are benchmarked against the labour market peer group every year. As a company with operations mainly in Russia, the reference group created for the benchmarking is composed of Russian companies equivalent in terms of size of business and complexity of operations. To accommodate potential changes in the labour market peer group due to delistings, mergers, or other extraordinary circumstances, the Supervisory Board may exercise discretion to substitute comparable companies within the peer group.

While the basic components of the Total Direct Compensation provided to Executive Board members are benchmarked against the labour market peer group, the compensation of the operational staff in stores and warehouses is benchmarked locally to achieve a fair compensation throughout all layers of the Company and its affiliated enterprises, considering the geographic diversity across all federal districts in Russia where the Company carries out its operations. The Supervisory Board's Nomination and Remuneration Committee closely monitors developments in the regional and local labour markets and takes these developments into account when making recommendations on Executive Board compensation to the Supervisory Board for consideration and approval. While developing the remuneration policy, the Nomination and Remuneration Committee carries out scenario analyses to determine the risks to which variable remuneration may expose the Company.

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 reflect 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 is set between the 50th and the 75th percentile. For the current CEO, the Supervisory Board resolved to make an exception in recognition of the size and complexity of X5. The CEO's total direct compensation is set, in the event of on-target performance, at the 90th percentile.

Internal pay ratio

As is commonly understood, pay ratios are specific to a company's industry, geographic 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 from 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 2023

	Policy summary	Application in 2023 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 and President: 100% • Target payout for Management Board members based in the Netherlands: 80% (60% until 30 June 2023) • Maximum amount: 150% 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: 116.86% of base salary **Frank Lhoëst:** • Group targets: 100% • Actual payout: 83% of base salary	**Ekaterina Lobacheva:** • Group targets: 100% • Actual payout: 116.86% of base salary **Quinten Peer:** • Group targets: 100% • Actual payout: 82% 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 • To ensure the stability of the corporate structure, the Supervisory Board approved the inclusion of the Dutch directors, Frank Lhoëst and Quinten Peer, to the LTI Plan in 2023	**Igor Shekhterman and 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%	**Frank Lhoëst and Quinten Peer:** • Stage 2 targets (2022–2023) - Free cash flow, % of revenue: 35% - Market share: 60% - Sustainability targets: 5%

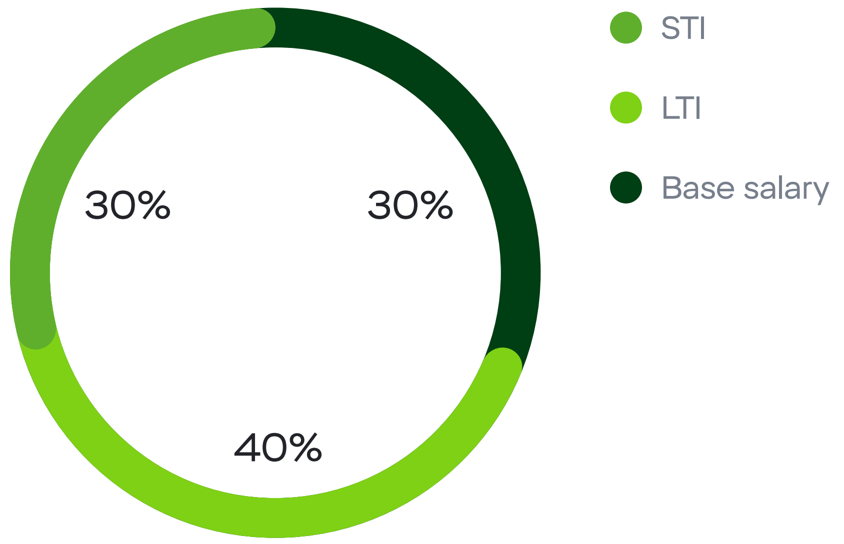
Elements of remuneration

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 STI and LTI 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.

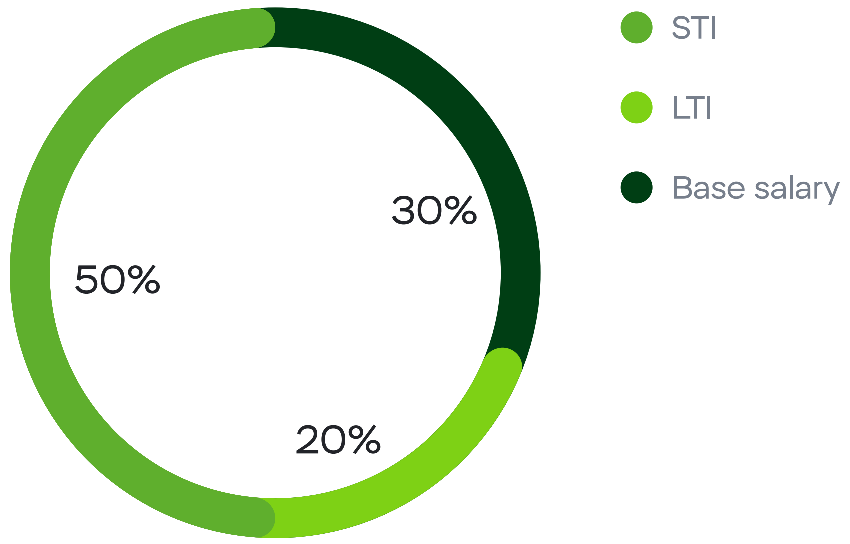
In 2023, the Executive Board's Total Direct Compensation was equally balanced between the fixed and annual variable remuneration components, and more heavily weighted towards the LTI to strengthen the focus on long-term goals. As reflected in the remuneration policy that will be submitted to the General Meeting of Shareholders in March 2024, it is proposed that the Executive Board's Total Direct Compensation shall be more heavily weighted towards the STI, with a 20% LTI component that may increase in weight over time in the event of outperformance of long-term targets. This is due to macroeconomic instability and unpredictability that shortens planning horizons, and falls in line with current industry standards in the market where the Company is predominantly active.

The ratio between fixed and variable pay components for members of the Executive Board is as follows in the event of on-target performance:

Total Direct Compensation 2023



Total Direct Compensation as of 2024



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.

2023 Management Board remuneration

The following table provides an overview of the Management Board's remuneration in 2023 (in millions of Russian roubles).

	Year	Base salary[1]	Short-term incentive[2]	Long-term incentive[3]	Social security cost[4]	Total
Total	2023	296	393	311	125	1,125

Ad (1) Base salary

The base salary of the CEO and the 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 in the table 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, a percentage of their total base salary, as well as their variable remuneration components, are paid in Russia. Due to a shift in duties and responsibilities as a result of the current geopolitical situation and the split of responsibilities between Igor Shekhterman as CEO and Ekaterina Lobacheva as President, the base remuneration percentage payable under their Dutch services contracts was adjusted from 25% to 15% as of 1 July 2023. 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 that ensures that Executive Board members are focused on the delivery of performance targets over the financial year. It drives behaviour and reflects the key priorities for the year. At the beginning of each financial year, the Supervisory Board determines 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 strategic 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 that typically reflect X5's goal to expand market share while focusing on margins to increase profitability and prudently managing capital spending and expenses
- measures that reflect specific strategic and key business priorities of the Company.

Financial measures comprise components related to the Company's operational performance, such as sales growth, revenue, CAPEX, OPEX and profitability. These metrics typically reflect X5's goal to expand market share while focusing on margins to increase profitability and prudently managing capital spending and expenses. In addition to the financial metrics, the short-term incentive includes specific goals that are linked to the Company's strategic objectives for the long-term development of the business. These may include, at group and/or divisional level, market share, customer satisfaction, online performance, and sustainability targets. Furthermore, divisional and individual targets may be set for other members of the Management Board and Executive Board.

The Board strongly believes that these performance measures contribute to the Company's success in the short term, while also securing the long-term objectives of the Company.

The following table reflects the performance against STI targets and payouts for 2023 to the members of the Management Board.

Performance measure[1]	Weight	Realised performance	Resulting payout as % of target	Actual bonus (% of payout× weight)
Market share	20%	150.0%	150.0%	30.00%
X5 revenue	20%	102.7%	110.7%	22.14%
X5 EBITDA margin	20%	103.1%	120.0%	24.00%
X5 CAPEX, % of revenue	20%	100.9%	101.6%	20.32%
NPS	20%	102.0%	102.0%	20.40%
Total	**100%**			**116.86%**

The target payout as a percentage of base salary is 100% for members of the Executive Board and 80% for Management Board members based in the Netherlands, contingent on the targets being fully achieved. In the event of above-target performance, the maximum payout level is 150% of target payout per quantitative target (financial and non-financial) and 120% of target payout per qualitative target. The total STI payout may be adjusted up- or downwards up to 20% of target payout by discretion of the Supervisory Board.

Performance against the 2023 STI targets was assessed by the Supervisory Board. For each member of the Management Board, STI opportunities are weighted 100% based on the Group's financial and non-financial performance measures. For Igor Shekhterman and Ekaterina Lobacheva, this results in a total payout of 116.86% of their target payout (or base salary). For Quinten Peer and Frank Lhoëst, with 80% target payout, the STI payout is 82% and 83% of base salary.

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 80% of target payout
- Target performance: 100% of target payout
- Maximum performance: 150% 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 150% of payout at target.

Ad (3) Long-term incentive (LTI)

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 profitability threshold in the fourth year 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.

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 Board used 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.

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 a 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), as % 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	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	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 (3) Long-term incentive (LTI)

In 2023 the Nomination and Remuneration Committee extensively reviewed performance criteria and targets of the new three-year LTI cycle for the period 2024–2026, taking into account the constantly evolving retail industry landscape within a changed macroeconomic environment. The new LTI, which will continue to feature market share growth and free cash flow as main performance indicators, is described in more detail in the adjusted remuneration policy that will be submitted to the General Meeting of Shareholders in early 2024.

Ad (4) Social security cost

Starting from 1 January 2023 in the Russian Federation united social contributions replaced contributions to pension, social and medical funds. For the year ended 31 December 2023 amount of statutory pension contributions approximated RUB 81 (2022 pension contributions amounted to: RUB 62).

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 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 each member of the Management Board in the Netherlands and in Russia.

The severance payment is generally limited to one annual base salary plus on-target STI entitlement; however, the Supervisory Board may increase the severance if required under individual circumstances. For the CEO, severance pay is structured as a non-competition reward equal to one annual base salary payable in quarterly instalments following contract termination, subject to compliance with non-competition conditions. For other Executive Board members, severance pay may be structured as a non-competition reward payable six months after contract termination, subject to compliance with non-competition conditions. The non-competition period for the CEO is twelve months, and six months for other Executive Board members. The CEO's contract contains a penalty in the amount of one annual base salary should he/she breach non-competition obligations. No severance pay will be awarded if the agreement is terminated by a Management or Executive Board member, or in the event of seriously culpable or negligent behaviour on his/her part.

For Dutch members of the Management Board, the severance arrangement was adjusted in 2023 to one annual base salary plus on-target STI entitlement in case of termination by the Company or termination by either party in case of sanctions-related circumstances or developments.

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. For Management Board members serving under an employment agreement concluded prior to 1 January 2013, the statutory notice periods apply as per Dutch labour law.

Other policy information and contract terms

Clawback

The Supervisory Board may recover from the 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 are 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.

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 the Supervisory Board members safeguard their independence of thought and judgement and adequately reflect the time commitment and responsibilities of the role.

2023 Supervisory Board remuneration

In 2022, the General Meeting of Shareholders approved the updated remuneration policy for the Supervisory Board.

The following table provides an overview of the Supervisory Board's remuneration that became unconditional in 2023 or at year-end (in millions of Russian roubles).

