X5 RETAIL GROUP

NEW RETAIL STARTS NOW

ANNUAL REPORT 2020

X5

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01. Strategic Report

NEW RETAIL STARTS NOW

Our investments to prepare X5 Retail Group for a digital transformation bore fruit in 2020 by enabling us to rapidly introduce and ramp up digital businesses as consumers changed their habits in response to the COVID-19 pandemic.

While 2020 was a banner year for the growth of business lines like Perekrestok Vprok, express delivery and 5Post, our offline operations continue to prosper, and safety has become a key element of our value proposition for customers.

Overview

About this report

Our 2020 Annual Report for X5 Retail Group provides an opportunity to look back at our performance during the year through a number of prisms.

This document provides detailed information about our financial and operating performance, about our updated strategic priorities, and it also analyses the Company's progress against its sustainability strategy introduced in December 2019.

This report complies with UK and Russian Federation listing requirements, as well as the Dutch Corporate Governance Code. We have sought to provide our stakeholders with a comprehensive view of the business and where we are going.

Report boundary and scope

This document is a report on the period from 1 January 2020 to 31 December 2020. It covers topics that include X5 Retail 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.

This includes key operating subsidiaries like our Pyaterochka proximity stores and Perekrestok supermarkets, as well as our digital businesses, which have been allocated to a separate business unit. X5 Retail Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). IFRS financial results in this report are presented according to IFRS 16 as well as old pre-IFRS 16 standards. Significant events after the reporting date are also covered in this report.

Materiality

The management of X5 Retail 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 products, as well as feedback received directly from key stakeholders. X5's sustainable development strategy, which was developed in line with the United Nations Sustainable Development Goals (UN SDGs) and was approved in 2019, was also used to define the Company's material issues. Management believes that this report accurately covers how X5 Retail Group interacts with and creates value for its stakeholders.

Alternative performance measures

Alternative performance measures (APMs) that are not defined or specified under IFRS requirements are also used in this report. These APMs provide important insights into the performance of our business. A glossary with explanations of how each APM is calculated, why we use it and how it can be reconciled to a statutory measure, where relevant, is provided on pages 99–101.

Financial and non-financial information

X5 Retail 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 relations with suppliers.

Assurance

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

Supervisory Board approval

The Supervisory Board of X5 Retail Group has confirmed that 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 2020 Annual Report for publication on 18 March 2021.

Our approach, values and goals

Approach

We aim to develop X5 Retail Group as a profitable, sustainable business that offers high-quality modern food retail services, both online and offline, to the Russian population in formats that are convenient and meet the demands of our customers.

We seek to identify and implement innovative technologies to power digital services such as express delivery and our Perekrestok Vprok online hypermarket, while also improving our operations to make X5 more efficient and profitable.

Since 2019, we have also integrated sustainability into our business strategy, with business processes aimed at helping us achieve goals that are aligned with the UN SDGs that we have determined as being most relevant to our business: Zero Hunger, Good Health and Well-being, Decent Work and Economic Growth, as well as Responsible Consumption and Production.

Values

X5 relies on a values-driven culture to help every employee do their part to contribute to achieving our strategic goals.

Customer-oriented

- Our business decisions are driven by our understanding of our customers.
- We strive to use technology to improve our understanding of our customers, to improve their shopping experience and to share efficiency gains with our shoppers.
- We aim to develop and adapt our business to meet our customers' changing needs and expectations.

Trust

- Trust is a core element of our customer value proposition, and we aim to stand out among our peers as Russia's most trusted food retailer.
- We aim to earn the trust of local communities by implementing programmes aimed at protecting people and the environment in areas where we operate.
- We hold ourselves to high standards of integrity and honesty with our business partners and other stakeholders.

Respect and honesty

- In our interactions with all stakeholders, we respect their opinions, interests and emotions.
- We have zero tolerance for corruption, which is backed by strict policies and practices covering every aspect of our business, as well as our supply chain.
- We are constantly developing and improving the accuracy and completeness of the information that we provide about the goods we sell and the performance of our business.

Never settling for "good enough"

- We are not satisfied with being Russia's top food retailer, and we want to become a leader in the broader food market.
- We are constantly setting ambitious goals for ourselves and updating the goals that we have achieved.
- Our employees are rewarded for their achievements and encouraged to try new solutions that could further improve our business.

Our approach, values and goals

Sustainability goals

In 2019, the Supervisory Board approved X5's inaugural sustainability policy, which uses the UN SDGs as a framework to determine our areas of focus.

The four key SDGs where we will have the greatest impact are Zero Hunger, Good Health and Well-being, Decent Work and Economic Growth, and Responsible Consumption and Production.

We also identified secondary goals that our business contributes to through its day-to-day activities: Gender Equality, Affordable and Clean Energy, Reduced Inequalities, Sustainable Cities and Communities, Climate Action, Life Below Water and Life on Land.

Primary goals: marked in block colors
Secondary goals: marked in white background color

Based on these focus areas, we developed a detailed set of targets for 2023 and the business processes needed to achieve them, as well as a set of ambitious "30×30" goals that we aim to reach by 2030.

Planet

30%

Reduction of GHG emissions (Scope 1 + Scope 2)

30%

Share of renewable energy used in X5 operations

30%

Reduction in ratio of waste generated to retail sales

Communities

30%

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

Health

Promote responsible programmes and principles in across the supply chain among suppliers

Expansion of healthy lifestyle assortment

Employees

#1

Employer in ranking of Russian food retailers

Organisation of healthy and safe workplace for all employees

2020 key highlights

Demonstrating leadership through challenging times

We entered 2020 planning to continue to ramp up our digital businesses while rolling out new concepts for our Pyaterochka proximity stores and Perekrestok supermarkets. Innovations and efficiency, which we have been investing in for several years, remained central parts of our plans. In many ways, it is thanks to our earlier groundwork, X5 was able to react so quickly to the changes brought on by the coronavirus pandemic.

With robust business practices in place, we were able to quickly implement new safety procedures across our network of 17,707 stores as well as in our multiple offices.

Our digital transformation was already well underway, meaning new businesses like the online hypermarket Perekrestok Vprok, express delivery services and 5Post were already up and running. This enabled us to continue serving our customers even as strict lockdown rules were introduced during March–June 2020, and to grow our digital businesses in response to significant and long-term changes in Russia's food market landscape.

2020 financial and operating highlights

1,978 BLN RUB

Revenue

↑14.1% year-on-year

7.3%

EBITDA margin

pre-IFRS 16

20.1 BLN RUB

Digital business sales

↑362.2% year-on-year

↑5.5%

Like-for-like sales

year-on-year

1.67x

Net debt / EBITDA

pre-IFRS 16

as of 31 December 2020

7.9 MLN

orders delivered by Perekrestok Vprok and express delivery services

6.8 MLN

parcels delivered by 5Post

COVID-19 response

The ultimate impact of the COVID-19 pandemic remains to be seen, but we can already say with confidence that there will be long-term changes to business processes, our customer value proposition and customer demand.

Key highlights of response to the pandemic in 2020:

- Established emergency management team that held daily virtual meetings in March–June
- All employees in warehouses and stores provided with personal protective equipment (PPE) for the workplace
- Increased deliveries to stores of key staples in order to ensure shelf availability throughout peak periods of demand
- Established backup mobile offices and procedures for centralised treasury and corporate finance functions in order to guarantee uninterrupted payments to employees, suppliers and other counterparties
- Created additional mobile teams for in-store and supply chain operations to cover operations in the event of a COVID-related team quarantine
- Reserved additional hours at the end of each working day in stores for additional disinfection using a certified third-party provider
- Built up additional stock of food and non-food consumer staples in January and February to guarantee sufficient supply during peak demand
- Added to the assortment of personal and home sanitisers, masks and gloves for customers
- Offered new options and procedures for contactless delivery of online orders
- Accelerated commissioning (one month ahead of schedule) of an additional Moscow dark store for Perekrestok Vprok operations to increase order fulfilment capacity, as well as utilisation of additional third-party vehicle capacity for delivery of online orders during peak times (April–May)
- Paid additional bonuses to in-store and supply chain employees for their work during the COVID lockdown period
- Offered rent holidays for SMEs that were subletting space in X5 stores for the lockdown period of March–June
- Supplied free-of-charge lunches to medical staff in three Moscow hospitals in April–December
- Renegotiated rent payments by X5 supermarkets and hypermarkets located in shopping centres due to the decline in consumer traffic during the lockdown period
- Conducted additional charity work, such as organising volunteers to deliver food to elderly people who were shielding at home
- Dedicated special morning time slots to serving elderly customers at higher risk of contracting COVID-19 during the lockdown
- Offered special delivery time slot preferences for Perekrestok Vprok and express delivery to elderly customers

>90%

of office employees using a "phygital office" for remote work, starting in March 2020

0%

commercial markup on a number of basic goods to support the lowest-income consumers during challenging economic times

13 REGIONS

expanded geography of express delivery and online hypermarket services

3.5 BLN RUB

additional costs associated with COVID-19 (including rent holidays to sub-lessees and reduced commercial markups)

0.2% of revenue

Strategic highlights

Expanded digital businesses

X5 Retail Group became the #1 e-grocery operator in Russia by gross merchandise value (GMV) in 2020, according to Infoline, with a 13% market share in this segment.

Perekrestok Vprok, our online hypermarket, expanded its logistics infrastructure with new dark stores with a total area of 30,484 square metres and 267 new delivery trucks as it began offering home delivery services in eight new cities during 2020.

Express delivery from Pyaterochka and Perekrestok stores was available in 13 regions by the end of the year, which enabled the Company to increase the number of daily orders fulfilled from 300 in January to 35,000–38,000 at the end of December. Our 5Post e-commerce delivery service offered a convenient way to pick up packages from e-commerce retailers at 12,985 (number at year end) X5 stores, via 4,518 lockers and 11,937 pickup points.

We launched the Okolo delivery aggregator in Q4 2020, starting in Moscow, which will have Pyaterochka and Perekrestok as its core grocery providers and will add new clients from among HoReCa (hotel, restaurant, cafe), pharmaceuticals and local non-food retailers to cover most day-to-day consumer needs via express delivery. As we expand the role of digital technologies in our business, we have also introduced X5.ID, a convenient single sign-on that customers can use across all our digital platforms.

Adapting to changing market landscape

In addition to expanding our digital businesses and the ongoing rollout of new proximity and supermarket store concepts, we opened four Chizhik hard discounter stores to satisfy demand for a limited assortment and low-price grocery shopping. We plan to review the performance of these pilot stores in 2021 and intend to open at least 50 new Chizhik stores across the regions where we operate. We have also elaborated a strategy for expanding our role in the food market more broadly, with the aim of creating our own digital ecosystem that ranges from food-related online content, though not limited to food purchases, to an expanded digital marketplace for food and FMCG goods and payment services.

We strengthened X5's leadership with its market share increasing by 1.3 p.p. to 12.8% in 2020. We continued to downsize our offline hypermarket operations, reducing our Karusel network by 35 stores (25 of which were transferred to Perekrestok), finishing the year with 56 stores.

Maintained profitability levels

Even as we rapidly grew our digital businesses, which have a strategic profitability horizon of three years, we maintained the overall profitability of X5 Retail Group during 2020, with an EBITDA margin pre-IFRS 16 for the full year of 7.3%.

Updated CVPs

We continued to roll out new store concepts for both our Pyaterochka and Perekrestok formats, with new layouts aimed at addressing different shopping missions, increased ready-to-eat and ready-to-cook assortments and convenient in-store cafe areas to make shopping trips more enjoyable.

All new stores feature self-checkouts, in addition to regular cashier desks and 5Post pickup points. In addition to the new store designs, safety and sustainable business practices have become key elements of the updated CVPs. We reached 13% of Pyaterochka stores and 12% of Perekrestok supermarkets operating under the new concept by the end of 2020, contributing to stronger client retention and attracting younger shoppers, as well as generating higher LFL and NPS compared with the previous concept.

Updated dividend policy

Thanks to overall business growth, combined with strong cash flows and profitability, the Supervisory Board approved a new dividend policy that introduces interim dividend payments and maintains the target net debt/EBITDA (pre-IFRS 16) at <2.0×. The Board has also recommended a final dividend for 2020 of RUB 30 bln, which will bring total dividend payments for the year to RUB 50 bln.

Innovation

While the main focus in 2020 was on digital businesses, we maintained our focus on innovation across our operations. In October 2020, we launched the first fully automated, cashierless Pyaterochka #naletu store that allows customers to walk in, pick up what they want to buy and leave with full confidence that they will be automatically charged for the items they selected via a mobile app. Another new technology, which was identified through our international startup scouting programme, was the introduction of new food labels that change colour to help customers understand an item's remaining shelf life.

We successfully piloted a QR-based payment technology via the national Faster Payments System, which could serve as a cheaper alternative to regular card payments.

ESG leadership

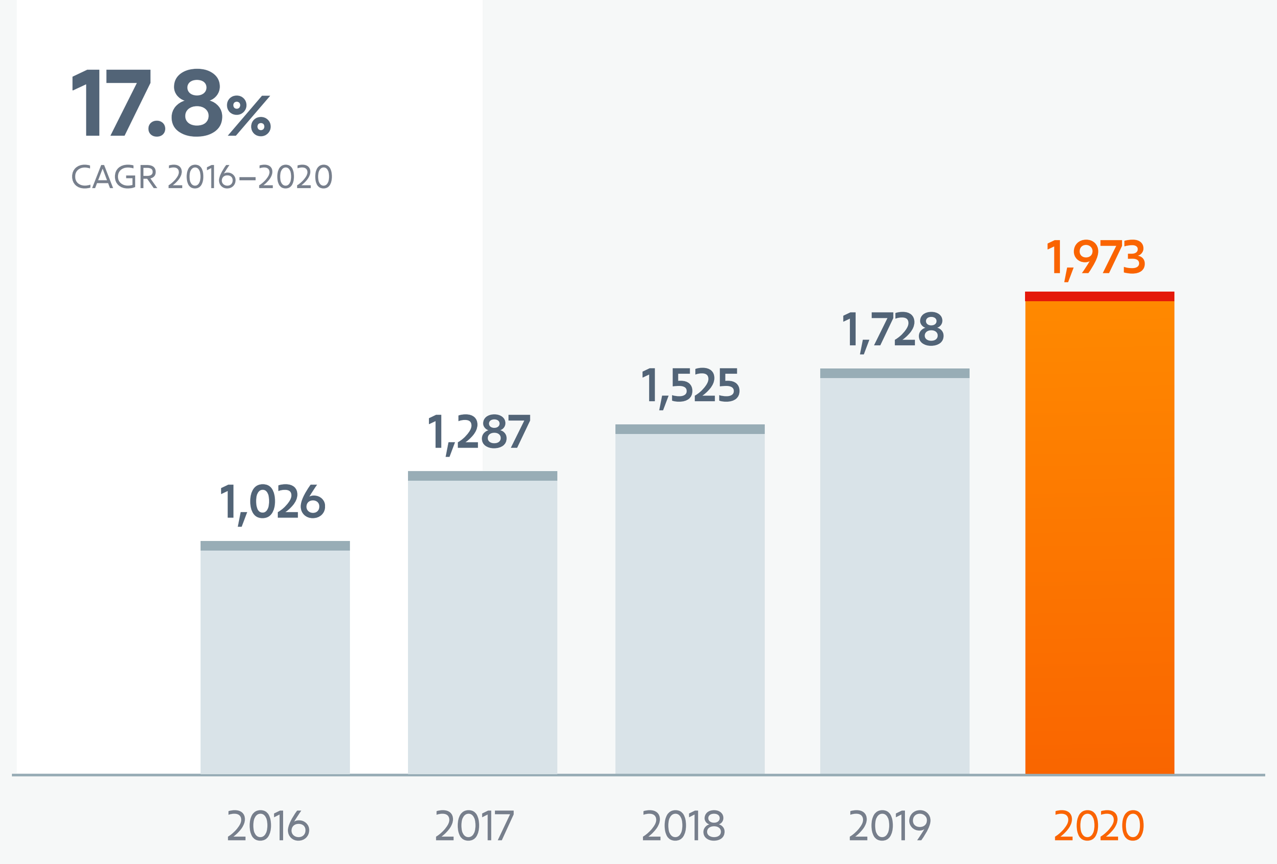
After approving our ESG strategy in 2019, we conducted a comprehensive review of business practices and established a detailed set of sustainability goals for 2023, as well as ambitious targets for 2030. We continued to improve our ESG disclosures during the year, introducing a semi-annual ESG performance update and conference call, and published an ESG databook and dedicated ESG section on the X5 website.

X5 Retail Group received upgrades to several ESG ratings during 2020, including from MSCI ESG, Sustainalytics, Bloomberg ESG and S&P Global CSA (formerly Robeco SAM).

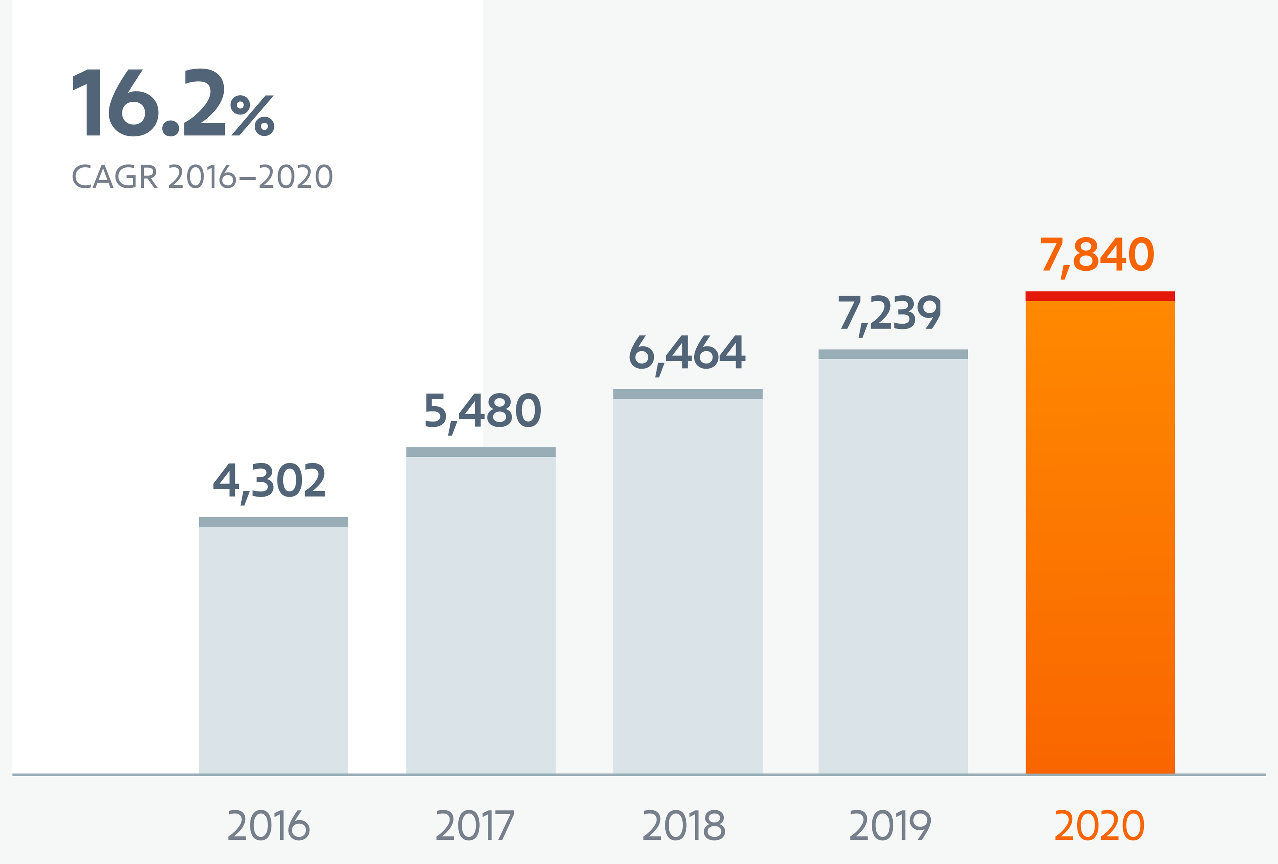
Operational and Financial highlights

Operational highlights

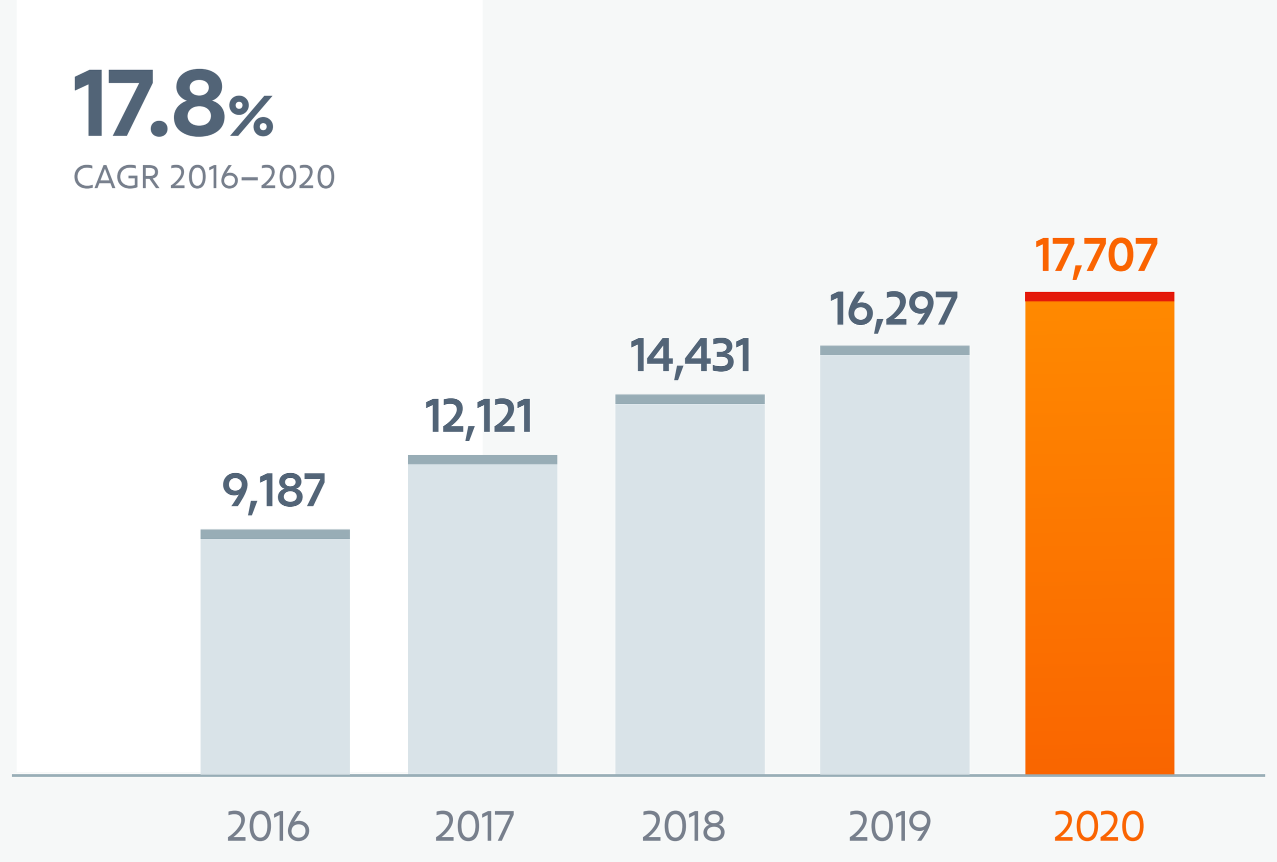
Net retail sales, RUB bln



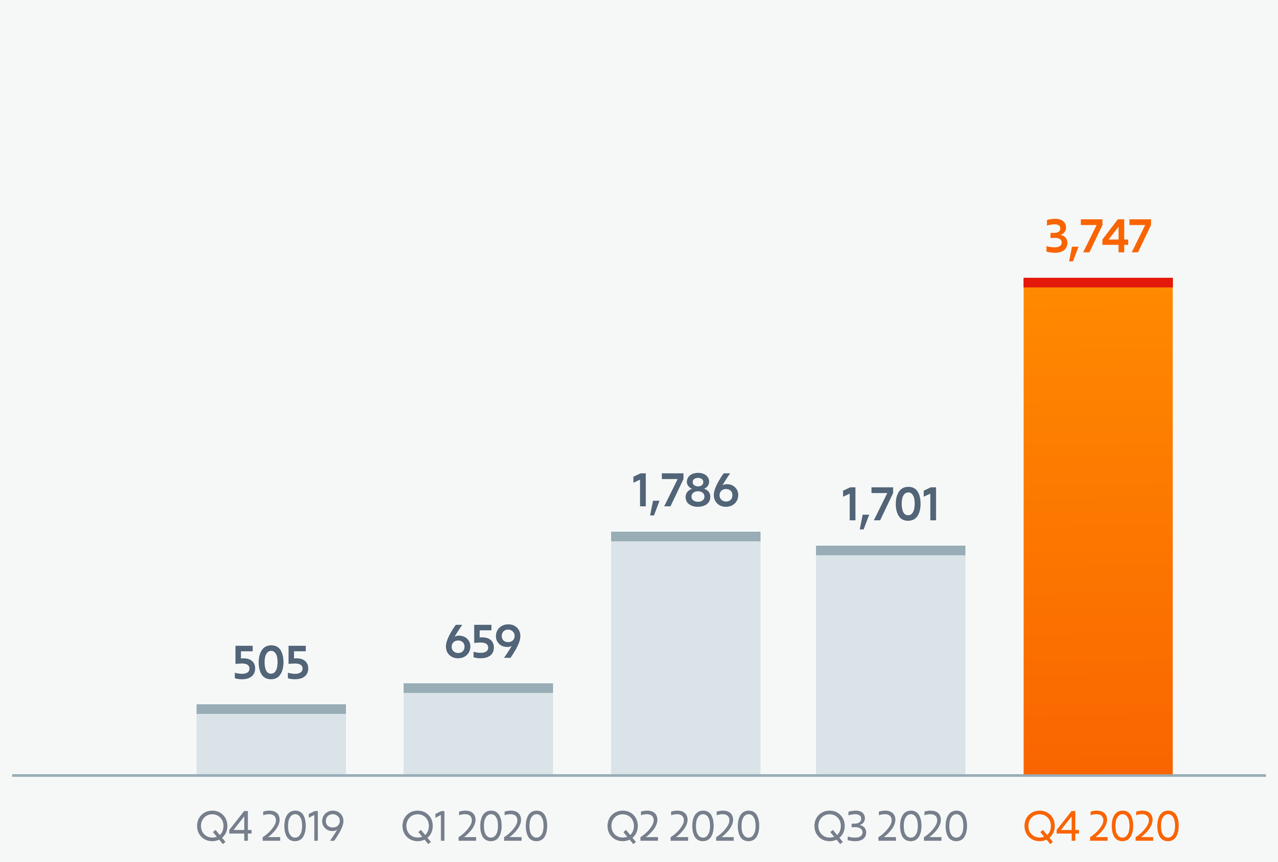
Selling space, thousand sqm



Number of stores

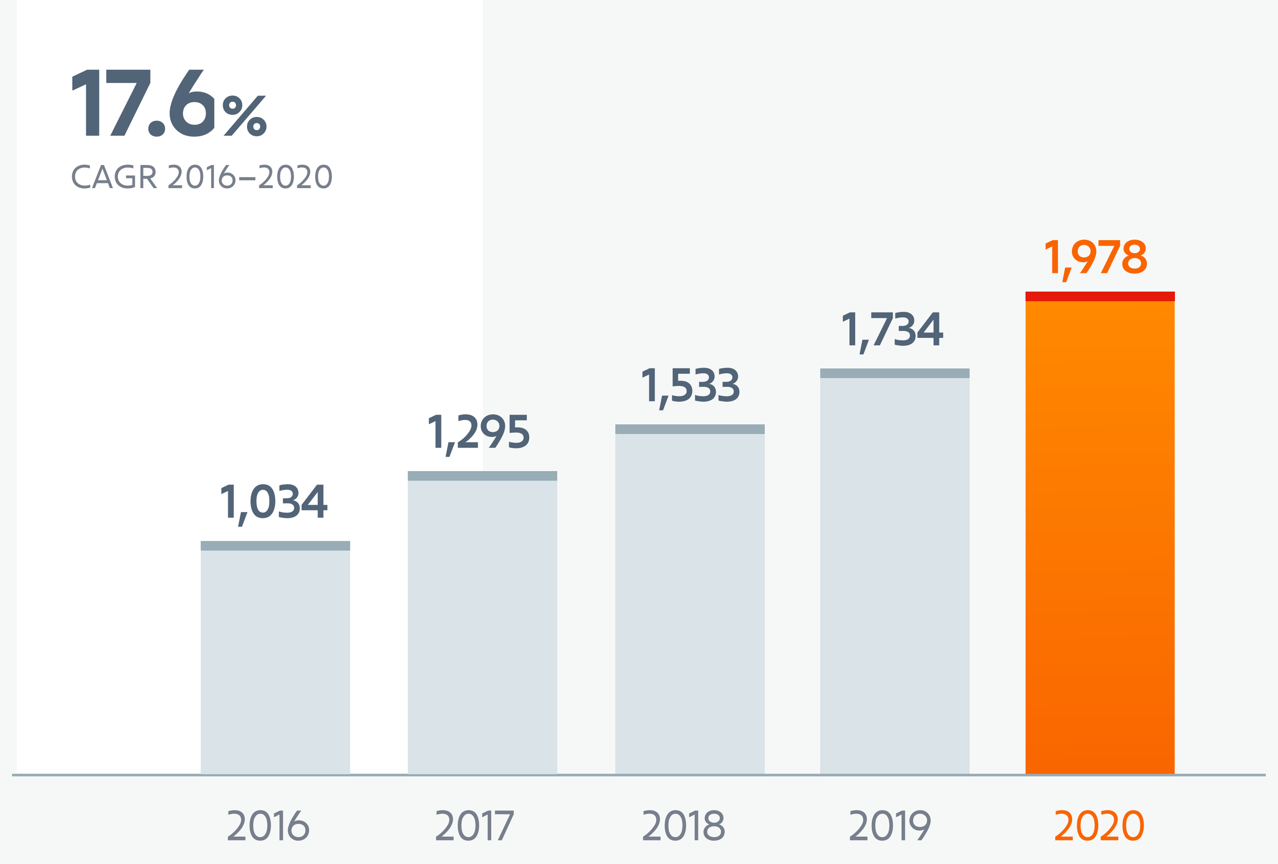


Number of orders in digital businesses

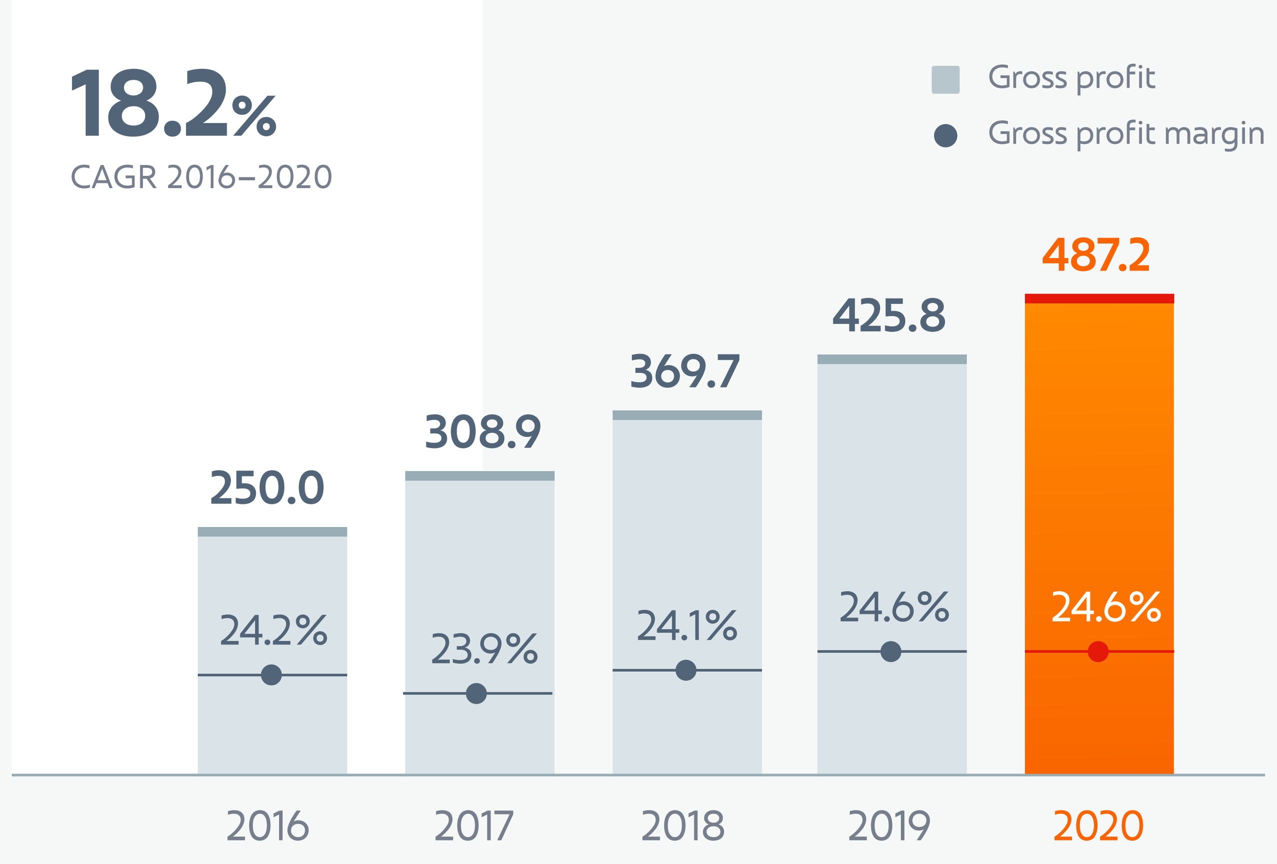


Financial highlights (pre-IFRS 16)

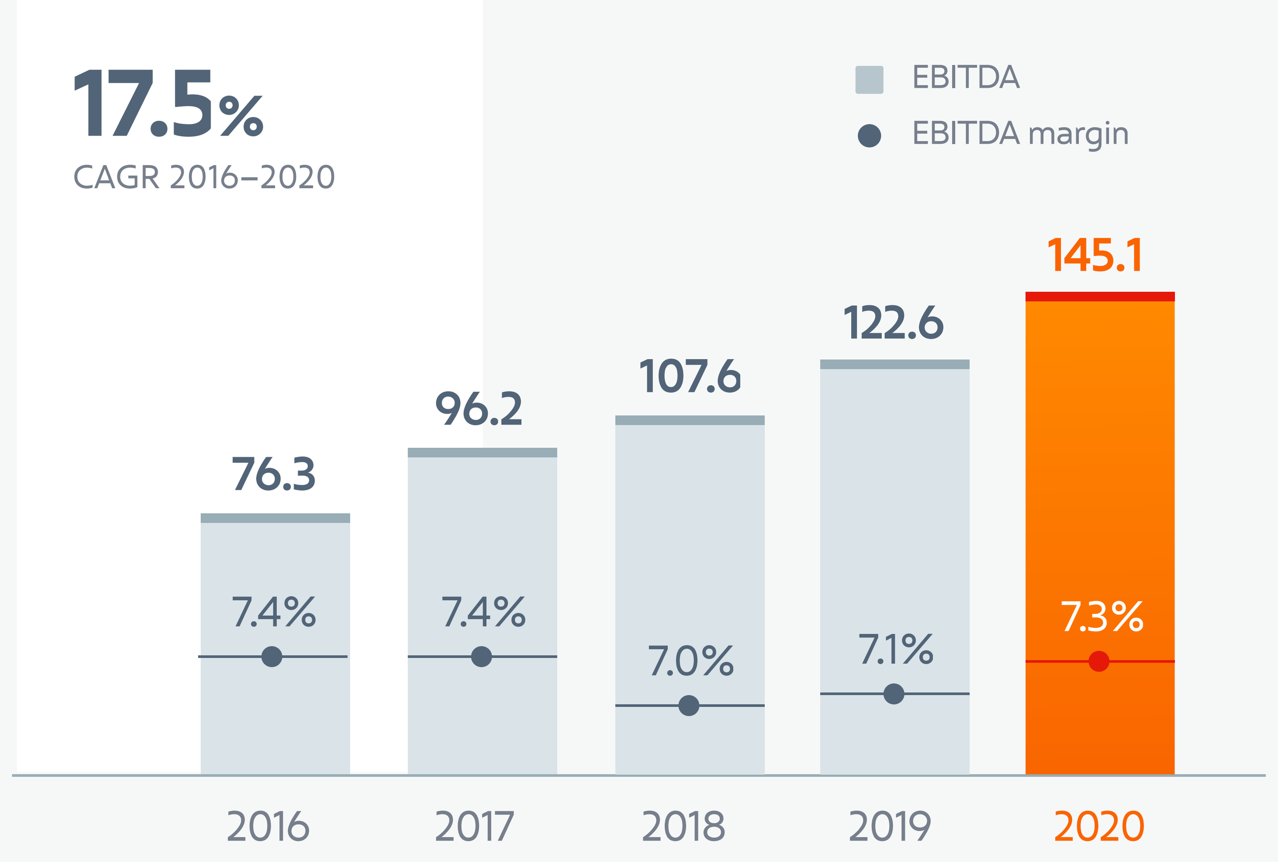
Revenue, RUB bln



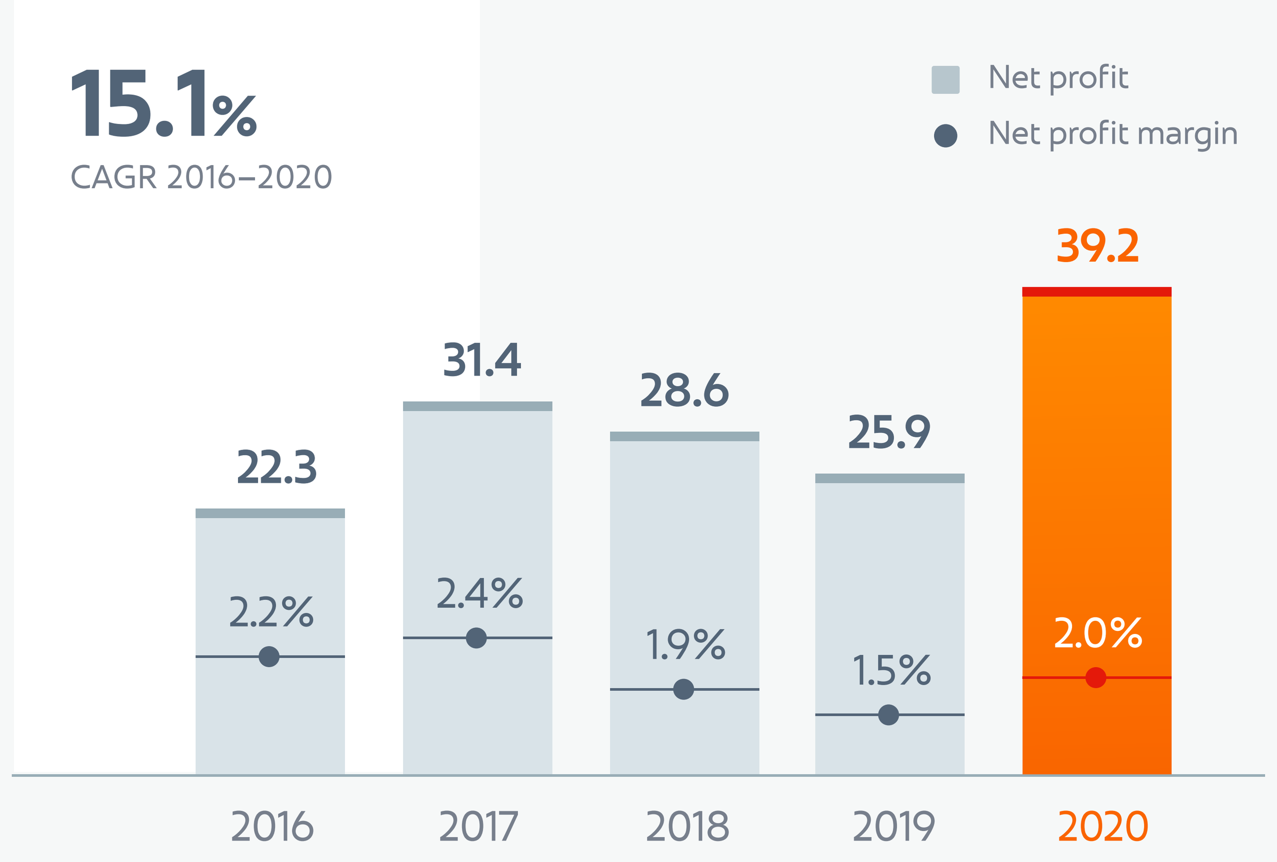
Gross profit, RUB bln



EBITDA, RUB bln



Net profit, RUB bln



Chairman's statement

Dear stakeholders,

2020 was a turbulent year, as the COVID-19 pandemic presented significant challenges to society and business alike. It impacted our communities, employees, customers and their families.

I would like, first of all, to thank our employees across all our businesses and support offices for their outstanding service during this crisis. Their agility and dedication ensured the safety of our stores and distribution centres, sustained the strength of our supply chains and helped nourish families and local communities.

I am proud to say that the engagement and strong execution by our teams translated the unprecedented demands we faced due to COVID-19 into outstanding results.

Stephan DuCharme
CHAIRMAN OF THE SUPERVISORY BOARD

Chairman's statement

Of course, COVID-19 imposed itself on many well-laid plans for 2020, and in this X5 was no exception. We have, however, worked hard for years to ensure that we have the necessary business processes in place to handle any instances of turbulence, and last year we were able to put our business processes and contingency plans to use. As such, we were able to meet the challenges 2020 threw at us with relative ease, building our business while investing in a digital transformation set to shape the future of retail by enabling consumers to rely more heavily on online services and removing the borders between food retail and other parts of the food market.

In this context, our digital businesses excelled in particular, growing by 362.2% year-on-year as we met consumer demand by expanding the Perekrestok Vprok hypermarket, our express delivery services from stores as well as our 5Post last-mile delivery service. We believe that all of these successes are due, in large part, to our focus on building a business that is able to keep up with rapidly changing customer demand.

With strong growth in our digital businesses and solid performance by our offline formats, we maintained profitability in line with our strategic targets in 2020. Revenue rose by 14.1% year-on-year, and our EBITDA margin was 7.3% under pre-IFRS 16 for FY 2020. In December, we distributed our first interim dividend based on a new dividend policy that allows for biannual dividend distributions going forward. Together with the proposed dividend of RUB 110.49 per GDR, if approved by the General Meeting of Shareholders in May, this will lead to a total dividend for the year of RUB 184.13 per GDR.

I am pleased to say that X5's performance in 2020 demonstrated our success in building a customer-focused business. By processing and reviewing over 120 million customer ratings, we allowed our customers to participate in how we select and manage our assortment. Meanwhile we sought to address customer needs by piloting new store formats and value propositions, ranging from the cutting-edge innovations offered by the Pyaterochka #naletu cashierless stores to Chizhik hard discounters that offer reliable quality at low prices.

Our Pyaterochka and Perekrestok brands continued to increase the number of stores operating under their new concepts, and both saw a great response from customers. This is reflected in the growing customer satisfaction ratings of both formats, as well as the higher like-for-like sales and EBITDA performance of new stores. In light of the COVID-19 pandemic, we prioritised health and safety to protect our customers and employees, and we expanded our digital businesses to enable customers to stay at home while shopping with X5.

X5's strategy to focus on strengthening the existing business while simultaneously preparing for the future was reflected in our response to the rapid shift towards online and the crumbling barriers between different segments of the food market. We continued to invest in our digital and omnichannel ambitions, and we plan on expanding the X5 platform through a range of innovative services at all stages of the customer journey, from aggregators and an FMCG marketplace, to complementary offerings like subscription and payment services.

Sustainability has become a strategic imperative for us as we seek to support global endeavours to address climate change. In 2020, as part of our "30×30" sustainable development plan, the Board approved specific medium- and long-term goals that reflect our aspiration to contribute to the UN Sustainable Development Goals where we can have the most impact. These goals are being integrated into business practices, as we prioritise areas like introducing sustainable packaging to reduce waste, reducing greenhouse gas emissions and improving energy efficiency, as well as caring for communities where we operate. In 2020, we were able to adapt our Basket of Kindness programme to focus on online food drives, helping to support our local communities during the pandemic. Our Smart Kitchen, which produces ready-to-eat food for our stores, provided free high-quality meals to medical staff in and around Moscow while working hard to treat coronavirus patients. Recognising environmental, social and governance responsibilities as a licence to operate from society, the Board committed to strengthening its impact on our strategic priorities going forward.