		(1) Base remuneration		(2) Equity-based compensation		(3) Total remuneration	
	Position	2023	2022	2023	2022	2023	2022
Peter Demchenkov	Chair, Nomination and Remuneration Committee	34	26	42	29	76	55
Olga Vysotskaya	Chair, Audit and Risk Committee	19	8	11	2	30	10
Vadim Zingman[1]		–	–	–	–	–	–
Dmitry Alekseev		9	2	4	–	13	2
Vassilis Stavrou		10	2	5	–	15	2
Leonid Afendikov[1]		–	–	–	–	–	–
Geoff King[2]		–	6	–	(32)	–	(26)
Michael Kuchment[2]		–	3	–	(14)	–	(11)
Marat Atnashev[1,2]		–	–	–	–	–	–
Alexander Tynkovan[2]		–	3	–	(2)	–	1
Mikhail Fridman[1,2]		–	–	–	–	–	–
Stephan DuCharme[2,4]		–	1	–	21	–	112
Richard Brasher[2]		–	2	–	(2)	–	–
Nadia Shouraboura[3]		–	6	–	10	–	16
Fedor Ovchinnikov[5]		2	4	3	1	5	5

1 In accordance with the remuneration policy and Rules of Procedure of the Supervisory Board, 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.

2 Stephan DuCharme and Mikhail Fridman stepped down as of 1 March 2022. Richard Brasher, Geoff King, Michael Kuchment, Alexander Tynkovan, and Marat Atnashev stepped down as of, respectively, 4 March, 11 March, 25 March, 25 May, and 22 July 2022.

3 The term of Nadia Shouraboura expired in 2022.

4 The General Meeting of Shareholders approved an extraordinary reward of USD 1,250,000 (RUB 90 mln) to Stephan DuCharme for his invaluable contribution to the Company since 2008, both as member and later Chairman of the Supervisory Board, and CEO from 2012 to 2015.

5 Fedor Ovchinnikov stepped down as of 8 March 2023.

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

In addition to their fixed base remuneration, members of the Supervisory Board are entitled to annual awards of phantom stock units (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[6] of a X5 GDR on the annual fixed award date. PSU awards are subject to a three-year vesting period. Upon vesting, the eligible Supervisory Board members are entitled to a cash payout based on the market value of the awarded PSUs on the vesting date. The Company may recover the payout during a three-year claw-back period after vesting in case of a material misstatement of the Company's financial results or any other condition deemed appropriate by the Supervisory Board. PSU awards to members of the Supervisory Board are not subject to performance criteria.

In 2023, Supervisory Board members Peter Demchenkov, Olga Vysotskaya, Dmitry Alekseev, and Vassilis Stavrou were each awarded a number of PSUs, calculated by dividing 100% of their fixed annual cash remuneration by the volume-weighted average closing market price of one GDR over the thirty immediate calendar days preceding 19 May 2023, i.e. RUB 1,482.41. The PSUs awarded in 2023 will vest on 19 May 2026. Upon vesting, the eligible Supervisory Board members are entitled to a cash payout 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.

6 The average market value is defined as the volume-weighted average price of a GDR over the thirty calendar days immediately preceding the annual fixed grant date. The volume-weighted average price is calculated using the closing price of a GDR taken from the Official List of the Moscow Exchange.

Phantom Stock Units awarded and outstanding to members of the Supervisory Board

	Tranche	PSUs awarded in 2022	PSUs awarded in 2023	Year of vesting	PSUs outstanding as at 31 December 2023	PSUs outstanding as at 31 December 2022
Peter Demchenkov	1 2	23,095 –	– 21,356	2025 2026	23,095 21,356	23,095 –
Olga Vysotskaya	1 2	7,849 –	– 11,670	2025 2026	7,849 11,670	7,849 –
Dmitry Alekseev	1 2	1,746 –	– 5,835	2025 2026	1,746 5,835	1,746 –
Vassilis Stavrou	1 2	1,746 –	– 6,768	2025 2026	1,746 6,768	1,746 –
Fedor Ovchinnikov[7]	1	4,489	–	2023	–	4,489
Total		**38,925**	**45,629**		**80,065**	**38,925**

7 Fedor Ovchinnikov stepped down on 8 March 2023. The 2023 AGM approved the accelerated vesting of the first tranche of PSUs awarded to Fedor Ovchinnikov, whereby 2/3 (2,993) of the award was vested and 1/3 forfeited.

Transition scheme for Peter Demchenkov

When approving the Phantom Stock Plan in 2022, the General Meeting of Shareholders approved a transition scheme for restricted stock units awarded to Peter Demchenkov under the preceding Restricted Stock Unit Plan, with the option to settle RSUs in cash upon vesting based on the X5 GDR value at the Moscow Exchange. The transition and payout scheme is as follows:

Tranche	RSUs awarded in 2020	RSUs awarded in 2021	Year of vesting	RSUs vested[1]	Value on vesting date[2]	RSUs outstanding as per 31 December 2023	RSUs outstanding as per 31 December 2022
11	9,800	–	2023	9,800	15	–	9,800
12	–	13,448	2024	–	–	13,448	13,448

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 Vested RSUs are settled for cash as per the GDR value on the Moscow Exchange on the vesting date of 19 May 2023 (RUB 1,482.41).

2 In millions of Russian roubles.

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 below reflects the total remuneration of each member of the Supervisory Board in the five most recent financial years (in millions of Russian roubles).

	2019	2020	2021	2022	2023
Peter Demchenkov	31	35	52	55	76
Olga Vysotskaya (appointed on 30 June 2022)	–	–	–	10	30
Vadim Zingman[3] (appointed on 30 June 2022)	–	–	–	–	–
Dmitry Alekseev (appointed on 30 November 2022)	–	–	–	2	13
Vassilis Stavrou (appointed on 30 November 2022)	–	–	–	2	15
Leonid Afendikov[3] (appointed on 30 November 2022)	–	–	–	–	–
Fedor Ovchinnikov (resigned on 8 March 2023)	–	–	–	5	5
Geoff King (resigned on 11 March 2022)	36	34	43	(26)	–
Michael Kuchment (resigned on 25 March 2022)	15	16	20	(11)	–
Nadia Shouraboura (retired in 2022)	12	18	28	16	–
Marat Atnashev[3] (resigned on 22 July 2022)	–	–	–	–	–
Alexander Tynkovan (resigned on 25 May 2022)	–	–	10	1	–
Mikhail Fridman[3] (resigned on 1 March 2022)	–	–	–	–	–
Stephan DuCharme[4] (resigned on 1 March 2022)	40	41	31	112	–
Richard Brasher (resigned on 4 March 2022)	–	–	9	–	–
Karl-Heinz Holland (resigned on 12 May 2021)	11	13	5	–	–
Andrei Elinson[3] (retired on 12 May 2020)	–	–	–	–	–
Alexander Torbakhov (resigned on 3 July 2020)	17	5	–	–	–

3 In accordance with the remuneration policy and Rules of Procedure of the Supervisory Board, 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.

4 The General Meeting of Shareholders approved an extraordinary reward of USD 1,250,000 (RUB 90 mln) to Stephan DuCharme for his invaluable 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 2023 amounted to RUB 1,264 million (2022: RUB 990 million).

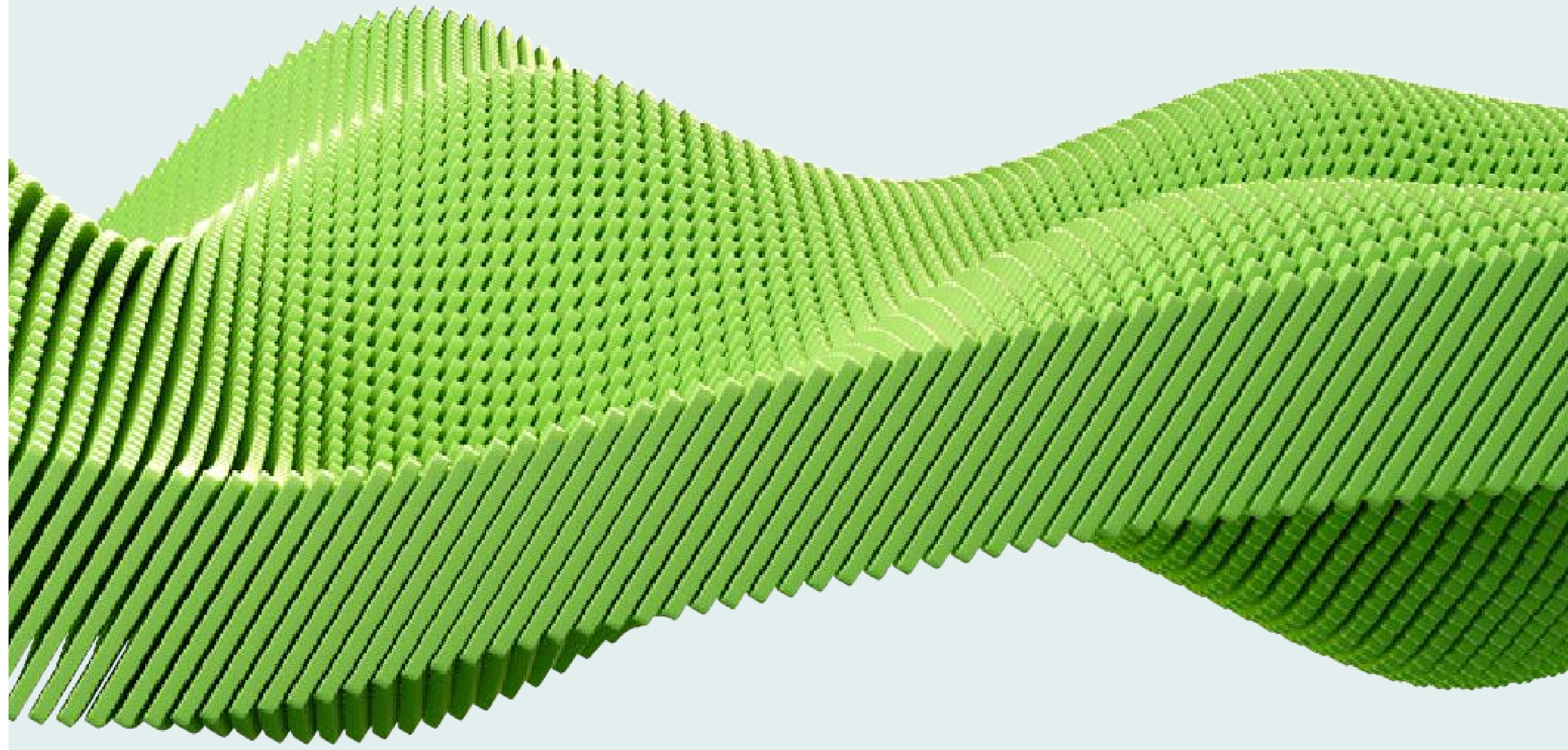
Other arrangements

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 2023, and no variable remuneration was clawed back.

Shareholder voting

This Remuneration Report will be submitted to the 2024 Annual General Meeting of Shareholders for an advisory vote.

The Supervisory Board
21 March 2024



FINANCIAL STATEMENTS

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X5 Retail Group N.V.

Consolidated Statement of Financial Position

at 31 December 2023

expressed in millions of Russian Roubles, unless otherwise stated

Igor Shekhterman
CHIEF EXECUTIVE OFFICER

21 March 2024

	Note	31 December 2023	31 December 2022
ASSETS			
Non-current assets			
Property, plant and equipment	10	364,396	315,612
Right-of-use assets	11	576,463	508,543
Investment properties	12	4,560	4,573
Goodwill	13	121,513	112,929
Other intangible assets	14	40,750	38,327
Other non-current assets		4,724	4,164
Deferred tax assets	30	30,063	27,482
		1,142,469	1,011,630
Current assets			
Inventories	15	236,826	208,661
Indemnification asset	7, 35	4,888	6,391
Trade, other accounts receivable and prepayments	17	27,924	21,382
Current income tax receivable		823	1,622
VAT and other taxes receivable	18	13,290	9,007
Short-term financial investments	9	116,076	50,067
Cash and cash equivalents	9	40,775	43,255
		440,602	340,385
Total assets		1,583,071	1,352,015

	Note	31 December 2023	31 December 2022
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		162,406	84,125
Other capital reserves		(1,651)	432
		209,340	133,142
Total equity		209,340	133,142
Non-current liabilities			
Long-term borrowings	21	127,396	147,386
Long-term lease liabilities	11	592,545	519,317
Deferred tax liabilities	30	5,336	6,954
Other non-current liabilities	7, 28	9,605	6,206
		734,882	679,863
Current liabilities			
Trade accounts payable		290,232	238,641
Short-term borrowings	21	100,833	87,146
Interest accrued		1,441	1,143
Short-term lease liabilities	11	78,416	71,843
Short-term contract liabilities	20	1,458	3,767
Current income tax payable		9,398	6,020
Provisions and other liabilities	19	157,071	130,450
		638,849	539,010
Total liabilities		1,373,731	1,218,873
Total equity and liabilities		1,583,071	1,352,015

X5 Retail Group N.V.

Consolidated Statement of Profit or Loss

at 31 December 2023

expressed in millions of Russian Roubles, unless otherwise stated

Igor Shekhterman
CHIEF EXECUTIVE OFFICER

21 March 2024

	Note	2023	2022
Revenue	24	3,145,859	2,605,232
Cost of sales	25	(2,377,819)	(1,970,036)
Gross profit		**768,040**	635,196
Selling, general and administrative expenses	25	(613,385)	(519,757)
Net impairment losses on financial assets	17	(97)	(346)
Lease/sublease and other income	26	23,643	23,025
Operating profit		**178,201**	138,118
Finance costs	27	(79,312)	(73,727)
Finance income	27	9,125	5,310
Net foreign exchange (loss)/gain		(4,154)	(2,032)
Profit before tax		**103,860**	67,669
Income tax expense	30	(25,267)	(22,481)
Profit for the year		**78,593**	45,188
Profit for the year attributable to:			
Equity holders of the parent		78,281	45,199
Non-controlling interests		312	(11)
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	1,153.08	665.78
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	1,153.08	665.78

X5 Retail Group N.V.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2023

expressed in millions of Russian Roubles, unless otherwise stated

Igor
Shekhterman
CHIEF EXECUTIVE OFFICER

21 March 2024

	2023	2022
Profit for the year	78,593	45,188
Total comprehensive income for the year, net of tax	**78,593**	**45,188**
Total comprehensive income for the year attributable to:		
Equity holders of the parent	78,281	45,199
Non-controlling interests	312	(11)

X5 Retail Group N.V.

Consolidated Statement of Cash Flows

for the year ended 31 December 2023

expressed in millions of Russian Roubles, unless otherwise stated

Igor Shekhterman
CHIEF EXECUTIVE OFFICER

21 March 2024

	Note	2023	2022
Profit before tax		**103,860**	67,669
Adjustments for:			
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment properties, other intangible assets and goodwill	25	165,956	164,731
Gain on disposal of property plant and equipment, investment properties and intangible assets and gain on derecognition of right-of-use assets		(1,475)	(2,276)
Finance costs, net	27	70,187	68,417
Net impairment losses on financial assets	17	97	346
Impairment of prepayments	17	23	412
Share-based compensation expense	29	65	13
Net foreign exchange loss		4,154	2,032
Other non-cash items		(1,156)	(576)
Net cash from operating activities before changes in working capital		**341,711**	**300,768**
Increase in trade, other accounts receivable and prepayments and VAT and other taxes receivable		(9,052)	(1,388)
Increase in inventories		(22,519)	(37,060)
Increase in trade payable		44,272	22,833
Increase in other accounts payable and contract liabilities		11,742	21,539
Net cash flows from operations		**366,154**	**306,692**
Interest paid		(80,414)	(73,067)
Interest received		8,854	5,276
Income tax paid		(25,317)	(17,977)
Net cash flows from operating activities		269,277	220,924

	Note	2023	2022
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets		(103,852)	(59,554)
Acquisition of businesses, net of cash acquired	7	(18,449)	(5,495)
Proceeds from disposal of property, plant and equipment, investment properties and intangible assets		7,733	3,192
Proceeds from disposal of other investments		53	–
Purchase of other intangible assets		(13,194)	(14,121)
Proceeds from short-term financial investments		–	30,000
Payments for financial investments	9	(65,747)	(30,000)
Proceeds from principal portion of the net investment in the lease		54	–
Other payments for investing activities		(209)	–
Net cash flows used in investing activities		(193,611)	(75,978)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	21	183,594	148,974
Repayment of loans	21	(192,007)	(210,615)
Payments of principal portion of lease liabilities	11	(70,002)	(66,014)
Dividends paid to non-controlling interests		(33)	–
Net cash flows used in financing activities		(78,448)	(127,655)
Effect of exchange rate changes on cash and cash equivalents		302	(98)
Net (decrease)/increase in cash and cash equivalents		**(2,480)**	**17,193**
MOVEMENTS IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year	9	43,255	26,062
Net (decrease)/increase in cash and cash equivalents		(2,480)	17,193
Cash and cash equivalents at the end of the year	9	40,775	43,255

X5 Retail Group N.V.

Consolidated Statement of Changes In Equity

for the year ended 31 December 2023

expressed in millions of Russian Roubles, unless otherwise stated

Igor
Shekhterman
CHIEF EXECUTIVE OFFICER

21 March 2024

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 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
Balance as at 1 January 2023	**67,888,696**	**2,458**	**46,127**	**–**	**432**	**84,125**	**133,142**	**–**	**133,142**
Profit for the period	–	–	–	–	–	78,281	78,281	312	78,593
Total comprehensive income for the period	–	–	–	–	–	78,281	78,281	312	78,593
Acquisition of subsidiaries (Note 7)	–	–	–	–	–	–	–	(82)	(82)
Purchase commitments for non-controlling interests' shares (Note 7)	–	–	–	–	(2,280)	–	(2,280)	–	(2,280)
Dividends to non-controlling interests	–	–	–	–	–	–	–	(33)	(33)
Impact of changes in non-controlling interests with purchase commitments	–	–	–	–	197	–	197	(197)	–
Balance as at 31 December 2023	**67,888,696**	**2,458**	**46,127**	**–**	**(1,651)**	**162,406**	**209,340**	**–**	**209,340**

Notes to the consolidated financial statements

for the year ended 31 December 2023
(expressed in millions of Russian Roubles, unless otherwise stated)

1

Principal activities and the Group structure

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

X5 Retail Group N.V. is a joint stock limited liability company established in August 1975 under the laws of the Netherlands. The principal activity of the Company is to act as a holding company for a group of companies that operate retail grocery stores. The Company's address and tax domicile is 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 2023 the Group operated a retail chain of 24,472 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", "Chizhik", "Perekrestok Vprok", "Mnogo Lososya", "Krasny Yar", "Slata", "Pokupochka", "Pokupalko", "Victoria", "Victoria-Kvartal", "Deshevo" and "CASH" (each representing separate format except for "Pokupochka", "Pokupalko", "Victoria", "Victoria-Kvartal", "Deshevo" and "CASH" which are included in "Pyaterochka" format) in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Kazan, Samara, Nizhniy Novgorod, Ekaterinburg, Perm, Voronezh, Rostov-on-Don, Chelyabinsk, Volgograd, Novosibirsk, Krasnoyarsk, Saratov (31 December 2022: 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"), with the following number of stores:

	31 December 2023	31 December 2022
"Pyaterochka" – Proximity store	21,308	19,164
"Chizhik" – Hard discounter	1,500	517
"Perekrestok" – Supermarket	972	971
"Krasny Yar" & "Slata" stores	610	595
"Mnogo Lososya" – Dark kitchen	70	54
Joint dark stores	9	7
"Perekrestok Vprok" – Online hypermarket	3	3
"Karusel" – Hypermarket	–	12
Total stores	24,472	21,323

As at 31 December 2023 and 31 December 2022 the principal shareholder exerting significant influence over the Company was CTF Holdings S.A. ("CTF"). As at 31 December 2023 and 31 December 2022 CTF directly owned 47.87% and 47.87% of total issued voting shares in the Company respectively. CTF is not an ultimate controlling party for the Group. As at 31 December 2023 and 31 December 2022 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). Trading on the London Stock Exchange is currently suspended.

Notes to the consolidated financial statements

for the year ended 31 December 2023
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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 2023 have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) as adopted by the European Union. These consolidated financial statements are not intended for statutory reporting in accordance 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. The Management Board prepared these consolidated financial statements on a going concern basis. In making this judgment, the Management Board considered the Group's financial position, current intentions, profitability of operations, access to financial resources (Note 31) and the sanctions being imposed against certain entities and individuals in Russia. It furthermore considered consequences of the new Russian federal law No. 470-FZ Law 'Specifics of the Regulation of Corporate Relations in Business Entities that are Economically Significant Organisations' and uncertainties associated with it, as described in Notes 35 and 36. On 21 March 2024, the Management Board authorised the consolidated financial statements for issue. Publication is on 22 March 2024.

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.

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.

Notes to the consolidated financial statements

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Summary of significant accounting policies

2.2 Basis of consolidation (continued)

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 the 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, dark kitchens (Note 1), centralised functions and corporate centre 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.

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.

Notes to the consolidated financial statements

for the year ended 31 December 2023
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Summary of significant accounting policies

2.5 Property, plant and equipment (continued)

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 years
Buildings (foundation and frame)	40–50
Buildings (other parts)	7–8
Machinery and equipment	>1–10
Refrigerating equipment	7–10
Vehicles	4–7
Other	3–5

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.

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.

Notes to the consolidated financial statements

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Summary of significant accounting policies

2.7 Intangible assets (continued)

	Useful lives years
Brands "Victoria", "Victoria-Kvartal", "Deshevo"	3
Brands "Pokupochka", "Pokupalko"	2
Brands "Krasny Yar", "Baton", "Slata", "KhlebSol"	3
Private labels	1–8

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.

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.

Notes to the consolidated financial statements

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Summary of significant accounting policies

2.8 Leases (continued)

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.

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);

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Summary of significant accounting policies

2.10 Financial instruments (continued)

Subsequent measurement (continued)

- 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) are 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.

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.

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Summary of significant accounting policies

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.

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.

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Summary of significant accounting policies

2.17 Share-based payments (continued)

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.

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 individual companies of the Group.

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.

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Summary of significant accounting policies

2.22 Taxes (continued)

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.

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.

Notes to the consolidated financial statements

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Summary of significant accounting policies

2.24 Income and expense recognition (continued)

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.

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.

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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 2023 and 2022 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.

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Critical accounting estimates and judgements in applying accounting policies

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.

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 2023 the Group recognised an impairment loss in the amount of RUB 1,149 (year ended 31 December 2022: a net impairment loss in the amount of RUB 4,905).

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 2023 the Group recognised a net impairment loss in the amount of RUB 231 (year ended 31 December 2022: a net impairment loss in the amount of RUB 232).

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 2023 the Group recognised a net impairment gain in the amount of RUB 258 (year ended 31 December 2022: a net impairment loss in the amount of RUB 1,451).

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 2023, the estimated liability for unredeemed points was RUB 1,109 (31 December 2022: RUB 3,487).

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3 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 2023 the Group did not recognise any impairment of brand and private labels (year ended 31 December 2022: 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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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 2023. Standards, Interpretations and amendments effective 1 January 2023 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 2023 do not have a material impact on the Group and do not result in change of the Group's accounting policy:

- IFRS 17 Insurance Contracts including Amendments to IFRS 17;
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies;
- Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information;
- Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules.

The amendments to IAS 12 Income Taxes, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, require to recognise deferred tax even on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Since the Group's accounting policies comply with the amendments, their first application had impact only on the disclosure by type of temporary differences in the note 30.

Effective from 1 January 2023, Federal Law No. 263-FZ On Amendments to Parts One and Two of the Tax Code of the Russian Federation of 14 July 2022 introduced a new system for paying taxes and other payments administrated by the tax authorities in the form of a single tax account (STA). Russian taxpayers have a single tax account opened with the Federal Treasury to which they should transfer a single tax payment (STP) calculated as a taxpayer's total taxes and levies in the reporting (tax) period, without identifying any specific tax or levy. The tax authorities distribute the amount of STP among obligations on the basis of declarations and notifications filed by taxpayers.