I also want to take this opportunity to recognise our management team, who played an important role in achieving success in the exceptional year that is now behind us. For many years, we have been building a leadership culture at X5 that features strong, motivated leaders who work together to achieve the Company's annual objectives in a way that promotes, in a sustainable manner, X5's long-term strategy and supports all of the Company's stakeholders. Over the course of 2020, the management team took on COVID-19 challenges adeptly, including taking advantage of the Company's robust infrastructure to rapidly enable office staff to work from home while maintaining the integrity and security of our IT systems. At the same time, the management team successfully led X5 through the acceleration phase of our digital transformation and the rollout of new, industry-leading customer value propositions for our retail formats. All of these actions clearly deserve high praise.

Looking at our corporate governance more broadly, I am proud that this year we were recognised with an award for Best Corporate Governance by East Capital, a well-established investor in leading Russian companies. We continue to seek ways to improve and enhance our corporate governance standards in line with international best practices and the evolving needs of the Company and of society. The Board constantly evaluates its composition and profile to make sure it has the right mix of skills, experiences and backgrounds to provide strategic guidance to management in all key activities of the Company, while monitoring performance across strategic, financial, operational and ESG targets.

While it has been a year of challenges, looking back at 2020 I am extremely pleased to say that X5 has shown all of us that we have the right strategy and the right team in place to succeed in the years ahead. It is against this successful backdrop that, after more than five years, I have decided that this is the right moment to step down as Chairman of X5 Retail Group in favour of Petr Demchenkov, our current Vice Chairman. Meanwhile, as it will be my pleasure to continue serving on the Board, I am eligible for re-appointment at the upcoming General Meeting of Shareholders.

Business model

Our business model covers a wide range of functions that are essential to supporting our sustainable and profitable operations.

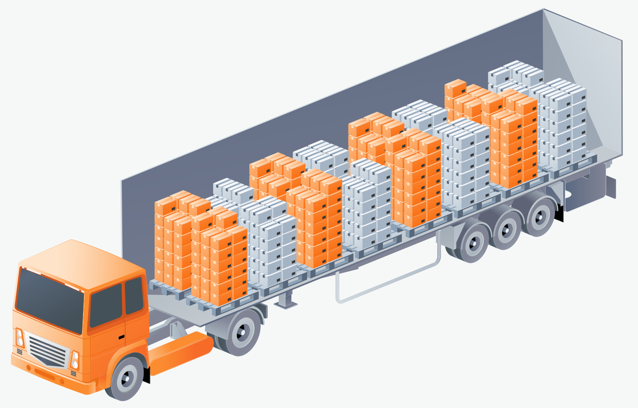
In a highly competitive and fast-changing sector like food retail, we must leverage efficiencies generated by the scale of our business while also remaining nimble and able to adapt as the competitive landscape and consumer preferences change.

We create value by putting the customer at the centre of our decisions when we focus on the expansion of our store and logistics networks, the CVP of our offline retail formats, our omnichannel offer, efficiency, innovation and sustainability.

It is this commitment to customer-centricity that helps us to create value for our stakeholders – from customers to employees, local communities, suppliers and ultimately shareholders.

Our operating and management model is decentralised by retail format and between offline and online. All businesses have a high degree of operational independence, their own marketing and loyalty programmes, but a unified customer ID (X5.ID), big data and IT infrastructure. All operations are run based on SAP ERP.

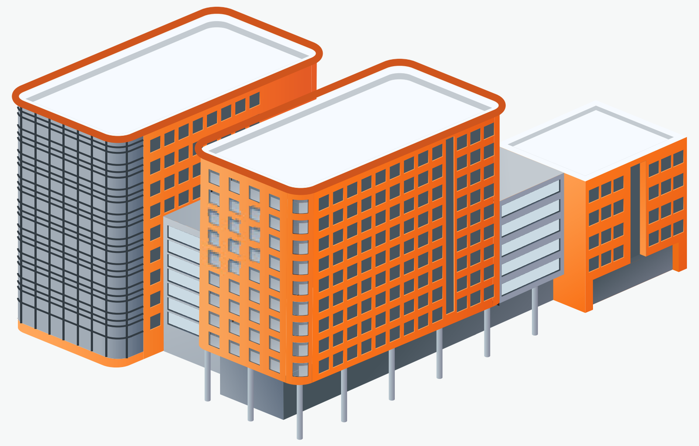
We handle our logistics in-house with the level of centralised deliveries to stores (from Company-operated distribution centres) at 95% in 2020.



Suppliers

6,316
Suppliers

30.2%
share of top 30 suppliers in revenue



Corporate Centre

The Corporate Centre is responsible for maintaining key shared business infrastructure like IT systems, innovation and big data functions, logistics management, internal controls, as well as corporate finance, risk management and reporting. Overall strategic guidance and best practice sharing is also handled by the Corporate Centre.

Offline businesses

17,707 STORES
12.8% MARKET SHARE IN FOOD RETAIL
66 REGIONS

Supply chain infrastructure

4
Direct import hubs

4,055
Company-owned trucks

45
distribution centres to support offline stores

Offline retail formats

16,709
Pyaterochka proximity stores in 66 regions in the mass-market price segment

933
Perekrestok supermarkets in 45 regions in the upper-middle price segment

56
Karusel hyper-markets (currently undergoing transformation) in the mass-market price segment

4
Chizhik hard discounters (in pilot) in the Moscow region in the low price segment

Digital businesses

362% TOTAL DIGITAL SALES GROWTH YEAR-ON-YEAR
12.6% MARKET SHARE IN E-GROCERY BY GMV

Perekrestok Vprok

12
Regions

5
Darkstores

550
light trucks

208%
Perekrestok Vprok total sales growth year-on-year

Express delivery, incl. Okolo

13
Regions

8
Darkstores

Express delivery from Pyaterochka and Perekrestok handled an average of 26,600 orders per day in Q4 2020, up from 745 in Q1 2020

Available from 992 stores
594 Pyaterochka, 398 Perekrestok

5Post e-commerce delivery

65
Regions

11,937
Pick-up points

4,518
Parcel lockers

6.8 MLN
deliveries to pick-up points and parcel lockers in Pyaterochka stores during 2020

Our formats

Russia's food market is changing, and we seek to be at the forefront of these changes while capturing growth opportunities in the most attractive segments in the market.

In recent years, we have taken the strategic decision to transform the offline hypermarket business, while significantly increasing our focus on the development of digital businesses.

We are actively developing two offline formats: Pyaterochka proximity stores and Perekrestok supermarkets. We also piloted the first four Chizhik hard discounter stores in 2020, with encouraging preliminary results. In addition, in 2020 our digital businesses were separated into distinct business units in order to enable us to better focus on their development and performance in the years ahead.

Pyaterochka
16,709
Proximity stores

Perekrestok Vprok
Online hypermarket

Perekrestok
933
Supermarkets

Express delivery

5Post
Last-mile delivery service

Chizhik
4
Hard discounter stores*

* Pilot project

Our formats

Pyaterochka

PROXIMITY STORES

16,709
Number of stores

6,542 THS SQM
Selling space

1,597 RUB BLN
Net retail sales

81%
Share of X5's net retail sales

Pyaterochka was founded in 1999 and is Russia's largest and most popular food retailer, with a network of 16,709 stores spanning 66 regions. The format's core mission is to be the most trusted source for affordable and high-quality food, while providing a convenient and comfortable shopping experience. In addition to rolling out a new store concept, Pyaterochka is piloting innovative new shopping formats like the Pyaterochka #naletu cashierless store. Pyaterochka had 37.7 million loyal customers in 2020 and serviced on average 12.7 million customers on a daily basis.

Perekrestok

SUPERMARKETS

933
Number of stores

1,014 THS SQM
Selling space

320 RUB BLN
Net retail sales

16%
Share of X5's net retail sales

Perekrestok is Russia's oldest supermarket chain, established in 1995. Today, it is the largest supermarket business in Russia by number of stores and revenue. Following a careful and detailed analysis of customer preferences, the format adopted a new concept that is being used for all new stores and rolled out to existing stores as well. Thanks to innovative solutions such as AI-powered video monitoring of queues, shelf availability and fresh fruits and vegetables, we have been able to further improve the customer experience while also sustaining operational efficiency. Perekrestok had 8.1 million loyal customers in 2020 and serviced on average 1.5 million customers on a daily basis.

Karusel

HYPERMARKETS*

56
Number of stores

222 THS SQM
Selling space

56 RUB BLN
Net retail sales

3%
Share of X5's net retail sales

Karusel, established in 2004, operates compact hypermarkets that are usually within city limits. With the development of e-commerce businesses in Russia, much of hypermarkets' non-food space has become obsolete, and customers are opting to do more of their food shopping locally. In 2019, X5 Retail Group decided to downsize the format by closing and/or transferring suitable stores to Perekrestok management.

Source: X5 data, Rosstat, Infoline

* Undergoing transformation

Our formats

Digital businesses

1%
Share of X5's total sales

20 RUB BLN
Total sales

X5's digital businesses have developed rapidly as part of our digital transformation strategy. Due to their success, we have created separate business units within X5 that will focus on the further development of 5Post parcel delivery operations, the Perekrestok Vprok hypermarket that we will reposition to an FMCG marketplace, as well as express delivery from offline stores and our Okolo delivery aggregator.

Perekrestok Vprok

ONLINE HYPERMARKET

0.7%	5	13,271 RUB MLN
Share in X5 sales	Number of darkstores	Sales

Perekrestok Vprok is an online hypermarket that was launched as Perekrestok Online in 2017. It aims to address demand from customers looking to stock up on groceries and FMCG, with the convenience of delivery to their door. Today, the online hypermarket offers customers same-day or next-day delivery, which is free of charge in 95% of orders thanks to the high average check, with a wide assortment of around 50,000 SKUs in 12 regions of Russia.

Express delivery

DELIVERY SERVICE

0.3%	992	6,112 RUB MLN
Share in X5 sales	Number of stores available	Sales

Express delivery operations were launched in late 2019. The service offers delivery from local Perekrestok and Pyaterochka stores within 50–60 minutes. Express delivery is a cross-format project that utilises a common digital platform: the formats are responsible for assortment and in-store staff to pick orders, which are then delivered by a third-party courier. The service had a fixed delivery cost of RUB 99 per order in 2020.

5Post

LAST-MILE DELIVERY SERVICE

11,937	4,518	683 RUB MLN
Pick-up points	Parcel lockers	Sales

5Post is a last-mile delivery service established in 2019 that enables e-commerce providers and other X5 digital businesses to deliver goods to parcel lockers, tobacco sales desks and/or pickup points located at X5 stores.

Source: X5 data, Infoline

Russia's food retail market

Russian food retail – quick facts

Russia's food retail market is attractive due to its large size and considerable opportunities for growth and market consolidation for major players like X5

32%
Share of top 5 players

37%
Share of top 10 players

16.4 RUB TRN
Total market size
1.8% y-o-y growth in nominal terms (of wich 3.9% is food inflation), incl. VAT

155 RUB BLN
Russian e-grocery market, incl. VAT

260%
Russian e-grocery market growth in 2020

X5's market position – quick facts

Due to a combination of popular offline formats and the development of our own online sales channels, we are among the best-positioned retailers to capture growth from numerous sources, ranging from overall market expansion to consolidation of market shares and the rapid development of digital services.

#1
Player in Russian food retail

#1
In Russian e-grocery

50–60%
Of new openings are replacements of existing players

12.8%
Market share in 2020
1.3 p.p. gain from 2019

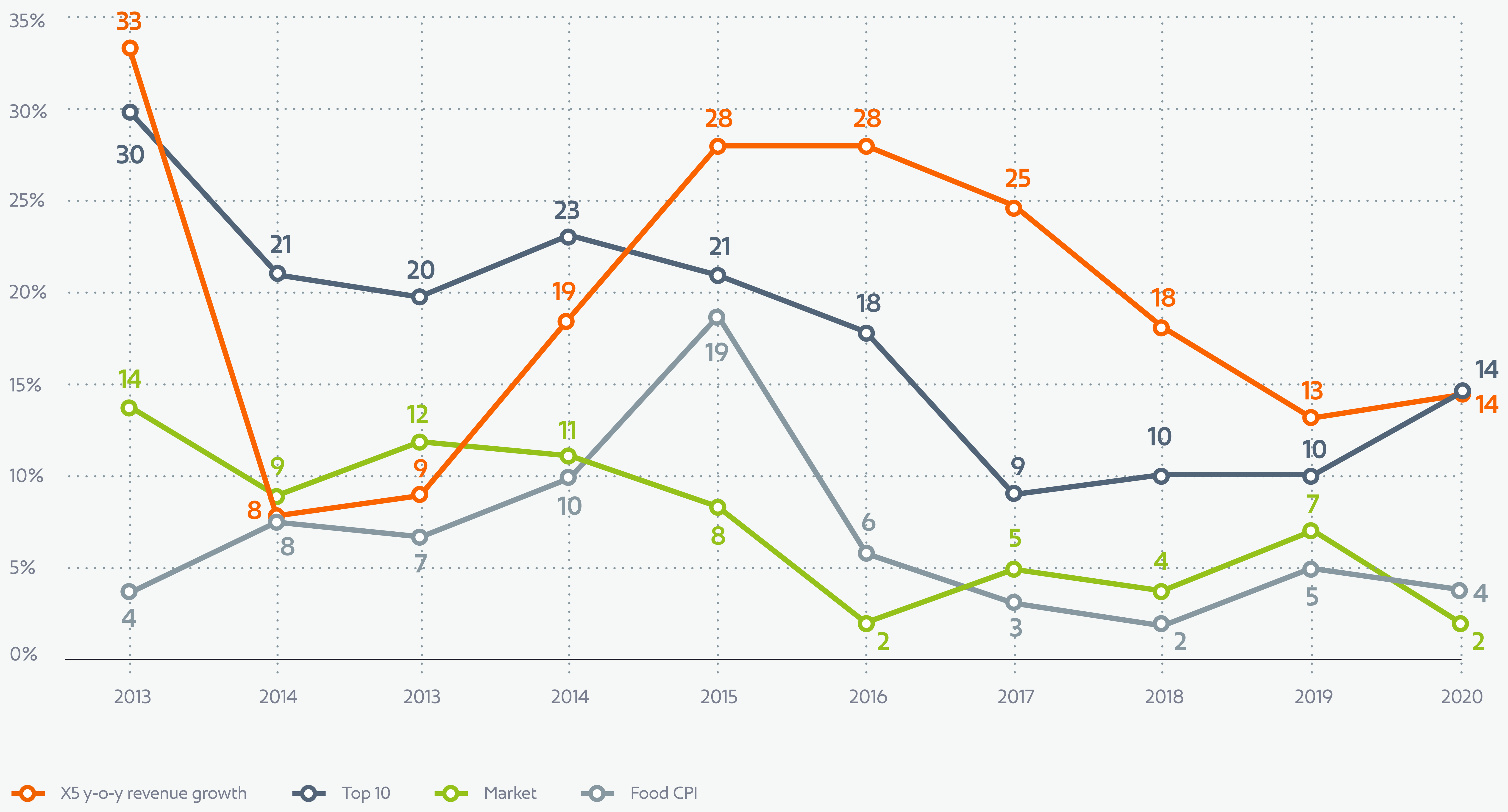
362%
X5 total online sales growth

Russia's food retail market

Competitive landscape

Since 2015, we have consistently grown our business faster than both the overall offline retail market and the 10 largest market players. While sustaining a faster pace of expansion, we have increased our focus on quality by pursuing a strategy of intelligent growth that prioritises efficiency and long-term profitability over market share gains.

This approach has enabled X5 Retail Group to maintain healthy margins while continuing to strengthen its position as the #1 player in Russian food retail, both online and offline



Notes: market share based only on food and beverage sales

Source: Rosstat, Infoline, X5 analysis

Top 10 Russian food retailers, % market share

#		2020	2019
1	X5 Retail Group	12.8%	11.5%
2	Magnit	8.8%	7.6%
3	DKBR**	6.6%	5.7%
4	Lenta	2.7%	2.5%
5	Auchan	1.5%	1.5%
6	Svetofor	1.3%	0.7%
7	Metro	1.2%	1.1%
8	O'Key	1.1%	1.0%
9	Monetka	0.8%	0.7%
10	Vkusvill	0.8%	0.6%
	TOTAL TOP 10	37.4%	32.9%

Top 10 Russian online food retailers, % market share

#		2020	2019
1	X5 Retail Group	12.6%	10.2%
2	Sbermarket	11.2%	3.7%
3	VkusVill	9.4%	0.5%
4	Wildberries	9.0%	4.7%
5	Utkonos	9.0%	19.5%
6	Ozon.ru and Ozon Supermarket	8.1%	12.8%
7	YandexLavka	6.7%	0.7%
8	Samokat	5.8%	0.9%
9	iGooods	4.3%	5.3%
10	Azbuka Vkusa	2.3%	4.0%

** In January 2019, Dixy group merged with Red and White and Bristol

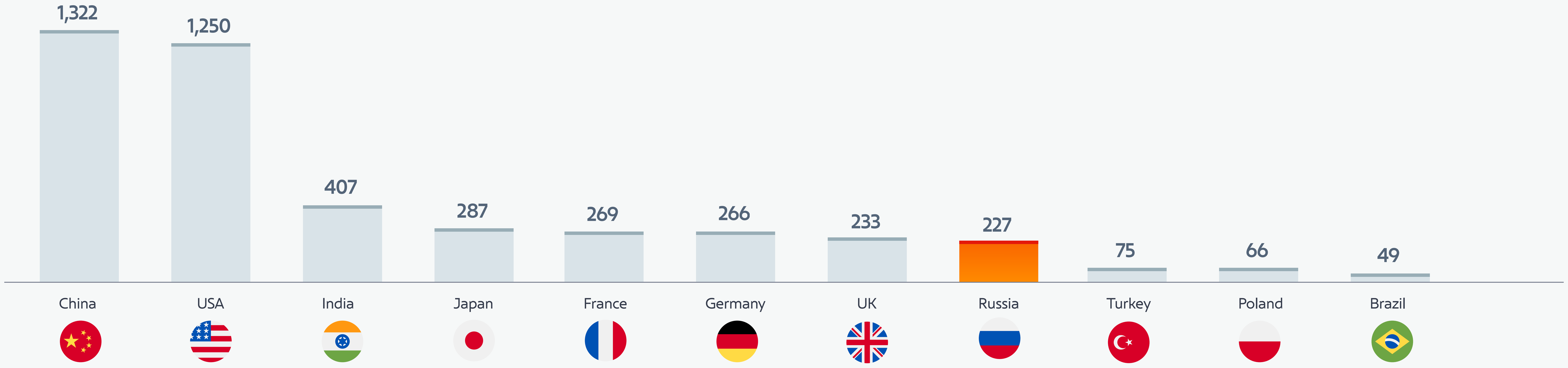
Source: Infoline

Russia's food retail market

Russia is the eighth-largest food retail market in the world, according to Euromonitor, but has substantially less selling space per capita than key developed markets.

Russian food retail in the global context

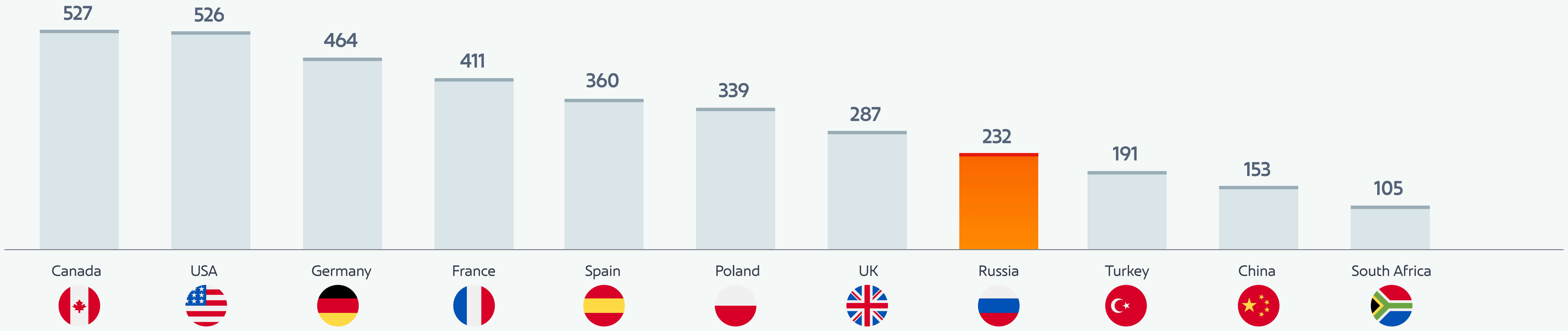
Grocery retail market size globally in 2020, USD BLN



Source: Euromonitor

CAGR 2010–2020	China	USA	India	Japan	France	Germany	UK	Russia	Turkey	Poland	Brazil
	3.8%	3.2%	10.3%	(1.5)%	0.2%	0.5%	0.4%	(1.5)%	(5.6)%	1.5%	(6.6)%

Modern grocery retail selling space per thousand people in 2020, sqm

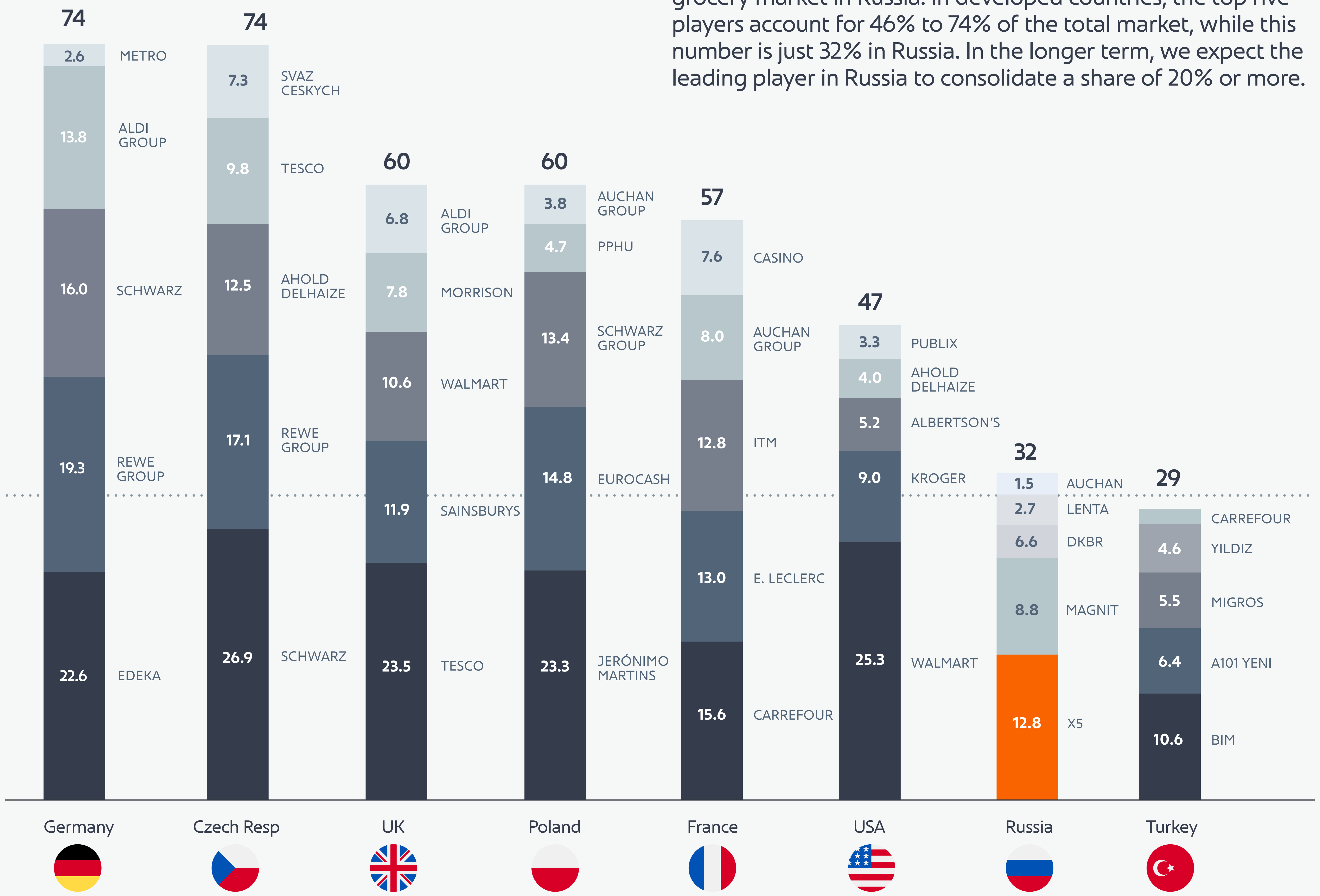


Source: Euromonitor
Note: All number are excluding VAT/sales tax

Russia's food retail market

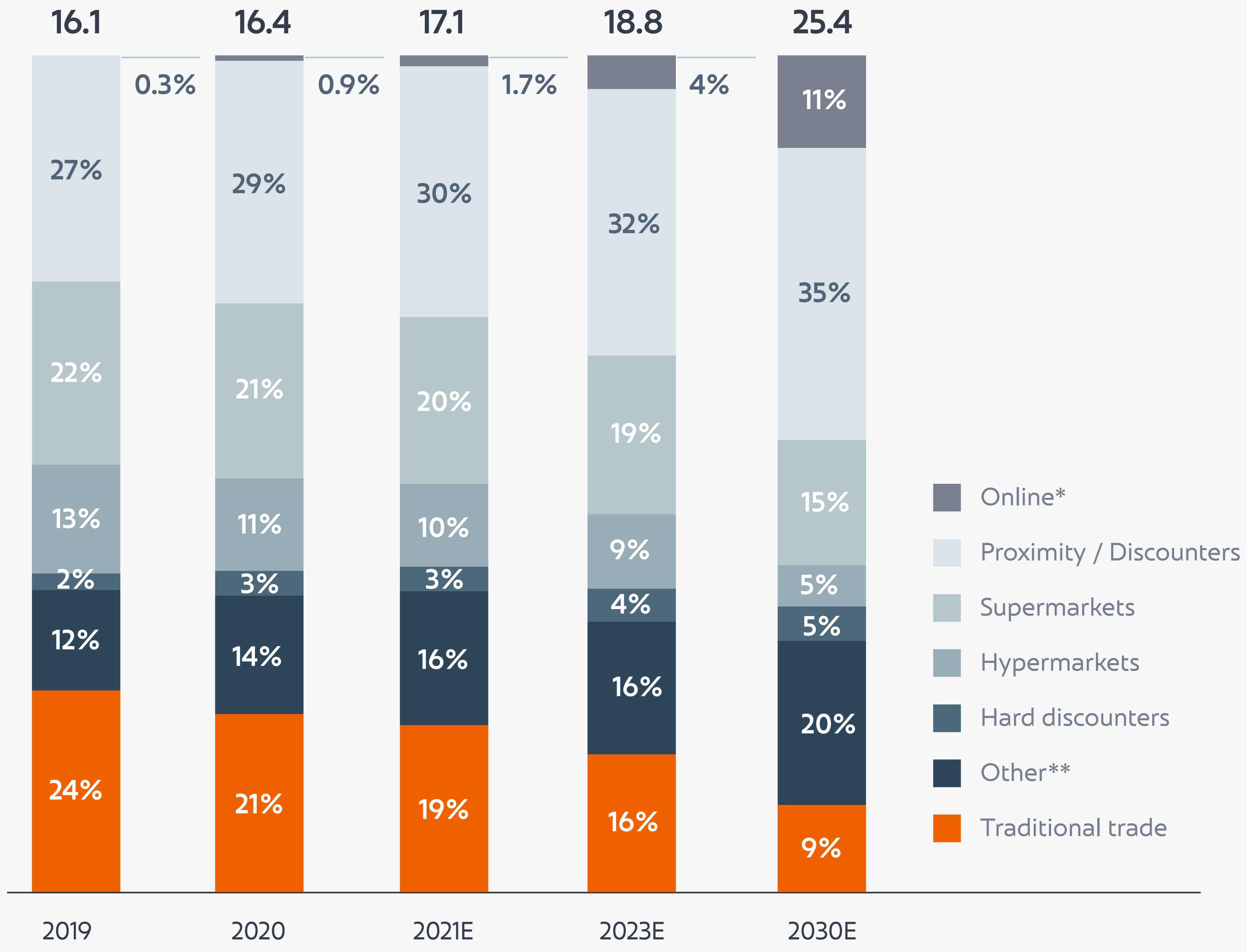
Share of top-5 grocery retailers globally in 2020, %

We believe that one of the key sources of growth for sector leaders like X5 Retail Group will be consolidation within the grocery market in Russia. In developed countries, the top five players account for 46% to 74% of the total market, while this number is just 32% in Russia. In the longer term, we expect the leading player in Russia to consolidate a share of 20% or more.



Food retail market turnover, RUB TRN

In the Russian market, for historical reasons, the two largest players have dominated the proximity segment. This has slowed the development of a hard discounter model in the Russian market. But as consumer incomes have remained under pressure for several years, the hard discounter segment has started to grow, and in 2020 both X5 Retail Group and Magnit announced their plans to develop this format within their retail portfolio.



* Estimates for online format include online stores and delivery services

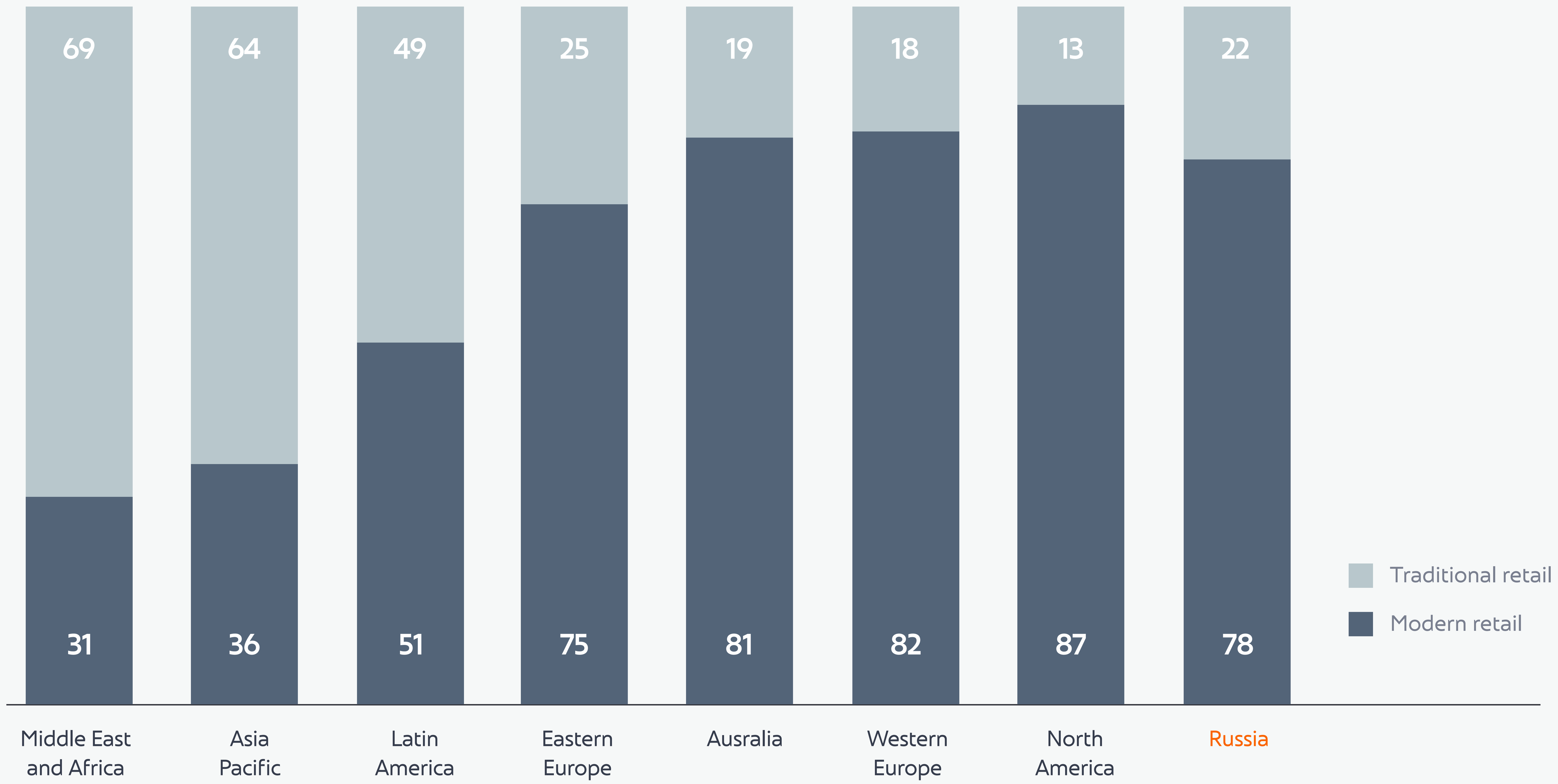
** Including formats: specialised stores, gas stations, dollar stores, etc.

Russia's food retail market

Traditional vs. Modern retail across key world regions in 2020, %

Market consolidation is already underway in Russian food retail. For X5 Retail Group, this means that around 50% of our new openings are actually replacing existing players.

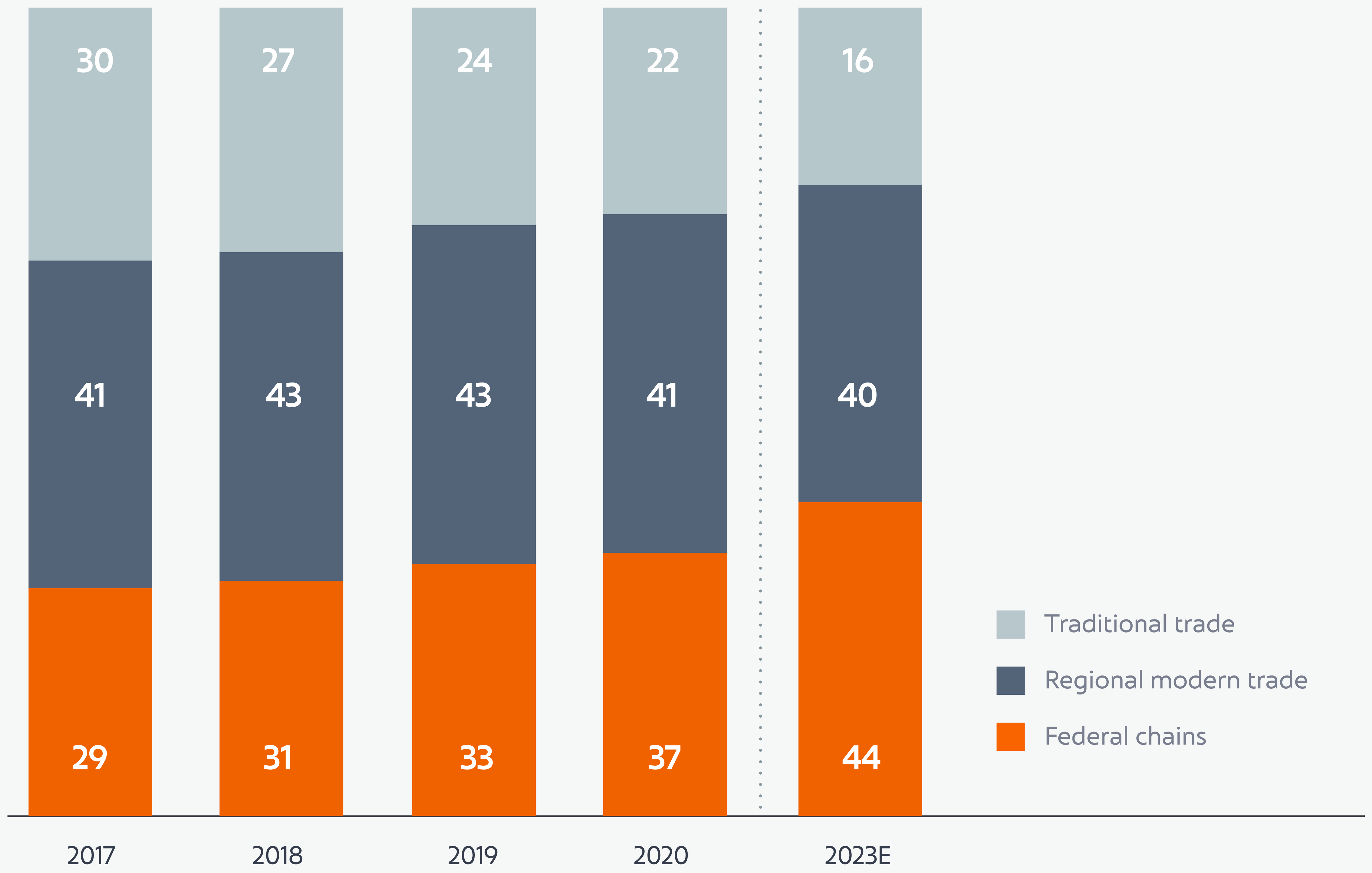
Instigated by the COVID-19 pandemic and stronger consumer demand for the proximity format, X5 increased its market share at a faster pace in 2020 compared with previous years, and our market share expanded by 1.5 p.p. While we act as a consolidator and grow our share of the market, we also expect overall Russian food retail to continue to grow with a CAGR of 5% in 2021–2023.



Source: Euromonitor, Infoline for Russia

Russian food retail market development, %

Another driver of growth for Russian food retail will be the continued shift to modern retail and the growing role of federal players like X5 Retail Group. While federal players have a 37% share of the market today, this is expected to rise to 44% by 2023.



Source: Infoline

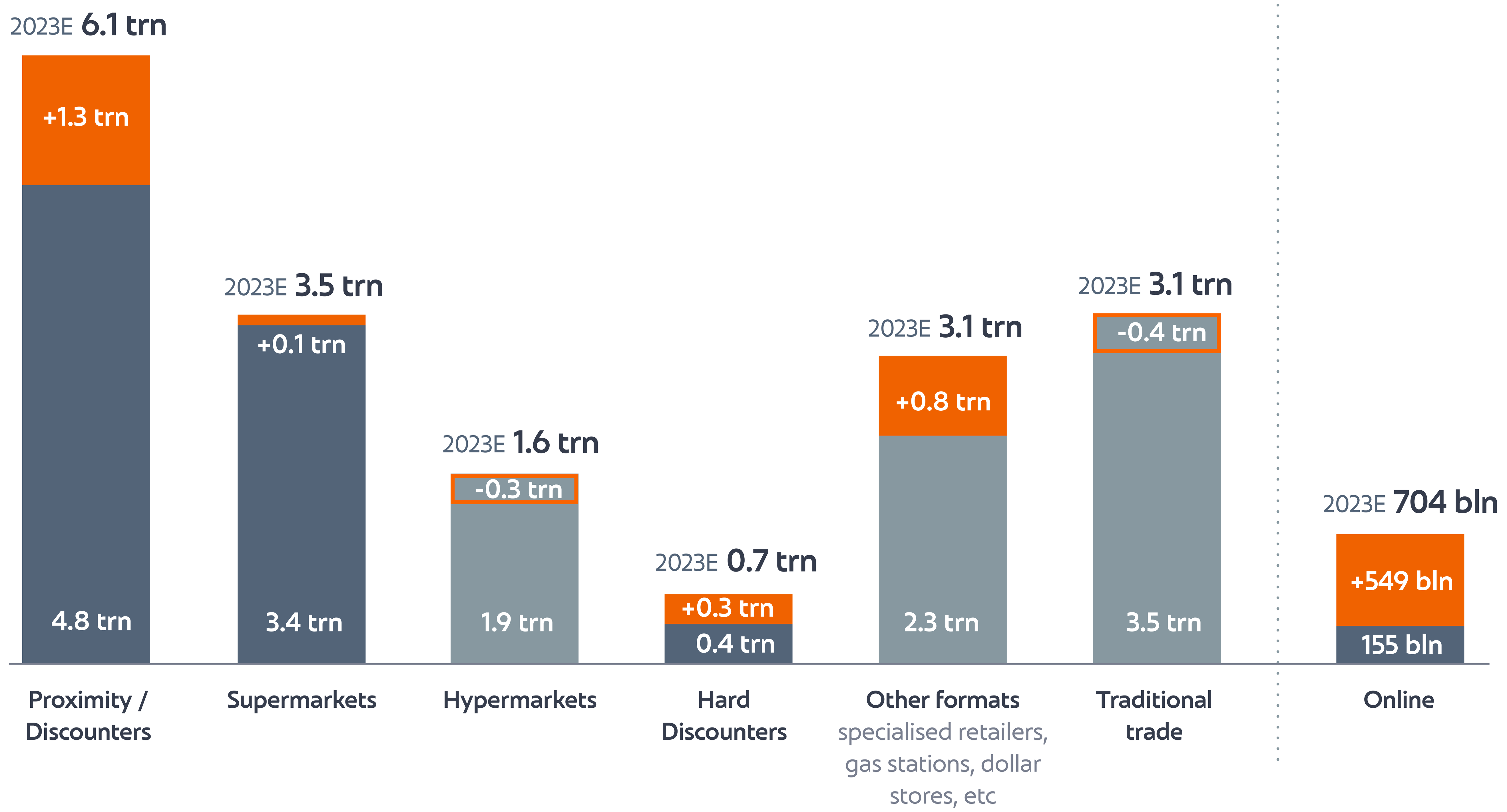
Russia's food retail market

Accelerating shift to digital

The Russian food retail market, including e-grocery, is forecast to grow by nearly RUB 2 trillion over the next three years, reaching RUB 18.8 trillion by 2023, according to Infoline.

Our business model enables us to focus on the largest and most promising segments of the Russian food market: offline food retail and e-grocery via Perekrestok Vprok and express delivery from X5 stores, as well as the online ready-to-eat segment via the Okolo delivery service developed by X5.

Our Pyaterochka proximity stores and Perekrestok supermarkets are the leaders in their respective segments. We also established X5 as the #1 player in online grocery in 2020, and we are piloting a hard discount format, Chizhik.

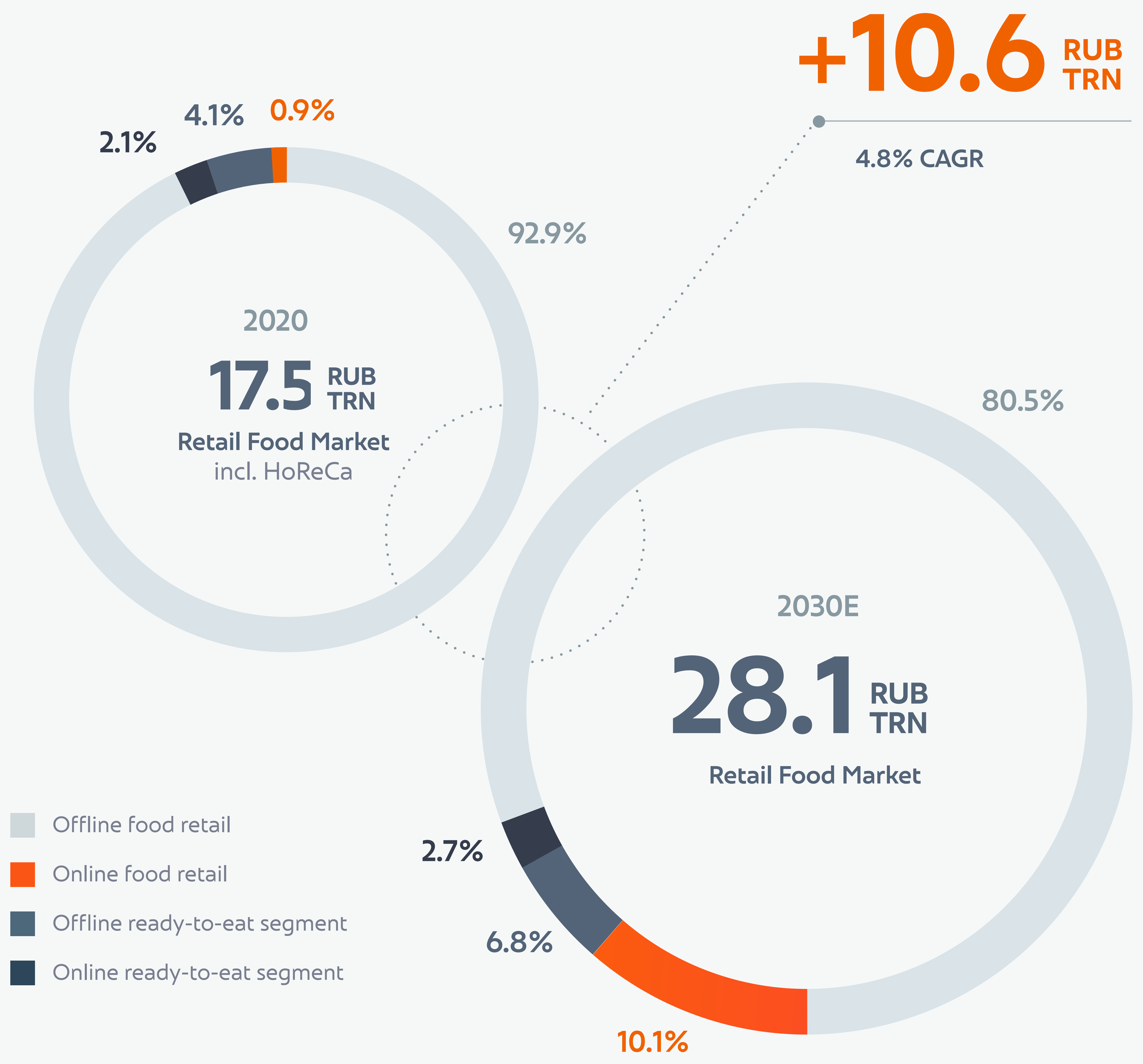


Source: Infoline

Evolution of Russia's food market

In addition to the growth of online, ready-to-eat (or HoReCa) is another food market segment that is expected to grow in the years ahead.