Upon adoption of the changes the Group classifies the overpayments for each Russian legal entity to income tax and other taxes payable according to the nature of the overpayment and the reasonably certain intentions to offset the asset against certain type of taxes.

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 IFRS 16 Leases: Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1 Presentation of Financial Statements:	1 January 2024
· 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	
Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments:	1 January 2024[1]
· Disclosures: Supplier Finance Arrangements	
Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates:	
· Lack of Exchangeability	1 January 2025[1]

1 Subject to EU endorsement.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

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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) excluding expenses related to the long-term incentive programme (LTI) for key employees. 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 except for inclusion of foreign exchange loss or gain related to goods sold by segments during the period in EBITDA pre-IFRS 16 of the segments with elimination of this effect as part of adjustments and other unallocated segment. Starting from 2023 expenses for LTI, overhead expenses and financial results of centralised functions are disclosed separately without allocation on key segments for more accurate measurements of segments' and centralised functions' 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 2023, 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 2023	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	Adjustments and other unallocated	Total
Revenue (Note 24)	2,493,729	419,780	228,968	449	2,933	–	3,145,859
EBITDA pre-IFRS 16 excl. LTI	215,441	29,240	(9,252)	(8,505)	(11,423)	4,319	219,820
LTI							(5,056)
EBITDA pre-IFRS 16							214,764
Fixed lease expenses and fixed non-lease components of lease contracts							128,247
Gain on derecognition of right-of-use assets and lease liabilities							1,146
Depreciation, amortisation and impairment							(165,956)
Operating profit							178,201
Finance cost, net							(70,187)
Net foreign exchange result							(4,154)
Profit before income tax							103,860
Income tax expense							(25,267)
Profit for the year							78,593
Adjusted capital expenditure	113,516	14,970	18,613	1,254	72	–	148,425
31 December 2023							
Inventories	187,038	31,525	18,263	–	–	–	236,826

YEAR ENDED 31 DECEMBER 2022	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	Adjustments and other unallocated	Total
Revenue (Note 24)	2,124,045	386,095	94,358	58	676	–	2,605,232
EBITDA pre-IFRS 16 excl. LTI	179,992	29,967	(6,090)	(6,370)	(9,256)	1,062	189,305
LTI							(2,517)
EBITDA pre-IFRS 16							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	45,674	9,953	26,067	249	67	–	82,010
31 December 2022							
Inventories	169,190	28,136	11,335	–	–	–	208,661

Notes to the consolidated financial statements

for the year ended 31 December 2023
(expressed in millions of Russian Roubles, unless otherwise stated)

6

Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2023 and 31 December 2022 were as follows:

Company	Country	Nature of operations	Ownership (%) 31 December 2023	Ownership (%) 31 December 2022
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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7

Acquisition of businesses

Acquisitions in 2023

Acquisition of Tamerlan

In April 2023 the Group acquired 100% of shares of Tamerlan LLC operating retail chain in the south of Russia. At acquisition date the retail chain operated 298 stores under brands "Pokupochka" and "Pokupalko".

In the year ended 31 December 2023 the acquired business contributed revenue of RUB 18,899 from the date of acquisition. Net loss from the date of acquisition comprised RUB 330. If the acquisition had taken place at the beginning of the year, revenue of the Group would have been RUB 3,152,070. The Group considers impracticable to disclose the impact of the acquisition on the Group's net profit, since before the acquisition the acquired business 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 did not 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 7,985.

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 this acquisition was allocated to Pyaterochka segment in amount of RUB 4,557.

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)	4,611
Other intangible assets (Note 14)	188
Right-of-use assets (Note 11)	2,751
Inventories	2,449
Trade, other accounts receivable and prepayments	2,117
Current income tax receivable	80
VAT and other taxes receivable	48
Cash & cash equivalents	259
Lease liabilities (Note 11)	(2,751)
Deferred tax liabilities (Note 30)	(398)
Trade accounts payable	(2,455)
Short-term borrowings (Note 21)	(1,962)
Interest accrued	(2)
Current income tax payable	(96)
Provisions and other liabilities	(1,411)
Net assets acquired	**3,428**

	Provisional fair values at the acquisition date
Goodwill (Note 13)	4,557
Purchase consideration	**7,985**
Net cash outflow arising from the acquisition	7,726

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7

Acquisition of businesses

Acquisitions in 2023 (continued)

Acquisition of Victoria

In August 2023 the Group acquired 100% of shares of Victoria Baltia LLC operating retail chain in Moscow, the Kaliningrad and Moscow region. At acquisition date the retail chain operated 119 stores under brands “Victoria“, “Victoria-Kvartal“, “Deshevo“ and “CASH“.

In the year ended 31 December 2023 the acquired business contributed revenue of RUB 16,307 from the date of acquisition. Net loss from the date of acquisition comprised RUB 83. If the acquisition had taken place at the beginning of the year, revenue of the Group would have been RUB 3,168,150. The Group considers impracticable to disclose the impact of the acquisition on the Group’s net profit, since before the acquisition the acquired business 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 8,500.

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 this acquisition was allocated to Pyaterochka segment in amount of RUB 2,619.

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)	2,182
Investment property (Note 12)	506
Other intangible assets (Note 14)	574
Right-of-use assets (Note 11)	9,740
Other non-current assets	8
Deferred tax assets (Note 30)	2
Indemnification asset	294
Inventories	3,206
Trade, other accounts receivable and prepayments	3,687
Current income tax receivable	11
Cash & cash equivalents	530
Lease liabilities (Note 11)	(9,535)
Deferred tax liabilities (Note 30)	(246)
Trade accounts payable	(2,717)
Short-term contract liabilities	(6)
Current income tax payable	(144)
Provisions and other liabilities	(2,211)
Net assets acquired	**5,881**

	Provisional fair values at the acquisition date
Goodwill (Note 13)	2,619
Purchase consideration	**8,500**
Net cash outflow arising from the acquisition	7,970

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7

Acquisition of businesses

Acquisitions in 2023 (continued)

Other acquisitions

In 2023 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 2023 the acquired businesses contributed revenue of RUB 7,222 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 2023 as though the acquisition date had been the beginning of that period.

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 RUB 1,796 and RUB 669 as cash consideration and deferred consideration respectively.

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 1,974.

During the 12 months ended 31 December 2023 the Group transferred RUB 72 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
Right-of-use assets (Note 11)	6,126
Deferred tax assets (Note 30)	491
Lease liabilities (Note 11)	(6,126)
Net assets acquired	**491**
Goodwill (Note 13)	1,974
Purchase consideration	**2,465**
Net cash outflow arising from the acquisition	1,796

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7

Acquisition of businesses

Acquisitions in 2023 (continued)

Acquisition of Krasny Yar and Slata

During the 12 months ended 31 December 2023 the Group finalised determination of the deferred consideration and purchase price allocation for acquisition of Smart LLC (Krasny Yar) and Mayak LLC (Slata) effected in 4th quarter 2022 and updated fair value assessment of the purchase commitment for non-controlling interests' shares under put option recognised.

As at 31 December 2023 and 31 December 2022 purchase commitments for non-controlling interests' shares under put option liability in amount of RUB 4,484 and 2,204 respectively were included in other non-current liabilities in the consolidated statement of financial position.

During the 12 months ended 31 December 2023 the Group transferred RUB 885 as deferred payment.

Details of change in provisional fair values of assets and liabilities of acquired business and the related goodwill were as follows:

	Provisional fair values at the acquisition date as at 31 December 2022	Finalised fair values at the acquisition date as at 31 December 2023	Effect of change in purchase price allocation on the consolidated statement of financial position as at 31 December 2023
Property, plant and equipment (Note 10)	2,342	2,342	–
Other intangible assets (Note 14)	1,863	1,863	–
Right-of-use assets (Note 11)	19,061	19,061	–
Indemnification asset	5,986	5,986	–
Inventories	4,761	4,752	(9)
Trade, other accounts receivable and prepayments	753	784	31
VAT and other taxes receivable	148	148	–
Cash and cash equivalents	531	531	–
Lease liabilities (Note 11)	(18,960)	(18,960)	–
Deferred tax liabilities (Note 30)	(424)	(384)	40
Trade accounts payable	(5,361)	(5,361)	–
Short-term borrowings (Note 21)	(1,819)	(1,819)	–
Interest accrued	(5)	(5)	–
Short-term contract liabilities (Note 20)	(26)	(26)	–
Current income tax payable	(2,115)	(2,115)	–
Provisions and other liabilities	(5,714)	(5,726)	(12)
Net assets acquired	1,021	**1,071**	**50**
Goodwill (Note 13)	7,674	7,355	(319)
Non-controlling interests measured at fair value	(2,609)	(2,527)	82
Purchase consideration	6,086	**5,899**	**(187)**

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7

Acquisition of businesses

Acquisitions in 2022

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 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.

At 31 December 2022 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2023 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
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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8

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 affected 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 2023 and at 31 December 2022 are provided below. The ownership structure is disclosed in Note 1.

The following transactions were carried out with related parties:

	Relationship	2023	2022
CTF Holdings S.A.	Entity with significant influence over the Company		
Management services received		–	33
Other	Under control by the entity with significant influence over the Company		
Purchases from related parties		6,273	4,924
Other income		98	–
Other operating expenses		2	4
Bonuses from related parties		352	206
Other	Other		
Interest expenses		–	107
Variable rent		–	3

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

	Relationship	31 Dec 2023	31 Dec 2022
Other	Under control by the entity with significant influence over the Company		
Other receivables from related parties		6	52
Trade accounts payable		732	872
Trade accounts receivable		61	–

Notes to the consolidated financial statements

for the year ended 31 December 2023
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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 the Supervisory Board consists of a base salary, a performance related short-term incentive and 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 the Supervisory Board was as follows:

	2023	2022
Short-term employee benefits	1,659	1,158
Long-term employee benefits	678	458
Social security costs	322	232
Total	2,659	1,848

Total compensation of the Supervisory Board was as follows:

	2023	2022
Short-term renumerations	74	153
Equity-based compensation	65	13
Total	139	166

As at 31 December 2023 the total number of outstanding conditional rights awarded to members of the Supervisory Board (Note 29) under the Phantom Stock Unit Plan was 80,065 (31 December 2022: 38,925) and under Restricted Stock Unit Plan 13,448 (31 December 2022: 23,248).

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 2023 and 31 December 2022, 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.

Notes to the consolidated financial statements

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Cash and cash equivalents, short-term financial investments

The bank accounts represent current accounts. 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 2023 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 16.5%-17.5% per annum (31 December 2022: at the rates in the range of of 8.0%-9.0% per annum).

	31 December 2023	31 December 2022
Bank current account – Roubles	8,042	14,336
Bank current account – other currencies	652	1,577
Cash in transit – Roubles	17,480	17,457
Cash in hand – Roubles	13,130	9,759
Deposits – Roubles	434	126
Deposits – other currencies	1,037	–
Total	40,775	43,255

	31 December 2023	31 December 2022
Short-term financial investments	116,076	50,067
Total	116,076	50,067

Notes to the consolidated financial statements

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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 2022	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
Additions	–	–	–	–	–	116,672	116,672
Transfers	27,913	28,639	10,945	10,833	17,273	(95,603)	–
Transfer to investment property	(517)	–	–	–	–	–	(517)
Assets from acquisitions	5,538	801	–	265	146	43	6,793
Disposals	(7,675)	(4,616)	(3,369)	(2,878)	(2,861)	(91)	(21,490)
At 31 December 2023	**371,990**	**109,176**	**92,145**	**41,628**	**90,295**	**36,201**	**741,435**

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10

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 2022	(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)
Depreciation charge	(29,453)	(13,610)	(10,382)	(5,254)	(11,963)	–	(70,662)
Impairment charge	(2,318)	(401)	(374)	(29)	(140)	(38)	(3,300)
Reversal of impairment	2,104	–	–	–	40	7	2,151
Transfer to investment property	140	–	–	–	–	–	140
Disposals	6,196	4,157	3,225	2,584	2,791	44	18,997
At 31 December 2023	**(185,345)**	**(54,985)**	**(53,549)**	**(20,976)**	**(62,138)**	**(46)**	**(377,039)**
Net book value at 31 December 2023	186,645	54,191	38,596	20,652	28,157	36,155	364,396
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 1 January 2022	201,074	40,627	41,716	15,793	24,601	8,333	332,144

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 2023 and 31 December 2022.

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 2023 and 31 December 2022.

Impairment test

At the end of 2023 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. 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 2024 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 9.37% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2022: 4.00% to 6.91%). For the years beyond the forecast period the long-term consumer price index forecast of 4.00% at 31 December 2023 is used (31 December 2022: 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)) – 16.52% (31 December 2022: 15.92%). 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 1,164 (31 December 2022: RUB 1,994), if 200 b.p. lower – increase by RUB 1,068 (31 December 2022: RUB 1,581). 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 117 (31 December 2022: RUB 157), lower – decrease by RUB 121 (31 December 2022: RUB 164).

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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 2023	**508,543**	**(591,160)**
Additions	138,068	(137,087)
Acquisition of businesses (Note 7)	18,617	(18,412)
Depreciation expense	(82,333)	–
Impairment charge	(2,220)	–
Reversal of impairment	2,478	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(6,690)	7,836
Interest accrued	–	(60,655)
Payments	–	130,486
Effect of changes in foreign exchange rates	–	(1,969)
At 31 December 2023	**576,463**	**(670,961)**

	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)

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11

Leases

The expenses related to short-term leases for the year ended 31 December 2023 amounted to RUB 106 (31 December 2022: RUB 100). The expense related to variable lease payments not included in the measurement of lease liabilities for the year ended 31 December 2023 amounted to RUB 26,690 (31 December 2022: RUB 19,825). 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 2023 amounted to RUB 156,556 (2022: RUB 135,546).

Maturity analysis of the lease liabilities is disclosed in the Note 31.

As at 31 December 2023 potential future cash outflows of RUB 4,243 (undiscounted) (31 December 2022: RUB 3,529) 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 2023 and 31 December 2022 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 2023 there were no sale and leaseback transactions.

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 agreements 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.

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 2023	31 December 2022
Within 1 year	1, 769	3,382
Between 1 and 2 years	392	638
Between 2 and 3 years	238	432
Between 3 and 4 years	203	315
Between 4 and 5 years	148	212
Later than 5 years	131	364
Total	**2,881**	**5,343**

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2023 amounted to RUB 8,113 (2022: RUB 7,214) (Note 26). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2023 amounted to RUB 192 (2022: RUB 221).

Income from subleasing right-of-use assets under operating lease agreement for the year ended 31 December 2023 amounted to RUB 3,486 (2022: RUB 2,763).

Impairment test

At the end of 2023 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 2023 and 31 December 2022.

The Group's investment properties consist of land and buildings. Rental income from investment property amounted to RUB 1,244 (2022: RUB 1,165). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 1,073 (2022: RUB 937). 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 2023 amounted to RUB 5,902 (31 December 2022: RUB 6,861). 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 2023 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 2023 and 31 December 2022:

	2023	2022
COST		
Cost at 1 January	**9,047**	7,909
Assets from acquisitions	506	–
Transfer from fixed assets	517	1,605
Disposals	(1,058)	(467)
Cost at 31 December	**9,012**	9,047
ACCUMULATED DEPRECIATION AND IMPAIRMENT		
Accumulated depreciation and impairment at 1 January	**(4,474)**	(3,448)
Depreciation charge	(154)	(176)
Impairment charge	(587)	(483)
Reversal of impairment	356	251
Transfer from fixed assets	(140)	(911)
Disposals	547	293
Accumulated depreciation and impairment at 31 December	**(4,452)**	(4,474)
Net book value at 31 December	4,560	4,573
Net book value at 1 January	**4,573**	4,461

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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 impairment charge recognised for the year ended 31 December 2023 was attributable to dark kitchens operating segment.

Movements in goodwill arising on the acquisition of businesses at 31 December 2023 and 31 December 2022 were:

	2023	2022
COST		
Gross book value at 1 January	**173,708**	172,099
Acquisition of businesses (Note 7)	8,831	8,176
Disposal	–	(6,567)
Gross book value at 31 December	**182,539**	173,708
ACCUMULATED IMPAIRMENT LOSSES		
Accumulated impairment losses at 1 January	**(60,779)**	(67,071)
Impairment charge	(247)	(275)
Disposal	–	6,567
Accumulated impairment losses at 31 December	**(61,026)**	(60,779)
Carrying amount at 1 January	**112,929**	105,028
Carrying amount at 31 December	**121,513**	112,929

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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 2024 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 9.37% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2022: 4.00% to 6.91%). For the years beyond the forecast period the long-term consumer price index forecast of 4.00% at 31 December 2023 is used (31 December 2022: 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)) – 16.52% (31 December 2022: 15.92%). 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 2023				
Goodwill	90,408	23,334	7,771	121,513
31 December 2022				
Goodwill	81,258	23,334	8,337	112,929

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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 2022: RUB 4,029), brands "Krasny Yar", "Baton", "Slata", "KhlebSol" with the carrying amount of RUB 1,054 (31 December 2022: RUB 1,630), brands "Pokupochka", "Pokupalko" with the carrying amount of RUB 98 and brands "Victoria", "Victoria-Kvartal", "Deshevo" with the carrying amount of RUB 362. Brand "Karusel" was disposed of in 2023 (31 December 2022: carrying amount of RUB 42).

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 2023 and 31 December 2022.

Impairment test

At the end of 2023 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 2022	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
Additions	–	13,653	13,653
Assets from acquisitions	608	154	762
Disposals	(3,132)	(327)	(3,459)
At 31 December 2023	**16,044**	**79,199**	**95,243**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2022	(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)
Amortisation charge	(766)	(10,641)	(11,407)
Impairment charge	–	(610)	(610)
Reversal of impairment	–	62	62
Disposals	3,132	290	3,422
At 31 December 2023	(10,501)	(43,992)	(54,493)
Net book value at 31 December 2023	5,543	35,207	40,750
Net book value at 31 December 2022	5,701	32,626	38,327
Net book value at 1 January 2022	4,328	34,678	39,006

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Inventories

At 31 December 2023 inventories in the amount of RUB 236,826 were accounted at the lower of cost and net realisable value (31 December 2022: RUB 208,661). Write-off of inventory to net realisable value at 31 December 2023 amounted to RUB 3,843 (31 December 2022: RUB 2,877). At 31 December 2023 and 31 December 2022 inventories consisted mainly of goods for resale.

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Financial instruments by category

	31 December 2023	31 December 2022
FINANCIAL ASSETS AT AMORTISED COST		
Assets as per consolidated statement of financial position		
Short-term financial investments	116,076	50,067
Trade and other receivables excluding prepayments	19,186	15,462
Cash and cash equivalents	40,775	43,255
Total	176,037	108,784

	31 December 2023	31 December 2022
FINANCIAL LIABILITIES AT AMORTISED COST		
Liabilities as per consolidated statement of financial position		
Lease liabilities	670,961	591,160
Borrowings	228,229	234,532
Interest accrued	1,441	1,143
Trade, other current and non-current payables excluding statutory liabilities and advances	410,181	324,382
Total	1,310,812	1,151,217

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Trade, other accounts receivable and prepayments

	31 December 2023	31 December 2022
Trade accounts receivable	14,593	13,123
Other receivables	5,292	3,117
Allowance for expected credit losses of trade and other receivables	(699)	(778)
Total trade and other accounts receivable	**19,186**	15,462
Prepayments	6,413	4,631
Advances made to trade suppliers	2,873	2,076
Allowance for impairment of prepayments and advances	(548)	(787)
Total prepayments	**8,738**	5,920
Total	27,924	21,382

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 2023	Estimated total gross carrying amount at default 31 December 2023	Expected credit loss 31 December 2023	Expected credit loss rate at 31 December 2022	Estimated total gross carrying amount at default 31 December 2022	Expected credit loss 31 December 2022
Not overdue – 1 month	0.17%	13,848	23	0.16%	12,582	20
1–6 months	2.01%	548	11	2.80%	214	6
6–12 months	36.36%	22	8	40.32%	62	25
Over 1 year	77.71%	175	136	75.85%	265	201
Total		**14,593**	**178**		13,123	252

Movements on the allowance for expected credit losses of trade receivables were as follows:

	2023	2022
At 1 January	**(252)**	(185)
Addition of allowance for expected credit losses	(91)	(308)
Release of allowance for expected credit losses	56	30
Trade receivables written off as uncollectable	109	211
At 31 December	**(178)**	(252)

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 2023	Estimated total gross carrying amount at default 31 December 2023	Expected credit loss 31 December 2023	Expected credit loss rate at 31 December 2022	Estimated total gross carrying amount at default 31 December 2022	Expected credit loss 31 December 2022
Not overdue – 1 month	1.56%	3,778	59	0.41%	1,930	8
1–6 months	3.90%	1,078	42	11.98%	668	80
6–12 months	75.86%	58	44	43.37%	83	36
Over 1 year	99.47%	378	376	92.20%	436	402
Total		**5,292**	**521**		3,117	526

Movements on the allowance for expected credit losses of other receivables were as follows:

	2023	2022
At 1 January	**(526)**	(634)
Addition of allowance for expected credit losses	(232)	(270)
Release of allowance for expected credit losses	170	202
Other receivables written off as uncollectable	67	176
At 31 December	**(521)**	(526)

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 impairment of prepayments and advances made to trade suppliers were as follows:

	2023	2022
At 1 January	**(787)**	(561)
Addition of allowance for prepayments and advances to trade suppliers impairment	(316)	(545)
Release of allowance for prepayments and advances to trade suppliers impairment	293	133
Prepayments and advances to trade suppliers written off as uncollectable	262	186
At 31 December	**(548)**	(787)

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VAT and other taxes receivable

	31 December 2023	31 December 2022
VAT receivable	13,013	8,794
Other taxes receivable	277	213
Total	13,290	9,007

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Provisions and other liabilities

	31 December 2023	31 December 2022
Other accounts payable and accruals	41,578	34,212
Accrued salaries and bonuses	38,657	28,266
Payables to landlords	2,438	1,771
Accounts payable for property, plant and equipment, other intangible assets and acquisition of businesses	28,190	15,837
Total financial instruments	**110,863**	**80,086**
Taxes other than income tax	37,402	37,872
Provisions and liabilities for non-income tax uncertainties	6,748	10,696
Advances received	2,058	1,796
Total non-financial instruments	**46,208**	**50,364**
Total	157,071	130,450

There were no significant amounts of other payables to foreign counterparties as at 31 December 2023 and 31 December 2022.

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Contract liabilities

	31 December 2023	31 December 2022
Short-term contract liabilities		
Short-term contract liabilities related to loyalty programmes	1,109	3,487
Advances received from wholesales customers	76	42
Advances received from other customers	273	238
Total	1,458	3,767

Movements in short-term contract liabilities related to loyalty programmes comprise the following:

	2023	2022
At 1 January	**3,487**	2,146
Deferred during the year	12,087	11,949
Recognised at acquisition of businesses (Note 7)	–	26
Recognised as revenue during the year	(14,465)	(10,634)
At 31 December	**1,109**	3,487

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Borrowings

In November-December 2023 the Group issued RUB 20,000 exchange-registered corporate bonds series 003P-02 with floating coupon 1.1% over the Key rate of the Central Bank of the Russian Federation to be repaid in October 2026 and RUB 10,000 exchange-registered corporate bonds series 003P-03 with 12.90% coupon rate with put-option in 2.5 years.

The weighted average effective interest rate on Group's total borrowings for the year ended 31 December 2023 comprised 8.61% per annum (year ended 31 December 2022: 8.64%).