It is estimated, however, that it might take up to three years for the HoReCa segment to recover to pre-COVID levels. In 2020, the share of HoReCa in total food spending declined from 9.3% in 2019 to 6.2%.



Source: Infoline

Russia's food retail market

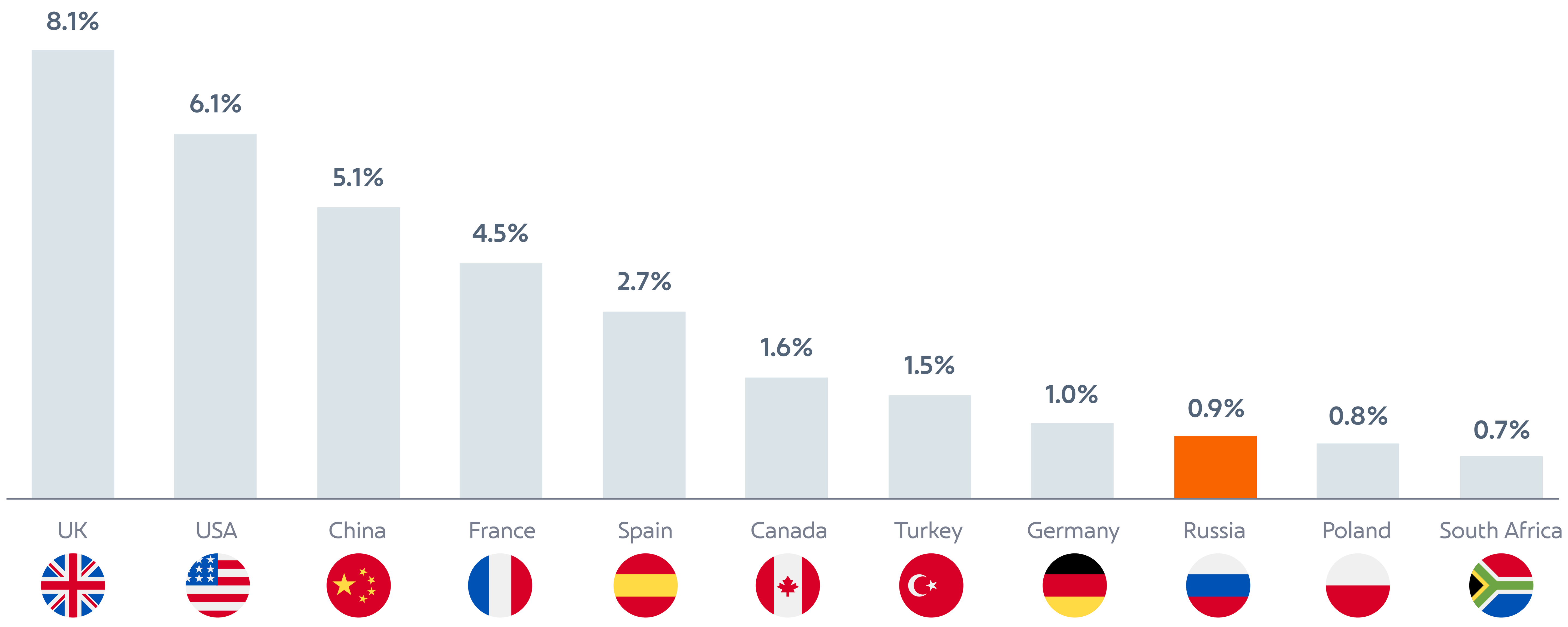
Accelerating shift to digital

One of our top priorities in 2020 was the accelerated development of our digital businesses. While X5 had invested in IT infrastructure and launched or piloted a number of digital businesses in previous years in line with our digital transformation strategy, 2020 was a game changer for this segment.

The COVID-19 pandemic in 2020 massively accelerated consumers' adoption of and demand for digital services across many sectors of the economy.

We were the #1 online food retailer in Russia in 2020. The e-grocery market grew by 260% in 2020 but still comprised only 1% of the overall food retail market, and we believe that the years ahead hold the potential for its continued rapid expansion.

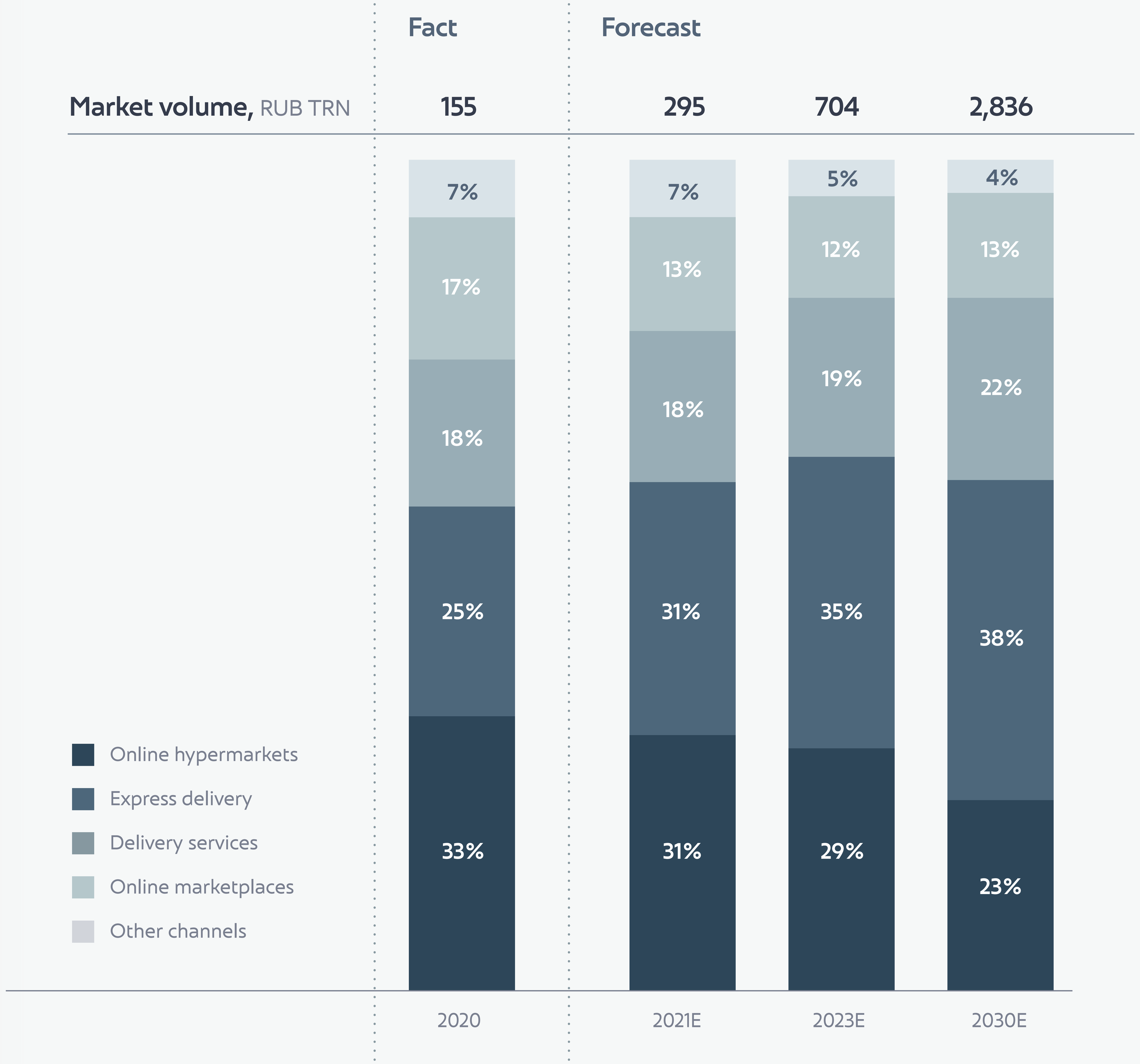
Online sales penetration globally



Source: Euromonitor, Infoline for Russia

E-grocery market 2020–2030

Infoline estimates that online hypermarkets, express delivery and delivery aggregators will be the main e-grocery market segments by 2023.



Source: Euromonitor, Rosstat, Infoline, X5 analysis

Russia's food retail market

Some of the key factors impacting the market and our strategy are shifts in consumer trends in Russia. These trends are blurring the borders between "traditional" modern food retail and the food market more broadly:

Consumer trends

Consumer seeking convenience "here and now"

- Expanded assortment of ready-to-eat and ready-to-cook foods
- Increasing output from Smart Kitchen for stores in and around Moscow
- Created new routes in stores for consumers looking to just grab a bite to eat
- Opened in-store bakeries, coffee and fresh juice stations
- Exploring M&A opportunities in dark kitchens and ready-to-eat providers

Health-conscious consumers

- Increasing assortment of healthy foods, including in private label assortment
- Creating special health food zones in stores to help guests find the assortment they want
- Focus on freshness and sustainable sourcing of products

Consumer searching for impressions

- Rolling out innovative new store concepts that offer cafes and fresh drinks
- Some Perekrestok supermarkets have cooking areas where customers can watch the preparation of their food

Media-savvy consumer

- Established strategic priority of developing X5's own media and content platforms to encourage consumer engagement earlier in their shopping journey for food

Conscientious consumer

- Adopted sustainability strategy and set goals in line with the UN Sustainable Development Goals
- Expanded the use of recycled materials in bags and shopping baskets
- Installed reverse vending machines in stores that offer customers promotions when they bring back packaging to be recycled

Consumers looking for simplicity

- Growing ready-to-cook assortment
- Introducing express scan and self-checkout tills to streamline time spent in stores
- Offering coffee and bakery assortment in new concept Pyaterochka stores as well as Perekrestok supermarkets

Consumer that values safety

- Introduced comprehensive measures to minimise risks related to COVID-19 for customers in stores
- Rapidly rolled out contactless deliveries for online grocery orders from Perekrestok Vprok and express delivery services
- Piloted a cashierless store that minimises customers' contacts by relying on automated systems to detect what the customer has chosen to purchase

Tech-savvy consumer

- Rapidly expanded Perekrestok Vprok and express delivery digital businesses during 2020
- Launched X5.ID single sign-on system that consolidates loyalty programmes and various X5 digital service accounts under one unified ID
- Continued to refine mobile apps in response to customer feedback

Omnichannel consumer

- Offer customers multiple ways to buy their food (in-store, express delivery or online hypermarket)
- Expanded 5Post last-mile delivery service, which enables guests to pick up orders from third-party e-commerce vendors at X5 stores
- Launched Okolo express delivery platform, which will be able to handle deliveries from partner businesses in addition to Pyaterochka and Perekrestok

Ageing consumers

- Offer special discounts for elderly customers to shop in stores during off-peak hours
- Prioritised elderly customers by offering free deliveries from Perekrestok Vprok during the COVID lockdown period in March–June 2020
- Maintain assortment of familiar, high-quality and affordable goods that the older generation expect

Russia's food retail market

Economic and consumer trends

01

The COVID-19 pandemic changed the development vector of the entire global economy in 2020, and Russia was no exception. A sharp decline in the price of oil, which is one of the major revenue sources for the Russian federal budget, combined with the introduction of restrictions on customer mobility (lockdown) and on enterprises and businesses were some of the main factors that influenced key macroeconomic indicators last year.

02

Preliminary estimates by Rosstat, the Russian state statistics agency, show Russian GDP declining in 2020 by 3.1% (World Bank, –4.0%; IMF, –3.6%). It is worth noting that this is significantly less than in many other countries, but meaningful declines have been seen in a number of other socially significant indicators.

03

For example, Q2 2020 saw a record 8% year-on-year decline in real disposable incomes. For FY 2020, this indicator declined by 3.5% year-on-year (the fastest since 2015). Despite the sharp increase in real wages in late 2019 and early 2020 (6.2% in the first quarter), for FY 2020 this indicator rose by only 2.5% year-on-year. Unemployment averaged 5.8% for the year, peaking at a record high 6.4% in August 2020. All these factors, combined with the general macroeconomic environment, had a negative impact on consumer confidence and demand in 2020.

04

The consumer price index (CPI) averaged 3.4% for the year and food inflation was 3.9%. CPI accelerated towards the end of 2020, driven predominantly by food prices, as the food and beverages component accounts for 33% of total CPI. Food inflation peaked at 6.7% year-on-year in December 2020. As a result, prices rose by 4.9% during the year, which exceeded the higher end of expectations that the Central Bank (4.2%) announced at the beginning of 2020.

05

The food retail market also contracted by 2.6% year-on-year in FY 2020 in real terms. In nominal terms, it grew by 1.8%. Total retail trade declined by 0.2% in FY 2020 in nominal terms, with the contraction peaking at –13.1% in Q2 2020.

Selected macroeconomic data

Russian macroeconomic indicators, year-on-year comparison, %	2020					2019				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Real GDP	1.6	(8.0)	(3.4)	(2.6)	**(3.1)**	0.4	1.1	1.5	2.1	**1.3**
RUB/USD exchange rate, weighted average for the period	66.6	72.0	73.6	76.2	**72.3**	65.7	64.5	64.6	63.7	**64.6**
CPI	2.4	3.1	3.6	4.4	**3.4**	5.2	5.0	4.3	3.4	**4.5**
Food inflation	2.0	3.6	4.3	5.8	**3.9**	5.8	5.9	5.0	3.5	**5.1**
Real wage growth	6.2	(0.1)	1.8	2.2	**2.5**	1.3	2.6	3.0	4.6	**2.9**
Real income growth	1.0	(7.9)	(5.3)	(1.7)	**(3.5)**	(2.1)	0.7	2.5	2.5	**0.9**
Unemployment rate	4.7	6.0	6.3	6.0	**5.8**	4.8	4.5	4.4	4.6	**4.6**
Retail turnover, nominal	7.0	(13.1)	2.5	2.6	**(0.2)**	8.0	7.1	5.6	5.6	**6.5**
Food retail turnover, nominal	6.4	(3.3)	1.8	2.3	**1.8**	8.1	8.1	6.6	5.8	**7.1**

Russia's food retail market

Legislative changes

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
New mandatory requirement: provide receipt for the sale of labelled products	The order establishes an additional mandatory requirement whereby a receipt (product code) must be provided for the sale of labelled products (tobacco, shoes, etc.) For more details, see Order of the Federal Tax Service of Russia No. MMB-7-20/434 of 29 August 2019	1 March 2020
Tougher criminal penalties for violation of public health rules	Tougher penalties have been introduced for violations of public health rules that cause, through negligence, widespread illness or poisoning: • a fine of from RUB 500 thousand to RUB 700 thousand or equivalent to the guilty party's wages or other income for a period of from one year to 18 months; • imprisonment for up to two years and other penalties. For more details, see Federal Law No. 100-FZ of 1 April 2020	1 April 2020
Increase in administrative fines for violations of public health rules and for failure to comply with the rules of conduct during a period of high alert	Increased administrative fines: • for violations of public health rules during a period of high alert, when there is a threat of the spread of a disease that is dangerous to others, or during a period of restrictive measures (quarantine) (Art. 6.3 of the Code of Administrative Offences of the Russian Federation) • for failure to comply with the rules of conduct when a territory where there is a threat of emergency is on high alert, or in a zone of emergency For more details, see Federal Law No. 99-FZ of 1 April 2020	1 April 2020

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
Regional authorities may establish rules of conduct for citizens during a period of high alert or in emergency situations	From 1 April 2020, the regional public authorities may establish rules of conduct that are binding on citizens and organisations during a period of high alert or when an emergency situation is proclaimed. For more details, see Federal Law No. 98-FZ of 1 April 2020	1 April 2020
Suspension of scheduled inspections	Scheduled inspections, with the exception of inspections based on a risk of harm to human health or life, verification of the fulfilment of administrative requirements and licensing reviews are suspended until the end of 2020. Distance inspections and verifications are introduced. For more details, see Resolution of the Government of the Russian Federation No. 438 of 3 April 2020	14 April 2020
Regulations on the remote sale of medicinal products	• Pharmacies included in the Roszdravnadzor register may engage in remote sales of non-prescription drugs. • Delivery of non-prescription drugs may be carried out by an employee of a pharmacy or another (third-party) organisation on the basis of a contract. Courier services must have equipment to maintain the required temperature for the delivery of temperature-sensitive drugs. For more details, see Resolution of the Government of the Russian Federation No. 697 of 16 May 2020	18 May 2020

Russia's food retail market

Legislative changes

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
Regulations for organisations on the prevention and countering of the spread of coronavirus	Regulations have been established for organisations to prevent and counter the spread of coronavirus (germicidal lamps, disinfection, use of PPE, etc.) For more details, see Resolution of the Chief State Medical Officer of the Russian Federation No. 15 of 22 May 2020	**7 June 2020**
New regulations on the display and labelling of wine products	New regulations have been established: • on the display of grape-containing alcoholic beverages and on the accompanying inscription "Not wine" • on the additional labelling of wine products • the display of Russian wines made from Russian grapes must be accompanied by the inscription "Wine of Russia" For more details, see Federal Law No. 468-FZ of 27 December 2019	**26 June 2020**
Change in the procedure for exemption from VAT	Beginning 1 January 2021, a VAT exemption applies to services for the transfer of exclusive rights to computer software applications and databases included in the unified register of Russian computer software applications and databases, and to the rights to use such software applications and databases (including updates thereto and additional functionality), including by providing remote access to them through the Internet. The VAT exemption does not apply if the transferred rights to software applications and databases consist in obtaining the capacity to distribute advertising on the Internet and/or to gain access to such advertising information, to post offers for the purchase (sale) of goods (works, services) or property rights on the Internet, to search for information about potential buyers (sellers) and/or to complete transactions. For more details, see Federal Law No. 265-FZ of 31 July 2020	**31 July 2020** except for certain provisions that will enter into force at a later date

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
New regulations on the advertising and sale of nicotine-containing products and devices for burning tobacco	Increased administrative fines: • In addition to the existing regulations on the prohibition of tobacco advertising, the advertising and promotion of devices for the consumption of nicotine-containing products, hookahs, and nicotine-containing products shall also be prohibited as of the indicated date. • Now devices for burning tobacco shall fall under the category of "devices for the consumption of nicotine-containing products", and sticks will be understood to be "nicotine-containing products". • Advertising, distributing for free, or donating such devices or arranging promotions in which the purchase of such devices is a condition shall not be permitted. • Sticks shall be subject to rules similar to tobacco: retail trade by means of delivery, remote sales, the use of vending machines or other methods is prohibited at fairs and exhibitions. However, customer pickup is permitted. For more details, see Federal Law No. 303-FZ of 31 July 2020	**31 July 2020** except for certain provisions that will enter into force at a later date
Changes in regulations on the sale of lottery tickets	The regulations on the distribution of lottery tickets and on the installation of lottery terminals have been updated: these activities are permitted in shopping centres (complexes) even if there are children's, educational, medical or religious organisations at the shopping centres. For more details, see Federal Law No. 242-FZ of 20 July 2020	**19 October 2020**

Russia's food retail market

Legislative changes

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
General principles of regulatory legal acts related to entrepreneurial and other economic activities were laid down; some acts were revoked	The general principles have been laid down for the application of the norms contained in regulatory legal acts that are related to the performance of entrepreneurial and other economic activities, and the assessment of compliance with which is carried out through state oversight (supervision), municipal oversight, the imposition of administrative penalties, the granting of licences and other permits, accreditation, product conformity assessment and other forms of assessment and expert evaluation. A number of acts of the Government of the Russian Federation, of federal executive bodies of the Russian Federation and of executive and administrative bodies of state power of the RSFSR and the USSR that are subject to annulment have been listed. These acts may be disregarded after 1 January 2021. For more details, see Federal Law No. 247-FZ of 31 July 2020	**1 November 2020** except for certain provisions that will enter into force at a later date
Minimum prices for sparkling wine have been set	Minimum prices for sparkling wine have been set for 2021–2026. The minimum purchase (supply) price for sparkling wine producers is set at RUB 118 for 0.75 litres of finished product. The minimum price of sparkling wine for a company that has purchased such products from another company or an agricultural producer will be RUB 137 for 0.75 litres of finished product. The minimum price for the retail sale of sparkling wine is set at RUB 169 for 0.75 litres of finished product. For more details, see Order of the Ministry of Finance of Russia No. 232n of 7 October 2020	**1 January 2021**

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
Changes in public health rules and norms, regulations on the provision of food services	• Provision has been made for the possibility of not providing documents confirming the compliance of food products with mandatory requirements for the sale of ready-made meals, beverages, culinary and confectionery products manufactured in food services enterprises and sold in the provision of food services, both at the place of production and beyond it in respect of orders, including for delivery to the consumer, takeaway and catering. • The possibility of keeping an electronic hygiene journal related to the examination of employees. • Shared conveyance (transportation) of food-related raw materials, semi-finished products and ready-made food products is permitted subject to the availability of hermetic packaging and also provided the temperature and humidity conditions for storage and conveyance (transportation) are observed. • The possibility of recording the temperature of food storage and humidity in an electronic format. For more details, see Resolution of the Chief State Medical Officer of the Russian Federation No. 32 of 27 October 2020	**1 January 2021**
Increase in the minimum producers, wholesale and retail prices for spirits	Beginning 1 January 2021, the Ministry of Finance has increased the minimum producer's, wholesale and retail prices for spirits. The minimum retail price of a 0.5 litre bottle of vodka with a potency of 40% will be RUB 243; of brandy – RUB 324; of cognac – RUB 446. For more details, see Government Resolution No 325 of 12 November 2020	**1 January 2021**

CEO statement

Dear stakeholders,

The year 2020 turned out quite different from our expectations as a consequence of the COVID-19 pandemic. For our Company, it was a year of multiple challenges, as it was for any food retailer across the world. But even more than that, it was a year of faster progress for X5's digital businesses. Our internal procedures, risk controls and decentralised management model proved resilient to the adverse external environment and fully adaptable to rapid changes in the market.

I would like to thank all X5 employees, especially our retail and supply chain colleagues, for their utmost dedication, which enabled X5 to fully meet increased customer demand during the lockdown in May–July 2020 and beyond, and with the strictest health and safety measures. X5 continued on its path of growth, digital transformation and improvements in operational efficiency across its formats and business units, despite the challenging operating environment.

Igor Shekhterman
CHIEF EXECUTIVE OFFICER

CEO statement

I am pleased to report that X5 Retail Group, which in 2020 became a truly omnichannel FMCG retailer, delivered strong financial results.

Revenue growth accelerated to 14.1% year-on-year in 2020 to RUB 1.98 trillion, and we achieved a 7.3% EBITDA margin, in line with our internal target. X5's digital businesses, which combine our online marketplace Vprok, express delivery from Pyaterochka and Perekrestok stores and revenue from our 5Post e-commerce delivery service, rose 362% year-on-year to RUB 20 billion and contributed 1.0% to our consolidated revenue for 2020 (1.6% contribution in Q4 2020). The GMV from our online sales via all platforms reached RUB 22 billion, and we fulfilled 7.9 million online orders over the year, up from 1.4 million in 2019. This dynamic growth enabled us to further solidify our leadership in the food retail sector, and our market share expanded to 12.8% in the total food retail market, while we also secured for the first time the leading position in the Russian e-grocery market with a 13% market share.

In 2020, the structure of X5's business continued changing. Not only did we enjoy a higher contribution to revenue and top-line growth from our new digital businesses, which were in high demand during the pandemic, but we also continued to downsize our Karusel hypermarket operations and introduced a new hard discounter format under the Chizhik brand. We see growing demand for conveniently located hard discounters with a limited assortment and an EDLP (everyday low price) pricing strategy across the regions where we operate. Four Chizhik stores were opened in Q4 2020, and their first results are encouraging.

Our focus on ESG was strengthened in 2020. X5 introduced new medium-term ESG goals to be achieved by 2023 as well as longer-term ESG aspirations for 2030 (see pages 121–144). We made further progress towards achieving a better understanding of our business's carbon footprint and of what X5 can do to reduce this per square metre of selling space. We are currently exploring the use of green (solar) energy in our warehouse operations as one climate-related initiative. I am pleased with the progress we have made towards embedding ESG targets in all aspects of our business and with the engagement that we see regarding ESG from all stakeholders – customers, employees, suppliers, the government and investors.

Investments in 2020 totalled RUB 89.9 billion, or 4.5% of 2020 revenue. The structure of our investments is changing towards a higher share of refurbishment and non-store capex, which includes small-scale acquisitions of ready-to-eat producers and investments in our new media platform. We funded our investments predominantly from our operating cash flow, and used our balance sheet capabilities and the current low-rate environment to pay sufficient dividends.

In response to increased volatility in financial markets, X5 amended its dividend policy in Q4 2020 to introduce interim payments based on the Company's 9M financial results. Our amended dividend policy states that the dividend payout will be based on operating cash flow and a target net debt/EBITDA ratio pre-IFRS 16 of below 2.0× at the end of the year for which the dividend is being proposed, taking into account considerations including the Company's growth profile, capital requirements and return on capital.

Despite our sizeable investment programme in 2020, our net debt/EBITDA ratio remained at a comfortable level of 1.67× at year end, and we increased our dividend payout to RUB 50 billion (RUB 184.13 per GDR) for 2020, up 67% from 2019.

Main 2020 highlights

- We maintained leadership in terms of revenue growth compared to our main peers and further expanded the absolute revenue gap with each of our five closest competitors in offline grocery.
- We achieved market leadership in e-grocery with a market share of 13%, with the GMV of our online businesses growing faster than the overall e-grocery market.
- Express delivery mobile apps were launched for Pyaterochka and Perekrestok, with a total of 3.8 million downloads in 2020 (excluding Okolo).
- We delivered sustainable quality for in-store services and dramatically increased the volume of our online operations during the pandemic.
- The vast majority of our stores remained fully operational during the COVID lockdown and were even able to increase sales and delivery volumes from our supply chain.
- We achieved revenue growth above our internal budget targets and profitability in line with our budget, offsetting COVID-related additional costs of RUB 3.5 billion through higher efficiency and the positive effects of the internal digitalisation of business processes and decision-making.
- We maintained an EBITDA margin pre-IFRS 16 of 7.3%, in line with our strategic objective to remain above 7%.
- We sustained positive momentum in personnel turnover and labour productivity: turnover declined by 11 p.p. to 37.9%, and our average labour productivity improved by 3.3%.
- Our investments in prices in 2020 progressed according to our initial plan, and we supported our customers throughout the pandemic with additional price investments and promos even when our stores were in high demand and stimulating additional consumer traffic was not deemed necessary. We deemed this to be socially responsible given the impact of the COVID pandemic on consumer incomes.
- We continued to roll out new concepts and CVPs in our proximity and supermarket formats, refurbishing 628 stores (583 proximity stores and 45 supermarkets) so that, by year end, 12% of Perekrestok and 13% of Pyaterochka stores were operating under their new concepts. These stores continued to demonstrate strong like-for-like and NPS dynamics compared with the previous concepts.
- Our 5Post e-commerce delivery service successfully completed the year as a stand-alone business, delivering 6.8 million e-commerce packages, finishing the year by handling 1.5 million parcels in December through its network of 4,518 parcel lockers and 11,937 delivery points at X5 stores.
- We launched our hyperlocal FMCG aggregator and delivery service Okolo, which will be developed further in 2021 by signing up HoReCa and non-food FMCG retailers to the service.
- The transformation of X5's hypermarket format launched in 2019 continued, and the number of Karusel stores was reduced by 35. 25 of the stores were transferred to the Perekrestok brand.
- We launched stores in the promising market segment of hard discounters, under X5's new Chizhik brand. Initial results are encouraging.
- We continued our digital transformation, which had a positive impact on FY 2020 EBITDA of RUB 7 billion.
- X5 has set medium- and long-term sustainability targets with a focus on three areas of improvement: CO2 emissions, waste management and social engagement with local communities.
- We paid two dividends in 2020, including the first interim dividend payment for 9M in December, based on our strong financials and cash generation during the first three quarters of the financial year.

CEO statement

Sources of growth in 2020

The importance of providing our customers with a range of choices to shop online or offline at conveniently located stores was made very clear by the COVID-19 pandemic. We came to this adverse market environment well prepared, and benefitted from earlier strategic decisions.

The pandemic also brought a new focus on health and safety, which X5 responded to by providing an emergency supply of personal protective equipment for all employees (masks, gloves, sanitisers) and arranging for 95% of our office personnel to start working remotely over the course of just two weeks. This enabled our massive network of stores and distribution centres to remain fully operational throughout the pandemic.

From February to late summer, when the COVID-related lockdown was lifted, the Emergency Board, comprising top executives from X5's various business units, met on a daily basis and as deemed necessary later (in virtual meetings) to quickly address all upcoming operational issues or changing regulations.

Our offline operations experienced peak demand during the lockdown, and our supply chain and store operations handled successfully. The Commercial Department not only achieved better purchasing terms in order to provide our customers with fair and attractive prices but also created necessary additional inventory of high-demand goods in anticipation of the lockdown measures that were introduced in Russia in mid-March. During the initial stock-up period, which lasted from mid-March to the end of April, we introduced more frequent deliveries from the Company's warehouses to stores, thus avoiding out-of-stock items and improving customer perception regarding the constant availability of goods in our stores, with volumes of high-demand dry groceries and personal care items increasing accordingly. We also introduced mobile teams for stores and logistics operations in the event of a COVID case being detected among workers and the full shift/team was required to stay in quarantine. This measure helped to avoid labour shortages and ensure business continuity.

Despite restrictions imposed by the lockdown, we increased our selling space by 8.3% in 2020 to 7,840 thousand square metres and opened 1,410 new stores (net of 352 closings), which was close to our initial plan. Around 50% of these openings replaced less efficient food retail operators, and we observed a faster reduction in the presence of traditional retailers in the market, as many of them could not cope with significant operational challenges or ensure safety and product availability for customers. X5 continued to consolidate the offline food retail market in both the proximity and supermarket segments in 2020, gaining market share at an accelerated pace compared with previous years. Management sees this trend as ongoing.

Overall, our positive like-for-like sales of +5.5% were driven by an increased average check, which benefitted from a higher share of private label products (up from 14% in 2019 to 18% in 2020), a constant focus on the quality of the goods in our stores, attractive pricing and the new store concept, covering 12% of our store base by year end (the new concept is even better at engaging our guests and displays stronger like-for-like performance).

Like-for-like traffic declined by 6% in 2020, as consumers made less frequent visits to public places due to COVID-related safety concerns. Like-for-like performance was uneven between X5's offline formats in 2020, reflecting regulatory restrictions introduced during the lockdown. These restrictions partially affected our Perekrestok supermarket and Karusel hypermarket operations (shopping malls were closed to the public, which reduced traffic to X5 stores located in shopping malls). At the same time, X5's proximity format, Pyaterochka, benefitted from regulatory requirements that curbed customers' mobility for the lockdown period between late March and mid-June.

Our proximity format saw increased consumer demand and attracted new customers from traditional retail, hypermarket and supermarket formats during the pandemic. This fully validates our strategic decision to focus on the proximity segment, which our team continued to expand. We also invested in new technological solutions, including cashless payments and online ordering for express delivery of FMCG products from our Pyaterochka stores, which enjoyed growing popularity in 2020.

In online, we had to expand our infrastructure to cope with the jump in demand. We opened two additional dark stores to support the 1PL operations of our online marketplace Vprok (one in Moscow, ahead of schedule, and one in Nizhny Novgorod) and accelerated the rollout of express delivery services. It took us four months to fully cover the city of Moscow with express delivery from X5 stores, which meant not only allocating 518 Moscow-based Pyaterochka and Perekrestok stores to handle incoming express delivery orders for picking, but also training personnel and arrange for third-party couriers to pick up and deliver orders to our clients. We expect express delivery's contribution to X5's digital sales to surpass Vprok's bulk ordering, as the convenience of short delivery time combined with attractive pricing is gaining traction among our customers.

Our loyal customer base increased in 2020 faster than selling space, at +16.5%, and reached 47.3 million by year end. Customers who are active users of loyalty cards generate higher value per individual and are normally more profitable for the Company. Amidst the pandemic, we continued to work on customer feedback features in our loyalty programmes and introduced new mobile app functionality to support this. In total, our focus on feedback enabled us to collect more than 120 million customer ratings for various products in our stores, with the focus on private labels. This enhanced communication with our loyal customers further improved their loyalty and enabled the Company to change its assortment accordingly, supporting sales growth.

CEO statement

Market environment

We operate in an industry that, driven by advanced technologies, is undergoing a significant change, which was further accelerated by the pandemic. Consumer behaviour is shifting towards even greater convenience; competition from online players is rising and reshaping the ways in which consumers satisfy their demand for food.

Total online grocery sales in Russia increased by 260% to RUB 155 billion in FY 2020, of which X5 claimed a 13% share and secured the #1 online market position.

Offline food retail trade increased by 1.1% in nominal terms to RUB 16.2 trillion. An estimated 30-40% reduction in the HoReCa market and stay-at-home consumption in 2020 had a positive impact on offline food retail. The difference in the growth rates of online and offline food markets is drastic, yet the share of online remains relatively low at just 0.9%, meaning we have a positive outlook for future growth.

The macro backdrop for Russia's food retail sales in 2020 was influenced by the COVID-19 pandemic, customer employment and income, as well as mobility restrictions, which resulted in the redistribution of consumer spending from discretionary (travel, entertainment, non-school education) to staples (food, pharmaceuticals, utilities, consumer electronics, child and pet products, and DIY for home and garden). Within staples, the convenience store segment was the core beneficiary of this trend. At the same time, the consumer confidence index decreased from –13 to –26 over the course of 2020, and demand for attractively priced food offers was higher than in more premium segments.

Russian GDP in 2020 declined by 3.1% year-on-year. The economy was affected by the lockdown and by weak oil prices for most of the year. Nominal wage growth was surprisingly resilient, with an annual increase of 6.7% (2.5% in real terms), supported by the public sector and large private enterprises. The relatively small share of SMEs in the Russian economy was a positive factor in the context of the COVID-19 pandemic. Consumer income was supported by government social spending through both one-off payments and increased regular disbursements to families with children, as well as to households with low incomes. As a result, consumer disposable income declined by 3.5% in real terms, mostly due to lower income from properties and small private businesses.

Food inflation averaged 2.8% in H1 2020 and accelerated to 5.1% in H2 2020, reflecting high global inflation in fruit and vegetable prices as well as the weakness of the rouble. The price of tobacco products also jumped in Q4 2020 in anticipation of the excise tax increase from 1 January 2021.

Retail sales, including non-food, declined year-on-year by 0.2% in nominal terms and 4.1% in real terms. Food retail sales (excluding online and ready-to-eat deliveries) increased by 1.8% year-on-year in nominal terms in 2020 with no visible signs of consumers trading down.

Against this macro backdrop, the food retail industry continued to consolidate at a faster pace, and the share of the top five retailers moved from 29% in 2019 to 32% in 2020. All leading offline retailers increased or introduced online services, but with different degrees of growth, as their offers are limited by the infrastructure of their physical stores and often by not having their own mobile app or the ability to fulfil online orders.

Offline retail competition was mostly between the two market leaders – X5 and Magnit – for loyal customers and for an increase in the loyal customer base. At the same time, both leading retailers enjoyed a notable inflow of customers from traditional retail, which lacked the necessary assortment during the lockdown, so price competition did not kick in until the last quarter of the year.

Looking at competition between formats, the convenience/proximity segment and hard discounters were the clear winners in 2020, winning in terms of price or a combination of price and a relatively wide assortment (up to 6,000 SKUs in some proximity stores). Hypermarkets, due to their more extensive non-food offers and higher share of promo, performed slightly better during the lockdown compared with supermarkets. The higher-end market segment of supermarkets and specialist stores (offering organic food and farm-fresh products) suffered from either higher price propositions and their location in shopping centres or from having a limited assortment.

The regulatory framework in the food retail industry in 2020 centred around price monitoring, but the risk of price caps did not materialise. To proactively address this regulatory concern, several retail leaders, including X5, introduced zero markup on several socially important goods (SIGs) during the pandemic. In Q4 2020, when food inflation rose to 5.8%, the government again debated a price cap on SIGs, but this measure was not implemented, although price monitoring on a number of products (which for X5 comprised less than 5% of turnover) was introduced.

Sustainable development

In 2020, X5 approved an updated sustainable development strategy that sets out the Company's areas of focus in ESG until 2023 as well as until 2030.

Medium-term ESG targets (to 2023) include a 100% increase in the number of families receiving support from our Basket of Kindness food drives, an increase in the share of fresh and ultra-fresh categories in our assortment to up to 50%, employee engagement of over 75%, a reduction of up to 10% in GHG emissions per unit of revenue and a target of up to 40% of non-expired food waste being repurposed.

In 2020, X5 improved its disclosure of ESG metrics, developing a new website (https://esg.x5.ru/en/) that provides more granular and expanded data on ESG, including an ESG databook and semi-annual reports on the progress of our ESG strategy implementation.

CEO statement

Strategy evolution – new initiatives

In 2020, X5 fine-tuned its strategy to focus more on the customer journey, with a strategic objective of engaging with the consumer at every stage of their food-related decision-making and activities – not limited to grocery purchases only.

X5 will look to engage with its customers as early as at the stage of gathering nutrition and dietary information and tips, through various channels but focusing on digital, and staying engaged beyond the phase of the retail purchase of groceries, by providing customers with complementary services that will eventually form the X5 ecosystem.

In order to achieve this new strategic objective, X5 will implement a new management model that combines traditional competitive advantages with a new level of speed and efficiency. We will sustain our advantage, as a traditional player, by creating digital infrastructure around our core business that covers all stages of the customer journey in food and in complementary categories.

New medium-term strategic goals include:

- Market leadership in offline grocery retail with a 15% market share in 2023
- A market share of 20% in e-grocery in 2023
- A 5% contribution from digital businesses to 2023 consolidated revenue
- An increase in MAU to 38 million in 2023
- Sector leadership in ESG with a focus on care for the community and environmental impact

Constantly improving our CVP is one of our strategic pillars. With the rollout of new concepts ongoing in our proximity and supermarket segments, we introduced a hard discounter format with more attractive pricing (four pilot stores in 2020, with more than 50 to be added in 2021) to offer the best market prices on a limited FMCG assortment of 800 SKUs, which in its target model has 60% of revenue from private labels developed specifically for the format.

Another strategic area for X5 is ready-to-eat. The updated strategy sets specific targets for the share of the ready-to-eat assortment for Pyaterochka (3.7% revenue target in 2023, up 9× from 2019) and for Perekrestok (8.5% revenue target in 2023, up 2.4× from 2019).

The strategy to develop digital offers for our customers paid off in 2020. Between our online marketplace Vprok and our express delivery service, offered in 13 cities during 2020, we delivered 7.9 million online orders to 720 thousand and 746 thousand customers, respectively. From fulfilling 6 thousand daily online orders in January 2020, of which only 300 per day were for express delivery, our operations delivered 76 thousand daily orders on peak days in December, of which 57 thousand daily orders were for express delivery, which demonstrates the superior growth trajectory of this service. We are also very pleased with the profitability profile of our digital businesses and with their respective unit economics.

The COVID-19 lockdown significantly accelerated the adoption of express delivery and bulk online orders among our customers, and we continue to see strong demand for these services in Q1 2021. This is why we further expanded our online customer offer and, in Q4 2020, launched our Okolo hyperlocal delivery service anchored around X5's Pyaterochka and Perekrestok stores, with additional ready-to-eat product offers from HoReCa and a non-food assortment from other retail partners.

Going forward, in addition to its core business (X5 retail chains and ready-to-eat products), X5 will develop a variety of digital businesses: a media platform (already being developed by an in-house team), an FMCG marketplace (based on Vprok, by expanding its assortment to FMCG via a 3PL fulfilment model; this team is already independent from Perekrestok), our delivery aggregator Okolo, payment and other banking services (based on X5 Bank in cooperation with Alfa Bank) and a subscription service for X5's ecosystem services. All of these businesses will be linked to the unified personal ID service – our X5.ID platform – that our IT/Big Data Department successfully launched in 2020. X5.ID will also enable us to better understand each customer's LTV in order to better manage our profitability and sustain longer-term engagement with our loyal customers.

Outlook

In 2021, we will continue our development as a client-centric and technologically more advanced retailer.

Our outlook for the Russian consumer in 2021 is neutral, although we might see periods of deterioration in consumer demand or consumer confidence before the economy firmly emerges onto a recovery path after the pandemic.

In any macro scenario, X5 has sufficient variability of formats, client value proposition alternatives and services – from online orders and self-checkouts to hard discounters and new fintech offers – to satisfy our customer needs.

We will continue developing a multi-format omnichannel FMCG offering for our clients, with a focus on fresh food sourced and delivered in a sustainable manner, and supported by additional digital customer services.

While digitalisation inside and outside remains in focus, our core formats Pyaterochka and Perekrestok will grow and transform, becoming more digital from within. Digitalisation and further automation of business processes and operational decision-making will also provide support to margins at the consolidated level, even while digital businesses are not yet margin enhancing. We expect Vprok's core operations (excluding the 3PL marketplace that will be developed in 2021) to become EBITDA-neutral by the end of 2021, as planned.

We have set a target to open up to 1,500 new stores in 2021, gross, including 1,400 in the proximity format and the rest in supermarket and hard discounter formats. Hard discounters that will open in 2021 will continue testing various aspects of X5's hard discounter offer, services, impact on X5's other formats and performance in relation to the competitive landscape. The full rollout of our hard discounter format is planned to start from 2022. In addition to network expansion, we plan to refurbish 1,500 proximity stores and around 50 supermarkets. While this will require additional capital expenditure, returns on refurbished stores are very strong.

We aim to maintain our EBITDA margin above 7% pre-IFRS 16 in 2021, reflecting competitive pressure from other food retailers on prices, the promo activity of all organised retailers and our internal investments in the development of new digital businesses.

In 2021, X5 will publish a standalone sustainability report under GRI Standards for the first time, which should further underscore the Company's leadership in various ESG aspects. Business growth and a focus on the efficiency of existing operations, including working capital, will support our annual dividend payments, which we expect to increase steadily.

Our future-ready strategy

Our new strategy to 2023 represents a further evolution of our overall aim to strengthen the existing business by further enhancing efficiency to maintain profitability, while at the same time implementing a digital transformation and developing new practices that will constitute the future of food retail. To this end, 2020 accelerated a number of trends that we were already preparing for, and we have adapted our long-term plans to reflect this.

Today the customer journey starts long before entering a store or making a delivery order. Most of our customers practically live in a digital environment, regardless whether they make their purchase online or offline. This environment has become a key factor in generating customer preferences, experience and feedback. In order to continue to grow our business while maintaining margins, we aim to expand our presence to be at all stages of the customer journey for food consumers. We aim for our interaction to start with planning and discovery of meals and recipes, and to continue all the way through to a payment platform and subscription services across our businesses. These digital platforms and services will help to attract and retain customers in our core retail business.

We aim to be a leader in key customer missions. In order to strengthen the existing business, we will leverage our digital transformation to significantly improve the efficiency and effectiveness of our assortment and price management. As we respond to changing customer preferences, we will continue to strengthen our ready-to-eat assortment and test out new retail formats like a hard discounter.

We want to offer the best customer experience. Our mobile apps are recognised as the best in the market, and we are continuously updating and adapting them based on customer feedback and the latest available technologies. As we continue to refine our data capabilities, we will be able to further improve the customer experience with personalised products, prices and services.

Finally, we have made care for the community and the environment some of our strategic priorities. We identified specific and measurable initiatives and targets to measure our success in this area.

The priorities laid out in our new strategy set the clear aim of reinforcing our leadership in a rapidly changing market. When X5 undertook the transformation of its offline business, it was successful at becoming Russia's leading food retailer. After launching our digital businesses, we secured a leading position in e-grocery with market share of 12.6% in 2020. We plan to increase this to at least 20% by 2023. Looking ahead, I am confident in X5's ability to achieve its goals and deliver value to a full range of stakeholders.