All borrowings at 31 December 2023 are shown net of related transaction costs of RUB 116 which are amortised over the term of the loans using the effective interest method (31 December 2022: RUB 129). Borrowing costs capitalised for the year ended 31 December 2023 amounted to RUB 22 (for year ended 31 December 2022: RUB 13). 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 6,303 in 2023 equals to the proceeds from borrowings in amount of RUB 183,594, repayment of borrowings in amount of RUB 192,007 (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 1,962 and other non-cash movements in amount of RUB 70 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.

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.

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 2023 the Group complied with this covenant and Net Debt/EBITDA pre-IFRS 16 was equal to 0.87 (31 December 2022: 1.02). Metric EBITDA specified in all loan agreements is equal to EBITDA pre-IFRS 16 (for calculation please refer to Note 5).

The Group had the following borrowings at 31 December 2023 and 31 December 2022:

		FAIR VALUE		CARRYING VALUE	
	Final maturity year[1]	2023	2022	2023	2022
CURRENT					
RUB Bonds X5 Finance series BO-05		–	9	–	9
RUB Bonds X5 Finance series 001P-01		–	96	–	96
RUB Bonds X5 Finance series 001P-02		–	7	–	8
RUB Bonds X5 Finance series 001P-03		–	51	–	48
RUB Bonds X5 Finance series 001P-12	2024	1,494	9,906	1,566	9,996
RUB Bonds X5 Finance series 002P-01	2024	9,626	–	9,997	–
RUB Bilateral Loans	2024	87,022	76,989	89,270	76,989
Total current borrowings		98,142	87,058	100,833	87,146
NON-CURRENT					
RUB Bonds X5 Finance series 002P-01		–	9,860	–	9,992
RUB Bonds X5 Finance series 002P-02	2025	19,296	19,972	19,975	19,956
RUB Bonds X5 Finance series 002P-03	2025	13,545	13,930	13,983	13,969
RUB Bonds X5 Finance series 003P-02	2026	20,342	–	19,968	–
RUB Bonds X5 Finance series 003P-03	2026	9,849	–	9,970	–
RUB Bilateral Loans	2026	63,650	101,279	63,500	103,469
Total non-current borrowings		126,682	145,041	127,396	147,386
Total borrowings		224,824	232,099	228,229	234,532

1 In case of the Group's Bonds – the next put/call option date.

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Share capital

As at 31 December 2023 the Group had 190,000,000 authorised ordinary shares (31 December 2022: 190,000,000) of which 67,888,696 ordinary shares were outstanding (31 December 2022: 67,888,696) and 4,521 ordinary shares in amount of RUB 41 were held as treasury stock (31 December 2022: 4,521 ordinary shares in amount of RUB 41). The nominal par value of each ordinary share is EUR 1.

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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:

	2023	2022
Profit attributable to equity holders of the parent	78,281	45,199
Weighted average number of ordinary shares in issue	67,888,696	67,888,696
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,888,696	67,888,696
Basic earnings per share for profit (expressed in RUB per share)	**1,153.08**	**665.78**
Diluted earnings per share for profit (expressed in RUB per share)	**1,153.08**	**665.78**

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Revenue

	2023					
	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	Total
Revenue from sale of goods through own stores (at a point of time)	2,444,089	417,252	218,900	–	–	3,080,241
Revenue from sale of goods through franchisees (at a point of time)	46,920	1,686	–	–	–	48,606
Revenue from wholesale of goods (at a point of time)	512	–	5,801	–	2,922	9,235
Revenue from other services (over time)	2,208	842	4,267	449	11	7,777
Total	2,493,729	419,780	228,968	449	2,933	3,145,859

	2022					
	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	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)	–	–	3,571	–	676	4,247
Revenue from other services (over time)	1,252	600	2,989	58	–	4,899
Total	2,124,045	386,095	94,358	58	676	2,605,232

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Expenses by nature

	2023	2022
Cost of goods sold	2,276,777	1,893,469
Staff costs (Note 28)	315,800	248,368
Lease expenses (Note 11)	26,796	19,925
Depreciation, amortisation	164,039	153,950
Impairment of non-current assets	1,917	10,781
Other store costs	40,290	34,693
Utilities	65,394	54,147
Net impairment losses on financial assets	97	346
Other	100,191	74,460
Total	2,991,301	2,490,139

Other expenses included impairment of prepayments in amount of RUB 23 in 2023 (2022: RUB 412).

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):

	2023	2022
Audit of financial statements	82	77
Other assurance services performed by other companies being part of external auditor's network	4	4
Non-audit services by other companies being part of external auditor's network	124	48
Total	210	129

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

	2023	2022
Lease/sublease income (Note 11)	8,113	7,214
Income from sales of waste	8,046	8,391
Gain on derecognition of right-of-use assets and lease liabilities	1,146	2,551
Other	6,338	4,869
Total	23,643	23,025

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Finance income and costs

	2023	2022
Interest expense on lease liabilities	60,654	49,877
Interest expense on borrowings	19,754	22,535
Interest income	(9,102)	(5,248)
Other finance (income) / costs, net	(1,119)	1,253
Total	**70,187**	**68,417**

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Staff costs

Wages and salaries include expenses for outstaffing and outsourcing services. Wages and salaries in 2023 included expenses of RUB 4,329 related to the long-term incentive programme (LTI) for key employees, including members of the Management Board, other key management and other key employees (2022: RUB 2,171). The liability for LTI in amount of RUB 3,615 (including social security costs) was included in other non-current liabilities in the consolidated statement of financial position as at 31 December 2023 (31 December 2022: RUB 3,869) and in amount of RUB 5,504 (including social security costs) in provisions and other liabilities in the consolidated statement of financial position (31 December 2022: RUB 105).

Since transfer to united social contributions effective from 2023 and regressive taxation scale it is impracticable to separate pension contributions from medical and social contributions (2022: pension contributions amounted to RUB 35,178).

The number of employees as at 31 December 2023 amounted to 372,200 (31 December 2022: 353,196).

	2023	2022
Wages and salaries	248,307	194,883
Social security costs	67,428	53,472
Share-based payments expense	65	13
Total	**315,800**	**248,368**

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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 30 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 2023 a total number of 45,629 PSUs were awarded under tranche 2 and will vest in 2026.

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 year ended 31 December 2023 the Group recognised expense related to the PSU Plan in the amount of RUB 50 (year ended 31 December 2022: 10).

At 31 December 2023 the carrying amount of liability related to PSU was RUB 56 (31 December 2022: 10). 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 under the PSU Plan:

	2023			2022		
	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB	Number of conditional rights	Weighted average fair value at gran date, RUB	Market value, RUB
Outstanding at the beginning of the period	**38,925**	**1,049.50**	**1,500.50**	–	–	–
Awarded during the period	45,629	1,482.41	1,464.50	38,925	1,049.50	1,049.50
Vested during the period	(2,993)	1,283.12	1,505.50	–	–	–
Forfeited during the period	(1,496)	1,283.12	1,505.50	–	–	–
Outstanding at the end of the period	**80,065**	**1,283.12**	**2,035.10**	**38,925**	**1,049.50**	**1,500.50**

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Share-based payments

Phantom Stock Unit Plan (continued)

The PSU Plan replaces the Restricted Stock Unit Plan (RSU Plan) that was terminated in September 2022. In accordance with the RSU Plan termination conditions, the remaining RSUs outstanding will be settled in cash upon vesting based on the GDR value at the Moscow Exchange or other Exchange where GDRs will be primarily traded at the time of vesting.

At 31 December 2023 the carrying amount of liability related to RSU was RUB 24 (31 December 2022: the carrying amount of liability RUB 24 and the equity component RUB 38). 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 under the RSU Plan:

	2023			2022		
	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB
Outstanding at the beginning of the period	**23,248**	**2,218.76**	**1,500.50**	120,448	2,156.84	1,959.50
Vested during the period	(9,800)	2,218.76	1,464.50	(46,704)	2,114.72	1,264.50
Forfeited during the period	–	–	–	(50,496)	2,167.29	1,130.00
Outstanding at the end of the period	**13,448**	**2,218.76**	**2,035.10**	23,248	2,218.76	1,500.5

Expenses recognised for the RSU Plan were as follows:

	2023	2022
Equity settled RSU expenses	–	(3)
Cash settled RSU expenses	15	6
Total	15	3

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Income tax

	2023	2022
Current income tax charge	27,888	21,186
Deferred income tax (benefit)/ charge	(4,310)	1,295
Windfall tax	1,689	–
Income tax charge for the year	25,267	22,481

The theoretical and effective tax rates are reconciled as follows:

	2023	2022
Profit before taxation	**103,860**	67,669
Theoretical tax at the effective statutory rate[1]	**20,772**	13,534
Tax effect of items which are not deductible or assessable for taxation purposes		
Expenses on inventory shortage	475	400
Unrecognised tax loss carry forwards for the year	13	16
Effect of income taxable at rates different from standard statutory rates	(477)	(6)
Adjustments in respect of current income tax of previous years	–	1,600
Deferred tax expenses arising from deferred tax asset write down	206	1,599
Effect of windfall tax	1,689	–
Other non-deductible expense	2,589	5,338
Income tax charge for the year	25,267	22,481

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

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 a standalone basis.

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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 2023:

	1 January 2023	Credited / (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2023
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	2,694	1,810	13	4,517
Lease liabilities[1]	119,822	12,059	4,224	136,105
Property, plant and equipment and investment property	642	(469)	238	411
Other intangible assets	164	389	–	553
Inventories	2,579	522	18	3,119
Accounts receivable	270	(204)	–	66
Accounts payable	13,392	2,295	239	15,926
Other	703	(471)	1	233
Gross deferred tax assets	**140,266**	**15,931**	**4,733**	**160,930**
Less offsetting with deferred tax liabilities	(112,784)	(13,843)	(4,240)	(130,867)
Recognised deferred tax assets	27,482	2,088	493	30,063

	1 January 2023	Credited / (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2023
Tax effects of taxable temporary differences				
Right-of-use assets[1]	(98,961)	(10,342)	(3,723)	(113,026)
Property, plant and equipment and investment property	(11,854)	(2,150)	(402)	(14,406)
Other intangible assets	(6,697)	(240)	(114)	(7,051)
Inventories	(10)	(11)	13	(8)
Accounts receivable	(1,766)	953	(626)	(1,439)
Accounts payable	(340)	266	8	(66)
Other	(110)	(97)	–	(207)
Gross deferred tax liabilities	**(119,738)**	**(11,621)**	**(4,844)**	**(136,203)**
Less offsetting with deferred tax assets	112,784	13,843	4,240	130,867
Recognised deferred tax liabilities	(6,954)	2,222	(604)	(5,336)

1 Upon adoption of amendments to IAS 12 (Note 4) the Group disclosed separately deferred tax assets in relation to lease liabilities and deferred tax liabilities in relation to right-of-use assets starting from 1 January 2022.

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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 2023 amounted to RUB 113,533 (2022: RUB 35,252).

Management believes that the future taxable profits in tax jurisdictions that suffered a loss in the current or preceding years will be available to utilise the deferred tax asset of RUB 4,517 recognised at 31 December 2023 for the carry forward of unused tax losses (31 December 2022: RUB 2,694).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards at 31 December 2023 of RUB 8,958 (31 December 2022: RUB 7,984). At 31 December 2023 and 31 December 2022 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 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
Lease liabilities[1]	117,280	(2,113)	4,655	119,822
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	**136,416**	**(933)**	**4,783**	**140,266**
Less offsetting with deferred tax liabilities	(113,369)	5,240	(4,655)	(112,784)
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[1]	(97,218)	2,813	(4,556)	(98,961)
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	**(114,297)**	**(362)**	**(5,079)**	**(119,738)**
Less offsetting with deferred tax assets	113,369	(5,240)	4,655	112,784
Recognised deferred tax liabilities	(928)	(5,602)	(424)	(6,954)

1 Upon adoption of amendments to IAS 12 (Note 4) the Group disclosed separately deferred tax assets in relation to lease liabilities and deferred tax liabilities in relation to right-of-use assets starting from 1 January 2022.

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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 2023 the Group had trade accounts payable denominated in USD in the amount of RUB 7,039, in EUR in the amount of RUB 1,154 and in CNY in the amount of RUB 1,270 (31 December 2022: 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) and leases denominated in USD in the amount of RUB 4,595 and in EUR in the amount of RUB 3,041 (31 December 2022: denominated in USD in the amount of RUB 4,523 and in EUR in the amount of RUB 2,532). As at 31 December 2023 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 2023 the Group had no floating interest-bearing assets (31 December 2022: Nil), but had 26% (31 December 2022: 4%) 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 2023 would have been RUB 183 lower. If the Key rate had been 100 b.p. lower the profit before tax for the year ended 31 December 2023 would have been RUB 183 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 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.

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Financial risk management

(c) Liquidity risk (continued)

At 31 December 2023 the Group had net current liabilities of RUB 198,247 (31 December 2022: RUB 198,625) including short-term borrowings of RUB 100,833 (31 December 2022: RUB 87,146). At 31 December 2023 the Group had available bank credit lines of RUB 549,740 (31 December 2022: RUB 475,020). At 31 December 2023 the Group had RUB registered bonds programme available for issue on MOEX of RUB 170,000 (31 December 2022: RUB 156,000).

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

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 2023	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	143,241	484,906	393,093
Borrowings and Interest accrued	124,041	150,088	–
Trade payables	290,232	–	–
Other financial liabilities	112,169	16,774	–
Total	**669,683**	**651,768**	**393,093**

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 and Interest accrued	104,323	157,776	–
Trade payables	238,641	–	–
Other financial liabilities	80,086	10,957	–
Total	545,936	586,929	318,224

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Operating environment of the Group

In 2023, the continuing conflict related to Ukraine and the resulting aggravation of geopolitical tensions had an impact on the economy of the Russian Federation. During the period of the conflict, including 2023, the European Union, the United States and several other countries imposed new sanctions against a number of Russian state organizations and commercial entities, including banks, individuals and certain industries, as well as restrictions on certain types of transactions, including freezing Russian accounts with foreign banks and blocking payments on Eurobonds of the Russian Federation and Russian entities. Some global companies announced that they would either suspend their operations in, or stop supplies, to Russia. This resulted in increased volatility in stock and currency markets. The Russian Federation introduced temporary restrictive economic measures; in particular, it prohibited Russian residents from providing foreign currency loans to non-residents and from crediting foreign currency to their accounts with foreign banks, as well as imposed restrictions on securities-related payments to foreign investors and on transactions involving persons of a number of foreign countries. In response to increased volatility in financial markets and growing inflation risks, the Bank of Russia raised the key rate from 7.5% to 16% in the second half of 2023.

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 2023 and 31 December 2022 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 Moscow stock exchange (MOEX) is determined based on active market quotations and amounted to RUB 74,152 at 31 December 2023 (31 December 2022: RUB 53,831). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 75,459 at 31 December 2023 (31 December 2022: RUB 54,074) (Note 21).

The fair value of bilateral loans amounted to RUB 150,672 at 31 December 2023 (31 December 2022: RUB 178,268). 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 of the market interest rate by 10% leads to the decrease of fair value of bilateral loans by RUB 1,142 at 31 December 2023 (31 December 2022: RUB 1,304), the decrease of the market interest rate by 10% leads to the increase of fair value of bilateral loans by RUB 1,183 (31 December 2022: RUB 1,304).

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Commitments and contingencies

Capital expenditure commitments

At 31 December 2023 the Group contracted for capital expenditure for the acquisition of property, plant and equipment and intangible assets of RUB 9,970 (net of VAT) (31 December 2022: RUB 4,540).

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 2023.

On 4 August 2023, the law ‘Specifics of the Regulation of Corporate Relations in Business Entities that are Economically Significant Organisations’ (the “Law”) was signed by the President of the Russian Federation and subsequently published. The Law provides for the possibility of suspension by a relevant court of non-Russian holding companies’ corporate rights in relation to Russian organisations controlled by them and included in the list of economically significant organisations, as approved by the Government of the Russian Federation. Any actions of Entitled Parties under the Law may result in significant changes to the corporate structure of the Group, and the Company losing control over its assets (operating companies) and subsequent redistribution of its subsidiary shares to the Company’s shareholders and beneficiaries.

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/expenses from those transactions exceed 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.

In June 2023 the Ministry of Finance of the Russian Federation issued the Order expanding the list of the offshore zones (hereinafter – “the list”). The updated list contains 91 countries, including, in particular, the countries of the European Union, the Great Britain, Japan and the USA. All transactions with companies registered in the countries from the list are automatically equated to those controlled for transfer pricing purposes if the amount of income or expenses per company for the calendar year exceeds RUB 120 million. This amendment to tax legislation comes into effect in relation to transactions leading to income/expenses recognised starting from 1 January 2024.

In the end of 2023 the Federal Law № 539-FZ on changes to the Russian Federation Tax Code was adopted. Most of the amendments affected the regulation of transfer pricing rules in Russia. As a result of such amendments, the Russian Tax Code has been changed significantly in a number of transfer pricing aspects, especially in terms of significantly increased penalties and the administrative burden on businesses to facilitate transfer pricing compliance. The law also introduces a withholding tax at a rate of 15% on the income paid to a foreign company providing intra-group services to a Russian company. The new transfer pricing rules, as well as changes regarding withholding tax, apply to transactions leading to income / expenses recognised/paid from January 1, 2024.

On 8 August 2023 the President of Russia signed Edict No. 585 («the Edict») suspending the effect of certain articles of Double Taxation Treaties (hereinafter – DTTs) including provisions concerning the taxation of all kinds of income (including dividends, interest, royalties, business profits, miscellaneous income, etc.) with «unfriendly» countries. The Edict applies to tax treaties signed by Russia with 38 countries.

According to the Law No. 539-FZ benefits previously provided for by DTTs that have been suspended are being preserved for certain types of income for a certain period (until the end of 2025). The amendments can be applied retroactively to income which was paid starting from 8 August 2023. No relief will apply to transactions between related parties.

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Commitments and contingencies

Tax contingencies, commitments and risks (continued)

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 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.

On 14 February 2023, the Council of the European Union revised its EU list of non-cooperative jurisdictions for tax purposes (the “EU Blacklist”) and decided to add Russia to the EU Blacklist. The immediate tax effect of this decision is not expected in 2023. Potentially, tax changes may lead to an increase in tax control by the EU regulatory authorities and increase the tax burden in the future.

In the beginning of 2023, the Government of the Russian Federation issued Decree that established the procedure for submitting instalment plan for contributions to social funds, for which in 2022 the Government granted the right to postpone payments by one year. The instalment plan provides the right to pay the amounts due on a monthly basis in equal instalments starting from 28 June 2023 until 28 May 2024.

On 4 August 2023, Federal Law No. 414-FZ On Windfall Tax was adopted. The Law establishes the procedure for determining and paying a one-off tax on excess (windfall) profits. The Law is effective from 1 January 2024. According to the Law, Russian entities whose average profit for 2021-2022 exceeds RUB 1 billion shall file a windfall tax return with the tax authorities before 25 January 2024 and pay windfall tax calculated at a rate of 10% before 29 January 2024.

The Law also provides for the option of voluntarily making an “advance payment” during the period from 1 October through 30 November 2023. The advance payment will form a tax credit that the taxpayer can use to reduce the tax amount. The amount of such tax credit cannot exceed ½ of the amount of tax payable. The Group has applied the option of reducing the tax amount by making an advance payment.

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.

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Subsequent events for the Group

In March 2024, X5 Corporate Center LLC, the Company's primary subsidiary in Russia, has been included in a list of companies that are subject to the Law (as defined under Note 35 above).

The list was published by the Government of the Russian Federation and permits management, certain shareholders or a Russian governmental entity (the "Entitled Parties"), to commence legal proceedings that could have potential consequences for the Company, its Russian subsidiaries and its shareholders. If the relevant court is honoring a claim in favor of a claimant under the Law, it shall result in a loss of X5 Retail Group N.V.'s control over its Russian subsidiaries followed by a redistribution of the shares in the primary Russian subsidiary to the Company's DR holders or their beneficiaries, and the return of non-distributed shares in the Russian subsidiary to the Company or a cash compensation to the Company for DR holders who will not participate in the redistribution of shares in the primary Russian subsidiary.

Consequently, as a result of a relevant court honoring a claim of an Entitled Party, the ownership, structure and governance of the Group may be materially impacted. Given the unprecedented nature of the Law, the current circumstances create uncertainty for structure, ownership and the governance of the Group as it is outside the control of the Management Board. The board is currently not aware of the intent of any Entitled Party to initiate court proceedings under the Law. As such, it is currently not possible to estimate the potential impact of the Law, and the inclusion in the list mentioned above, on structure, ownership and governance of the Group. Whereas potential actions under the Law impact the going concern of the Company, the Management Board currently estimates that the Group's primary business in Russia will not be directly impacted by the Law and any actions thereunder.

X5 Retail Group N.V.

Other information

Statutory profit appropriation

In accordance with Article 30 of the Company's Articles of Association, the General Meeting shall upon proposal of the Supervisory Board determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits.

For 2023, the Supervisory Board recommends to add the amount of RUB 78,281 million, representing the profit in the 2023 financial year, to the Company's retained earnings.

Subsequent events

For subsequent events, please refer to Note 36 of the consolidated financial statements.

Independent auditor's report

NEW CHALLENGES
NEW SOLUTIONS

To the Shareholders and the Supervisory Board of X5 Retail Group N.V.

Opinion

We have audited the consolidated financial statements of X5 Retail Group N.V. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2023, and notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023 and its consolidated financial performance and its consolidated cash flows for 2023 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Group in accordance with the ethical requirements of the Code of professional ethics for auditors and the Independence rules of auditors and audit organizations that are relevant to our audit of the consolidated financial statements in the Russian Federation together with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

Key audit matter	How our audit addressed the key audit matter
GOODWILL IMPAIRMENT We consider goodwill impairment a key audit matter since the goodwill amount is significant at the reporting date, and also due to the fact that the methodology for assessment of the recoverable amount is complex and management's process to assess the recoverable amount is based on the use of significant judgment with regard to the assumptions on expected future cash flows, the discount rate and other forecasts values. Information on goodwill and the results of its impairment testing is disclosed in Note 13 to the consolidated financial statements.	As part of our audit procedures, we reviewed the Group's methodology used for goodwill impairment testing purposes and assessed its compliance with IFRS requirements as well as its consistent application. We analyzed key assumptions used by management and compared them with industry trends and forecasts prepared by independent analysts, internal forecasts and historical indicators. With the involvement of internal valuation experts we reviewed the methodology applied, compared the inputs and assumptions used in the impairment model with common practice and observable market data and also assessed the applicable methodology for compliance with IFRS requirements. We tested the accuracy of estimates and assumptions applied by management in the previous reporting period to exclude potential bias. We assessed the mathematical accuracy of goodwill impairment testing. We compared inputs used in the model with figures from the audited consolidated financial statements and other information obtained during the audit. We analyzed goodwill impairment disclosures presented in notes to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
IMPAIRMENT OF STORES AND OTHER NON-CURRENT ASSETS The carrying amount of stores and other non-current assets, such as right-of-use assets, property, plant and equipment and intangible assets, excluding goodwill, as at 31 December 2023 approximated RUB 986 billion. We consider impairment of stores and other non-current assets a key audit matter due to the materiality of their carrying amount and the significant use of judgment in assessing the recoverable amount of those assets. Judgment is mainly used in determining the discount rate and preparing store performance forecasts, which, inter alia, depend on the expected income determined on the basis of the strategic development plan with reference to macroeconomic forecasts and local competition. Judgment is also used in determining the fair value of property on the basis of internal and external property valuation reports. Information on property, plant and equipment, right-of-use assets, investment property and other intangible assets is presented in Notes 10, 11, 12 and 14 to the consolidated financial statements.	As part of our audit procedures, we reviewed the Group's methodology used for impairment testing of stores and other non-current assets and assessed its compliance with IFRS requirements as well as its consistent application. For stores covered by impairment testing, we analyzed key assumptions used by management to prepare cash flow forecasts and compared them with industry trends and forecasts prepared by independent analysts, internal forecasts and historical indicators. We tested the accuracy of estimates and assumptions applied by management in the previous reporting period to exclude potential bias. With the involvement of internal valuation experts we reviewed the methodology applied, compared the inputs and assumptions used in the impairment model with common practice and observable market data and assessed the applicable methodology for compliance with IFRS requirements. We assessed the mathematical accuracy of impairment testing of stores and other non-current assets. We compared inputs used in the model with figures from the audited consolidated financial statements and other information obtained during the audit. We also analyzed objectivity and competence of independent appraisers engaged by the Group. We reviewed disclosures in notes to the consolidated financial statements.