Vladimir Salakhutdinov
DIRECTOR OF STRATEGY
AND BUSINESS DEVELOPMENT

Strategy 2018–2020 implementing and adapting

STRATEGY IMPLEMENTATION STAGES

1–2 YEARS

Strengthen the core business

- EBITDA margin above 7% pre-IFRS 16
- Increased NPS
- Updated CVPs of retail chains, rolling out new store concept for proximity and supermarkets
- Increased share of private labels in sales
- Increased share of direct import
- Reduced shrinkage level
- Reduced employee turnover
- Launched client experience management programmes
- Launched transformation of Karusel hypermarket format
- Created ready-to-eat business unit

1–2 YEARS

Digital transformation

- Formed big data team and competence centre
- Launched digital transformation program
- Implemented big data analytics in pricing, assortment management and demand forecasting processes
- Transformed IT development process, implementing product mindset
- Launched X5 Digital Academy
- Created innovation centre and retail technology alliances
- Launched new technologies developed in house, including self-checkout counters, self-scanning and scan & go offering

1–2 YEARS

New generation retail

- Achieved market leadership in the e-grocery segment in Russia
- Launched express delivery mobile apps for retail chains
- 5Post e-commerce logistics platform is delivering over 1 mln orders per month
- Approved sustainable development strategy, defining X5's areas of focus in ESG

We have successfully achieved our strategic targets under the 2018–2020 strategy.

Strategic goals 2023

Our new strategy to 2023 integrates sustainability targets, aims to further strengthen our leadership in offline food retail while ensuring we can support our customers at all stages of the customer journey across both offline and online formats.

We successfully implemented our 2018–2020 strategy and announced new goals for 2023 in October 2020. Our goal is to increase value for X5 shareholders and Russian society more broadly by advancing and evolving our technology and competitive strategies to further cement our position as the top choice in the food market for all our stakeholders.

Leadership in food retail

15%
X5 share of grocery market in 2023

20%
X5 share of e-grocery market in 2023

Leadership in digitalisation

38 MLN
Mounthly active users in X5 digital channels and mobile apps in 2023

5%
Share of digital businesses in revenue in 2023

Commitment to shareholders

Growing shareholder value

Growing dividends

Care for the community

Implementing a sustainable business model

HOW WE WILL GET THERE

Continue to develop our multi-format offer

01.

Strengthen the existing offer

We are rolling out new store concepts and CVPs to our segment-leading proximity and supermarket store formats, Pyaterochka and Perekrestok

02.

Pilot new formats

During 2020 we launched a pilot of the Chizhik hard discounter format in Moscow and will be analysing the potential for this new type of store during 2021

03.

Expand digital offering

Perekrestok Vprok is our online hypermarket with a wide offering of food and non-food products, that we plan to transform into an FMCG marketplace. The business has expanded from handling 6 thousand orders per day in two cities in January 2020 to 15 thousand orders per day in 12 regions by December 2020

Express delivery services from Perekrestok and Pyaterochka stores offer customers a convenient way to quickly purchase smaller orders that can be delivered by a courier from a local store in under one hour.

Okolo, which powers our express delivery service, can easily be expanded to include deliveries from other businesses outside of the X5 portfolio.

04.

Develop complimentary businesses

Like our 5Post last-mile delivery service for e-commerce providers that leverage existing X5 logistics and store infrastructure, we will invest in developement of our proprietary media vertical to engage consumers at earlier stages of their food-related journey. Within our ecosystem development, we will provide our customers with payment solutions, fintech products and other auxilliary ecosystem services.

05.

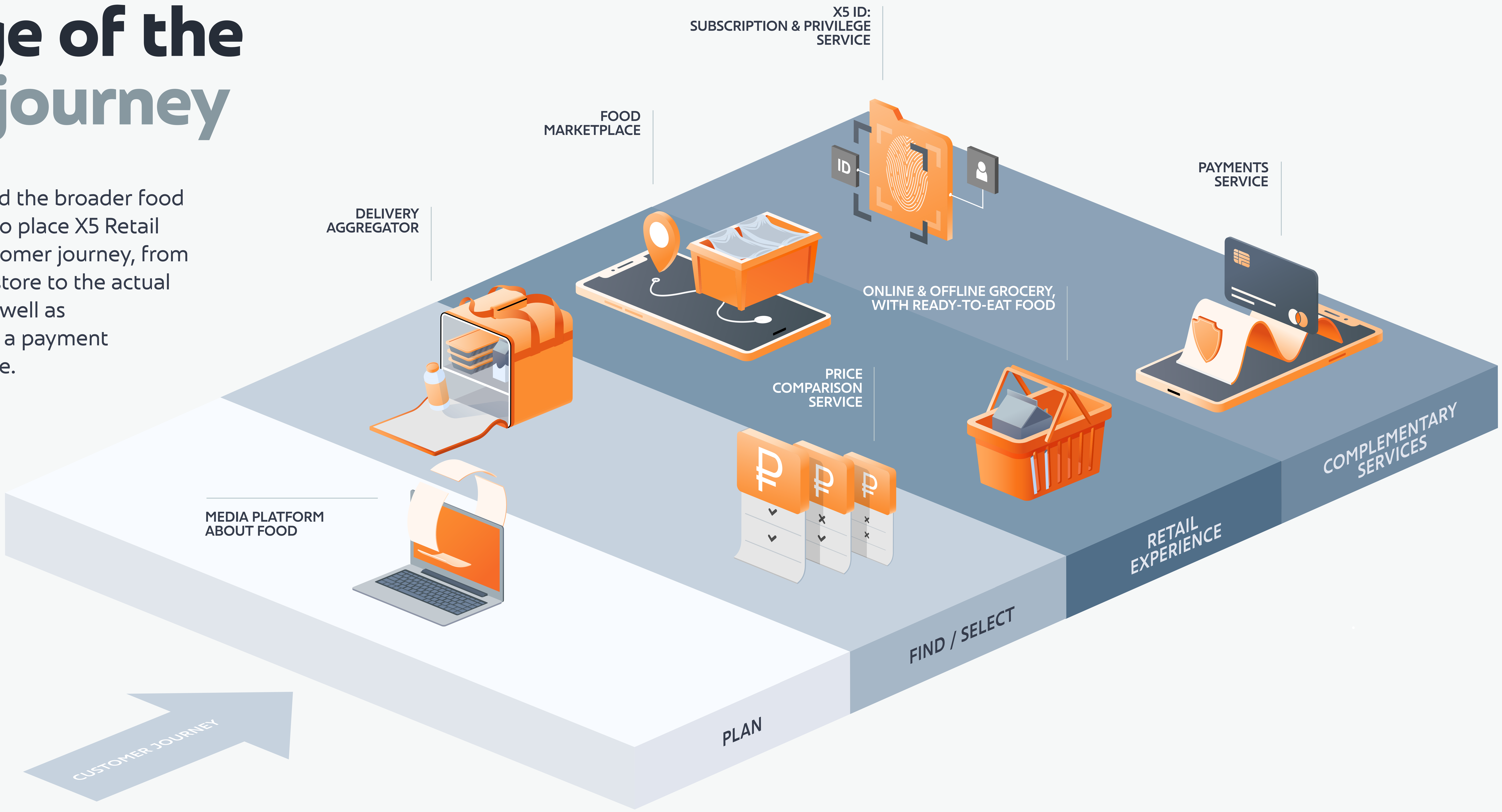
Downsize Karusel

Downsize Karusel in order to focus on most promising food retail segments: stores will be closed or transferred to Perekrestok to operate as large supermarkets or continue to function under the Karusel hypermarket brand.

HOW WE WILL GET THERE

Offer services at every stage of the customer journey

As the lines between grocery and the broader food market fade, our strategy aims to place X5 Retail Group at every stage of the customer journey, from planning meals and selecting a store to the actual purchase (in-store or online), as well as complementary services such as a payment platform and subscription service.



HOW WE WILL GET THERE

Strategic progress driven by digital transformation

X5 is already an industry leader in digital transformation

- Our mobile app interfaces are rated the best among retail and service peers
- We use advanced data analytics and AI-driven tools in key commercial decision-making processes like pricing, and assortment management faster and more precise
- We have digitalised processes end-to-end
- Our single sign-on X5.ID gives us a 360-degree view of our customers' journey across X5 businesses

Ongoing investments in our IT infrastructure will strengthen leadership while enabling us to maintain profitability in a highly competitive and changing market

- We will achieve a new level of speed and flexibility by transitioning to a new IT infrastructure
- Cross-functional teams use agile principles for products and projects

>20 RUB BLN

Effect of digital transformation on EBITDA from 2021

42%

Digitalisation index 2020

KEY ELEMENTS OF DIGITAL TRANSFORMATION

- Assortment, prices, promo
- Digital platform
- Supply chain
- Supporting functions
- Digital academy
- Enterprise processes
  Finance, Transport, Import, HR, IT

50%

Digitalisation index 2023

HOW WE WILL GET THERE

Strategic progress driven by digital transformation

Digital transformation affects everything we do. Digital technologies are enhancing how we cooperate with suppliers, as well as management of our transport and logistics operations. In our stores digital technologies are powering automated pricing and assortment, as well as monitoring in-store operations to make sure out customers get a high-quality and convenient shopping experience.

Marketing

CVM

Feedback

Store

SHELF

Digital price tags

Assortment management

Automated pricing in stores

CHECKOUT

Video and voice recognition technologies

Self-checkout

Express scan

Category management

Assortment

Pricing

Promo management

Realocator

Nego

Planogram and floorplan management

Director/staff/store operations

Personnel time management

Director's mobile workplace

Digital dashboards

Demand and sales forecasting system

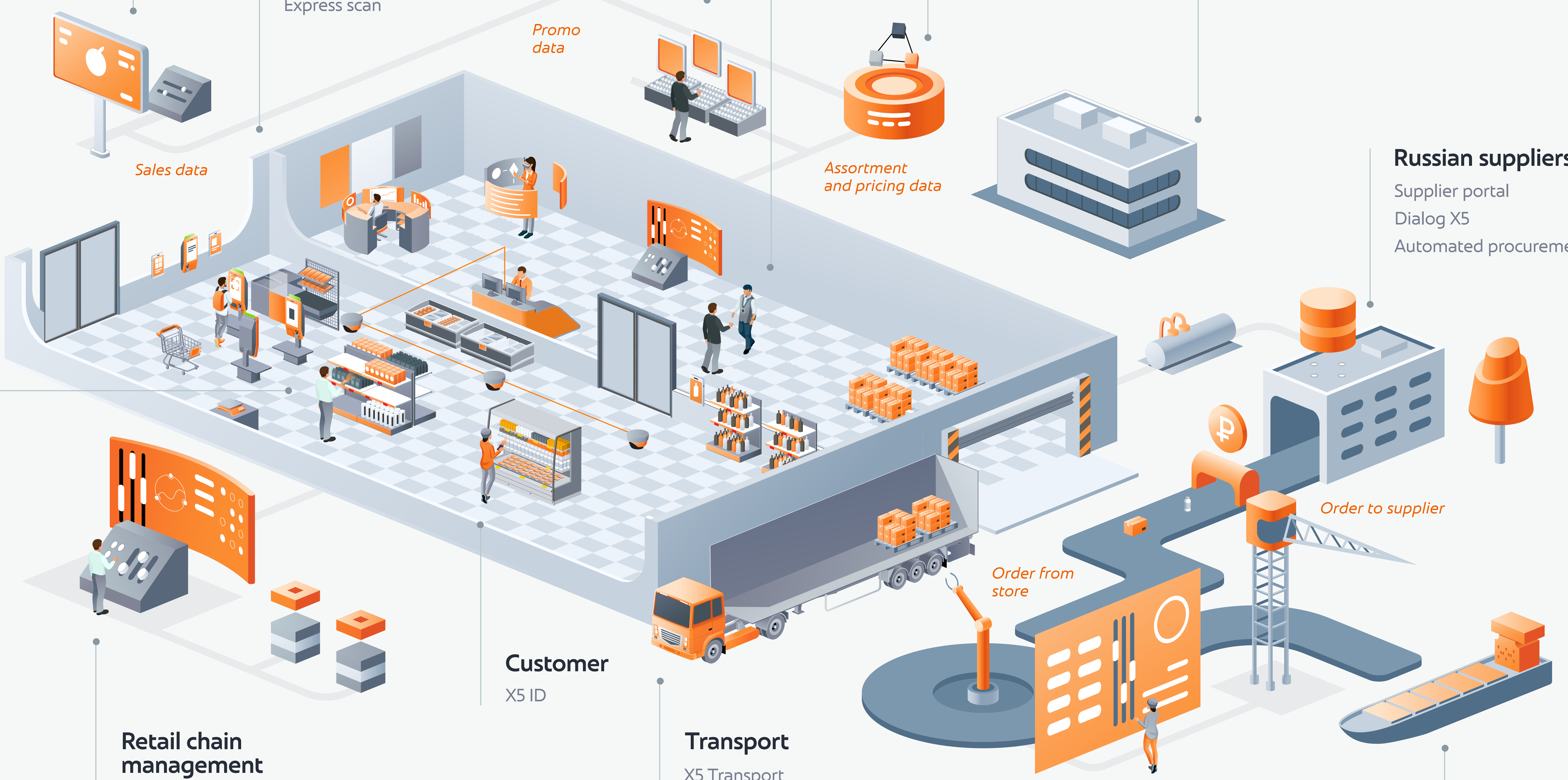
Private label life cycle management

Russian suppliers

Supplier portal

Dialog X5

Automated procuremen



People Analytics

Personnel management

Unified mobile platform for retail staff development and communication

Digital HR services

Learning and development ecosystem

Automation of key HR processes

HR Clue (efficiency analytics)

Customer

X5 ID

Retail chain management

Cross-format automated commercial procurement management

End-to-end automation of non-commercial procurement

X5.PropTech

Increasing accuracy of sales forecasts for store openings

Transport

X5 Transport

Transport analytics

Monitoring condition of driver and vehicle

Routing for LTL shipments from supplier to DC

Distribution centre

Digital replenishment

Import

X5 Import

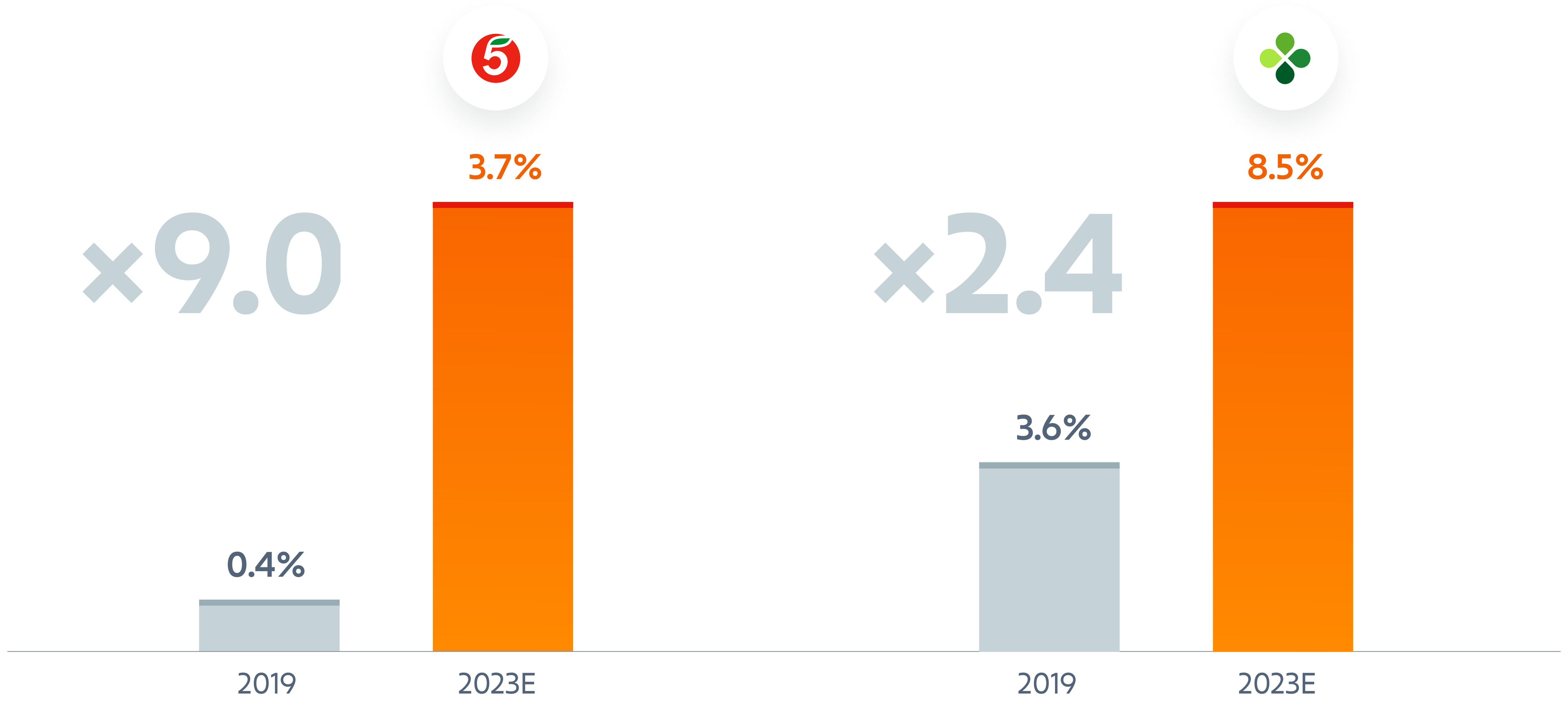
HOW WE WILL GET THERE

Develop our competitive advantage in ready-to-eat

As customers increasingly focus on convenience and ways to simplify their lives, we have developed a competitive advantage with our ready-to-eat offering thanks to the quality, freshness and great taste of the assortment available at our stores or from express delivery.

Our ready-to-eat (RTE) offering is differentiated from peers thanks to the unique assortment, which includes healthy foods and collaboration with famous chefs, as well as in-store cafes, bakeries and open kitchens with themed cooking areas.

RTE share in retail chain sales



Strategic progress

Before introducing our updated strategy to 2023 in October of 2020, we made good progress against our previous strategic priorities while adapting to the changing market landscape

CORE PRINCIPLES AND 2023 GOALS	2020 RESULTS	NEXT STEPS
Leadership in food market **>15%** Share of grocery market **>20%** Share of e-grocery market	• Accelerated market share gain in 2020: added 1.3 ppt and reached 12.8% of the offline grocery market in 2020 and 12.6% in online • Rolled out new store concept for proximity and supermarkets (12% and 13% of store networks, respectively, by YE 2020), which enjoy higher NPS and LFL sales • Launched pilot of Chizhik hard discounter format • Revenue of online hypermarket Perekrestok Vprok rose 208% year-on-year • 5Post e-commerce logistics platform delivered 1.5 million parcels in December 2020 and 6.8 million for the full year • Continued to expand and refine our market-leading ready-to-eat offering • Expanded use of big data-driven CVM project that automates personalised offers for customers • Converted 25 Karusel stores into large Perekrestok supermarkets	• Create a food-centric ecosystem of digital services that will enable X5 to be at every stage of the customer journey • Launch auxiliary digital services to attract and monetise customer traffic via the core retail businesses • Continue to adapt CVPs and roll out new store formats across Perekrestok and Pyaterochka networks • Complete pilot of Chizhik hard discounter and decide on further development of the format • Continue rollout of Pyaterochka #naletu cashierless store format • Increase ready-to-eat offering to 8.5% of Perekrestok sales and 3.7% of Pyaterochka sales by 2023
Leadership in digitalisation **>38 MLN** MAUs in X5 digital channels and mobile apps **>5%** Share of digital businesses in revenue in 2023	• Digital transformation had an estimated positive impact on EBITDA of RUB 7 billion • Relaunched mobile apps for retail formats, achieving chart-topping rankings from users • Digital business revenue accounted for 1% of X5 Retail Group's total FY 2020 sales: RUB 13.3 billion from the online hypermarket Perekrestok Vprok and RUB 6.1 billion from express delivery services from X5's Pyaterochka and Perekrestok stores, as well as the Okolo hyperlocal delivery service launched in Q3 2020 • Continued to roll out technologies developed in-house, including self-checkout counters and scan&go offering • Launched pilot of Pyaterochka #naletu cashierless store in Moscow • Rapidly scaled up online businesses in response to increasing demand • Received over 120 million product ratings from customers online and via mobile apps	• Transfer to new IT architecture that will achieve a new level of speed and flexibility • Leverage big data tools and omnichannel capabilities to better meet the needs of a wider group of consumers • Continue to improve communication with customers through online and mobile apps • Expand use of X5.ID single sign-on as a convenient way for customers to access non-X5 online services • Expand Okolo delivery aggregator to include express delivery from third-party players • Continue to test and develop new omnichannel offerings that can enhance the CVP of X5's businesses • Achieve positive impact of over RUB 20 billion on EBITDA by FY 2023 as a result of digital transformation projects

Strategic progress

CORE PRINCIPLES AND 2023 GOALS	2020 RESULTS	NEXT STEPS
Commitment to shareholders Growing shareholder value Growing dividends	• Achieved 14.1% annual revenue growth and increased market share during the year more than any of top 10 competitors • Maintained EBITDA margin above 7% pre-IFRS 16 • Reduced shrinkage level by 11 b.p. • Reduced employee turnover by 11 p.p. • Continued to grow cash return on newly opened stores and maintained the share of underperforming stores in "EBITDA clinic" at 4.8% of the store base • Updated dividend policy, introducing semi-annual interim payments and cash flow with financial leverage as the basis for determining dividends • Increased dividend by 67% vs 2019	• Achieve at least 10% annual revenue growth • Maintain EBITDA margin above 7% pre-IFRS 16 • Maintain focus on improving operational efficiency and reducing shrinkage • Focus on personnel engagement • Continue to increase dividend payouts in absolute terms • Maintain solid financial position, with net debt/EBITDA below 2.0× pre-IFRS 16 • Increase ROI from current level • Sustained high dividends payout
Care for the community Implementing a sustainable business model	• Approved specific ESG performance targets as part of strategy to 2023 and "30×30" targets aligned with UN SDGs • Improved ESG disclosure practices with a dedicated ESG section of the X5 website, ESG databook, regular conference calls and semi-annual performance updates • Successfully implemented initiatives across priority areas of sustainability strategy, ranging from food aid and helping lost people in stores, to recycling and sustainable packaging, improving employee engagement and decreasing GHG emissions	• Continue to focus on sustainable development as a core part of the CVPs of X5's formats • Further improve ESG disclosure practices with the publication in 2021 of our first sustainability report, prepared in line with GRI Standards

Geography of operations

Food retail market leader

X5 operates 17,707 retail stores, five dark stores and 45 large distribution centres in 66 regions across seven of the eight federal districts in Russia. In order to serve Russia's population of nearly 146 million people living in 11 time zones, we maintain extensive logistics operations, including distribution centres and a fleet of modern trucks delivering a reliable assortment of high-quality goods to every single store.

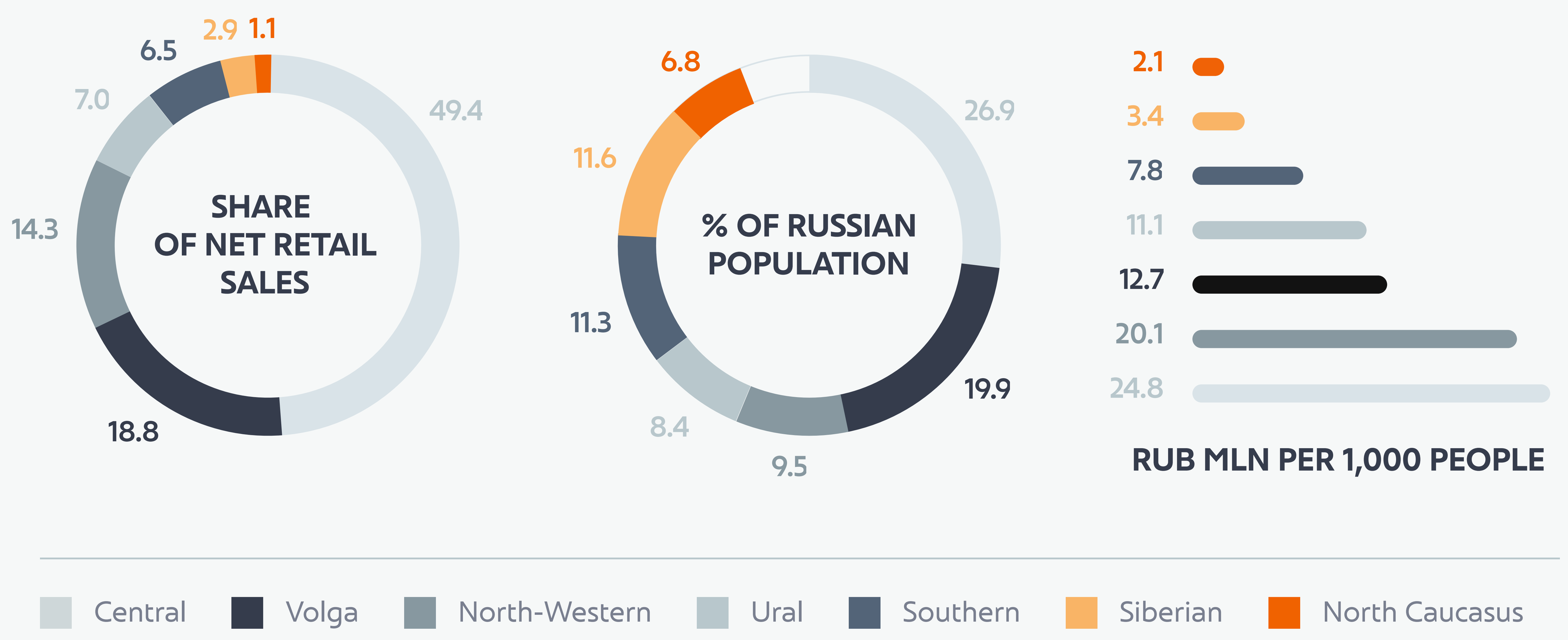
Online and omnichannel: rapid expansion of new businesses

Our robust IT infrastructure and new digital services developed for X5 customers enabled us to adapt quickly to the unprecedented changes in consumer demand as a result of the COVID-19 pandemic and to rapidly scale up Perekrestok Vprok and express delivery services.

Revenue at our online hypermarket Perekrestok Vprok rose 207.9% year-on-year in 2020 as it expanded its operations from four to five dark stores and began offering services in nine new cities during the year. Combined with express delivery from Perekrestok and Pyaterochka stores, which is now available from 992 stores in 13 regions, our rapidly growing e-grocery operations placed us at #1 by GMV in e-grocery.

Our 5Post e-commerce logistics platform launched in 2019 saw further growth in 2020. Through the service, third-party e-commerce platforms can offer their customers deliveries to convenient pick-up points, located in X5 stores and parcel lockers at X5 stores. 5Post delivered 1.5 million parcels in December and 6.8 million in 2020, with over 16,000 pickup points in 65 regions of operation.

Net retail sales by federal district in 2020*, %



Number of stores

	2020	2019	2018	2017	2016	2015
Central	6,703	6,301	5,822	5,198	4,077	3,262
North-Western	1,910	1,836	1,668	1,416	1,095	845
Central and North-Western	**8,613**	**8,137**	**7,490**	**6,614**	**5,172**	**4,107**
Volga	4,621	4,306	3,820	3,169	2,468	1,848
Ural	1,535	1,358	1,168	999	764	551
Southern	1,718	1,501	1,222	874	606	418
North Caucasus	334	293	252	188	137	96
Siberian	886	702	479	277	40	-
Total	**17,707**	**16,297**	**14,431**	**12,121**	**9,187**	**7,020**

** Based on federal districts of the Russian Federation*

Geography of operations

X5 today: multi-format presence in seven federal districts

17,707
Total stores

16,709
Pyaterochka stores

933
Perekrestok supermarkets

56
Karusel hypermarkets
transformation is ongoing

4
Chizhik hard discounters
in pilot

5
Perekrestok Vprok
dark stores

Over 16 thousand 5Post pick-up points, including 4,518 parcel lockers, available from 12,985 stores in 65 regions

Express delivery services available from 992 stores in 13 regions

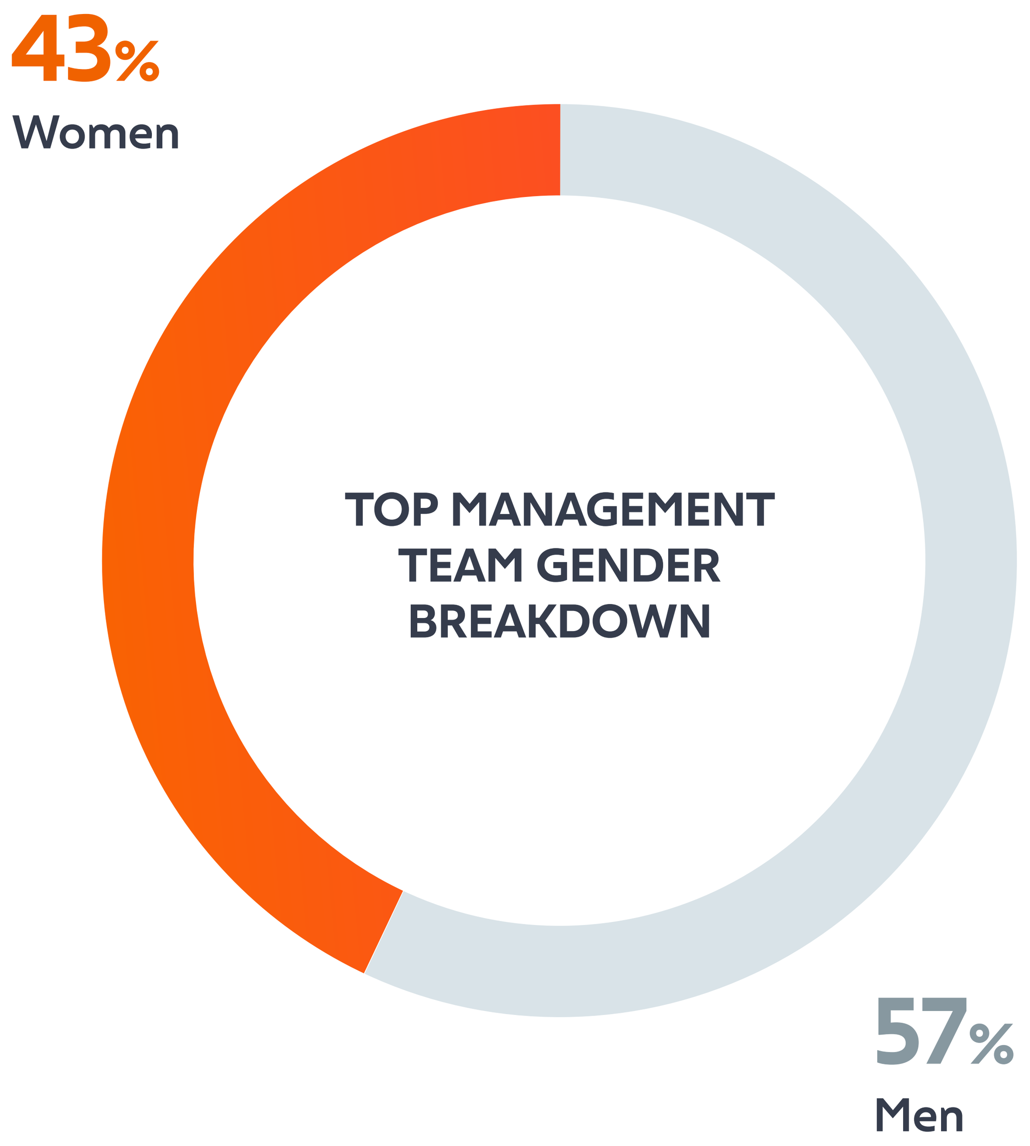
5 Perekrestok Vprok dark stores covering 12 regions

Number of stores and DCs

	1 North Caucasus FD	2 Southern FD	3 Central FD	4 Volga FD	5 North-Western FD	6 Ural FD	7 Siberian FD	Total
Pyaterochka	323	1,660	6,147	4,462	1,772	1,459	886	16,709
Perekrestok	10	56	519	144	129	75	-	933
Karusel	1	2	30	14	8	1	-	56
Number of DCs	-	5	18	9	6	6	1	45
Number of dark stores	-	-	3	1	1	-	-	5
Number of pickup points / parcel lockers	36	1,800	7,048	3,713	1,659	1,886	313	16,455

Leadership team

X5 Retail Group's top management team is responsible for the overall management of the Company. The team reports to the Supervisory Board, which sets long-term strategic goals and holds management accountable for meeting financial and operating targets.



During 2020, the way that the management team and much of X5's office staff worked changed significantly as COVID-19 led to a significant increase in the number of people working remotely. Thanks to its robust IT infrastructure, X5 was quickly able to launch a Home Office project, which allowed for more flexible working conditions and greater opportunities for interaction between teams, including those working according to agile principles.

As part of the project, about 60% of employees will switch to remote or combined work modes. About half of them (46%) will be able to work from home one to three days a week, while the remainder will either work from home permanently or will be able to come to the office once a week.

While significant attention was paid to adapting working conditions to the coronavirus pandemic during 2020, management also maintained its focus on key priorities like personnel development, reducing turnover and maintaining the strong talent pool that makes up our staff reserve and supports succession planning.

Personnel development

	IMD	Skolkovo	X5 Digital Academy
WHO	Top management Middle management	Middle management	Top management Middle management
NUMBER OF PARTICIPANTS	38	56	839

ISSUES ADDRESSED

- Increased multi-format interaction
- Retention of competent staff
- Improvement of management and professional skills
- Providing the knowledge and skills needed for the digital transformation

Leadership team

Anton Mironenkov
HEAD OF X5 TECHNOLOGIES, MEMBER OF THE EXECUTIVE BOARD

Vladislav Kurbatov
GENERAL DIRECTOR OF PEREKRESTOK, MEMBER OF THE EXECUTIVE BOARD

Tatiana Krasnoperova
DIRECTOR OF HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT, MEMBER OF THE EXECUTIVE BOARD

Sergei Goncharov
GENERAL DIRECTOR OF PYATEROCHKA, MEMBER OF THE EXECUTIVE BOARD

Svetlana Demyashkevich
CHIEF FINANCIAL OFFICER, MEMBER OF THE EXECUTIVE BOARD

Igor Shekhterman
CHIEF EXECUTIVE OFFICER, CHAIRMAN AND MEMBER OF THE MANAGEMENT BOARD, CHAIRMAN AND MEMBER OF THE EXECUTIVE BOARD

Dmitry Agureev
HEAD OF CORPORATE SECURITY

Elena Konnova
CORPORATE COMMUNICATIONS DIRECTOR

Vladimir Salakhutdinov
DIRECTOR OF STRATEGY AND BUSINESS DEVELOPMENT, MEMBER OF THE EXECUTIVE BOARD

Ekaterina Lobacheva
GENERAL COUNSEL AND GOVERNMENT RELATIONS DIRECTOR, MEMBER OF THE EXECUTIVE BOARD

Svetlana Volikova
DIRECTOR OF BUSINESS SUPPORT, MEMBER OF THE EXECUTIVE BOARD

Leadership team

Igor Shekhterman

CHIEF EXECUTIVE OFFICER, CHAIRMAN AND MEMBER OF THE MANAGEMENT BOARD, CHAIRMAN AND MEMBER OF THE EXECUTIVE BOARD

Igor has served on X5's Supervisory Board since 2013. He has been Managing Partner and CEO of RosExpert, which he co-founded in 1996 and subsequently successfully developed into the Russian alliance 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 Institute d'Administration des Enterprises (France, 1994) and the Danish Management School (1995).

Svetlana Demyashkevich

CHIEF FINANCIAL OFFICER, MEMBER OF THE EXECUTIVE BOARD

Svetlana joined X5 in June 2017. Since 2005, she has held several senior positions at Alfa Bank, including head of audit and IFRS reporting. She also created and led the financial control service, investor and rating agency relations, the business intelligence centre and the centralised purchasing service. From 2002 to 2004, she audited financial institutions at PricewaterhouseCoopers and was the Financial Controller at UNICEF Russia. Svetlana graduated with honours from the Financial University of the Government of the Russian Federation and is an ACCA qualified accountant.

Sergei Goncharov

GENERAL DIRECTOR OF PYATEROCHKA, MEMBER OF THE EXECUTIVE BOARD

Prior to joining X5 in March 2018, Sergei had been in charge of Magnit Cosmetics stores and managed Magnit's pharmacy division from 2013. From 2005 to 2013, he was in charge of Sony Corporation's development strategy in Russia and the CIS. Sergei has a proven track record in Russian and US investment companies and holds an MBA from the Wharton School of the University of Pennsylvania.

Vladislav Kurbatov

GENERAL DIRECTOR OF PEREKRESTOK, MEMBER OF THE EXECUTIVE BOARD

Vladislav joined Perekrestok in 2015 as Operations Director. Throughout the format's transformation, he made a huge contribution to the development of Perekrestok and in particular to the current CVP, store efficiency improvement and further development of the brand's customer-centric approach. Vladislav has extensive experience in retail, having led operations at O'Key for over 13 years before joining Perekrestok. Vladislav graduated from the Leningrad Higher School of Military Topography.

Vladimir Salakhutdinov

DIRECTOR OF STRATEGY AND BUSINESS DEVELOPMENT, MEMBER OF THE EXECUTIVE BOARD

Vladimir joined X5 in May 2019. From 2014, he served as Deputy CEO at Russian Post and was a Supervisory Board member at Pochta Bank. In 2002–2014, he held senior management positions at Western Union and American Express. Prior to that, he served invarious positions at the Moscow Exchange for over five years. Vladimir is a graduate of the Moscow Engineering Physics Institute and the Financial University under the Government of the Russian Federation. He also holds an MBA from the Kellogg School of Management at Northwestern University.

Anton Mironenkov

HEAD OF X5 TECHNOLOGIES, MEMBER OF THE EXECUTIVE BOARD

Anton joined X5 as Deputy Director of the M&A Department in September 2006. In March 2011, he was appointed Director for M&A and Business Development and in 2012 became the Director for Strategy and Business Development. In January 2014, he was also appointed as General Director of the express convenience store format. From 2005 to 2006, Anton managed various projects at Alfa Group, including the merger of Pyaterochka and Perekrestok. Anton headed the Big Data Department at X5 in 2018. Under his leadership, the brand-new unit quickly grew from a small group of employees to a team of more than 250 professionals who create and develop services for customers and employees. Prior to X5, he held senior positions at Troika Dialog and PricewaterhouseCoopers. Anton graduated with honours from Moscow State University in 2000 with a degree in Economics.

As of 31 December 2020

Source: X5 data

Leadership team

Tatiana Krasnoperova

DIRECTOR OF HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT, MEMBER OF THE EXECUTIVE BOARD

Tatiana joined the X5 team in February 2016 and has a proven track record in organisational development and HR management. She has over 10 years of experience in executive positions at major domestic and international companies, including EVRAZ, TNK-BP and Integra Group. Tatiana graduated from the Izhevsk State Technical University with a degree in Economics and Business Administration and was awarded an MBA from the RUDN University.

Elena Konnova

CORPORATE COMMUNICATIONS DIRECTOR

Elena joined X5 in January 2015. She has 15 years of experience handling public relations with some of Russia's largest companies. Before joining X5, Elena worked for Volga Group, Gazprom Neft, NIS (Naftna Industrija Srbije) and Ilim Group (a Russian pulp and paper holding). Prior to that, Elena spent more than 10 years working as a journalist for the Russian business press, including at Kommersant and Expert. Elena graduated from St Petersburg State University with a degree in Sociology and Economics.

In addition to overseeing X5 Retail Group's external and internal communications activities, she leads implementation of its sustainability strategy.

Dmitry Agureev

HEAD OF CORPORATE SECURITY

Dmitry has 28 years of experience working in government and corporate security, including leading Russian and international companies. He started his career in the Intelligence Service of the Russian Federation. Prior to joining X5 in 2013, he was the security director for Volvo Group Russia, Ukraine and Belarus and also held security positions at Gazprom and Transneft. Dmitry holds degrees from the Moscow Suvorov Military School, the Serpukhov Military Command-Engineering College of Nuclear Missile Forces and the Russian Intelligence Service Academy, as well as a Volvo MBA.

Ekaterina Lobacheva

GENERAL COUNSEL AND GOVERNMENT RELATIONS DIRECTOR, MEMBER OF THE EXECUTIVE BOARD

Ekaterina 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 in the legal field. Before joining X5 Retail Group, Ekaterina worked for over five years at Evraz Holding, where she implemented a number of large-scale projects in legal support for the business. During her term at Evraz Holding, she held numerous positions, including Director of Corporate and Property Relations; Vice President, Legal; and Law and Corporate Law Director. Ekaterina worked at MDM Bank as the Corporate Secretary from 2007 to 2011. She began her professional career in the legal field in 1999, working in several private and government entities before joining MDM Bank. Ekaterina graduated from the Russian Academy of State Service with a degree in Law in 2005 and received an additional degree in Finance and Credit from the Plekhanov Russian University of Economics in 2011.

Svetlana Volikova

DIRECTOR OF BUSINESS SUPPORT, MEMBER OF THE EXECUTIVE BOARD

Svetlana joined the X5 team in 2007. Today she is responsible for overseeing the business units that handle transportation and direct import, as well as the construction, leasing and development of real estate assets. Svetlana has held various positions within X5's Corporate Centre and retail formats, including the General Director of Karusel. From 1996 to 2007, she held positions at Auchan and Danone. Svetlana graduated from the Higher Institute of Management in Paris, France. She qualified as an ACCA accountant in 2009.

As of 31 December 2020

Source: X5 data

Pyaterochka proximity stores

Pyaterochka is Russia's largest food retail banner by revenue.

Our proximity store format continues to innovate as it further expands its market presence across the Russian Federation. The average Pyaterochka store has 392 square metres of selling space, with more than 4,500 SKUs on offer.

In addition to an all-new store concept that was approved in 2019, the format is piloting and rolling out AI-powered video monitoring systems and big data-driven engines to automate core processes like assortment, pricing and purchasing.

Pyaterochka

While 2020 was a challenging year, we were able to quickly implement measures to protect our customers and employees as the COVID-19 pandemic spread, as we sought to make Pyaterochka stores the safest and most reliable option for people across Russia to buy their food. Our local Pyaterochka proximity store was often the closest place to shop for the 70 million Russians who live in the catchment areas of our 16,709 Pyaterochka stores.

At the same time, we have kept an eye on our long-term priorities, and we delivered a year of both strategic progress and profitable growth as we continued to implement the updated CVP and store concept launched in 2019. More than 2,100 of these new concept stores now always smell of freshly baked bread and freshly brewed coffee, so that everyone – a teenager or an adult, a person at any income level – feels good there.

Throughout 2020, we achieved impressive results despite the challenges by remaining focused on each of the key components of our strategy, including continuous, systemic improvements in stores, higher sales densities and better perception of the Pyaterochka brand, which every Russian knows. We have increased efficiency at all stages of our logistics network up to the store and down to the shopping trolley.

These are all key elements of our number one priority, which win the trust of our guests and society at large, to be a company they can rely on. We believe that more than anything else, this trust will be reflected in our sales and profitability. We aim to win this trust through leadership in convenience, freshness and quality, care for the community and low prices. To achieve this, our employees must see that they are working for the best employer, and our processes should be effective. We did all of this during 2020, and that is what made us Russia's favourite brand across all categories during the pandemic – beating out our peers and also major international names like YouTube.

Looking ahead, we hope to continue to deliver value for our stakeholders, doing what we do best by providing our guests with a shopping experience the trust thanks to our excellent and dedicated team.

Sergei Goncharov
GENERAL DIRECTOR
OF PYATEROCHKA

2020 performance highlights

OPERATIONAL METRICS

16,709
Stores in operation
+8.8% 2019/20

6,542 THS SQM
Selling space
+9.5% 2019/20

1,597 RUB BLN
Net retail sales
+16.9% 2019/20

+6.9%
LFL sales growth

583
Stores refurbished

2,112
Stores operating under new concept
13% of store portfolio

393 RUB
Average check
+11.5% 2019/20

4.7 BLN
Customer visits
+4.5% 2019/20

LOYALTY PROGRAMME

175 MLN
Cards issues

37.7 MLN
Active users
+21.4% 2019/20

70%
Penetration in traffic

5.2 MLN
Mobile loyalty card users
+83.4% 2019/20

2020 strategic highlights

Create customer trust and loyalty

Consumers named Pyaterochka Russia's favourite brand across all categories, including social media, banking and the Internet, during the COVID-19 pandemic

Pyaterochka was ranked among the top 25 retailers for customer trust. More than 38% of our guests trust Pyaterochka

Improved in all key perception categories in customer surveys

Roll out new concept and adapt CVP

2,112 stores were operating under the new concept as of 31 December 2020

Safety has become a key feature of our CVP in response to the COVID-19 pandemic

New-concept stores demonstrate higher NPS, LFL sales and EBITDA vs previous concept

Leverage big data tools and omnichannel capabilities

7.3 mln MAUs using Pyaterochka mobile app in December 2020, +101% year-on-year

78x growth in average daily orders for express deliveries between January and December 2020 to 36.7 thousand at the end of December

594 stores fulfiling express delivery orders in 13 regions

Launched Pyaterochka #naletu cashierless store in Moscow

Increase personnel engagement

Staff turnover declined 2× in 2018–2020

Labour productivity improved by 4.1% in 2020

Further improve operational efficiency and shrinkage

Shrinkage decreased by 0.2 p.p. year-on-year in 2020

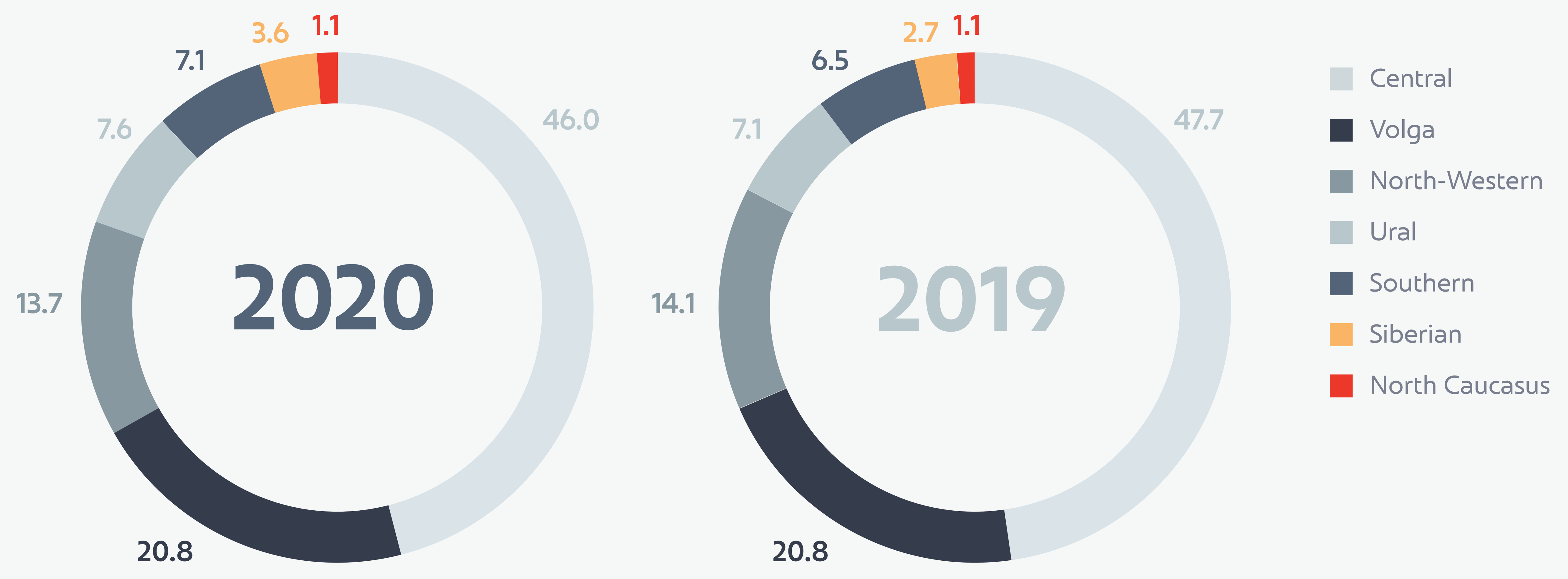
LFL sales grew by 6.9% year-on-year in 2020

Leadership in NPS and service level

NPS level improved by 3 p.p. in 2020

Number of customers in queues declined to 12.5% year-on-year in 2020 (–6.6 p.p. from 2019)

Net sales by region, %



Key operating results

	2020	2019	2018	2017	2016
Number of stores, eop	**16,709**	15,354	13,522	11,225	8,363
Selling space '000 ths sqm, eop	**6,542**	5,975	5,291	4,427	3,329
Net retail sales, RUB bln	**1,597**	1,367	1,198	1,001	776
Customer visits, mln	**4,662**	4,460	3,913	3,267	2,543

Strategic priorities

OUR PRIORITIES	WHAT WE ARE DOING
Adaptation and rollout of CVP	• 2,112 stores, or 13% of total, were operating under new concept as of 31 December 2020 • Introduced safety measures that have become a key part of CVP as a result of COVID-19 • Share of ready-to-eat/food-to-go increased 5× in new-concept stores, achieving 2.9% penetration in sales • In-store bakeries were available at 1,800 stores, coffee points at 1,300 and fresh squeezed juice dispensers at 750 at the end of 2020 • Piloted innovative Pyaterochka #naletu cashierless stores in Moscow
Operational efficiency and shrinkage	• Measures to reduce shrinkage continue to be effective, with shrinkage level declining by 13 p.p. in 2020 • Capex for opening new-format Pyaterochkas is comparable vs the old format • Strengthened entry quality control and DC operations • Implemented unified quality standards, training and controls for in-store operations
Customer trust and loyalty	• Adapted store operations to protect the safety of employees and customers in response to the COVID-19 pandemic • Continued to implement community-oriented programmes like Basket of Kindness and Island of Safety • Expanded health-food assortment and created health zones in stores • Rolled out initiatives to promote rational consumption of resources • Continued expansion of loyalty programme with 37.7 million active users; MAUs of Pyaterochka mobile app reached 7.3 million by December 2020

OUR PRIORITIES	WHAT WE ARE DOING
Service level	• Customer satisfaction ratings have improved across key areas, including cleanliness, assortment, freshness, care, convenience and polite personnel • Expanded guest feedback mechanisms, including through Pyaterochka mobile app • Received and processed over 120 million customer ratings • Reduced number of people waiting in queues by 26% year-on-year in FY 2020 • Total of 5,165 self-checkout machines installed in 1,746 stores
Personnel engagement	• Employee turnover declined by 12 p.p. year-on-year in 2020 • Supplied employees with PPE and adjusted working schedules to protect employee health during COVID-19 pandemic • Rolled out employee mobile app offering central source for scheduling shifts, employment-related documents, etc. • Introduced new employee training programmes, including on X5's ESG strategy and how every employee can contribute
Big data and omnichannel opportunities	• Automated pricing pilot in 773 stores in Moscow and Urals region achieved 1.0% increase in front margin • Automated promo tools aim to help reduce share of promo at Pyaterochka sales from over 35% in 2020 to under 30% by 2023 • Operating 4,487 parcel lockers and 11,937 pickup points for 5Post at Pyaterochka stores as of December 2020, which provide additional source of commission/income per store as well as incremental customer traffic • Express delivery with orders made via proprietary mobile app Dostavka.Pyaterochka available from 594 stores in 13 regions by the end of December 2020

WHAT WE PLAN TO DO

- Further adaptation and rollout of CVP
- Continue to further refine efficiency measures and reduce losses from shrinkage
- Offer personnel better working conditions, more opportunities to grow on the job and competitive compensation
- Expand use of in-house big data tools to improve operational decision-making and efficiency
- Short-term incentive plan for format management will continue to include LFL sales targets, as well as key performance metrics, such as staff turnover, NPS and ROIC
- Expand use of X5.ID and mobile app as key ways to improve our understanding of customers
- Offer more ways to shop, with express delivery and Pyaterochka #naletu becoming available to more customers

Ada`ptation and rollout of new CVP

The rollout of our new Pyaterochka concept continued in 2020, with 100% of new stores opened under the new concept and 583 updated, bringing the total to 2,112 stores operating under the new concept as of 31 December 2020

Some of the key advantages of the new format for customers, apart from more inviting and modern interior design, include more convenient shopping routes tailored to different shopping missions, an in-store bakery, coffee and fresh juice points, an expanded assortment of healthy foods, as well as more ready-to-eat and food-to-go items.

The impact of this new Pyaterochka concept has been very positive. Higher customer satisfaction, reflected in internal NPS performance of 49.5 vs 39.5 under the previous concept, has helped drive up LFL performance and sustain EBITDA margin in the new-concept stores.

New VS old concept: increasing level of customer satisfaction

+44%	Cleanliness
+33%	Freshness
+32%	Assortment
+31%	Price level
+29%	Care
+26%	Convienence
+9%	Polite personnel

Operational efficiency

One of our keys to offering low prices while maintaining solid profitability is to keep a constant focus on improving the efficiency of our business. Our efforts focus on four key areas:

Shrinkage

- Introduced shrinkage committees across macro regions
- Remote fruit and vegetable acceptance launched at DCs
- Smart reduction in assortment

Logistics

- Continued development of multilayer logistics infrastructure
- Focus on improving efficiency of transportation between our own DCs
- Elevated levels of inventory in 2020 were COVID pandemic related, not systemic

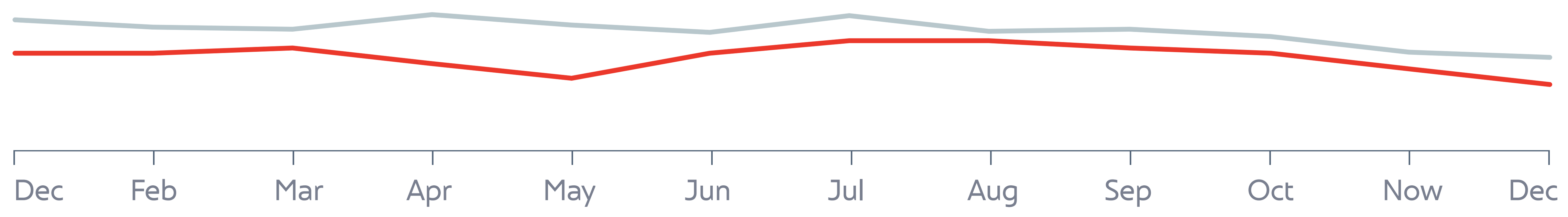
Lean Store

- Audit of store processes to simplify operations
- Decrease in inventory via audits at the SKU level and promo audits
- Simplified operations
- Optimal staff planning
- Efficient use of capex to open new stores

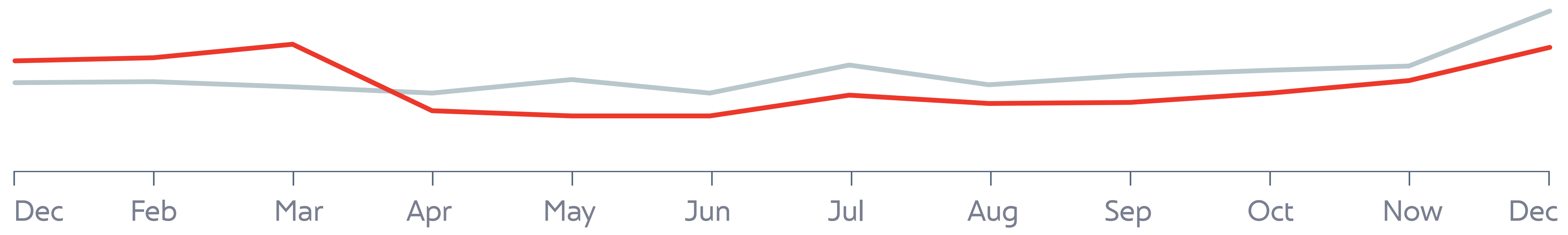
Rent

- Further optimisation of rent costs with a focus on revenue-linked rent

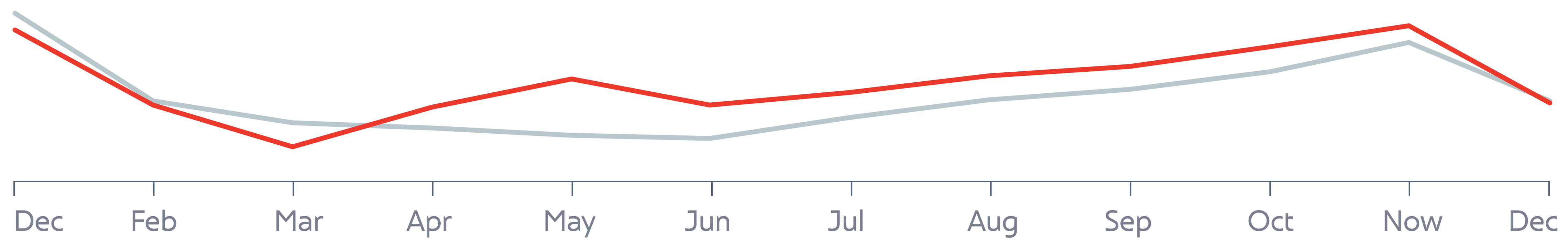
Personnel turnover, % **–12 p.p.** 2019/20



Shrinkage level, % of sales **–13 b.p.** 2019/20



Inventory turnover, days **+0.9 days** 2019/20



2019 2020

Customer trust and loyalty

Our focus on earning customers' trust has yielded good results. The pillars of our concept remain the same: we focus on being a leader in convenience, providing reliable freshness and quality, showing that we care for our local communities and, of course, offering low prices.

TRUST

Leader in convenience

We are rolling out a new format that offers customers in-store shopping routes tailored to different shopping missions, increasing the share of ready-to-eat and food-to-go, installing self-service checkouts that help reduce time in queues and offering omnichannel services like parcel lockers in stores and express delivery to customers' homes.

Fresh you can trust

With new quality standards being applied across all stores and our logistics operations, we are further increasing the quality of the goods we put on our shelves, with store staff receiving special training to help ensure that we offer customers fresh products they can trust.

Care for the community

Pyaterochka implements a number of programmes aimed at local communities. This includes waste reduction, sustainable packaging and recycling initiatives, Basket of Kindness food donations and the Island of Safety project to help people who have become lost or disoriented to get assistance returning home.

Low prices

While customers have begun to expect more from Pyaterochka stores than just low prices, they do remain a core element of our CVP. We are increasingly using advanced big data tools to improve our operations, from purchasing inventory to setting prices and managing promo. These tools give us insights that enable us to make better decisions faster and ensure that we continue to offer great value to our guests.

Choice of top-5 favourite brands during the COVID-19 pandemic, % of responses

Source: BCG and Romir, September 2020

Customer feedback

- We put our customers at the heart of our decision making and we are constantly improving our ability to understand their needs
- Our business is built around consumer demand and we adapt our model to different regional trends
- Our goal is to create processes where feedback results specific changes for our customers
- We have integrated NPS into performance-related KPIs for personnel

Service level

Our stronger customer focus is reflected in NPS growth of 3 p.p. in 2020. We believe that higher staff engagement results in an improvement in customers' perception of staff politeness in our stores.

Our focus on improving service levels and customer experience remains unchanged, and it will be based on improved customer feedback in the decision-making process. In 2020, we launched a product rating option in the mobile app. We received ratings of products from over 4.5 million unique guests, and their feedback led to changes in 80 SKUs. In total, we have 23 different feedback channels, ranging from the call centre to chatbots and our mobile app.

Big data and omnichannel opportunities

As part of X5's overall digital transformation, Pyaterochka is implementing a number of initiatives to leverage advanced big data analysis in its business operations and to expand omnichannel opportunities that often intersect with digital businesses.

In our stores, we continue to expand the 5Post network of parcel lockers and pickup points, which enable customers to safely and conveniently receive packages from a wide range of e-commerce providers at their local Pyaterochka store. These parcel lockers help both to drive additional customer traffic to our stores and offer our guests additional convenient services.

As an extension of our stores, we rapidly accelerated the scaling up of express delivery services, which have been transferred to a separate business unit. Demand for express delivery exploded during the COVID-19 pandemic, when customers wanted to limit their trips outside and contact with other people. Thanks to our highly scalable in-house delivery aggregator platform, we went from handling an average of 523 orders per day from 39 stores in Moscow only in February 2020 to an average of 30 thousand orders per day from 594 stores in 13 regions by December 2020.

Big data tools primarily impact our business operations behind the scenes, but they are key to helping us meet consumer demand in the most effective and most efficient way possible. That is why we are piloting, rolling out and using big data–enabled tools to manage our assortment, pricing and promo. Each of these tools is built by our in-house big data team and tailored specifically to our own needs.

Personnel engagement

Pyaterochka achieved a 12 p.p. year-on-year improvement in staff turnover in 2020, while labour productivity rose by 4.1% year-on-year. Our store employees are becoming front-office workers, and we treat them as internal customers.

When we update stores to the new concept, for example, the back-room facilities are also improved. Compensation and benefits were expanded and designed to align the interests of in-store staff with key performance metrics.

Our investments in making Pyaterochka a good place to work mean that it has become easier for us to hire people, and we are registering increased employee engagement. As a result, the perception of politeness is rising and shrinkage is falling, meaning we are serving our customers better while also improving the profitability of our business.

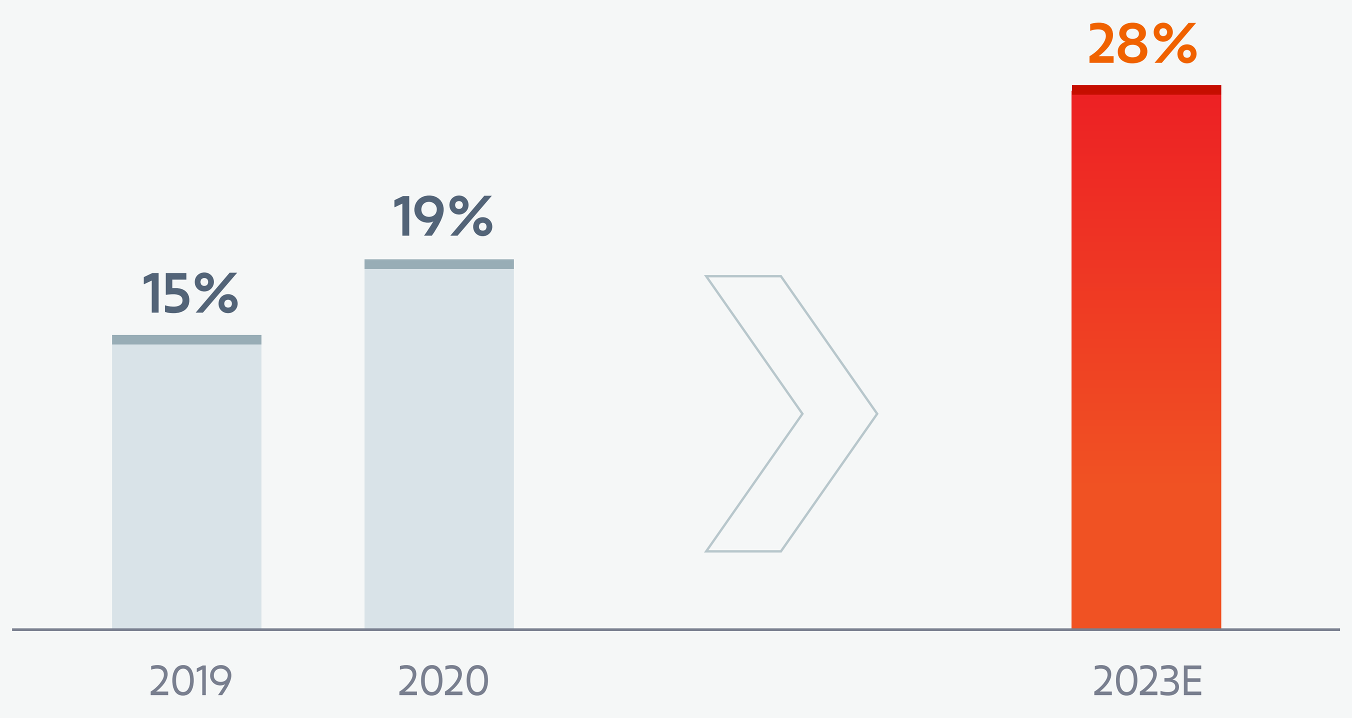
Private label

Private label continues to play a key role in the Pyaterochka CVP, as it allows us to offer customers reliably great value at a variety of price points. Our private label assortment accounted for 19% of sales in 2020, up from 15% in 2019. Our strategic aim is to increase the share of private label goods to 28% of sales by 2023.

The digital transformation of our business is also affecting the private label segment. We are developing a supplier portal to automate our interactions, and we are using digital technologies to implement product life-cycle management. With the increased use of online and digital channels, our ability to collect, analyse and respond to guest feedback has also been enhanced.

Quality assurance is an area we continue to focus on. This is an ongoing process, involving regular quality control processes, maintaining product standards and samples, and running a tasting kitchen to try new or improved recipes.

Private label share in sales, %



Perekrestok supermarkets

While Perekrestok is Russia's oldest modern-format supermarket operator, we are always innovating and adapting. Today Perekrestok is Russia's largest supermarket chain by number of stores and revenue, with 933 stores as of 31 December 2020.

Our geographic focus is on Russia's most affluent regions. After updating our CVP, we have been rolling out new-concept stores across the network, including by renovating some Karusel hypermarkets into a new large supermarket format.

Perekrestok supermarkets were offering an assortment of 8,000–15,000 SKUs, with an average selling space of 1,087 square metres as of year-end 2020.

Our Perekrestok.ru online service was transformed into the Perekrestok Vprok online hypermarket during 2020; more details on this business can be found in the "Digital businesses" section.

Perekrestok

Perekrestok remains on a strong footing after the challenges we faced in 2020, when some stores were closed due to restrictions on shopping centre operations, and some experienced a notable decline in traffic as a result. Despite this, we delivered 1.2% LFL sales growth and 18.4% basket growth, as customers continued to choose to shop at Perekrestok due to its attractive combination of wide assortment with competitive prices for the supermarket segment.

We remained focused on implementing key strategic initiatives during 2020, rolling out new-format stores, which reached 12% of the total portfolio by the year end. These new stores offer a more convenient and engaging shopping experience, and a revamped assortment with more ready-to-eat foods, expanded private label offerings and a focus on healthier eating.

Sustainability has been integrated into our business, with specific goals concerning energy efficiency, solid waste reduction, community engagement and healthy living all becoming strategic priorities on par with digital transformation, business growth and customer centricity.

Our customers are playing an increasingly direct role in how we make decisions. Thanks to the expansion of feedback channels, including through our mobile app and website, we collected over 573 thousand ratings on our assortment during 2020. This feedback helped us make over 1,500 changes to the Perekrestok assortment and amend business practices, truly putting our customers at the centre of what we do.

Looking ahead, we will continue to expand our reliance on customer feedback to determine the future of the Perekrestok supermarket CVP. As we roll out our new concept stores, further digitalise the business and scale up our focus on sustainability, everything we do will be with the aim of better serving every guest who walks through our doors.

Vladislav Kurbatov
GENERAL DIRECTOR
OF PEREKRESTOK

2020 performance highlights

OPERATIONAL METRICS

933

Stores in operation
+10.0% 2019/20

1,014 THS SQM

Selling space
+15.4% 2019/20

320 RUB BLN

Net retail sales,
incl. Perekrestok Vprok
+17.5% 2019/20

562 MLN

Customer visits
–4.6% 2019/20

47

Stores refurbished
incl. 25 Karusel stores transferred to Perekrestok

1.2%

LFL sales growth

2020 strategic highlights

Positive customer response

Reflected in a 1.2% increase in LFL sales despite restrictions on shopping mall operations

Updated customer value proposition (CVP)

As more stores are refurbished to the new concept, they continue to receive positive customer responses

Continuous adaptation of assortment and CVP

Sales of ready-to-eat assortment from Smart Kitchen rose by 138% year-on-year

Operational efficiency

Focus on efficiency led to better performance in terms of inventory, personnel and logistics

Share of private label in assortment/turnover

Increase to 12.5% of revenue in 2020, up from 7.9% in 2019, reaching 13.9% at the end of 2020

Expansion of the loyalty programme

Loyalty card penetration in sales reached 80% at Perekrestok with more than 8.1 million active loyalty card users, up 14.1% year-on-year

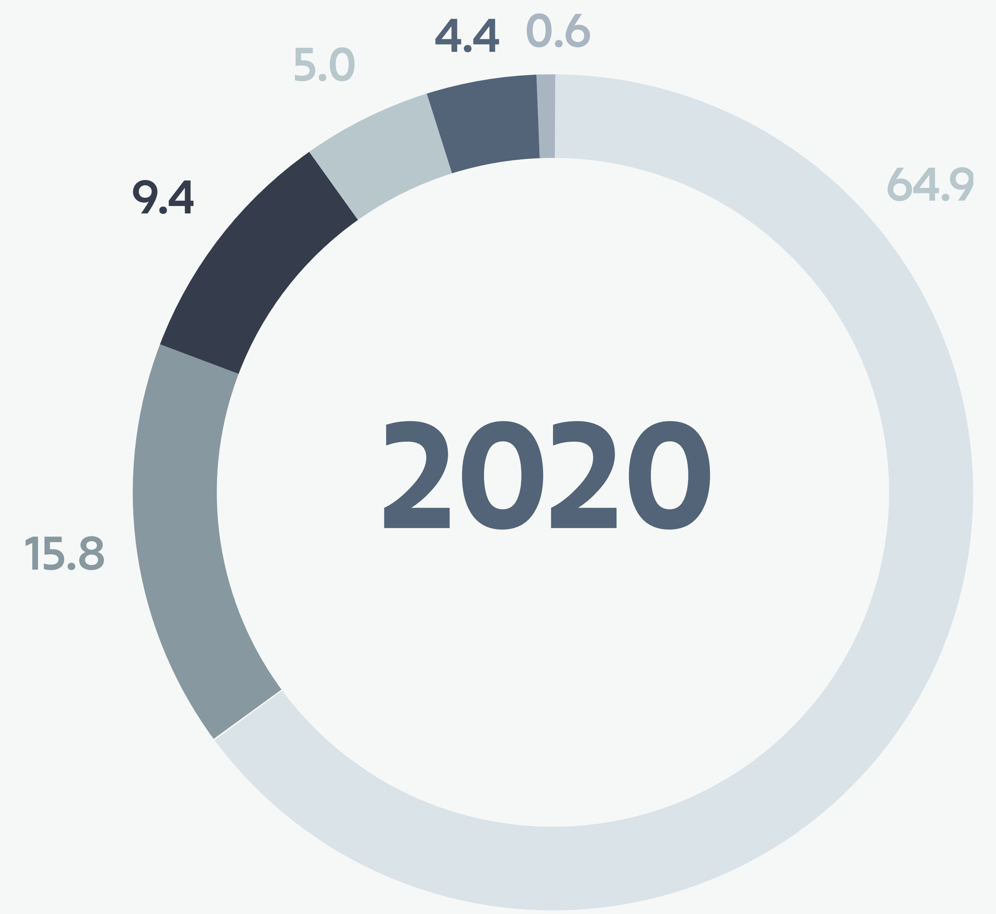
CVM (customer value management)

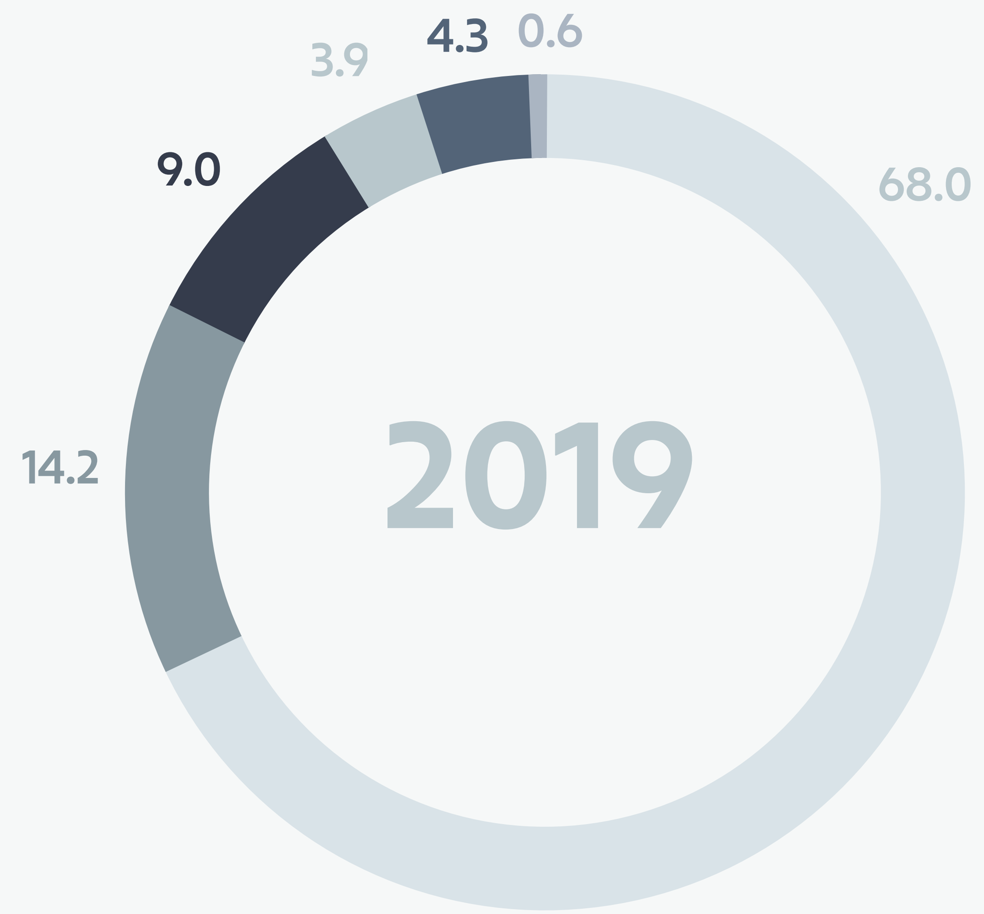
Developed and tested a new system for managing targeted marketing campaigns

Express delivery

Rapidly met unprecedented surges in consumer demand by quickly scaling up express delivery, implementing the service across 398 stores in 12 regions

Net sales by region, %





Key operating results

	2020	2019	2018	2017	2016
Number of stores, eop	**933***	852	760	638	539
Selling space '000 ths sqm, eop	**1,014**	879	782	637	549
Net retail sales, RUB bln	**320**	273	231	187	155
Customer visits, mln	**562**	589	505	407	350

* Excluding Perekrestok Vprok dark stores

Strategic priorities

OUR PRIORITIES	WHAT WE ARE DOING
Continuous adaptation of the CVP	• Continuing rollout of new store format • Increasing share of ready-to-eat and healthy foods • Increasing employee engagement, which is reflected in service quality
Customer-centric business: NPS growth and feedback	• Improving service level; NPS improved to 27 in 2020 from 21 in 2019 • Reducing time to resolve customer queries • Adapting assortment based on customer ratings and feedback
Private label development	• Wide private label assortment from low-price to exclusive brands • Digitising business practices to increase the efficiency of private label management

OUR PRIORITIES	WHAT WE ARE DOING
Operational efficiency	• Automation of supplier interactions • Automation of HR processes • Digitalisation of in-store processes • Improving forecasting and replenishment
Loyalty programmes	• Expanded loyalty programme to 8.1 million active cardholders and 80% penetration in sales in December 2020 • New mobile app launched in October 2020
Sustainable development	• Developing sustainable packaging for private label goods • Ongoing support for community-centric programmes like the Basket of Kindness food drive • Piloting reverse vending machines to encourage customers to recycle • Increasing use of bags and shopping baskets made from recycled plastic

WHAT WE PLAN TO DO

- Continue to roll out new CVP
- Continue to digitalise business processes to achieve greater efficiency
- Leverage big data tools to improve speed and accuracy of decision-making, as well as automate key practices
- Further integrate sustainable development goals into business practices, from logistics to store operations to community stakeholder interactions
- Expand use of customer feedback as a key element of decision-making in the business, helping to guide private label development, overall assortment and CVP

Updating the value proposition and concept of supermarkets

Throughout 2020, we rolled out our new store concept, which reflects the latest trends in the food retail market, such as increased demand for healthier options, ready-to-eat and ready-to-cook food offerings, as well as growing customer interest in stores that engage in sustainable business practices.

New-concept upgrades continued: 22 Perekrestok supermarkets were opened following refurbishments, and 25 Karusel hypermarkets were transformed into Perekrestok supermarkets in 2020. LFL sales growth in new-concept stores is 3.5 p.p. higher on average compared to the previous concept.

New VS Old Perekrestok averaged: increasing level of customer satisfaction

+100%	+31%	+43%	+40%	+14%
Cleanliness	Speed of service	Convienence	Quality and freshness	Assortment

NPS dynamics

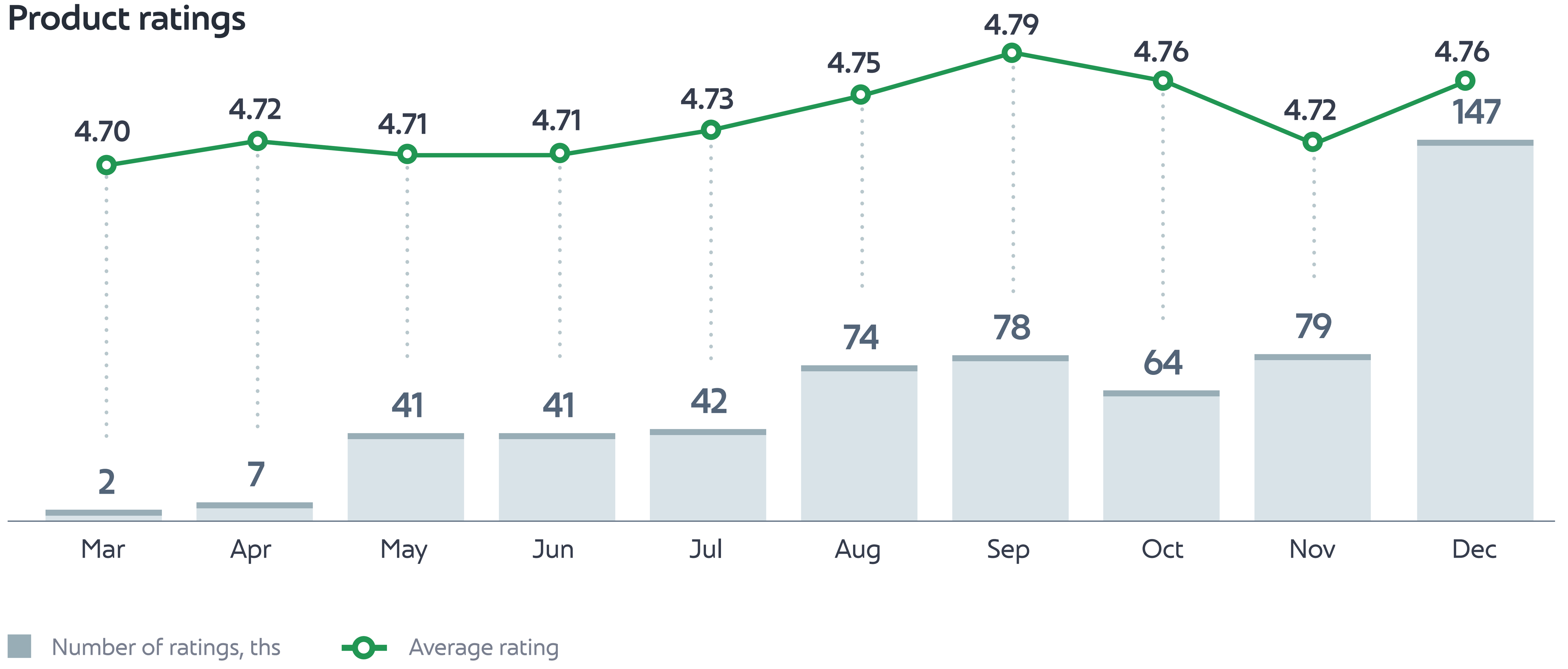
Customer-centric approach through feedback

Our relentlessly customer-centric approach is why Perekrestok remains one of the fastest-growing supermarket chains in Russia. As the new store concept was being rolled out during 2020, we saw increased customer satisfaction with cleanliness, convenience, speed of service, assortment, quality and freshness.

In addition to customer loyalty, we also strive to earn trust by ensuring that customer feedback is welcome and heard. During 2020, we received over 3.1 million customer inquiries, of which over 570 thousand were product ratings.

The feedback process is simple, quick and automated, and we work with suppliers to transform customer comments into improvements to products, assortment and ready-to-eat recipes. We also use feedback to improve the store experience and encourage a service culture among our employees.

Product ratings



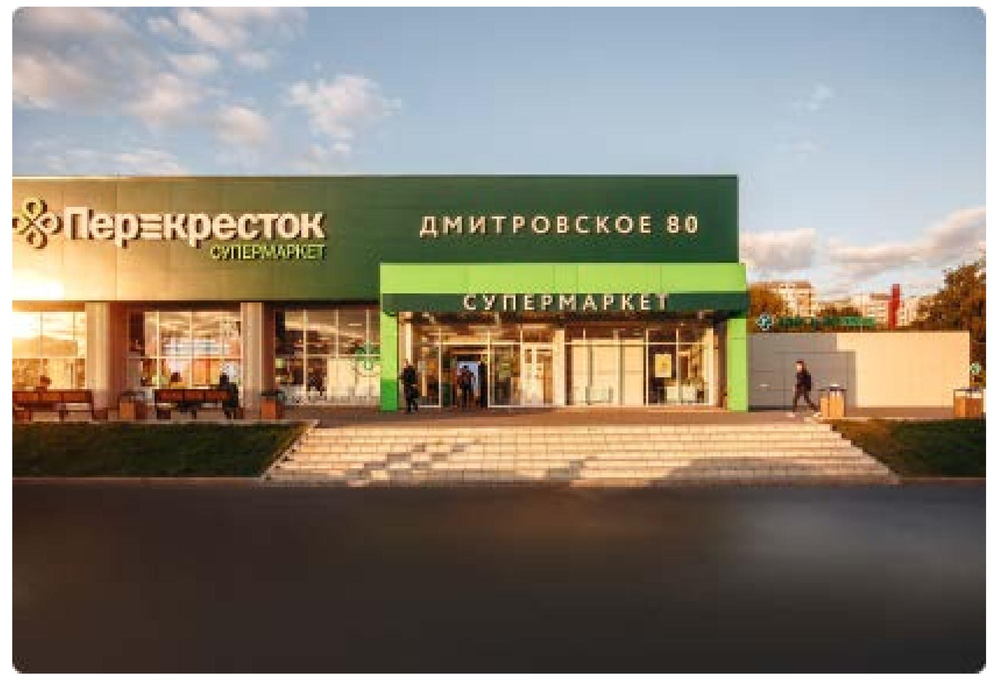
Customer value management

In 2020, we launched our customer value management (CVM) project, which creates personalised offers based on customer behaviour using a set of analytical models that were developed in-house. Thanks to the digital approach to determining target audiences, we were able to increase responses to offers by 150%–200%, and to increase revenue per offer per client by 30%.

CVM is essentially a marketing management tool for customer value through personalisation of offers across all available contact points and at all stages of the customer journey. We are building a client-centric system that aims to support long-term cooperation with each customer. Analysis of customer behaviour and decision-making about interactions happen automatically based on our in-house algorithms and customer data.

As part of the CVM product, we will focus our efforts on engaging partners and suppliers in CVM campaigns, automating launch processes and expanding our behavioural models.

Transformation of Karusel hypermarkets into large supermarkets



In 2020, X5 Retail Group launched the transformation of the Karusel hypermarket format, with 25 Karusel hypermarkets transformed into Perekrestok supermarkets during the year.

In the short term, pilots of large-format supermarkets have shown good average check performance following their reopening. In the longer term, we expect that the net impact on profitability will be positive, as we aim to improve sales densities and unit economics for the stores that will be transferred to the Perekrestok brand.

Personnel

In addition to delivering a superior experience to our customers, we also work to earn the trust and loyalty of our employees.

–5.5 P.P.

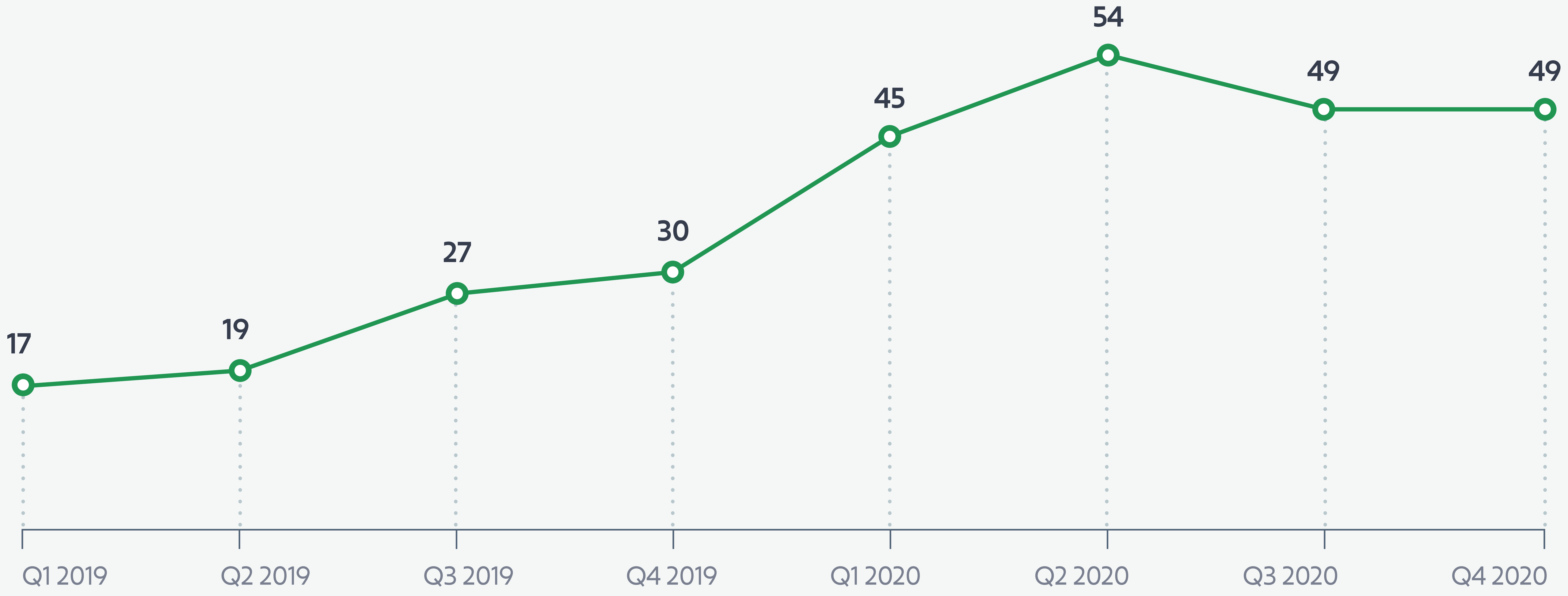
Staff turnover dynamics

In 2020, we launched a mobile app for employees that serves as a single point of access for information and services. We developed a new concept for personnel facilities with a focus on worker comfort and safety, automated several HR processes and began implementing a personnel planning and management system.

We are also leveraging digital technologies to improve employee efficiency in stores, ranging from virtual reality training and chatbots to automated processing of employee suggestions.