Key audit matter

Key audit matter	How our audit addressed the key audit matter
RECOGNITION OF VENDOR ALLOWANCES	
The Group receives various types of vendor allowances, such as discounts and income from services rendered. Discounts largely depend on the volumes of purchased goods, while income from services rendered is associated with promotional activities for certain products. Vendor allowances represent a significant component of the cost of sales and are recognized as its reduction. Although most vendor allowances are settled during the financial year, a significant amount remains outstanding at the end of each year and is recognized as trade receivables. We consider vendor allowances a key audit matter, since bonus conditions vary from contract to contract and can be complicated. In addition, the recognition of vendor allowances and related receivables requires management to use certain judgment, in particular, considering the delivery of such services or allocation of vendor allowances to the inventory cost. Information on the Group's accounting policies relating to bonuses from suppliers is disclosed in Note 2.24 to the consolidated financial statements.	Our procedures included tests of internal control over the occurrence, completeness and measurement of vendor allowances recognized in the accounting records, and covered both IT application and manual controls. We tested a sample of direct confirmations received from suppliers with regard to receivables as at 30 September 2023. We also tested vendor allowances for the fourth quarter of 2023, including performing substantive analytical procedures and detailed testing on a sample of vendor allowances transactions and settlements. We also tested on a sample basis documents supporting journal entries regarding the recognition of vendor allowances and service fees. In addition, we performed a margin analysis and reviewed subsequent collections on prior period vendor allowance receivables and subsequent collections of the vendor allowances receivable in the current year. We analyzed accounting policies related to vendor allowances. We reviewed disclosures in notes to the consolidated financial statements.

Emphasis of matter

We draw attention to Note 2.1 of the consolidated financial statements, which states that these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. These consolidated financial statements have not been prepared in accordance with Part 9 Book 2 of the Dutch Civil Code and does not replace consolidated financial statements prepared in accordance with Part 9 Book 2 of the Dutch Civil Code. Our opinion is not modified in respect of this matter.

Other information included in the annual report of X5 Group

Other information consists of the information included in the annual report of X5 Group, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with EU-IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units of the group as a basis for forming our opinion on the consolidated financial statements of the group. We are responsible for the direction, supervision and review of audit work performed for group audit purposes. We remain fully responsible for our audit opinion.

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

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

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Golovkina Marina Yurievna.

Signed by Golovkina Marina Yurievna,
acting on behalf of TSATR – Audit Services Limited Liability Company
on the basis of power of attorney dated 12 July 2023,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 21906100348)

21 March 2024

Details of the auditor

Name:
TSATR – Audit Services Limited Liability Company

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

Address:
Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

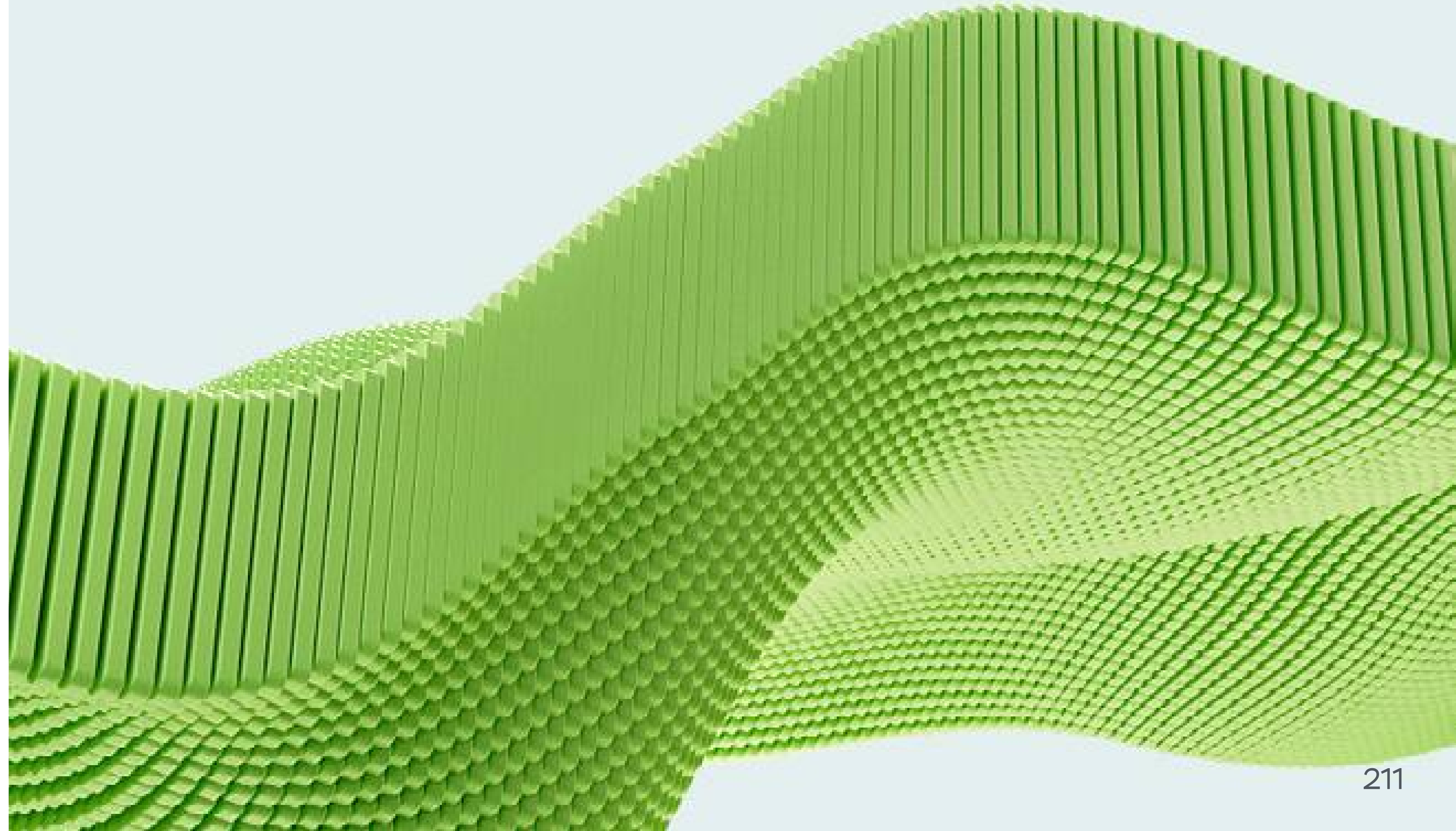
TSATR – Audit Services Limited Liability Company is a member of Self-regulatory organization of auditors Association "Sodruzhestvo". TSATR – Audit Services Limited Liability Company is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Details of the audited entity

Name:
X5 Retail Group N.V.

Record made in the Netherlands Chamber of Commerce on 13 August 1975, Registration Number 33143036.

Address:
the Netherlands, Amsterdam, Zuidplein 196, 1077 XV.



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.

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)

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.

TCFD disclosure	Cross-reference to the disclosures in the Report	Summary of the climate-related financial disclosures	Explanation for non-compliance	Next steps
GOVERNANCE				
a) **Describe the board's oversight of climate-related risks and opportunities.**	page 87	Both the Company's senior management and its business units are responsible for climate risk review and assessment. The Supervisory Board and executive team are responsible for the strategic management of sustainability issues, driving the implementation of the climate strategy and action. At least once per quarter, the Supervisory Board meets to review and approve the process for assessing material climate risks. Members of the Supervisory Board and executive team are informed by the X5 Sustainability Department about risks that may threaten business continuity.	–	–
b) **Describe management's role in assessing and managing climate-related risks and opportunities.**	page 87	X5's risk management system is driven by the "three lines of defence" model. As the second line of defence, X5's Sustainability Department is responsible for identifying, analysing, and assessing climate risks. The Department collaborates with the Risk Management team to provide methodological support to the business as regards ESG risk management. Future plans include transferring the tasks around day-to-day operational management of sustainability risks to the management level across retail chains and business units (first line of defence) to enable faster and better responses and adaptation to external challenges.	–	–
STRATEGY				
a) **Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.**	pages 88–90	The Group's climate risk assessment spans three time horizons: 2025, the short-term horizon; 2025–2030, the medium-term horizon; and 2030–2050, the long-term horizon. X5 analyses physical and transition climate risks for each business unit. A full and complete description of the identified risks can be found on page 90 of the 2022 Sustainability Report.	–	–

TCFD disclosure	Cross-reference to the disclosures in the Report	Summary of the climate-related financial disclosures	Explanation for non-compliance	Next steps
STRATEGY				
b) **Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.**	pages 88–90	No climate risk reassessment was conducted in 2023, but a quantitative reassessment is slated for 2024. The results of the 2022 reassessment, presented on pages 92–93 of the 2022 Sustainability Report, remain current as at 2023-end.	The Company 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 reports.
c) **Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2 °C or lower scenario.**	page 88	Climate risk analysis and assessment help us prioritise focus areas and response measures. We systematically review these risks and assess their financial implications for our strategy. The scenario analysis of climate risks uses 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 pays particular attention to assessments under the SSP2–4.5 scenario, which the Company believes to be the primary scenario for the industry and to have the potential to make a long-term impact on X5's strategy and financial position.	–	–
RISK MANAGEMENT				
a) **Describe the organisation's processes for identifying and assessing climate risks.**	page 88	Climate risks (physical and transition risks) are incorporated into the Group's general risk register, and the process for assessing such risks is aligned with the overall corporate risk assessment process. X5's detailed approach to climate risk assessment can be found on pages 94–95 of the 2022 Sustainability Report. X5 conducts scenario analysis to efficiently identify and manage climate risks and develop effective decarbonisation measures.	–	–

TCFD disclosure	Cross-reference to the disclosures in the Report	Summary of the climate-related financial disclosures	Explanation for non-compliance	Next steps
RISK MANAGEMENT				
b) Describe the organisation's processes for managing climate risks.	pages 88–90	Analysing climate-related risks and opportunities helps the Company build specific steps to support the low-carbon transition. X5's decarbonisation activities and initiatives are driven by climate risk assessments.	–	–
c) Describe how processes for identifying, assessing, and managing climate risks are integrated into the organisation's overall risk management system.	page 88	Climate risk identification, assessment, and management processes are aligned with the overall process for managing the Group's corporate risks, which applies the "three lines of defence" model. A description of X5's overall risk management system can be found on pages 106–112.	–	–
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 91	In 2023, X5 Group updated its targets under the 2025 sustainable development strategy, having set metrics for GHG emission reduction. When charting its pathway to net zero, X5 strives to apply internal carbon pricing to aid in strategic decision making.	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 reporting.
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions and the related risks.	page 91	Since 2019, X5 has been assessing its GHG emissions on an annual basis in accordance with the Corporate Accounting and Reporting Standard of the GHG Protocol. This allows the Company to quantify specific strategic decarbonisation targets. The 2023 GHG emissions calculation results and a full description of the calculation methodology will be published in our 2023 Sustainability Report.	–	–
c) Describe the targets used by the organisation to manage climate-related risks and opportunities, and performance against targets.	page 91	X5's 2030 decarbonisation targets can be found in our 30x30 agenda and our upcoming 2023 Sustainability Report. Climate-related issues are also included in our updated short-term strategy to 2025. Detailed information on X5's GHG emission levels will also be published in our 2023 Sustainability Report.	–	–