These investments and initiatives have had a positive impact on our employee NPS (eNPS), as well as on turnover and labour productivity.

eNPS dynamics



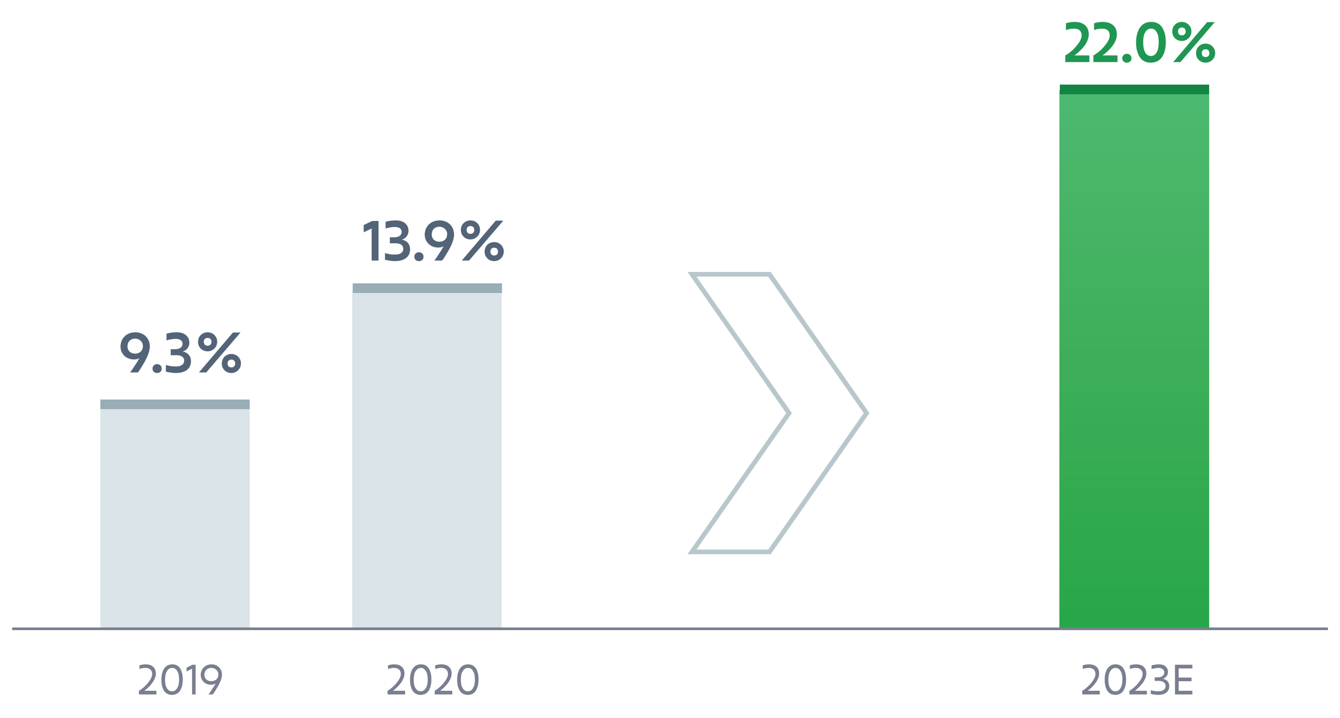
Private label

Perekrestok's private label assortment accounted for 12.5% of revenue in 2020, reaching 13.9% at the end of the year, up from 9.3% at the end of 2019.

Our private labels include Green Line healthy foods, which are aimed at meeting increasing demand for healthy options, and a range of other brands that cover all price segments, from Prosto! at the lower end to exclusive offerings like the Verkhovye dairy product range. The rollout of our new store concept has a dedicated healthy lifestyle area where an extended assortment of Green Line products is available.

This already successful business line is undergoing a digital transformation, with an ongoing initiative to digitise private label management with automated pricing. Other important initiatives include management of the private label portfolio based on customer feedback, improving the product development process while fostering strategic partnerships in each category, and market leadership in terms of innovative products that focus on healthy lifestyles. Looking ahead, we plan to relaunch several private label brands and develop products aimed at the medium and high price segments.

Private label share in sales, year end, %



Upper price segment

- FOOD – Premium products – 2019
- NATURAL PRODUCTS
- DAIRY
- CHILDREN'S HYGIENE
- FOOD – Co-brands, Tea/coffee – 2020
- ASIAN FOOD – 2020
- FOOD – Swiss chocolate – 2020
- ALCOHOL – Wine, Whiskey – 2021
- NON-FOOD – Asian hygiene products – 2021
- EXCLUSIVE BRANDS – Asian/European cosmetics – 2021
- FOOD – Weight loss + functional products – 2021

Middle price segment

- FOOD – Complementary/own production
- HOUSEHOLD PRODUCTS
- DAIRY
- CONFECTIONARY
- READY-TO-EAT READY-TO-COOK
- FISH
- CHILDREN UP TO 3 YEARS OLD
- CHILDREN AGED 4 AND OVER
- FRUIT AND VEGETABLES – 2019
- PET PRODUCTS – 2021

Low price segment

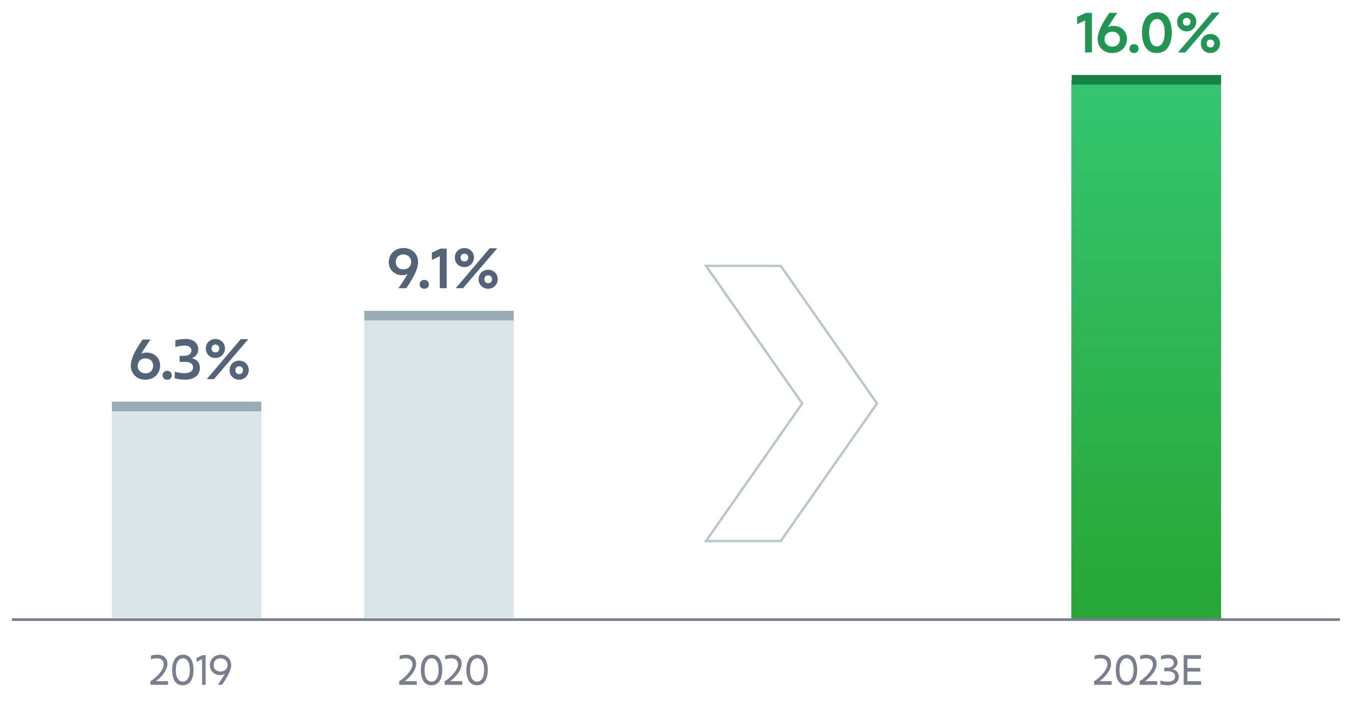
- FOOD/NON-FOOD/COMPLEMENTARY PRODUCTS – Everyday low prices

Healthy lifestyle

Along with our private labels, healthy lifestyle products are a fundamental differentiator for Perekrestok. Not only do we supply our customers with a varied and exciting assortment of healthy lifestyle products, but we educate customers on how to lead a healthy lifestyle with Perekrestok through our communications initiatives.

Key priorities include further expansion of our healthy assortment, further development of the Green Line private label, eco-friendly packaging and labelling, and establishment of a special assortment targeting customers who are most committed to a healthy lifestyle.

Healthy assortment in sales, %



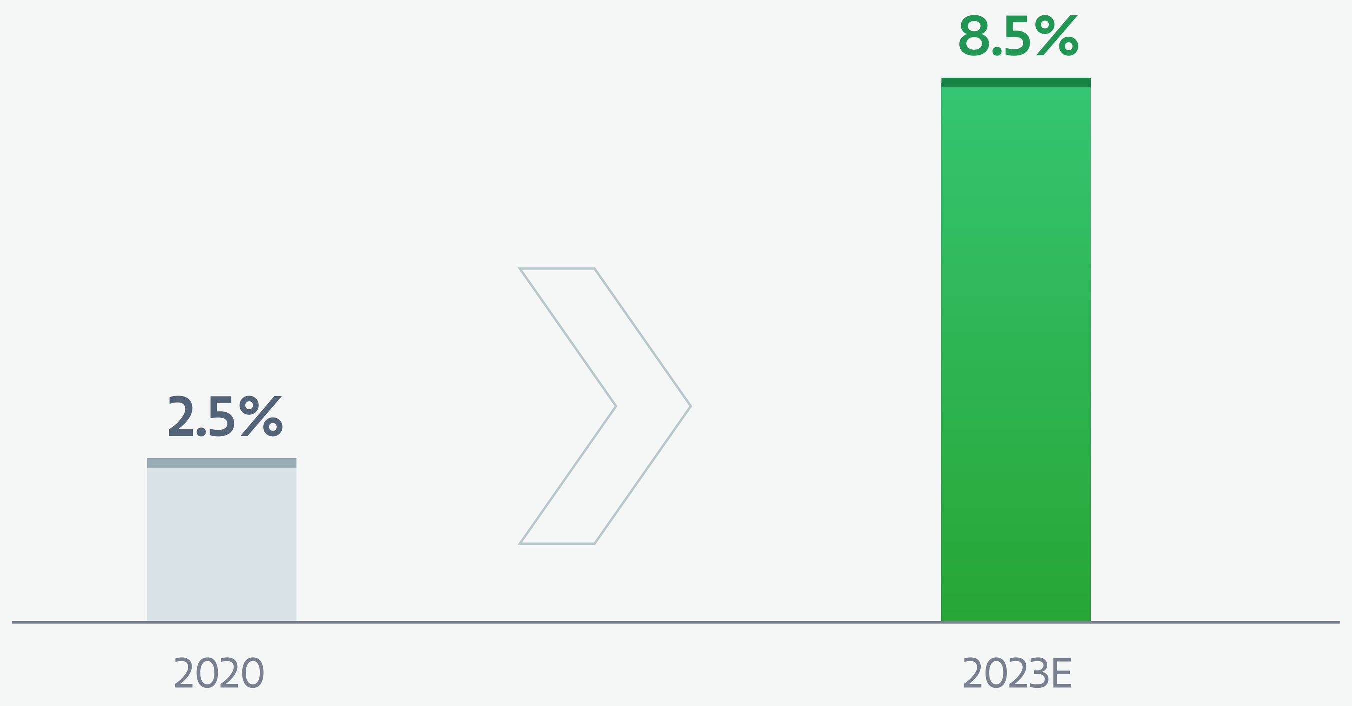
Ready-to-eat

Our ready-to-eat offering is more important than ever, as customers living in uncertain times prefer to simplify where they can, driving demand for high-quality ready-to-eat and ready-to-cook foods.
Following its launch in 2019, our Smart Kitchen concept gained momentum during 2020 with 138% sales growth. Other ready-to-eat initiatives include our Open Kitchen concept with dedicated thematic cooking areas and redesign of the Perekrestok store layout with new positioning of ready-to-eat products.

The unique ready-to-eat and ready-to-cook assortment includes healthy lifestyle products, collaborations with restaurant chains and famous chefs (Osteria Mario, Novikov), and a range of packaged ready-to-eat products for children that serve ideally as a perfect school lunch or after-school meal.

Going forward, we plan to introduce the Chef Perekrestok brand of ready-to-eat foods to new regions. As we expand and test new assortments, we aim to offer ready-to-eat food as an everyday convenience for our customers.

Ready-to-eat share in sales, %



Operational efficiency

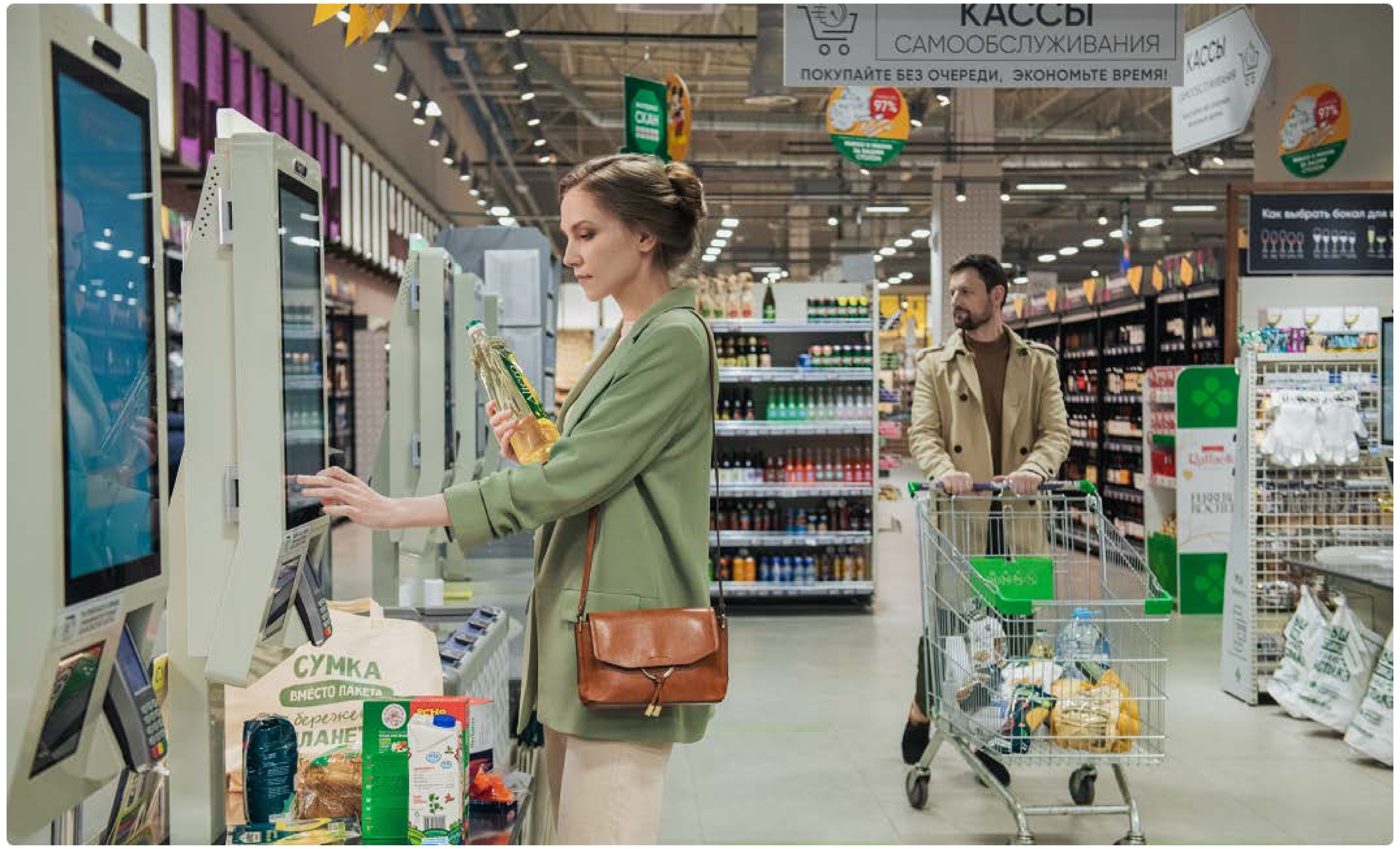
In order to create value for our customers and shareholders alike, we maintain a constant focus on operational efficiency. The Perekrestok approach is focused on digitisation and automation.

-12 b.p.
Shrinkage

-17 b.p.
Retail opex

Key initiatives include digitisation of commercial processes, in-store process digitisation, our CVM system for the launch of targeted marketing campaigns and digitisation of private label management.

We're also improving and automating our forecasting and replenishment, as well as automating interactions with suppliers and several HR processes.

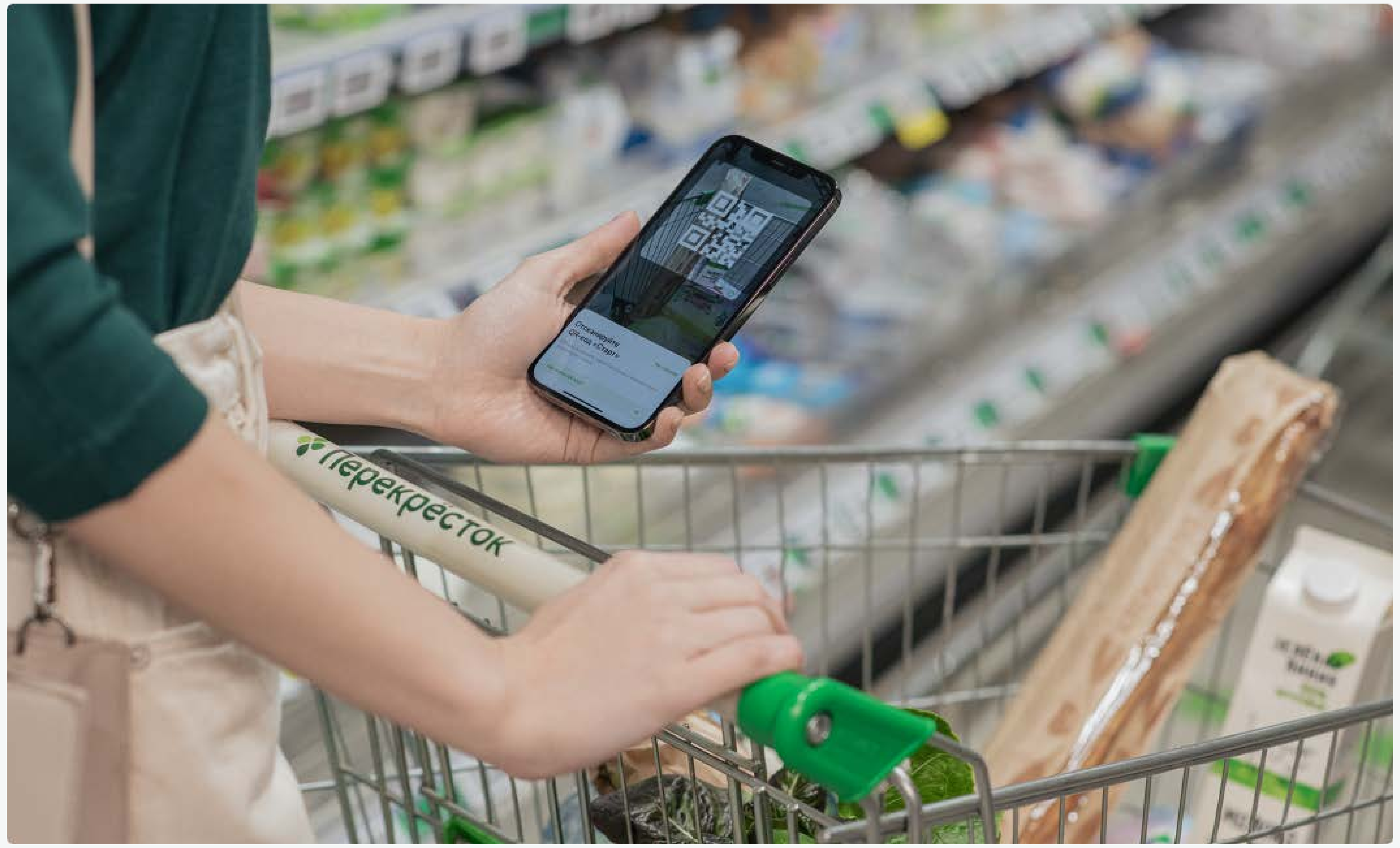


Digital transformation

Perekrestok's performance in 2020 shows that we chose the right strategic path several years ago, when we began to focus on digital transformation. Our automated pricing system is now capable of setting prices based on local customer patterns on a store-by-store and product-by-product basis in Moscow.

Our robust IT infrastructure and new digital services developed for our customers also enabled us to adapt quickly to the unprecedented changes in consumer demand during 2020 and rapidly scale up express delivery services. We also renewed our click & collect services from 123 stores after the Perekrestok mobile app was upgraded and relaunched.

Looking ahead, we'll continue to focus on innovation, digitisation and automation of business processes. In addition to existing services, we will also test new omnichannel solutions that have the potential to further enhance our CVP



Loyalty programme

By shifting the focus to the customer, the Perekrestok Club loyalty programme is a powerful tool for improving business performance.

By collecting valuable data about customer motivations, buying behaviours and purchase histories, the loyalty programme develops a more comprehensive understanding of our customers, which enables us to better meet their needs. Based on this data, we deliver an optimised assortment, personalised promotions and custom offers which engage and create value for customers.

The Perekrestok Club has been further integrated into the relaunched Perekrestok mobile app, and users can now activate personal offers, select their favourite products, order express delivery or join the Tail Club for pet owners.

To further improve the customer experience, we conducted market research in 2020 that included interviews with loyalty programme members. This research identified over 120 ideas that we aim to implement in the future.

8.1 MLN	2.1 MLN	80%	67%
Active cardholders +14.1% 2019/20	Digital loyalty card users +76.9% 2019/20	Penetration in sales	Penetration in traffic

Karusel hypermarkets

During 2020, most of our Karusel hypermarkets were in the process of transformation after X5 Retail Group management took the decision in 2019 to transform the format.

This decision was driven by the changing market landscape and consumer trends. As e-commerce has become an increasingly important part of the food market, we believe that many customers will switch to online hypermarkets like Perekrestok Vprok for their stock-up shopping needs.

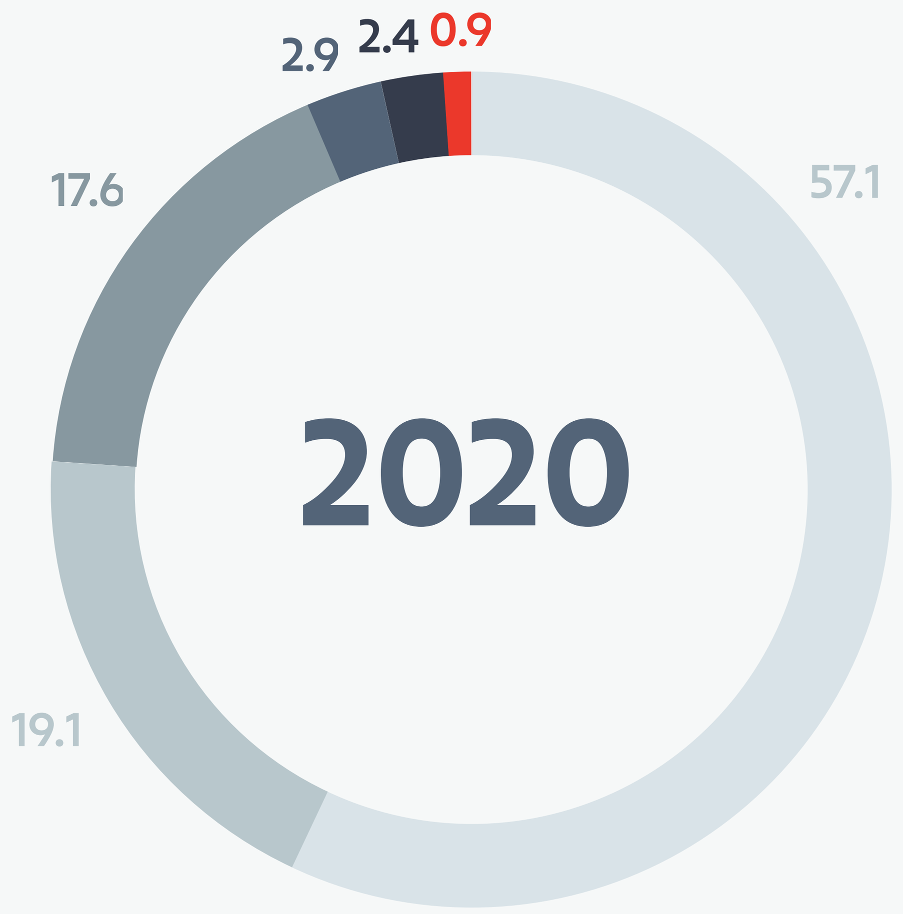
Karusel's team, in parallel with downsizing its operations, focused on the operational efficiency of stores that remain in operation as hypermarkets for the immediate future.

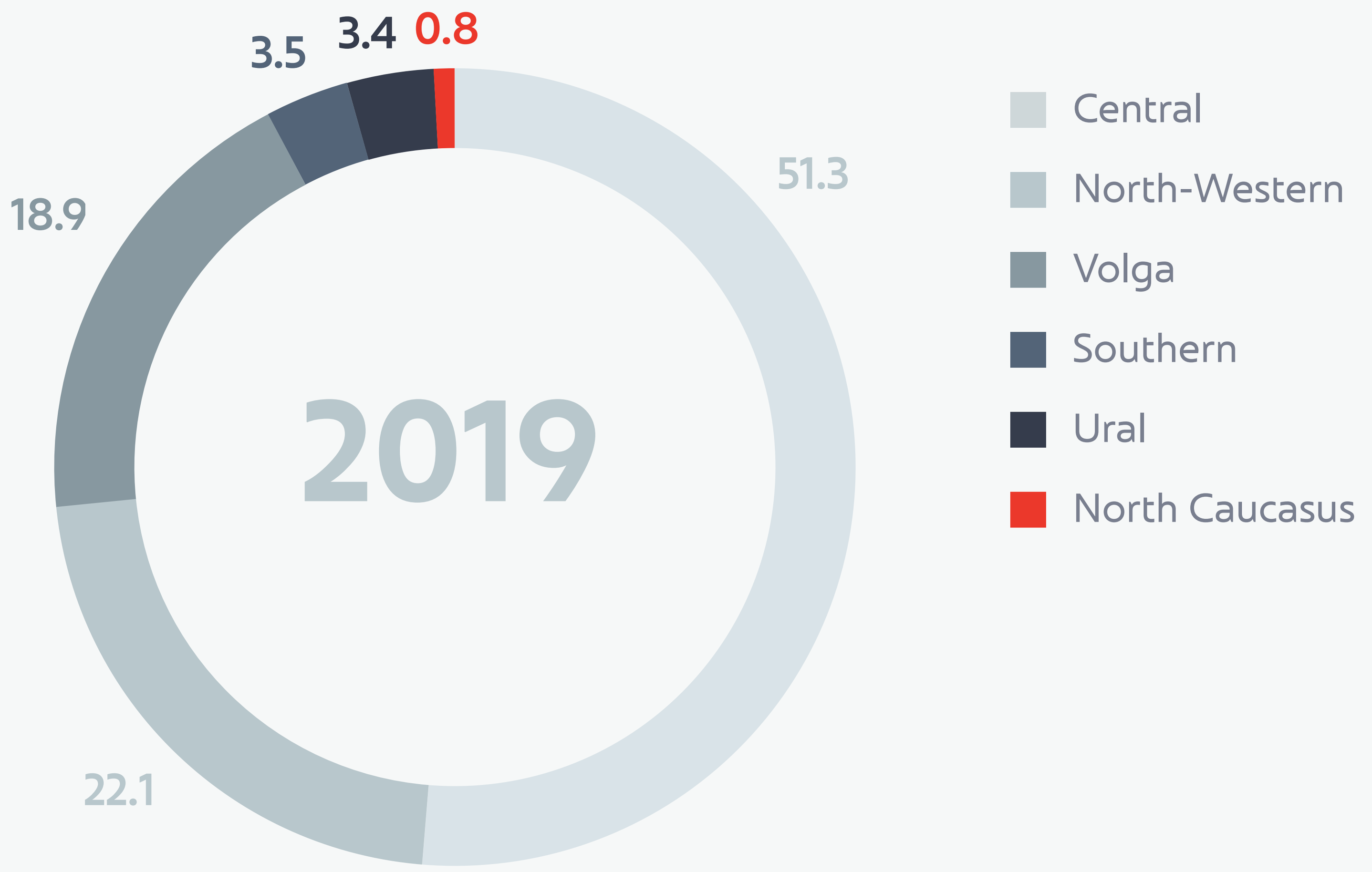
2020 performance highlights

OPERATIONAL METRICS

56	56 RUB BLN	68 MLN	222.1 THS SQM
Stores in operation as of 31 December 2020	Net retail sales	Customer visits	Selling space as of 31 December 2020

Net sales by region, %





2020 strategic highlights

Digital transformation

We are implementing key digital transformation initiatives at Karusel hypermarkets in order to ensure their continued efficient and effective operations. This includes the "digital director" programme, which helps to save resources used in stores.

We are also further automating reporting, with a full transition to digital reporting. Finally, Karusel plans to fully transition to e-catalogues for customers in the second quarter of 2021; this initiative will save costs and reduce waste generated as we stop printing and distributing paper catalogues.

Operational efficiency

As we aim to maximise the efficiency of Karusel's operations during the transformation period, we have integrated all logistics and procurement activities with Perekrestok. This has enabled us to streamline these operations while also reducing duplicate functions and saving on costs.

We are also working with our store portfolio to improve rental terms and use of space. Administrative personnel and structures have been optimised as the transformation continues and the store base shrinks.

Loyalty programme

Loyalty card penetration in Karusel sales was 94% in FY 2020, while penetration in traffic was 86% for the same period. We have also worked to develop the Karusel mobile app, which leverages our X5.ID infrastructure that identifies customers across all retail formats.

Key operating results

	2020	2019	2018	2017	2016
Number of stores, eop	**56**	91	94	93	91
Selling space '000 ths sqm, eop	**222**	364	382	385	387
Net retail sales, RUB bln	**56**	87	91	89	84
Customer visits, mln	**68**	121	132	135	134

Chizhik hard discounter stores

Chizhik is the name of the hard discounter format that we began to pilot in October 2020.

As household incomes in Russia remain weak, we believe that development of a hard discounter format will strengthen our market position and draw new customers who may not have shopped at X5 stores before or who would favour a more limited assortment in return for more attractive prices.

We plan for Chizhik stores to typically have 250–280 square metres of selling space and an SKU range of around 800 goods. Private labels with an attractive price/quality balance will play an important role in our CVP. While offering reliable low prices, Chizhik stores will still provide customers with a modern shopping experience and friendly, helpful staff.

Private labels with an attractive value for money balance will pay an important role in our CVP, along with a convenient and fast checkout experience.

Chizhik store layout

The Chizhik concept is based on simplicity and standardisation. Each store uses the same set of equipment, simple but bright design, large price tags and has no storage rooms. In 2021, testing of the typical store layout will be completed, and we will use customer feedback to create the optimal customer journey.

Chizhik recommends

shelves features a rotating assortment of new private label brands and seasonal goods.

Brand wall provides

a vivid message for guests, such as "prices that will blow you away".

Large yellow price labels highlight the attractive pricing of Chizhik goods

using colours that are often used to highlight promotions in other stores.

Most products are displayed in shelf-ready-packaging or on pallets

helping to lower operating costs for each store.

Special limited time assortment

is placed under the slogan "don't miss your chance".

Pallets and cardboard are used as design elements in Chizhik stores

helping limit capex for store openings while giving them a unique atmosphere that underscores the EDLP positioning of the format.

2020 performance highlights

OPERATIONAL METRICS

4
Pilot stores
opened in 2020

800 SKUs
A limited but reliable assortment

24
Private label brands developed for the format

60%
Target penetration of private label in assortment by FY 2023

45
New pilot stores planned for 2021

Chizhik's mission is to make quality good accessible to our customers.

Chizhik will aim to offer customers a shopping experience that saves them time and money without cutting corners on quality.

Key features

Chizhik aims to offer an optimum assortment with a focus on private label goods, offering customers savings of up to 20% below what they would normally pay for similar goods.

The pricing policy of the new format will be based on a less expensive average food basket by offering everyday low prices. The limited assortment that is core to the Chizhik format will also help us to keep prices low by enabling us to optimise operational costs and keep losses to a minimum.

Stores have a simple yet modern design with wide aisles, large price labels and shelf-ready packaging for efficient stocking and sales. In addition to low prices, the store design and operations focus on saving customers' time, which research has shown is the second most important factor for our target audience.

Private label

Chizhik aims to offer an optimum assortment with a focus on private label goods, offering customers savings of up to 20% below what they would normally pay for similar goods.

Chizhik's private label assortment is being developed based on customer feedback, and the first samples will start appearing on shelves at our pilot stores in early 2021. Each product undergoes quality testing with a focus on consumer preferences, including comparisons with leading peer products across various categories. Only private label goods that are deemed to be on par with or better than their counterparts will be allowed on Chizhik shelves.

Customers will then have the opportunity to rate the private label products presented in the stores by leaving reviews via a special chatbot, which can be accessed through a QR code placed in the sales area. Individual products will be improved if necessary based on customer feedback, including by adapting ingredients, recipes, packaging and even the exclusion of an item from the product matrix.

Plans for 2021

01
Open 45 pilot stores in different regions of Russia as we continue to refine key aspects of the concept and establish business processes

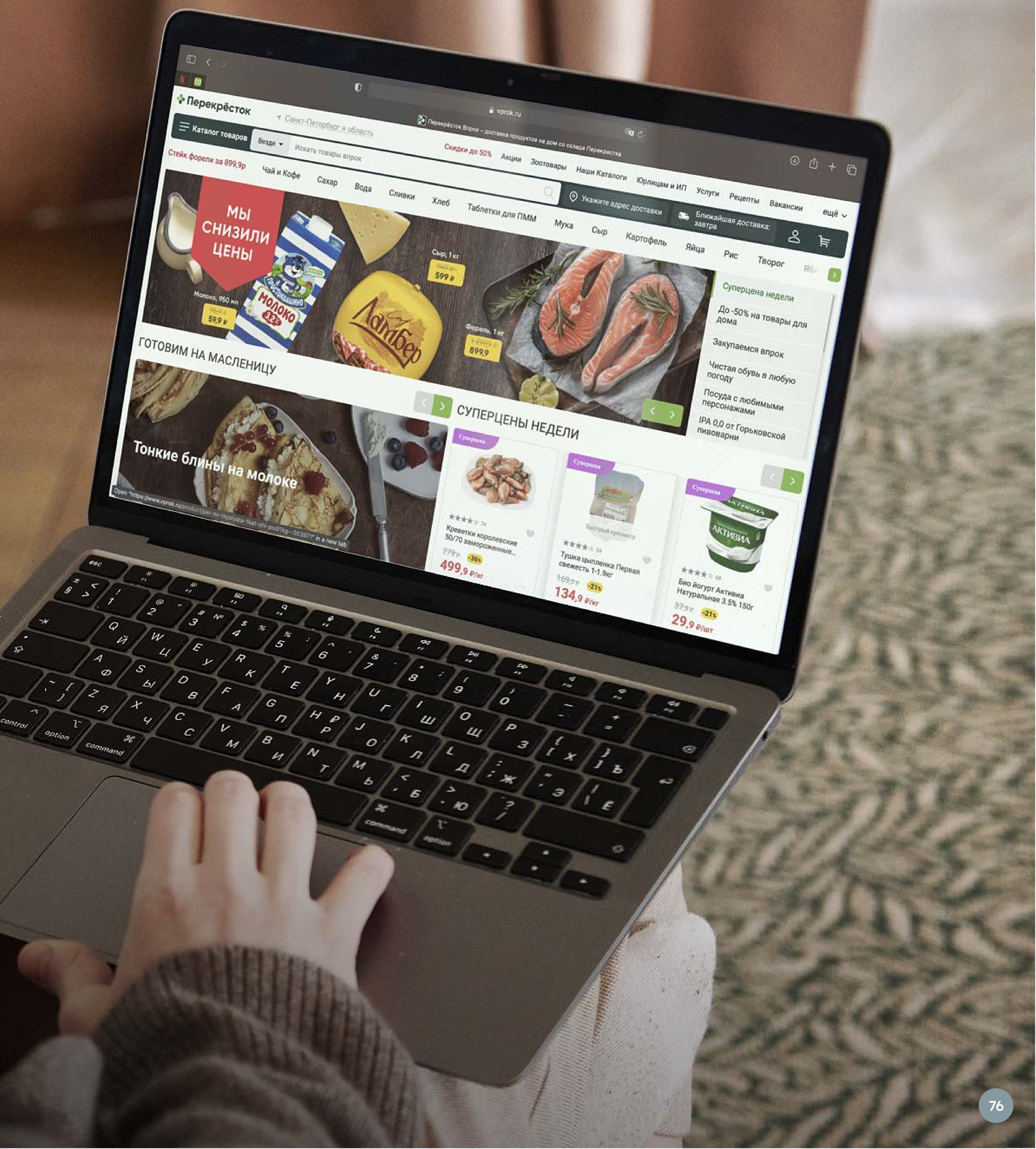
02
Finalise the format's key parameters, such as target locations, opening costs, staffing and assortment

03
Target 30% private label penetration in assortment

04
Establish the format's digital strategy focused on client loyalty and sales

05
Actively integrate customer and employee feedback into the development of the final concept for the format

Digital businesses



While we have been investing in building a robust IT infrastructure and integrating innovative technologies into our business for several years, we announced the development of digital businesses as a strategic priority in 2019.

At that time, Perekrestok Online (renamed to Perekrestok Vprok in 2020) was already functioning, and we were operating pilots of 5Post and express delivery services, with plans to ramp them up in the years ahead.

These processes were accelerated by changes in consumer behaviour during 2020, and we were ready to respond to those changes: during FY 2020, net sales from digital businesses (Perekrestok Vprok, express delivery and 5Post) rose 362.2% year-on-year to RUB 20.1 billion. This comprised 1.0% of consolidated FY 2020 revenue and added 0.9 p.p. to the annual consolidated revenue growth rate.

2020 Digital businesses highlights

KEY HIGHLIGHTS

#1

In Russia's e-grocery 12.6% market share

20.1 RUB BLN

Digital revenue 2020
+362.2% year-on-year

76 THS

Daily orders fulfilled on peak days in December
by Perekrestok Vprok and Express Delivery

7.9 MLN

Total orders fulfilled during 2020

992 STORES

in 13 regions offer express delivery services
594 Pyaterochka
398 Perekrestok

6.8 MLN

parcels deliverd by 5Post
in 2020

Online hypermarket revenue rose 207.9% year-on-year, and our combined e-grocery businesses place us as Russia's market leader in e-grocery with a 12.6% market share.

The total number of mobile application downloads for X5's digital services over 2020 reached 23.2 million, of which 7.6 million were in Q4 2020.

Perekrestok Vprok and express delivery successfully fulfilled more than 76,000 daily orders on peak days in December and a total of 3.6 million orders during 2020.

The total number of Perekrestok Vprok orders exceeded 1.2 million in Q4 2020, up more than 2.5× year-on-year. The average number of daily orders in December exceeded 15 thousand, reaching over 18.9 thousand on peak days.

Digital business net sales as a share of X5's consolidated net sales saw the fastest growth in Moscow and the Moscow region: while the average share for 2020 was 2.2%, it was 3.3% in Q4 2020, and it rose to 3.6% in December 2020.

As of December 2020, the express delivery service was available from 992 stores (594 Pyaterochka, 398 Perekrestok) in 13 regions. In Q4 2020, the total number of express delivery orders exceeded 2.4 million, with an average 26.6 thousand orders per day, an average ticket of RUB 1,615 and a delivery time of 50–60 minutes.

The number of product ratings received from customers online and via X5's proprietary mobile apps reached over 120 million in 2020, which further enhances our understanding of customer demands and helps to fine-tune our product offer, especially in private label categories.

Orders delivered by our 5Post e-commerce delivery service reached 1.5 million in December (with over 16 thousand pickup points in operation) and 6.8 million for the full year. Additional LFL traffic generated by parcel lockers and pickup points in stores is up 2-3%.

Perekrestok Vprok

Perekrestok Vprok was launched as Perekrestok Online in 2017 with the aim of addressing demand from customers looking to stock up on groceries and FMCG products, with the convenience of delivery to their door.

Our online hypermarket generally offers customers same-day or next-day delivery, with a wide and growing assortment of around 42,000 SKUs in 2020. In 2021, it will be repositioned as an FMCG marketplace operating a non-food assortment via a 3PL model.

2020 highlights

13.3 RUB BLN
FY 2020 revenue

5
Number of dark stores

12
Regions

4,142 RUB
Average check

3.6 MLN
Orders delivered

3.3 MLN
Website MAU

743 THS
Mobile app MAU

Perekrestok Vprok
Business model

SAME-DAY/ NEXT-DAY DELIVERY

Order made by customer via X5 proprietary app or website

Order received at the nearest X5 dark store

Order assembled at X5 dark store

Order picked up by X5 courier for delivery

Order delivered

OPERATIONAL METRICS

- Strong and well-known brand in food retail market
- Wide and growing assortment of circa 50,000 SKUs
- Own logistics infrastructure
- In-house last-mile delivery (same day or next day)
- Wide addressable market in cities of presence
- Proprietary customer interface: mobile app & website
- Perekrestok loyalty card (customer knowledge, additional data and marketing opportunities)
- X5's supplier terms and bargaining power
- High NPS due to full control over the assortment, pricing, promotions and supply chain

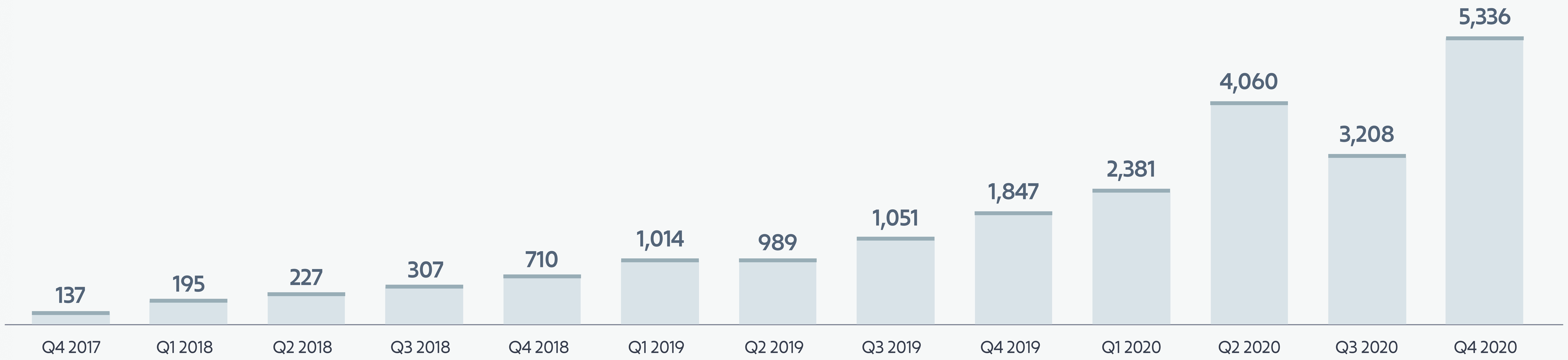
Perekrestok Vprok
Tranformation to marketplace

Perekrestok Vprok saw turnover rise 362% year-on-year in 2020 as we accelerated expansion of the online hypermarket's infrastructure to meet rapidly-growing demand for e-grocery services. Starting in 2021, we will transform Vrpok into an FMCG marketplace, expanding its assortment to up to 50,000 SKUs and expanding the service to every Russian city with a population of over 1 million.

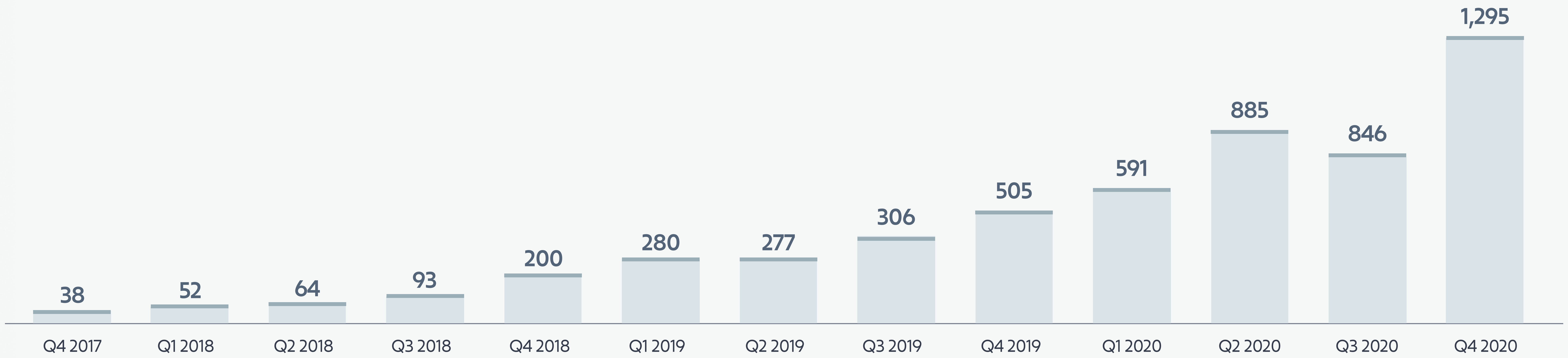
Perekrestok Vprok

As we have expanded the business to a total of five dark stores serving 12 regions, the business has grown rapidly, helped by consumers' rapid shift towards the use of online services offering safe home deliveries of essential goods during 2020.

Perekrestok Vprok GMV (turnover), RUB mln



Perekrestok Vprok number of orders per quarter, ths



Perekrestok Vprok New brand and mobile app

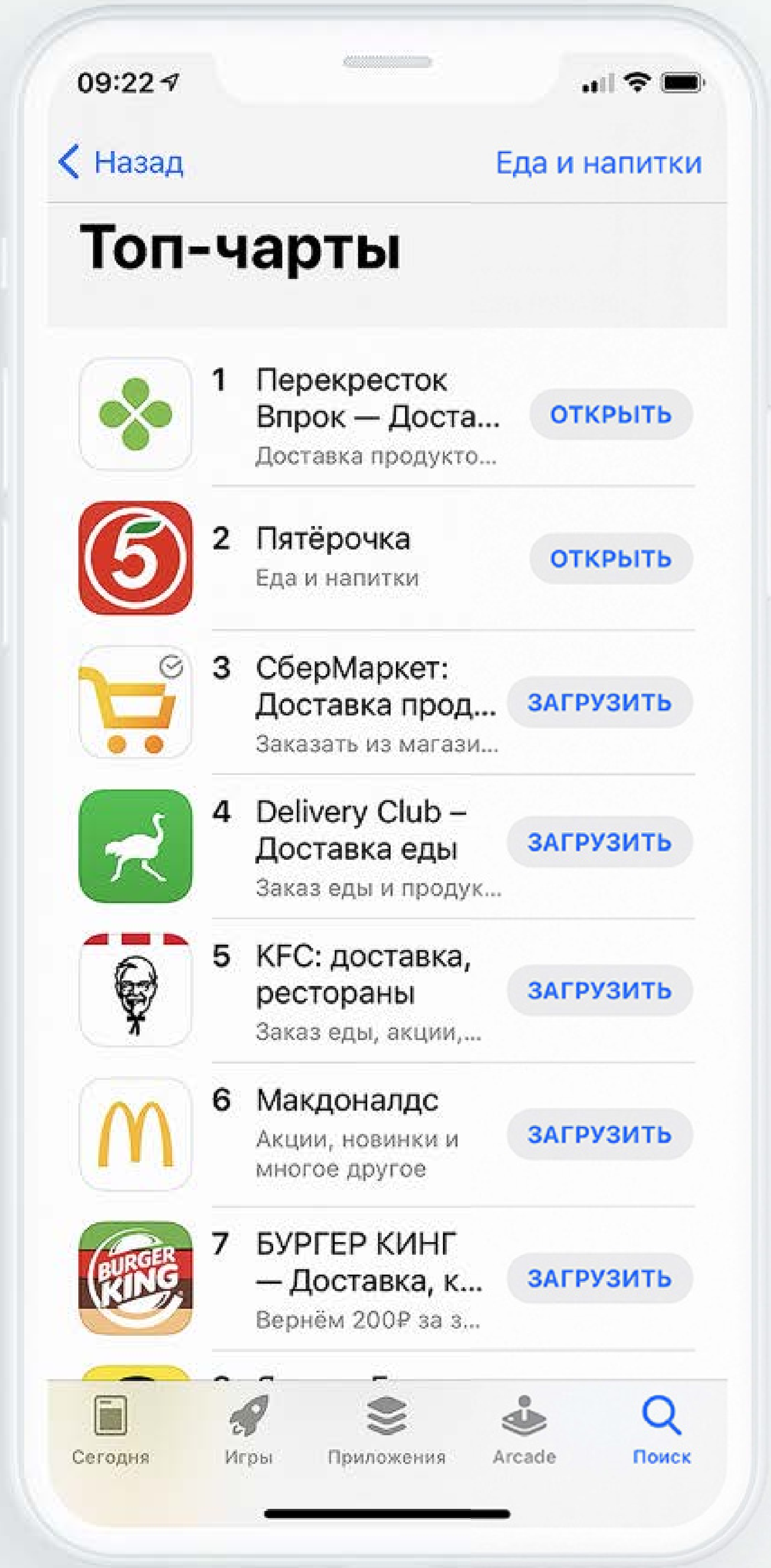
REBRANDING

Перекрёсток впрок

PEREKRESTOK VPROK CVP

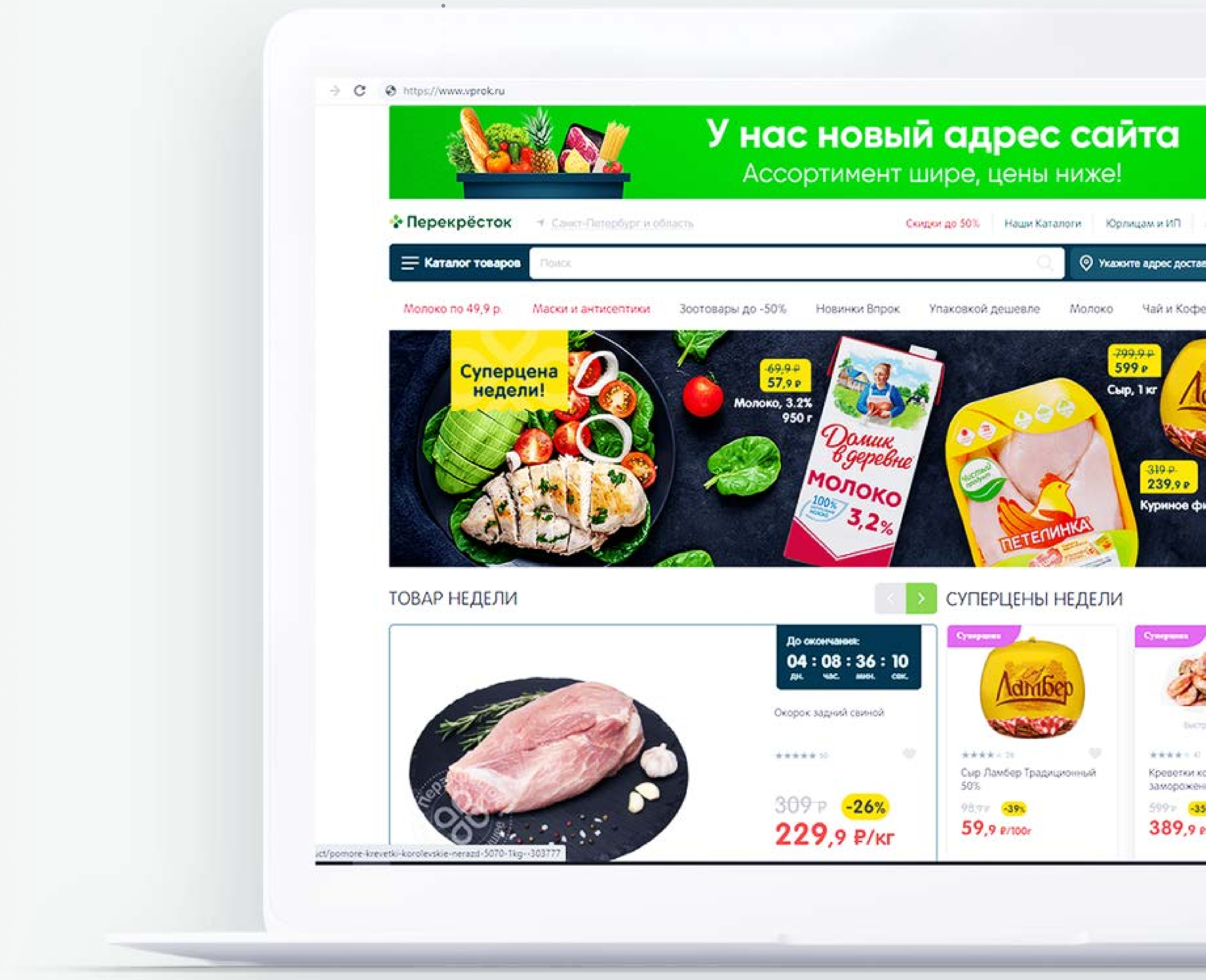
ASSORTMENT	**Hypermarket assortment** +extra assortment in non-food, pet goods, etc.
PRICES	**Low prices**
SERVICE	**Excellent service**

New mobile app



New web adress

https://www.vprok.ru



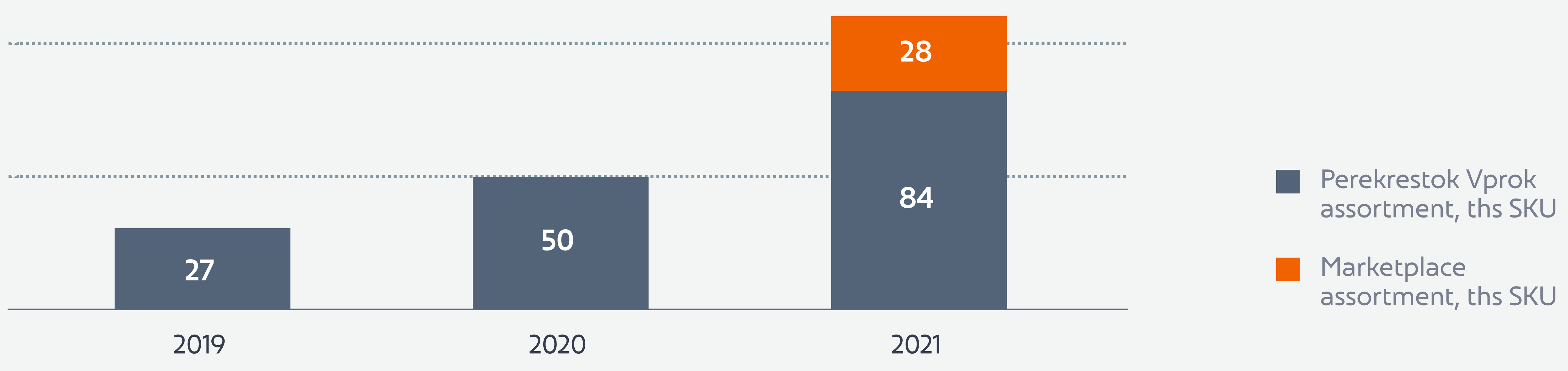
Perekrestok Vprok Development strategy

As adoption of online shopping for household essentials grows in Russia's food market, we plan to expand the scope of Perekrestok Vprok into an FMCG marketplace. This will enable us to maintain a high level of service while expanding the assortment to better meet the demand from consumers for food and other FMCG items.

Key goals include

- Increasing the assortment to 112,000, 25% of which will be available through the marketplace, to offer a market-leading assortment in food, with select assortment in complementary categories
- Launching a marketplace supplier portal
- Offering next-day delivery in cities where Perekrestok Vprok is present, and delivery within one to three days in other large cities supported by 5Post and other delivery providers
- Offering a price advantage in the food category vs peers
- Setting the benchmark for convenience and customer experience, including through ongoing improvements to the website and mobile app, as measured by NPS
- Ensuring a presence in all Russian cities with a population over 1 million, with eight dark stores in operation by 2022
- Achieving EBITDA-positive performance of Perekrestok Vprok on a standalone basis (i.e. without marketplace)

Assortment development in 2019–2021

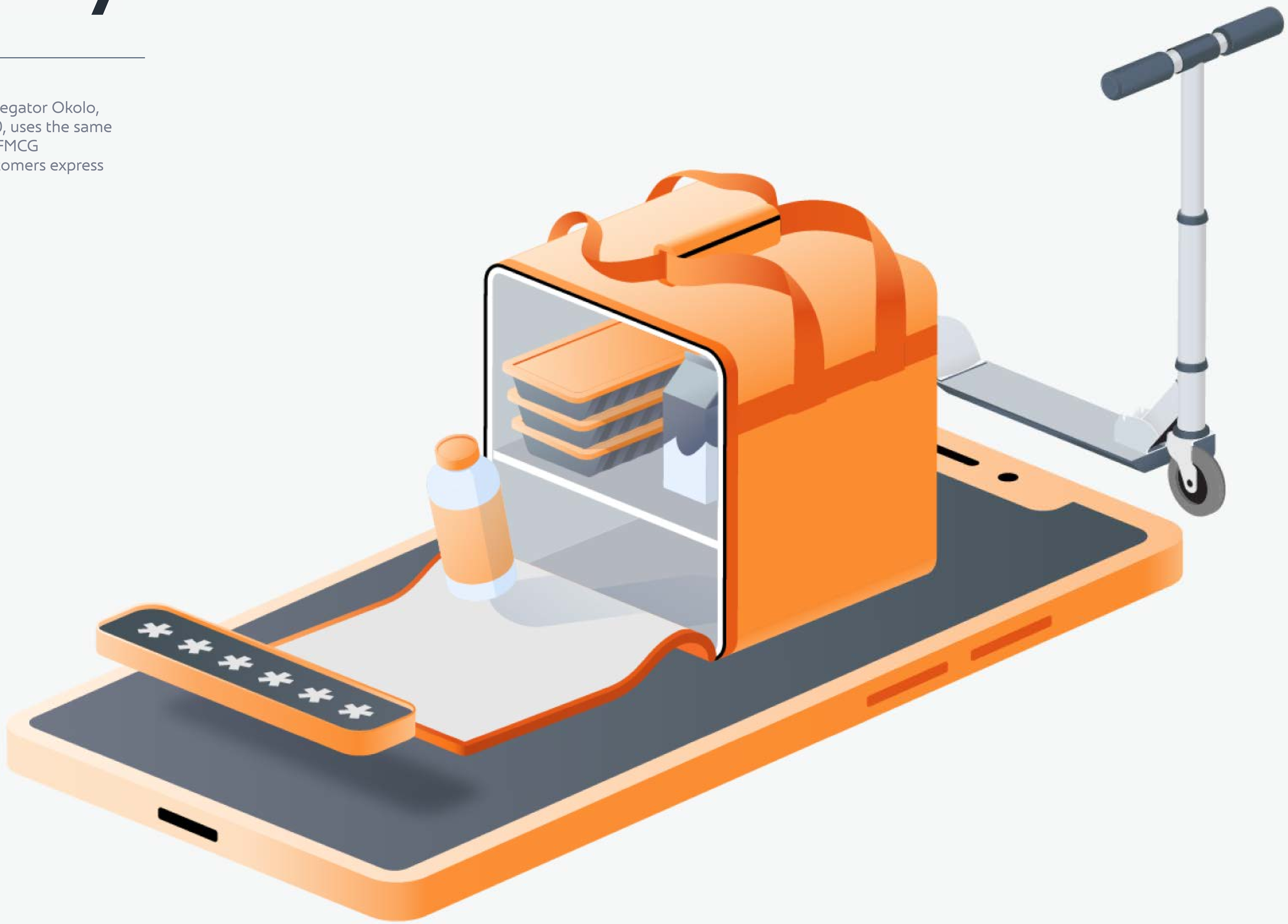


Express delivery

X5 FoodTech was set up in late 2019 to develop our express delivery business. In 2020, the service offered delivery from local Perekrestok or Pyaterochka stores within 50–60 minutes.

Express delivery is a cross-format project that utilises a common digital proprietary platform: the formats are responsible for assortment, pricing and order picking by in-store staff; then third-party couriers are used to deliver the orders.

Our hyperlocal delivery aggregator Okolo, launched in Novermber 2020, uses the same technology to enable other FMCG businesses to offer their customers express delivery services.



Express delivery

2020 highlights

6.1 RUB BLN

FY 2020 net sales

1,616 RUB

FY 2020 average ticket

4.3 MLN

FY 2020 orders

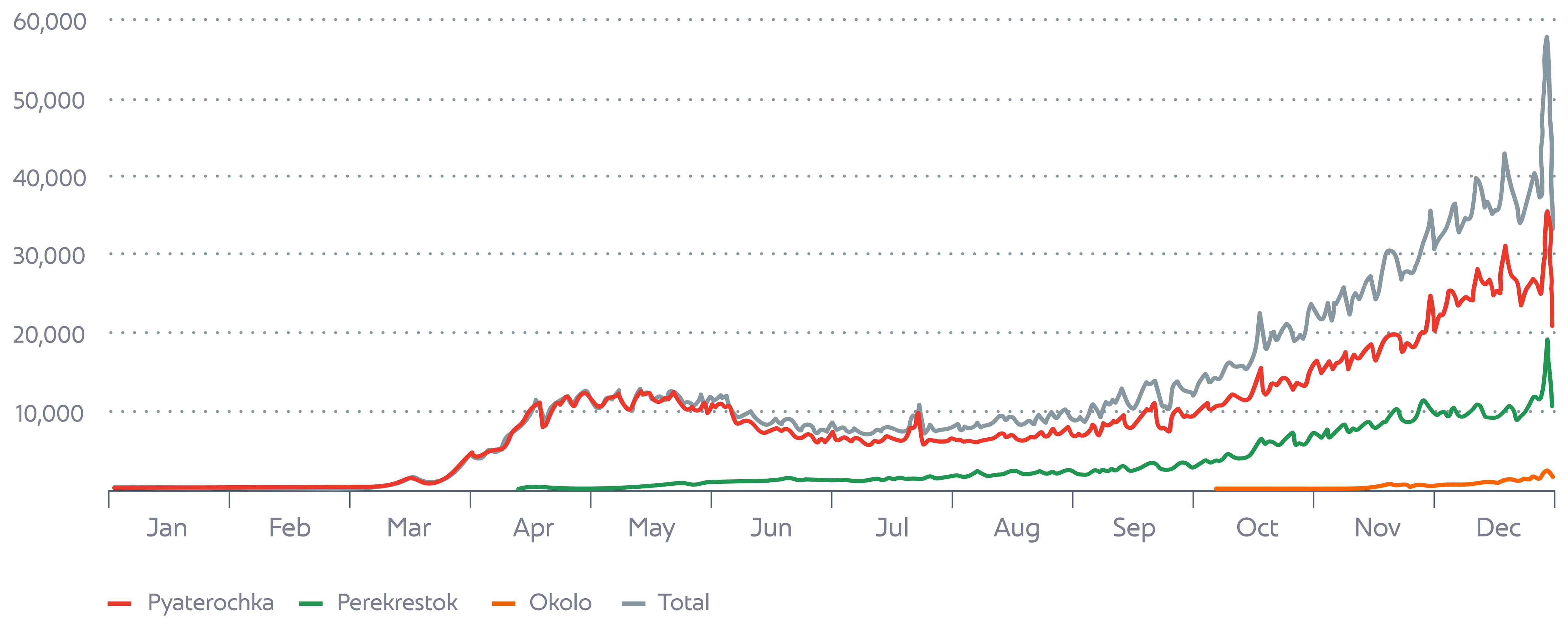
992 STORES

offer express delivery service (594 Pyaterochka, 398 Perekrestok) in 13 regions as of 31 December 2020

26.6 THS

Average number of daily orders in Q4 2020

Express Delivery order dynamics



Express delivery strategy

Express delivery from Pyaterochka and Perekrestok is an extension of their CVPs. We plan to improve the quality and convenience of this service while continually working to optimise efficiency. Regional expansion plans will also be considered based on efficiency and financial performance metrics.

Okolo is a key element of X5's digital ecosystem that is designed to retain and expand the Company's audience by preventing churn to new digital services from competitors. Partners from all segments of the food market, as well as other FMCG retailers and HoReCa operators, will be connected to Okolo to ensure the maximum frequency of interaction with customers and full coverage of their daily needs.

Express delivery plans for 2021

Express delivery is a business for big cities, which is why we launched it in Moscow and St Petersburg, with a gradual rollout to other cities with populations of over 1 million and a constant increase in the number of connected stores.

In 2021, we plan to continue to expand the geographic reach of this service, focusing on both the remaining million-plus cities and smaller cities around Russia.

During 2021, Okolo will also begin to connect new partners from the restaurant segment and other FMCG segments. By the end of 2021, Okolo may have several hundred external partners, and we aim for these to account for up to half of the service's GMV.

5Post

5Post is a last-mile delivery service that enables e-commerce providers and other X5 digital businesses to deliver goods to parcel lockers, tobacco sales desks and/or pickup points at X5 stores.

5Post leverages X5 Retail Group's retail operations infrastructure to provide a low-cost, high-quality service that generates additional revenue while also supporting traffic to our stores.

2020 highlights

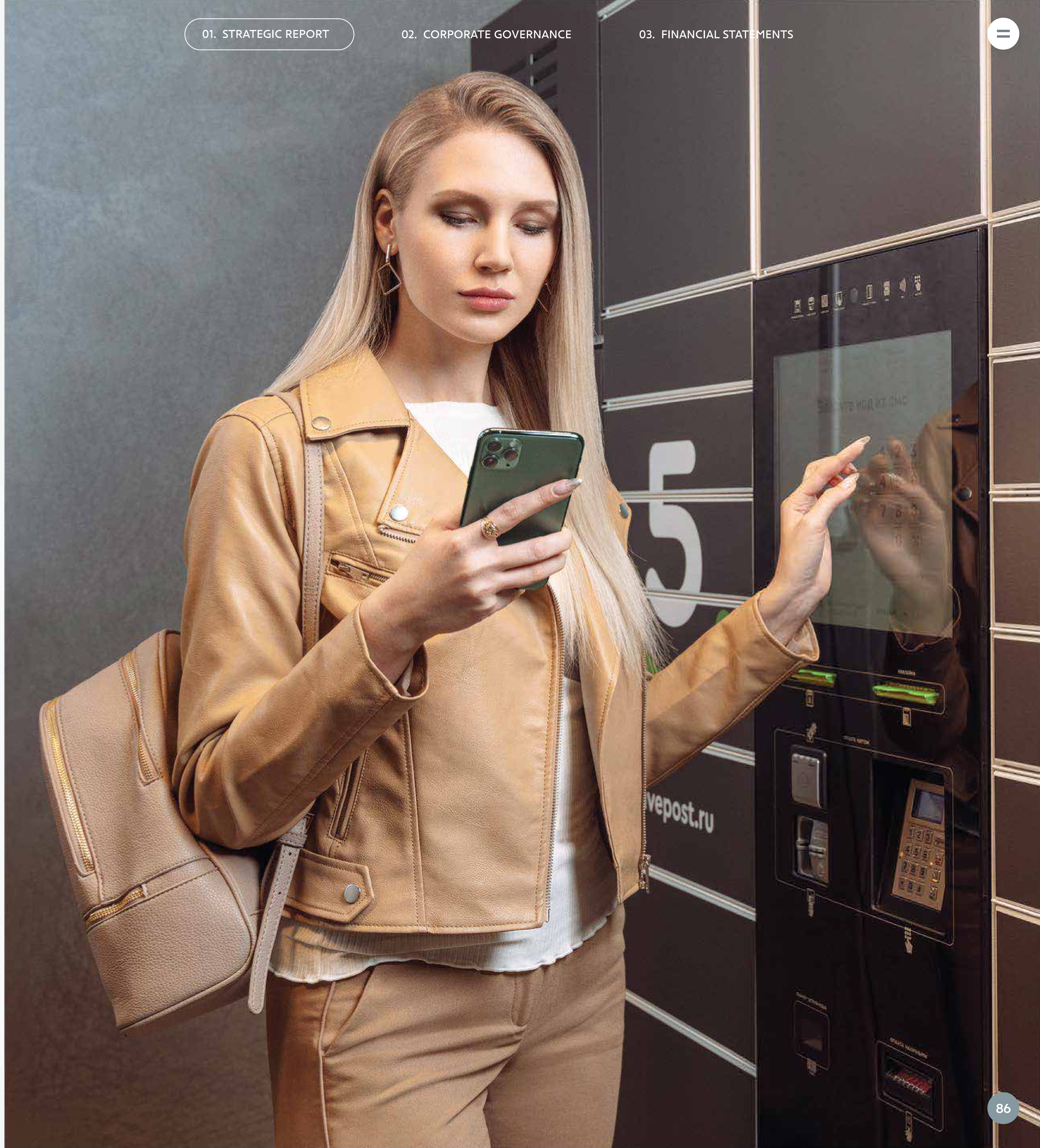
683 RUB MLN
Revenue in 2020

6.8 MLN
Parcels delivered in 2020

88
Commercial partners in 2020

20
Sorting facilities as of 31 December 2020

16,455
Pickup points, including 4,518 parcel lockers, as of 31 December 2020



5Post

Business model

Parcel acceptance for delivery from marketplaces—Domestic/Cross border

Parcel delivery to hub
first mile

Parcel sorting at hub

Parcel delivery to satellites
Interbranch transportation

Parcel sorting in satellites

Parcel delivery to X5 stores
last mile

Parcel pickup by customers
cashier desk, lockers, pick-up points

Key partners

AliExpress | Wildberries | OZON | Яндекс Маркет | JOOM

iHerb | TMALL | DNS | Тинькофф | AND OVER 70 MORE

Plans for 2021

We plan to continue to actively develop 5Post in the year ahead. Some of our key goals include:

- Continuing to open sorting centres, with the goal of achieving 100% coverage of the X5 store network by early 2022
- Adding more new e-commerce partners to the service
- Testing next-day delivery in Moscow and St Petersburg
- Handling deliveries for the Perekrestok Vprok marketplace
- Expanding full-service 5Post delivery centres with a dedicated employee, a fitting room, the option to return or exchange purchases, and the possibility of partial payment
- Achieving break-even EBITDA performance

5Post
Strategy

Created in 2019, 5Post was established as a way to draw additional traffic to our Pyaterochka stores while enhancing the overall business by generating additional revenue from existing infrastructure.

By the end of 2020, 5Post was operating 16,455 pickup points and 20 sorting facilities, which are at existing X5 DCs or stores. During 2021, we aim to offer 5Post delivery services at over 90% of our stores, and we plan to achieve 100% reach across our formats in 2022.

2019

Creation of a separate business unit at X5

12 Sorting facilities

2020

Parcel pickup available in over 80% of X5 stores

6,829 Parcels, ths

16,455 Pickup points

20 Sorting facilities

2021E

Parcel pickup available in over 90% of X5 stores

16,928 Parcels, ths

22,188 Pickup points

25 Sorting facilities

Positive EBITDA achieved

2022E

Parcel pickup available in over 100% of X5 stores

32,736 Parcels, ths

28,825 Pickup points

34 Sorting facilities

3.4% Market share

Financial review

X5 Retail Group delivered impressive results in 2020, despite persistent challenges presented by the COVID-19 pandemic. Thanks to our agility and robust business processes, we managed to efficiently adapt to these challenges and have reported the strongest operational and financial results among all listed Russian retailers. I am especially pleased that our 2020 results are also in line with our strategic targets for growth and profitability.

Despite the challenges posed by the pandemic, X5 achieved 14.1% year-on-year growth in revenue to RUB 1,978 billion. This was possible thanks to our ability to meet customer demand by maintaining smooth operations across our supply chain and in stores throughout 2020, continued improvement to our retail formats' CVPs and the rapid acceleration of growth in digital businesses like Perekrestok Vprok, express delivery and 5Post.

While we continued to invest in refurbishment of our stores and the development of digital businesses, we have also maintained margins in line with our strategic targets. Our EBITDA margin pre-IFRS 16 increased 27 b.p. year-on-year to 7.3% for FY 2020. This performance was supported by our continued commitment to further improving efficiency: we managed to keep SG&A costs as a share of revenue stable year-on-year, despite incurring additional costs to implement measures to protect our staff and customers from the COVID-19 pandemic.

X5's financial position remains solid, with a net debt/EBITDA ratio (pre-IFRS 16) of 1.67×, which is comfortably below our upper target limit of 2.0×. We also managed to decrease net financing expenses by 8.0% year-on-year pre-IFRS 16, with the weighted average effective interest rate for X5's debt portfolio in 2020 declining by 116 b.p. year-on-year to 6.78%.

Our successful performance in 2020 was the result of years of work to build a robust, agile and sustainable business. On the back of good profitability, strong cash flow generation and a solid balance sheet, the Supervisory Board has proposed to pay a final annual dividend in the amount of RUB 30 bln/RUB 110.49 per GDR (gross amount subject to taxes and fees). Together with the interim dividend paid in December 2020, a total dividend for the year will amount to RUB 50 billion, or RUB 184.13 per GDR, which represents 176.4% of net profit under IFRS 16.

Looking ahead, we see significant opportunity to continue the development of our successful offline businesses, even in the challenging macro conditions that food retailers face. At the same time, we see sustainable growth in demand for our digital businesses, which are operating in line with our profitability expectations while continuing to grow at an accelerated pace. We expect to continue to consolidate our position as Russia's top online food retailer in 2021, both in the online and offline segments, while maintaining margins and delivering good returns to shareholders, in line with our strategic targets.

Svetlana Demyashkevich
CHIEF FINANCIAL OFFICER

Financial review

The financial and operational information contained in this financial review comprises information about X5 Retail 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 2020 and for the years ended 31 December 2020 and 31 December 2019. The Consolidated Financial Statements and related notes thereto are available on pages 176–261 of this document and were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

For the legal structure please refer to note 1 of the Consolidated Statements For organizational structure please refer to note 6 of the Consolidated Statements.

Key highlights (IFRS 16)

Revenue:

1,978 RUB BLN

14.1% year-on-year increase

Capital expenditure:

89.9 RUB BLN

10.9% year-on-year increase

Gross profit margin[1]:

24.6%

8 b.p. year-on-year increase, pre-IFRS 16

25.0%

7 b.p. year-on-year increase, IFRS 16

EBITDA margin:

7.3%

27 b.p. year-on-year increase, pre-IFRS 16

12.3%

12 b.p. year-on-year increase, IFRS 16

Dividends:

49,997 RUB MLN

66.7% year-on-year increase

184.13 RUB PER GDR

176.4% of consolidated IFRS 16 net profit

Net debt/EBITDA:

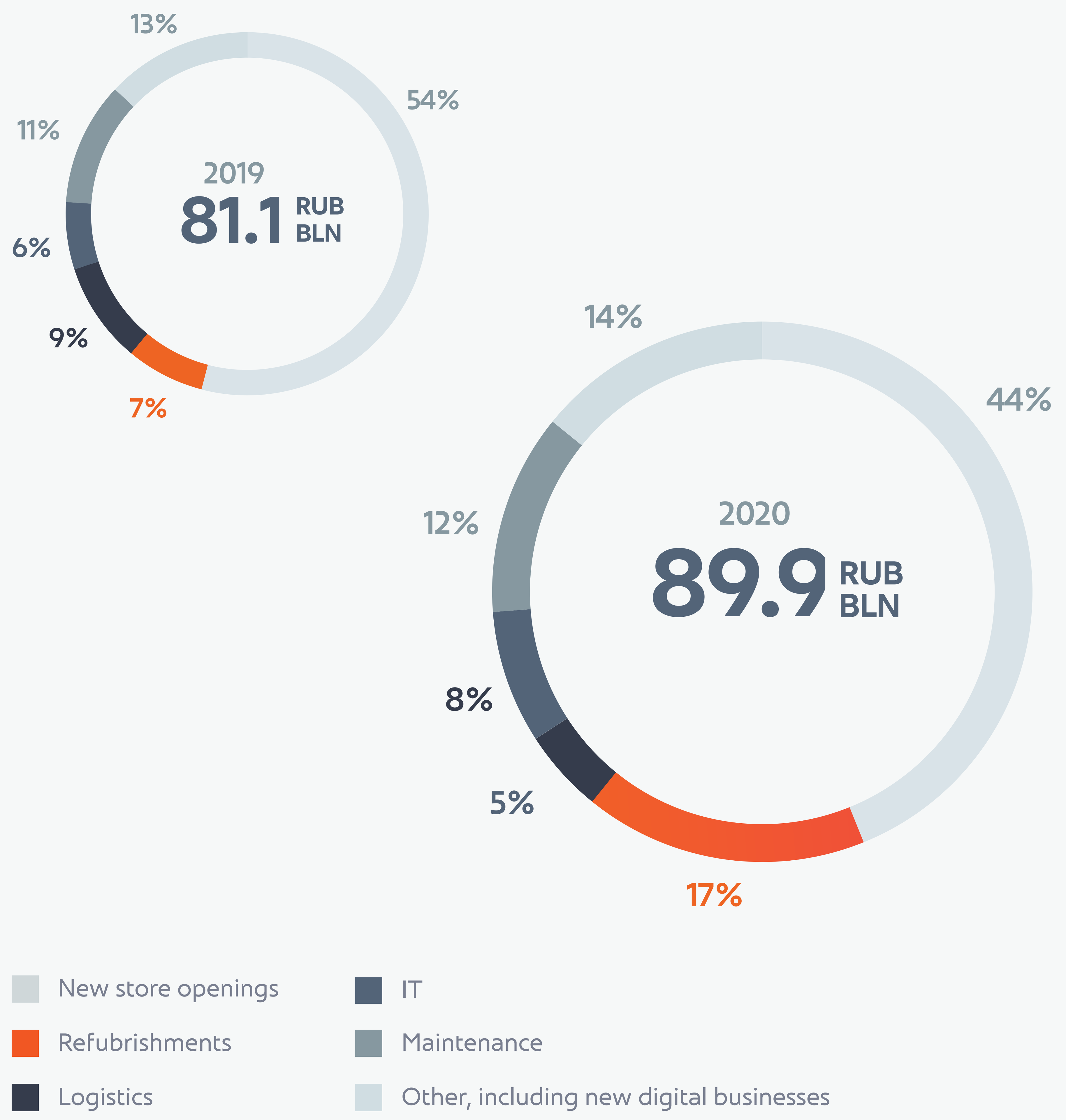
1.67x

pre-IFRS 16

3.24x

IFRS 16

Capital expenditure structure, %



1. Starting from Q2 2020, the Company reclassified income from the sale of recyclable materials at distribution centres as well as costs related to Perekrestok Vprok and express last mile delivery from gross profit. The income from sale of recyclable materials at distribution centres and transportation income is now reported under lease/sublease and other income. Costs related to Perekrestok Vprok and express last mile delivery are now reported under SG&A expenses, mostly in staff costs and other expenses.

Financial review

Results of operations for the year ended 31 December 2020 compared to the year ended 31 December 2019

The following table and discussion provide a summary of our consolidated results of operations for the years ended 31 December 2019 and 31 December 2020.

Profit and loss statement: highlights

	IFRS 16			pre-IFRS 16		
Russian roubles (RUB), millions[2]	2020	2019	% CHANGE, Y-O-Y	2020	2019	% CHANGE, Y-O-Y
Revenue	1,978,026	1,734,347	14.1	1,978,026	1,734,347	14.1
Incl. net retail sales[3]	1,973,346	1,727,714	14.2	1,973,346	1,727,714	14.2
Pyaterochka	1,597,174	1,366,657	16.9	1,597,174	1,366,657	16.9
Perekrestok (including Perekrestok Vprok)	320,459	273,181	17.3	320,459	273,181	17.3
Karusel	55,662	87,397	(36.3)	55,662	87,397	(36.3)
Gross profit	494,620	432,479	14.4	487,223	425,798	14.4
Gross profit margin[1], %	25.0	24.9	7 b.p.	24.6	24.6	8 b.p.
Adj. SG&A[4]	(267,605)	(230,008)	16.3	(356,838)	(310,749)	14.8
Adj. SG&A, % of revenue	13.5	13.3	27 b.p.	18.0	17.9	12 b.p.
Adj. EBITDA	244,501	215,720	13.3	146,016	127,380	14.6
Adj. EBITDA margin, %	12.4	12.4	(8) b.p.	7.4	7.3	4 b.p.
EBITDA	243,622	211,483	**15.2**	145,137	122,585	**18.4**
EBITDA margin, %	**12.3**	**12.2**	**12 b.p.**	**7.3**	**7.1**	**27 b.p.**
Operating profit	105,717	89,398	18.3	76,785	60,251	27.4
Operating profit margin, %	5.3	5.2	19 b.p.	3.9	3.5	41 b.p.
Adj. net profit[5]	35,828	29,668	20.8	46,863	36,485	28.4
Adj. net profit margin, %	1.8	1.7	10 b.p.	2.4	2.1	27 b.p.
Net profit	28,344	19,507	45.3	39,180	25,908	51.2
Net profit margin, %	1.4	1.1	31 b.p.	2.0	1.5	49 b.p.

1. *Starting from Q2 2020, the Company reclassified income from the sale of recyclable materials at distribution centres as well as costs related to Perekrestok Vprok and express last mile delivery from gross profit. The income from sale of recyclable materials at distribution centres and transportation income is now reported under lease/sublease and other income. Costs related to Perekrestok Vprok and express last mile delivery are now reported under SG&A expenses, mostly in staff costs and other expenses.*
2. *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.*
3. *Net of VAT and revenue from wholesale operations and revenue from franchise services and other services.*
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 99-101.*
5. *Adjusted net profit is net profit before the effect of the Karusel transformation and tax accruals related to previous periods, including X5's reorganisation.*

Financial review

Summary of operational results

2020 net retail sales and sales drivers, y-o-y % change	Average ticket	Number of customers	Net retail sales
Pyaterochka	11.5	4.5	16.9
Perekrestok	17.3	(4.6)	17.3*
Karusel	13.9	(44.2)	(36.3)
X5 Retail Group	11.2	2.4	14.2

Selling space end-of-period, square metres	31-Dec-20	31-Dec-19	% change, y-o-y
Pyaterochka	6,541,622	5,975,147	9.5
Perekrestok	1,013,860	878,757	15.4
Karusel	222,119	364,077	(39.0)
X5 Retail Group	7,840,055	7,239,117	8.3

2020 LFL** results, % growth y-o-y	Sales	Traffic	Basket
Pyaterochka	6.9	(4.6)	12.1
Perekrestok (excl. Perekrestok Vprok)	1.2	(14.6)	18.4
Karusel	(7.7)	(18.7)	13.5
X5 Retail Group	5.5	(6.0)	12.2

Revenue and net retail sales

In 2020, X5's revenue increased by 14.1% year-on-year to RUB 1,978 billion. Net retail sales for 2020 grew by 14.2% year-on-year, driven by a 5.5% increase in like-for-like (LFL) sales and an 8.7% sales growth contribution from an 8.3% rise in selling space.

The Company's proximity store format, Pyaterochka, was the main driver of growth in 2020: Pyaterochka's net retail sales rose by 16.9% year-on-year, driven by a 6.9% increase in LFL sales and a 10.0% contribution to sales growth from a 9.5% expansion in selling space. LFL traffic decreased by 4.6% y-o-y while LFL basket grew by 12.1% y-o-y, due to changes in customer behaviour related to safety considerations with less frequent visits to stores and larger purchases per visit due to COVID-19 pandemic in 2020.

Perekrestok's net sales, excluding the online hypermarket Perekrestok Vprok increased by 12.7% in 2020, driven mostly by selling space expansion and a slower than expected recovery of stores located in shopping malls after the lockdown restrictions were lifted. LFL sales growth was 1.2%.

Karusel experienced a 36.3% decline in net retail sales, driven by downsizing as part of the format's transformation programme as well the COVID-19 pandemic.

Gross profit

The Company's gross profit margin under IFRS 16 in 2020 increased by 7 basis points year-on-year to 25.0% (increased by 8 b.p. to 24.6% pre-IFRS 16), driven predominantly by a reduction of shrinkage as a result of operating improvements.

Sales of offline and digital businesses

RUB mln	2020	2019	change y-o-y, %
Pyaterochka	1,592,576	1,366,657	16.5
Perekrestok	306,218	268,894	13.9
Karusel	55,662	87,397	(36.3)
Offline net sales	**1,954,506**	**1,723,427**	**13.4**
Perekrestok Vprok	13,271	4,310	207.9
Express delivery (incl. Okolo)	6,112	-	n/m
5Post (e-comm last mile)	683	31	2,103.2
Digital businesses net sales	**20,066**	**4,341**	**362.2**
Total net sales	**1,974,572**	**1,727,768**	**14.3**

** Including Perekrestok Vprok*

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

Financial review

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

	IFRS 16			pre-IFRS 16		
RUB mln	2020	2019	% CHANGE, Y-O-Y	2020	2019	% CHANGE, Y-O-Y
Staff costs	(159,261)	(141,123)	12.9	(159,261)	(141,123)	12.9
% of revenue	8.1	8.1	(9) b.p.	8.1	8.1	(9) b.p.
incl. LTI and share-based payments	(345)	(2,838)	(87.8)	(345)	(2,838)	(87.8)
staff costs excl. LTI % of revenue	8.0	8.0	6 b.p.	8.0	8.0	6 b.p.
Lease expenses	(11,291)	(7,949)	42.0	(96,573)	(86,050)	12.2
% of revenue	0.6	0.5	11 b.p.	4.9	5.0	(8) b.p.
Utilities	(39,819)	(36,387)	9.4	(39,819)	(36,387)	9.4
% of revenue	2.0	2.1	(8) b.p.	2.0	2.1	(8) b.p.
Other store costs	(21,625)	(17,932)	20.6	(22,621)	(18,859)	19.9
% of revenue	1.1	1.0	6 b.p.	1.1	1.1	6 b.p.
Third-party services	(16,257)	(13,123)	23.9	(15,894)	(12,773)	24.4
% of revenue	0.8	0.8	7 b.p.	0.8	0.7	7 b.p.
Other expenses	(19,697)	(16,332)	20.6	(23,015)	(18,395)	25.1
% of revenue	1.0	0.9	5 b.p.	1.2	1.1	10 b.p.
SG&A (excl. D&A&I and impact from Karusel transformation)	(267,950)	(232,846)	15.1	(357,183)	(313,587)	13.9
% of revenue	13.5	13.4	12 b.p.	18.1	18.1	(2) b.p
Adj. SG&A (excl. D&A&I, LTI, share-based payments and impact from Karusel transformation)	**(267,605)**	**(230,008)**	16.3	**(356,838)**	**(310,749)**	14.8
% of revenue	13.5	13.3	27 b.p.	18.0	17.9	12 b.p.
Adj. SG&A (excl. D&A&I, LTI, share-based payments and impact from Karusel transformation) before reclassification1	**(264,063)**	**(230,008)**	14.8	**(353,060)**	**(310,749)**	13.6
% of revenue	13.3	13.3	9 b.p.	17.8	17.9	(7) b.p.

Selling, general and administrative (SG&A) expenses analysis

In 2020, adjusted SG&A expenses under IFRS 16 as a percentage of revenue increased year-on-year by 27 basis points to 13.5% (increased by 12 basis points to 18.0% pre-IFRS 16), mainly due to increased staff costs, other store costs, third-party services and other expenses. Excluding reclassification1, SG&A expenses increased by 9 b.p. under IFRS 16 (decreased by 7 b.p. pre-IFRS 16).

Staff costs (excluding LTI, share-based payments and the impact of the Karusel transformation) in 2020, as a percentage of revenue, increased year-on-year by 6 basis points to 8.0% due to additional payment to store personnel during the COVID-19 pandemic.

Lease expenses under IFRS 16 as a percentage of revenue in 2020 increased year-on-year by 11 basis points to 0.6% (decreased by 8 b.p. to 4.9% pre-IFRS 16), mainly due to the higher number of stores with revenue-linked lease payments accounted for as part of operating activities under IFRS 16 and higher sales at those stores compared to the X5 average. The decrease pre-IFRS 16 was mainly due to positive operating leverage effect, which was partially balanced by the growing share of leased space in X5's total real estate portfolio, which accounted for 80% as of 31 December 2020, compared to 78% as of 31 December 2019.

Utilities expenses as a percentage of revenue in 2020 decreased year-on-year by 8 basis points to 2.0%, mainly due to positive operating leverage effect.

In 2020, other store costs under IFRS 16 as a percentage of revenue increased year-on-year by 6 basis points to 1.1% (same change pre-IFRS 16), driven by additional safety measures related to the COVID-19 pandemic, such as provision of masks and disposable gloves for personnel and additional disinfection hours daily for all stores.

In 2020, third party services under IFRS 16 as a percentage of revenue increased year-on-year by 7 basis points to 0.8%, driven by increased marketing expenses, mainly in Pyaterochka.

Other expenses (excluding the impact of the Karusel transformation) under IFRS 16 as a percentage of revenue increased year-on-year by 5 basis points, totalling 1.0% (increased by 10 basis points totalling 1.2% pre-IFRS 16) due to costs of courier services for express delivery.

[1] Starting from Q2 2020, the Company reclassified income from the sale of recyclable materials at distribution centres and transportation income as well as costs related to Perekrestok Vprok and express last mile delivery from gross profit. The income from sale of recyclable materials at distribution centres and transportation income is now reported under lease/sublease and other income. Costs related to Perekrestok.ru and express last mile delivery are now reported under SG&A expenses, mostly in staff costs and other expenses.

Financial review

EBITDA

	IFRS 16			pre-IFRS 16		
RUB mln	2020	2019	% CHANGE, Y-O-Y	2020	2019	% CHANGE, Y-O-Y
Gross profit	494,620	432,479	14.4	487,223	425,798	14.4
Gross profit margin, %	25.0	24.9	7 b.p.	24.6	24.6	8 b.p.
Adj. SG&A (excl. D&A&I, LTI, share-based payments and impact from Karusel transformation)	(267,605)	(230,008)	16.3	(356,838)	(310,749)	14.8
% of revenue	13.5	13.3	27 b.p.	18.0	17.9	12 b.p.
Net impairment losses on financial assets	(251)	(215)	16.7	(251)	(215)	16.7
% of revenue	0.013	0.012	0 b.p.	0.013	0.012	0 b.p.
Lease/sublease and other income	17,737	13,464	31.7	15,882	12,546	26.6
% of revenue	0.9	0.8	12 b.p.	0.8	0.7	8 b.p.
LTI, share-based payments and other one-off remuneration payments expense and SSC	(345)	(2,838)	(87.8)	(345)	(2,838)	(87.8)
% of revenue	(0.0)	(0.2)	15 b.p.	(0.0)	(0.2)	15 b.p.
Effect of Karusel transformation	(534)	(1,399)	(61.8)	(534)	(1,957)	(72.7)
% of revenue	(0.0)	(0.1)	5 b.p.	(0.0)	(0.1)	9 b.p.
EBITDA	243,622	211,483	**15.2**	145,137	122,585	**18.4**
EBITDA margin, %	**12.3**	**12.2**	**12 b.p.**	**7.3**	**7.1**	**27 b.p.**

EBITDA analysis

EBITDA under IFRS 16 in 2020 grew year-on-year by 15.2% and totalled RUB 243,622 million (grew by 18.4% and totalled RUB 145,137 million pre-IFRS 16), while EBITDA margin under IFRS 16 increased by 12 b.p. year-on-year to 12.3% (increased by 27 b.p. to 7.3% pre-IFRS 16) reflecting growth of the business, efficiency gains and structurally higher share of the most profitable Pyaterochka segment in the revenue.

Lease/sublease and other income

As a percentage of revenue, the Company's income from lease, sublease and other operations under IFRS 16 increased by 12 b.p. year-on-year, totalling 0.9% (increased by 8 b.p. year-on-year totalling 0.8% under pre-IFRS 16) reflecting reclassification[1] as well as lease holidays Pyaterochka, Perekrestok and Karusel offered to its sub-lessees during the COVID lockdown to support its partners, most of which are SMEs or private entrepreneurs.

Long-term incentive (LTI) programme

Accruals have been made in the Consolidated Financial Statements for the year ended 31 December 2020 related to the LTI programme aimed at maintaining leadership in revenue terms and achieving leadership in terms of enterprise value multiple relative to peers during a certain period in 2020. In total, RUB 289 million was accrued in 2020 for the LTI programme, including the positive effect of the release of provisions created for the old programme.

The LTI programme is a cash incentive programme over a three-year period until 31 December 2020, 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. Targets under the LTI programme are structured to align the long-term interests of shareholders and management, with a focus on maintaining leadership in terms of revenue and, as an additional long-term objective, leadership in terms of enterprise value multiple relative to peers. Additionally, the LTI programme includes triggers relating to the EBITDA margin to ensure that profitability is not sacrificed and the net debt/EBITDA ratio to retain focus on prudent financial and balance sheet management. Both targets under the current LTI programme were achieved. The accruals have been made and only smaller additional accruals related to the second payment of the current programme will continue in the following quarters. All LTI accruals and attributable social taxes since the beginning of the old programme are summarised in the table below.

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

RUB mln	2020	2019	2018	2017	2016	2015
New programme	830	2,444	619	-	-	-
Old programme	(541)	327	1,552	2,876	3,053	3,607
Total LTI	**289**	**2,771**	**2,171**	**2,876**	**3,053**	**3,607**

[1] Starting from Q2 2020, the Company reclassified income from the sale of recyclable materials at distribution centres and transportation income as well as costs related to Perekrestok Vprok and express last mile delivery from gross profit. The income from sale of recyclable materials at distribution centres and transportation income is now reported under lease/sublease and other income. Costs related to Perekrestok.ru and express last mile delivery are now reported under SG&A expenses, mostly in staff costs and other expenses.

Financial review

EBITDA analysis by segment

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

Pyaterochka (incl. express delivery)

RUB mln	2020	2019	% change, y-o-y
Revenue	1,598,315	1,370,414	16.6
EBITDA	130,041	107,595	20.9
EBITDA margin, %	8.1	7.9	28 b.p.

Pyaterochka's EBITDA margin increased by 28 b.p. y-o-y to 8.1% due to a reduction in shrinkage and increased logistics efficiency. Commercial margin remained almost flat y-o-y.

Perekrestok without Perekrestok Vprok (incl. express delivery)

RUB mln	2020	2019	% change, y-o-y
Revenue	309,460	270,451	14.4
EBITDA	22,264	19,048	16.9
EBITDA margin, %	7.2	7.0	15 b.p.

Perekrestok's EBITDA margin increased by 15 b.p. y-o-y in FY 2020 to 7.2% mainly due to the positive impact of the reversal of previously accrued LTI funds. Commercial margin was 50 b.p. lower y-o-y due to price investments post lock-down in order to support traffic in Perekrestok stores. Shrinkage was flat, while logistic costs were 10 b.p. lower y-o-y.

Other segments: Perekrestok Vprok, 5Post and Chizhik

RUB mln	2020	2019	% change, y-o-y
Revenue	14,006	5,023	178.8
EBITDA	(2,855)	(1,442)	98.0
EBITDA margin, %	(20.4)	(28.7)	832 b.p.

Most of the negative impact on the EBITDA of other segments is attributable to Perekrestok.ru, followed by Chizhik and 5Post.

Karusel

RUB mln	2020	2019	% change, y-o-y
Revenue	56,245	88,459	(36.4)
EBITDA	474	2,160	(78.1)
EBITDA margin, %	0.8	2.4	(160) b.p.

Karusel's EBITDA margin declined by 160 b.p. y-o-y to 0.8% on the back of the format's transformation and accelerated costs related to the closure of stores.

Corporate Centre

RUB mln	2020	2019	% change, y-o-y
EBITDA	(4,787)	(4,776)	0.2

Corporate expenses rose by 0.2% y-o-y in 2020.

Financial review

Depreciation, amortisation and impairment costs

Depreciation, amortisation and impairment costs under IFRS 16 in 2020 totalled RUB 137,905 million (RUB 68,351 million pre-IFRS 16), decreasing as a percentage of revenue by 7 b.p. year-on-year to 7.0% (decreasing by 14 b.p. to 3.5% pre-IFRS 16). This was mainly due to lower impairment related to the Karusel transformation compared to 2019, but also reflecting store refurbishment under new concept as well as new store openings in the updated format.

Non-operating gains and losses

	IFRS 16			pre-IFRS 16		
RUB mln	2020	2019	% CHANGE, Y-O-Y	2020	2019	% CHANGE, Y-O-Y
Operating profit	105,717	89,398	18.3	76,785	60,251	27.4
Operating profit margin, %	5.3	5.2	19 b.p.	3.9	3.5	41 b.p.
Net finance costs	(56,636)	(56,903)	(0.5)	(16,627)	(18,080)	(8.0)
Share of profit of associates	(20)	-	n/m	(20)	-	n/m
Net FX result	(3,391)	2,203	n/m	(913)	532	n/m
Profit before tax	45,670	34,698	31.6	59,225	42,703	38.7
Income tax expense	(17,326)	(15,191)	14.1	(20,045)	(16,795)	19.4
Net profit	28,344	19,507	45.3	39,180	25,908	51.2
Net profit margin, %	1.4	1.1	31 b.p.	2.0	1.5	49 b.p.
Effect of Karusel transformation and tax accrual related to X5 reorganisation in previous periods	7,484	10,161	(26.3)	7,683	10,577	(27.4)
% of revenue	0.4	0.6	(21) b.p.	0.4	0.6	(22) b.p.
Adj. net profit	35,828	29,668	20.8	46,863	36,485	28.4
Adj. net profit margin, %	1.8	1.7	10 b.p.	2.4	2.1	27 b.p.

Non-operating gains and losses analysis

Net finance costs under IFRS 16 in 2020 amounted to RUB 56,636 million, a 0.5% decrease from 2019 (RUB 16,627 million, a 8.0% decrease from 2019 pre-IFRS 16) driven by the reduced weighted average effective interest rate on X5's total debt from 7.94% for 2019 to 6.78% for 2020 as a result of declining interest rates in Russian capital markets, the solid credit quality of X5 Retail Group and actions taken to minimise interest expenses.

The net FX result reflects the weakening of the rouble, which affected the revaluation of the direct import inventory between border crossing and sales dates, as well as the growing share of direct import, which reached 5.3% for 2020, compared with 4.2% in 2019.

Income tax expenses under IFRS 16 increased by 14.1% in 2020, reflecting business growth. In 2020, X5's effective tax rate under IFRS 16 decreased to 37.9% from 43.8% in 2019 (decreased to 33.8% from 39.3% in 2019 pre-IFRS) reflecting the high base effect of 2019 due to other non-deductible expenses, tax accruals related to previous periods, including X5's reorganisation, as well as by the effect of the Karusel transformation.

Net profit in 2020 under IFRS 16 included one-off adjustments totalling RUB 7,484 mln (RUB 7,683 mln pre-IFRS 16) related to the Karusel transformation (mainly due to impairment of non-current assets) and an additional tax accrual related to X5's reorganisation in prior periods.

Financial review

Consolidated cash flow

	IFRS 16			pre-IFRS 16		
RUB mln	2020	2019	% CHANGE, Y-O-Y	2020	2019	% CHANGE, Y-O-Y
Net cash from operating activities before changes in working capital	240,801	211,650	13.8	144,312	124,226	16.2
Change in working capital	2,247	(10,649)	n/m	1,261	(12,024)	n/m
Net interest and income tax paid	(83,488)	(70,538)	18.4	(43,570)	(31,799)	37.0
Net cash flows generated from operating activities	159,560	130,463	22.3	102,003	80,403	26.9
Net cash used in investment activities	(84,314)	(81,151)	3.9	(84,314)	(81,150)	3.9
Net cash used in financing activities	(73,805)	(55,139)	33.9	(16,248)	(5,080)	219.8
Effect of exchange rate changes on cash and cash equivalents	(35)	61	n/m	(35)	61	n/m
Net increase/(decrease) in cash and cash equivalents	1,406	(5,766)	n/m	1,406	(5,766)	n/m

Cash flow analysis

In 2020, the Company's net cash from operating activities before changes in working capital under IFRS 16 increased by RUB 29,151 million, or 13.8%, year-on-year, totalling RUB 240,801 million (increased by RUB 20,086 million, or 16.2%, totalling RUB 144,312 million pre-IFRS 16) and reflecting the overall growth of the business and operating margin improvements achieved on the back of efficiency gains and positive operating leverage. Change in working capital in 2020 totalled positive RUB 2,247 mln compared to negative RUB 10,649 mln in 2019.

Net interest and income tax paid under IFRS 16 in 2020 increased year-on-year by RUB 12,950 million, or 18.4%, totalling RUB 83,488 million (increased by RUB 11,771 million, or 37.0%, totalling RUB 43,570 million pre-IFRS 16), primarily driven by tax paid on 66.7% higher dividends distributed by the Group's subsidiaries, compared with 2019 and the first interim dividend distributed in December 2020.

The effect from increased gross debt as of 31 December 2020 compared to 31 December 2019 was partially offset by the lower weighted average effective interest rate on X5's debt for 2020.

As a result, in 2020 net cash flows generated from operating activities increased to RUB 159,560 million under IFRS 16 (RUB 102,003 million pre-IFRS 16), compared with RUB 130,463 million under IFRS 16 (RUB 80,403 million pre-IFRS 16) for the same period in 2019.

Net cash used in investing activities, which generally consists of payments for property, plant and equipment, totalled RUB 84,314 million in 2020, compared to RUB 81,151 million in 2019 while more investments were made into refurbishments and digital transformation including development of digital businesses and less in new openings compared to 2019.

Net cash used in financing activities under IFRS 16 totalled RUB 73,805 million (RUB 16,248 mln pre-IFRS 16) in 2020, compared to RUB 55,139 million under IFRS 16 (RUB 5,080 pre-IFRS 16) in 2019, reflecting additional borrowings used for RUB 50 billion dividend distribution during the year, of which more than 35% was covered by own operating cash flow.

Financial review

Liquidity update

RUB mln	31-DEC-20	% IN TOTAL	31-DEC-19	% IN TOTAL	31-DEC-18	% IN TOTAL
Total financial debt	261,947	-	227,933	-	207,764	-
Short-term borrowings	77,026	29.4	74,755	32.8	60,435	29.1
Long-term borrowings	184,921	70.6	153,178	67.2	147,329	70.9
Net debt pre-IFRS 16	241,939	-	209,331	-	183,396	-
Net debt/EBITDA pre-IFRS 16	1.67x	-	1.71x	-	1.70x	-
Lease liabilities (IFRS 16)	548,501	-	484,795	-	-	-
Net debt/ EBITDA (IFRS 16)	3.24x	-	3.28x	-	-	-

Liquidity analysis

As of 31 December 2020, the Company's total debt pre-IFRS 16 amounted to RUB 261,947 million, 29.4% of which was short-term debt and 70.6% was long-term debt. The Company's debt is 100% denominated in Russian roubles. As of 31 December 2020, the majority of X5's debt had fixed interest rates.

As of 31 December 2020, the Company had access to RUB 457,086 million in available credit limits with major Russian and international banks.

Dividends

The dividend policy was approved by the X5 Supervisory Board in September 2017 and amended in November 2020. When considering a dividend recommendation to the General Meeting of Shareholders, the Supervisory Board is guided by a target consolidated net debt*/adjusted EBITDA** ratio of below 2.0x, in line with the Company's financing strategy, and by the operating cash flow against the company's investment requirements for the upcoming calendar year.

Based on the Company's strong 2020 financial results, the Company's Supervisory Board has made a recommendation to pay the final dividend for 2020 in the amount of RUB 30 billion/RUB 110.49 per GDR. Together with the interim dividend paid in December 2020, the total dividend for the year will amount to RUB 50 billion, or RUB 184.13 per GDR (compared with RUB 30 bln/RUB 110.47 per GDR in 2019), which represents 176.4% of X5 Retail Group's 2020 net profit (153.8% in 2019).

This proposal will be considered by the AGM, which will be held on 12 May 2021.

For appropriation of profit please refer to Other information chapter of the Financial Consolidation Statements

* 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.

** 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 decrease in the scope of the lease and terminations of lease agreements recognised under IFRS 16.

Information on alternative performance measures

In this report and other public disclosures, X5 Retail Group presents certain alternative performance measures (APMs) that it believes provide readers with a more detailed and accurate understanding of the Company's financial and operating performance. In accordance with European Securities 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 Retail Group's performance exclusive of financing, accounting and taxation factors. X5 believes that showing EBITDA and EBITDA margin performance provides greater detail about the Company's performance.

	IFRS 16		pre-IFRS 16	
RUB mln	2020	2019	2020	2019
Operating profit	105,717	89,398	76,785	60,251
Depreciation, amortisation and impairment	137,905	122,085	68,352	62,334
EBITDA	**243,622**	**211,483**	**145,137**	**122,585**

	IFRS 16		pre-IFRS 16	
RUB mln	2020	2019	2020	2019
Revenue	1,978,026	1,734,347	1,978,026	1,734,347
EBITDA	243,622	211,483	145,137	122,585
EBITDA margin, %	**12.3**	**12.2**	**7.3**	**7.1**

Adjusted EBITDA (including adjusted EBITDA margin)

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

	IFRS 16		pre-IFRS 16	
RUB mln	2020	2019	2020	2019
EBITDA	**243,622**	**211,483**	**145,137**	**122,585**
Adjustments:	-	-	-	-
LTI, share-based payments and other one-off remuneration payments expense and SSC	345	2,838	345	2,838
Effect of Karusel transformation	534	1,399	534	1,957
Adj. EBITDA	**244,501**	**215,720**	**146,016**	**127,380**

	IFRS 16		pre-IFRS 16	
RUB mln	2020	2019	2020	2019
Revenue	1,978,026	1,734,347	1,978,026	1,734,347
Adj. EBITDA	**244,501**	**215,720**	**146,016**	**127,380**
Adj. EBITDA margin, %	**12.4**	**12.4**	**7.4**	**7.3**

Information on alternative performance measures

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

	IFRS 16		pre-IFRS 16	
RUB mln	2020	2019	2020	2019
Net profit	**28,344**	**19,507**	**39,180**	**25,908**
Adjustments:	-	-	-	-
Effect of Karusel transformation and tax accrual related to X5 reorganisation in previous periods	7,484	10,161	7,683	10,577
Adj. net profit	**35,828**	**29,668**	**46,863**	**36,485**

	IFRS 16		pre-IFRS 16	
RUB mln	2020	2019	2020	2019
Revenue	1,978,026	1,734,347	1,978,026	1,734,347
Adj. net profit	**35,828**	**29,668**	**46,863**	**36,485**
Adj. net profit margin, %	**1.8**	**1.7**	**2.4**	**2.1**

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

Selling, general and administrative expenses (SG&A) are reported on the income statement as the sum of all direct and indirect selling expenses and all general and administrative expenses of the Company. X5 Retail Group reports adjusted SG&A, which excludes the effects of the LTI programme, 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	2020	2019	2020	2019
SG&A	**406,389**	**356,890**	**426,069**	**377,878**
Adjustments:				
LTI, share-based payments and other one-off remuneration payments expense and SSC	(345)	(2,838)	(345)	(2,838)
Effect of Karusel transformation	(534)	(1,959)	(534)	(1,957)
Depreciation, amortisation and impairment	(137,905)	(122,085)	(68,351)	(62,334)
Adjusted SG&A	**267,605**	**230,008**	**356,839**	**310,749**

	IFRS 16		pre-IFRS 16	
RUB mln	2020	2019	2020	2019
Revenue	1,978,026	1,734,347	1,978,026	1,734,347
Adjusted SG&A	**267,605**	**230,008**	**356,839**	**310,749**
Adjusted SG&A expenses as % of revenue	**13.5**	**13.3**	**18.0**	**17.9**

Information on alternative performance measures

Net debt/EBITDA

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

	IFRS 16		pre-IFRS 16	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Total debt, incl.:	261,947	227,933	261,947	227,933
Short-term borrowings	77,026	74,755	77,026	74,755
Long-term borrowings	184,921	153,178	184,921	153,178
Lease liabilities	548,501	484,795	-	-
Cash and cash equivalents	20,008	18,602	20,008	18,602
Net debt	**790,440**	**694,126**	**241,939**	**209,331**
EBITDA	243,622	211,483	145,137	122,585
Net debt/EBITDA	**3.24×**	**3.28×**	**1.67×**	**1.71×**

Net retail sales

The indicator net retail sales shows 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 Retail Group's core business, net retail sales is provided to give a clearer picture of the performance of the Company's core business activity.

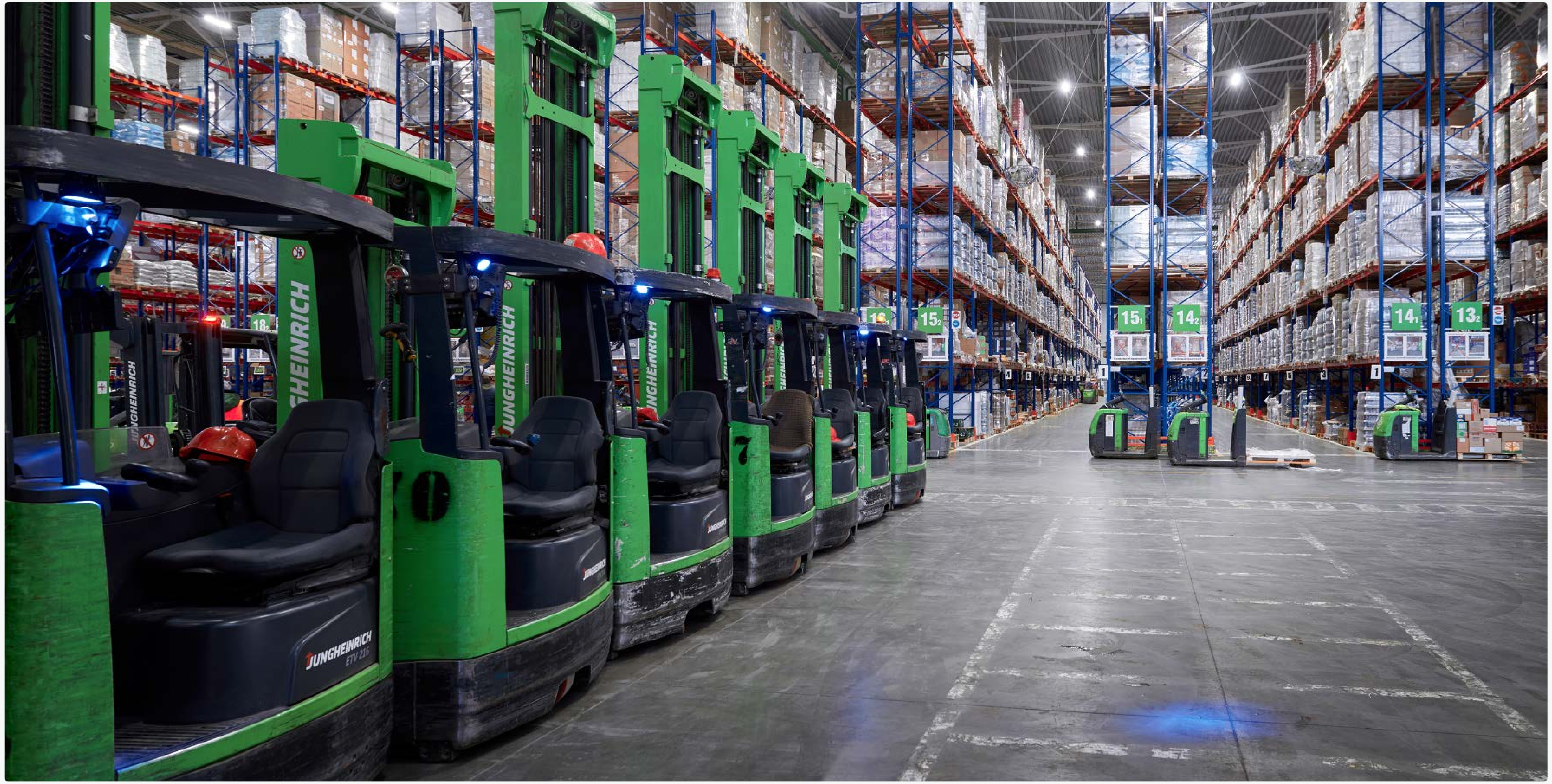
RUB mln	2020	2019
Revenue	**1,978,026**	**1,734,347**
Adjustments:	-	-
Revenue from wholesale operations and other services	(4,675)	(6,630)
Revenue from franchise services	(5)	(3)
Net retail sales	**1,973,346**	**1,727,714**

Like-for-like (LFL)

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

%	2020	2019
Net retail sales growth	14.2	13.3
Less contribution from an increase in selling space	8.7	9.3
LFL	**5.5**	**4.0**

Retail infrastructure



Our retail operations infrastructure plays a key role in our ability to efficiently provide customers with the quality and assortment that they expect at any X5 Retail Group store. The ongoing development of our logistics, transport and IT systems is an integral part of our strategy, helping to support our digital transformation, growth and further improvements in efficiency.

They are play an important role in our sustainability strategy, as we aim to achieve goals like reducing GHG emissions from our transport fleet, increasing the share of solid waste sent for recycling from our DCs and use smart digital solutions to reduce energy use in our stores.

Logistics

Logistics is an integral part of our retail operations. Our infrastructure includes direct import hubs, distribution centres, satellite DCs and cross-docking stations. With advanced digital tools to manage transport and warehouses, our logistics operations are efficient and reliable, which is critical to ensuring the smooth operations of our federal food retail networks and digital businesses.

As of the end of 2020, we were operating 45 DCs (excluding five dark stores used in Perekrestok Vprok e-commerce operations) with a total floor space of 1.4 million square metres, and we maintained excess capacity to support the ongoing growth of our store network.

X5 Retail Group's company-wide service level target – order processing based on timely deliveries – was 90%, and centralisation (goods delivered to stores from the Company's own DCs) was at 95% in 2020, which reflects our continued focus on efficient and high-quality operations.

How we manage logistics

The Business Support unit in the X5 Corporate Centre is responsible for management of our logistics operations. This centralised management function sets standards and monitors the performance of our transport and DC operations. With multiple retail formats, the central function also facilitates the sharing of best practices and technologies.

As we continue to expand our retail networks, expansion of our logistics infrastructure is also implemented in the Corporate Centre. All of X5 Retail Group DCs utilise an automated warehouse management system (WMS) that includes features like voice picking and weighing technology.

Logistics and Transportation Strategy

Our Logistics and Transportation Strategy to 2025 has identified priority focus areas that include efficiency, delivery times, the availability of a wide assortment of goods on our store shelves and ESG factors. This strategy aims to:

- Support the CVP of each of our formats
- Respond to forecast demand through 2025 for each specific location
- Enable our formats to achieve their targets in terms of market share, growth and efficiency of logistics
- Allow formats to manage their own supply chain operations while, in parallel, seeking and implementing opportunities to achieve synergies
- Reduce the CO_2 footprint per square metre of selling space in operations by introducing hybrid-fuel engines for trucks, optimising delivery routes and by reducing the number of empty runs

Logistics

Pyaterochka

Pyaterochka operated 16,709 stores in 66 Russian regions as of 31 December 2020 that were served by Pyaterochka's logistics operations including 33 DCs.

DC space expanded by 120 ths sq m in 2020, and the logistics function helped to ensure smooth store operations across the Pyaterochka network, even during periods of peak demand in March and April, when customers sought to stock up on basic goods ahead of the expected introduction of lockdown measures to fight the COVID-19 pandemic.

PLANS FOR 2021

- Further scaling of the vegetable storage facility in Tver
- Piloting of a presentation stock management microservice for the fresh category at one of the DCs
- Implementation of a unified dashboard to improve cross-functional interaction between business units for different product categories

2020 highlights

- Succeeded at maintaining supplies to stores during peak demand caused by COVID-19 and the introduction of lockdown measures in March–April 2020
- Store supply levels were maintained at 95.5% during peak pandemic-related demand, in line with 2019 levels

Efficiency and capacity

- Decreased DC and transport costs from 2.67% of turnover in 2019 to 2.61% in 2020
- Improved OWR (from 87 boxes/hour in 2019 to 90 boxes/hour in 2020
- Increased DC throughput from 6.3 boxes/sqm in 2019 to 6.5 boxes/sqm in 2020
- With the launch of end-to-end integrated sales and an operating planning system, losses during the pitted-fruit season declined on an LFL basis by 4.7% while sales in this category rose by 23% year-on-year

ESG

- Launched "comfortable DC" programme to increase employee engagement
- Increased the share of the transport fleet using more efficient and cleaner hybrid motors
- Increased collection of recyclable materials
- Introduced changes to working practices and shifts to help ensure uninterrupted logistics operations while minimising risks for employees

Expanding and enhancing infrastructure

- Opened three new DCs and expanded two, increasing overall DC space by 120 thousand square metres
- Opened new banana ripening station at Kazan DC
- Moved packing line from Yuzhniy DC to Bogorodsk DC, which helped achieve a 185% increase in packaging volumes
- Launched pilot vegetable storage facility in Tver

Digital transformation

- Continued rollout of new automated warehouse management system
- Implemented new modules for the DC mobile app
- Launched new IT system enabling end-to-end tracking of movement of goods from DCs to stores, including automated replenishment
- Piloted a new demand forecasting system based on machine learning, which has achieved improvements in forecast accuracy of 5% to 13% across different regions and categories of goods

Logistics Perekrestok

Perekrestok's logistics operations included 12 DCs as of 31 December 2020, which helped to support the operations of 933 supermarkets and 56 Karusel hypermarkets across 49 regions of Russia.

Perekrestok's logistics function remains focused on efficiency, quality and digital transformation.

PLANS FOR 2021

- Development of digital transformation products: forecasting and demand
- Bringing the new Severniy RC to target metrics for efficiency and productivity
- Open a new DC in Voronezh
- Change the management model and transfer more authority for supply management to the regions
- Further productivity improvements and cost optimisation
- Preparing to launch a project for the implementation of a new WMS system

2020 highlights

- Succeeded at maintaining supplies to stores during peak demand caused by COVID-19 and the introduction of lockdown measures in March–April 2020
- Store supply levels were maintained at 94.8% for FY 2020 in line with the 2019 level of 94.9%

Inventory management

- Inventories grew by 3.1 days year-on-year due to additional purchases of goods at the DC level during the pandemic, which made it possible to ensure availability in stores
- Demand forecasting, developed in conjunction with the Big Data Department, is in its final stage of rollout and will be completed in Q1 2021. This new system increases accuracy by +10.6% for promo and +0.8% for regular sales

Operational efficiency

- The launch of end-to-end integrated planning (S&OP) in conjunction with direct import operations for imported fruits and vegetables ensured uninterrupted supplies during the hot season
- Launch of a product to develop a proprietary replenishment system for goods in stores and DCs, which will replace the existing JDA system
- The transition to remote work in response to the COVID-19 pandemic had no negative impact on efficiency and made it possible to optimise internal processes and the number of personnel
- Closed two DCs (Altufyevo and Businovo) managed by a 3PL provider and launched our own operations at the new Severniy DC in all categories (fresh, ultra-fresh, frozen, dry assortment)
- The overall productivity of DCs (OWR) increased by 4.8% and amounted to 64.5 boxes/man-hour; the picking productivity increased by 2.9% to 183.0 boxes/man-hour
- DCs operated in compliance with the pandemic-related requirements of the regulator (Rospotrebnadzor) and also introduced additional safety measures, which meant business processes were not suspended and risks to our employees were minimised
- Due to changes in incentives for new employees and mentors, turnover in 2020 decreased by 16.6%

Personnel development

- Head office structure and headcount were optimised by 12%
- The Severniy DC was opened using a new recruitment strategy for the pandemic, and a team of more than 450 employees was successfully established
- Achieved a smooth transition to remote working in response to the pandemic
- All personnel training and development materials are now online

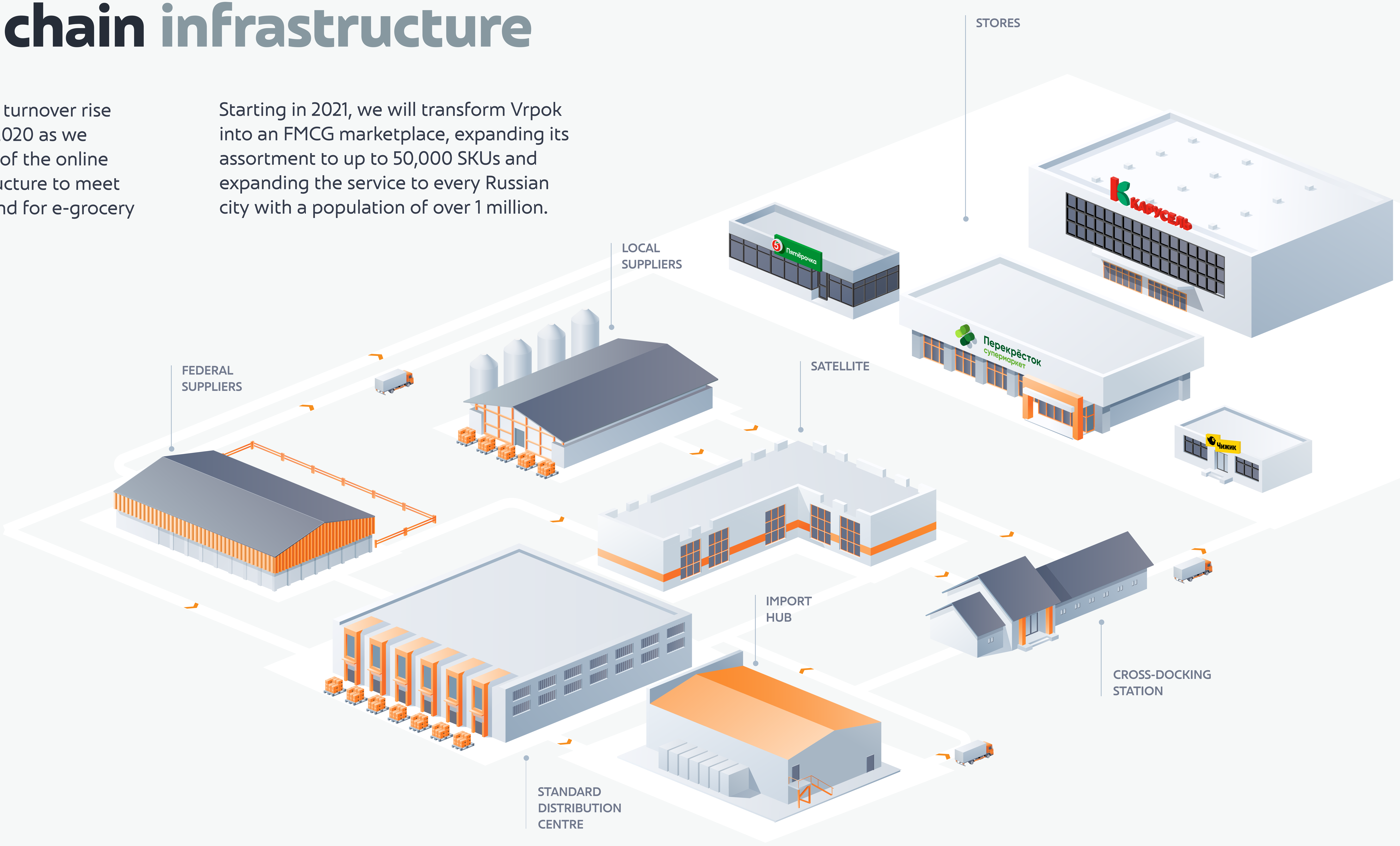
Supply chain management, transport

- Developing joint use of sites with Pyaterochka: the share of self-pickup of orders from suppliers, which provides a higher level of service for the DC and is more cost efficient, increased by 20%
- A 3% increase in the share of regional purchases made it possible to reduce the costs of intra-branch transportation
- Due to the use of the TMS system and optimisation, the utilisation of transport in pallets increased by 2.1% and the filling of transport in boxes by 10.1%

Supply chain infrastructure

Perekrestok Vprok saw turnover rise 362% year-on-year in 2020 as we accelerated expansion of the online hypermarket's infrastructure to meet rapidly-growing demand for e-grocery services.

Starting in 2021, we will transform Vrpok into an FMCG marketplace, expanding its assortment to up to 50,000 SKUs and expanding the service to every Russian city with a population of over 1 million.



X5 Transport

Our transport operations enable X5 to provide a reliable supply of goods to our growing network of stores efficiently and dependably. This is an important component of our overall strategy, as transport enables smooth operations and supports our growth. At the close of 2020, X5's transport fleet consisted of 4,055 trucks (excluding light trucks used by Perekrestok Vprok), which made 75% of our deliveries during the year.

We approved a Logistics and Transportation Strategy in 2017 that focuses on contributing to the sustainable growth of our food retail business, and one of the key goals was service quality, aiming for a 98% success rate in meeting delivery windows and temperature requirements for deliveries. To that end, we have established business processes that enable us to quickly adapt to the evolving requirements of X5's retail formats.

2020 developments and achievements

Throughout 2020, we implemented and expanded a number of market-leading innovations that improve efficiency and make transport safer, enabling us to expand our reach. Technology is used for a number of processes, including improved route planning, reduction of idle or excess capacity and the ability to source trucks, drivers and trailers separately.

We transferred core transport business processes to a digital platform, X5 Transport, which aligns customers, logisticians, drivers and controllers within a single system that makes processes convenient and transparent, empowering users to operate efficiently. We also launched a mobile app for drivers based on the X5 Transport system, an automated system of mass recruitment, and our own digital TMS system to plan and manage prefabricated cargo.

In 2020, we further developed self-delivery and commercial delivery to third parties, which saw volumes rise 1.4× versus 2019. We entered international markets, with testing for deliveries from Turkey, Serbia, Latvia and Belarus underway. To support the development of the regional network, we implemented cross-docking centres in Kaliningrad and launched accelerated delivery to Salekhard, in the Russian Far North.

We integrated data insights into many of our growth initiatives during the year. In collaboration with the X5 Big Data team, we began development of a data-based analytics platform and reporting system, and we completed the refactoring of the vehicle operational monitoring system. This has not only significantly improved the reliability and speed of the system but has also minimised the loss of telematic data.

Sustainability

Our sustainability goals are integrated into our transport operations as we work toward responsible resource consumption, lower emissions and optimal working conditions for our employees and transportation partners.

In 2020, we continued to convert our transport fleet to more efficient and environmentally friendly gas–diesel equipment, with more than 200 of our vehicles now equipped, and an advanced pilot is underway to explore applying this technology for urban deliveries. In 2020, we went paperless, transferring 100% of our contractors for the supply of spare parts and maintenance and repair services to electronic document exchange. We launched electronic transport invoices via the Russian transport industry's "Paperless Transportation" national digitisation programme.

Furthermore, all of our Smart Kitchen products are delivered by our transport operations.

In 2020, we launched a pilot of the innovative "Antisleep" system, which monitors the road and the condition of the driver behind the wheel, tracks violations and improves fuel efficiency by regulating driving quality.

X5 Transport plans for 2021

- Continue testing of equipment using pure gas fuel: in 2021, this will focus on liquefied natural gas and new trucks with lightweight bodies and chassis
- X5 transport: addition of smart services and solutions based on artificial intelligence and data using a single digital platform, such as contactless refuelling, automated route planning, selection of filling stations while on the move and an automated smart alerts system
- Digital paperwork: development and implementation of electronic document exchange, along with the transfer of the remaining accompanying documentation (travel sheet, etc.) into digital formats
- Expand geography: commence access to Irkutsk and develop new regions to provide international delivery
- Test operational technologies: X5 is assessing innovations including additives for fuel and oils, aerodynamic weights and aluminium discs
- Further development of LTL service (prefabricated cargo) and self-delivery for suppliers and manufacturers

Direct imports

Expanding our direct import operations helps to support several of our strategic initiatives. It gives us the ability to monitor and control import operations across the entire supply chain. The benefits of this approach include greater control over the selection of responsible suppliers, improved quality control throughout the supply chain and better responsiveness as we adapt our assortment and CVP to customer needs.

	2020	2019
Share of direct imports in sales	5.3%	4.2%
Share of direct imports in sales in the fruits and vegetables category	32.9%	28.9%

Direct import operations are part of the Business Support Unit. As of 31 December 2020, X5 was operating four direct import hubs in Pulkovo, Bogorodsk, Podolsk and Novorossiisk.

2020 highlights

- Direct import volumes rose by 44.8% year-on-year
- Direct import development strategy to 2023 was approved
- Infrastructure that will be key to implementing the new strategy was launched, including refurbished hubs in Novorossiisk (increased throughput) and Bogorodsk (significantly expanded dry storage capacity)
- Sourcing teams were set up in Turkey, South Africa, Serbia and China. These teams are tasked with expanding X5's direct import capabilities in these regions, including finding new suppliers and negotiating improved purchasing terms with local producers
- Several new categories of direct import were launched, including fresh flowers, beer, non-food items for seasonal promotions and non-commercial items like PPE and spare auto parts (helping to reduce opex and capex)

Direct import plans for 2021

- Implement updated strategy, with the most significant growth expected in such categories as refreshments and dry foods, where we have recently expanded our infrastructure
- Expand imports of pre-packaged goods in the fruits and vegetables category
- Develop the ultra-fresh category (meat, fish, etc.)
- Further improve the efficiency of procurement, including with the help of the new sourcing function
- Continue to automate key processes in direct import operations

X5 Technologies

As part of the implementation of X5's new strategy and its rapid digital transformation, the Company has an increasing need for speed, efficiency, flexibility and convenience in its internal services.

In 2020, the Company created a new business unit called X5 Technologies. This was a logical step in the development of the Company's technological expertise and also part of the Company's plan to become a leader in digital retail. The pandemic and the increased role of technology in business success expedited its establishment. X5 is becoming a data-driven company with digitalised processes and solutions based on big data analytics.

The core function of X5 Technologies is the creation of integrated digital solutions for the Company's business and retail chains. With 2,700 employees, X5 Technologies combines two key areas – information technology and big data.

Setting up a separate business unit for X5's technology divisions is part of the systemic changes that X5 needs to undertake in order to continue to grow and succeed. The unit's integrated digital solutions cover both big data and IT resources, including development, infrastructure, support and more. One of the first examples of an integrated product that has already been implemented is X5.ID – a single sign-on system to enable customers' seamless movement between X5 services and retail chains.

The teams working out of X5 Technologies will base their activities on the flexible application of state-of-the-art development practices, a product-focused approach and product teams.

X5 Technologies is responsible for the digital transformation of the entire Company; therefore, the employees of X5 Technologies are involved in projects that span all of X5's business units and can solve problems related to the Company's back- and front-office functions. X5 Technologies develops solutions that help tens of millions of people buy their favourite items fresh and at the best price every day, proving that the supermarket is also a digital project that has a place for big data, machine vision, mobile applications and much more.

Key figures

34
Products

123
Projects in progress

324
IT systems supported

16
Business domains assigned

5.0 PETABYTE
big data storage cluster

>56 MLN
gold customer accounts with X5.ID

>1,200
Physical servers

X5 Technologies

Key objectives

Technical maturity of IT systems: create and maintain a flexible technical platform

- High degree of reliability on the part of key systems (availability, scalability)
- Introduction of state-of-the-art information security systems that avoid significant losses of speed and flexibility in terms of internal processes
- Internal cloud development (dynamic infrastructure)
- Data accessibility for related systems
- Automation of business processes

Customer-centricity: provide seamless customer relations

- Creation of a single customer profile
- Personalisation of the customer experience based on an analytical platform
- Creation of the best-available mobile applications
- Creation of a digital platform with content about food and everything related to it
- Creation of a unified identification and payment service for all X5 businesses

Leadership in digitalisation: ensure fast and flexible development

- Creation of cross-functional teams based on agile principles, including products and projects
- Formation of in-house expertise in key IT areas
- Improvement of X5's HR brand in the IT community
- Optimisation of IT support processes and their integration into development processes

Business and IT partnerships: increase the level of interaction with business

- Introduction of state-of-the-art technologies in existing and new types of business (artificial intelligence)
- End-to-end digitalisation of internal business processes
- High-speed decision-making through unified goal-setting and efficient delegation

Domain approach

To improve the efficiency of working with X5's retail formats and business units, a decision was taken to abandon traditional IT support for the business and to move to a domain approach, where digital specialists become part of a business unit's team.

- Each business area has individual needs and priorities in the use of information technology. For some, the introduction of the latest technologies and time to market is critical (such as marketing), while for others, stability and reliability are more important (for example, systems related to labelling and state regulation). The domain structure is designed to provide an individual approach in order to maximise the impact of technologies
- One key advantage today is time; therefore, delegating substantial authority to the domain reduces decision-making time and makes it possible to respond quickly to external factors
- The domain structure is focused on in-depth immersion in the business component, which, together with IT expertise, makes it possible to go beyond mere implementation to become more of an equal partner

X5 Technologies

EXAMPLES OF PRODUCTS CREATED

- We use automated category analysis tools to manage our assortment in order to ensure that it best suits the needs of our customers. The automated control system helps to determine the assortment in 28 product categories. New product mixes are being developed based on our understanding of demand, the importance of each product category and its share of total net retail revenue
- A pricing technology product based on data analysis helps make decisions on pricing for 100% of the assortment
- Last year, we began rolling out a robot-assisted telephony platform for our retail networks. This is our own product that uses Yandex SpeechKit technology. X5 voice assistants are already helping our networks handle incoming calls and make outgoing calls without human intervention. They simulate dialogue with customers and help resolve their issues. The bot has an arsenal of over 300 different phrases, and new scripts can be created in just one day. Most callers aren't aware that they are talking to a bot rather than a person. When a customer calls the call centre, they make a selection in the IVR, which determines the route to be followed for all of the customer's questions. The key objective in developing speech technologies is to develop the functionality of existing call centres. Within the Pyaterochka retail chain, a robot already resolves up to 50% of all requests concerning loyalty issues every day, and the rate of conversion to target action is over 60%. At the same time, bots cost 5-7 times less than operators

X5 Technologies

X5.ID

In 2020, X5 launched X5.ID – a universal account that enables customers to use all of X5's services and retail chains with a single registration. No other Russian retailers offer such a solution.

More than 30,000 unique X5.ID records have already been created (Express-Scan, #naletu). In the coming months, we plan to connect our retail chains' mobile applications to X5.ID. The transition will have no noticeable impact on existing clients.

In October 2020, X5 announced plans to pilot a subscription service. We are now at the research and discovery phase: we are selecting and piloting the most interesting formats for clients, those that will offer them additional benefits for using our services. X5's strategy envisages a presence at all stages of the customer journey, which begins long before the customer enters a store, including in the digital environment, and the subscription service is one of the key areas of a new format for interaction with our consumers.

X5's retail chains remain at the core of X5's operations, and X5 Technologies pays special attention to this area. The retail chains continue to develop services related to improving the quality of service and the quality of goods, as well as optimising internal processes. This makes it possible to use up-to-date technologies, such as self-checkout terminals, video analytics and big data, process robotisation and others.

X5 Technologies

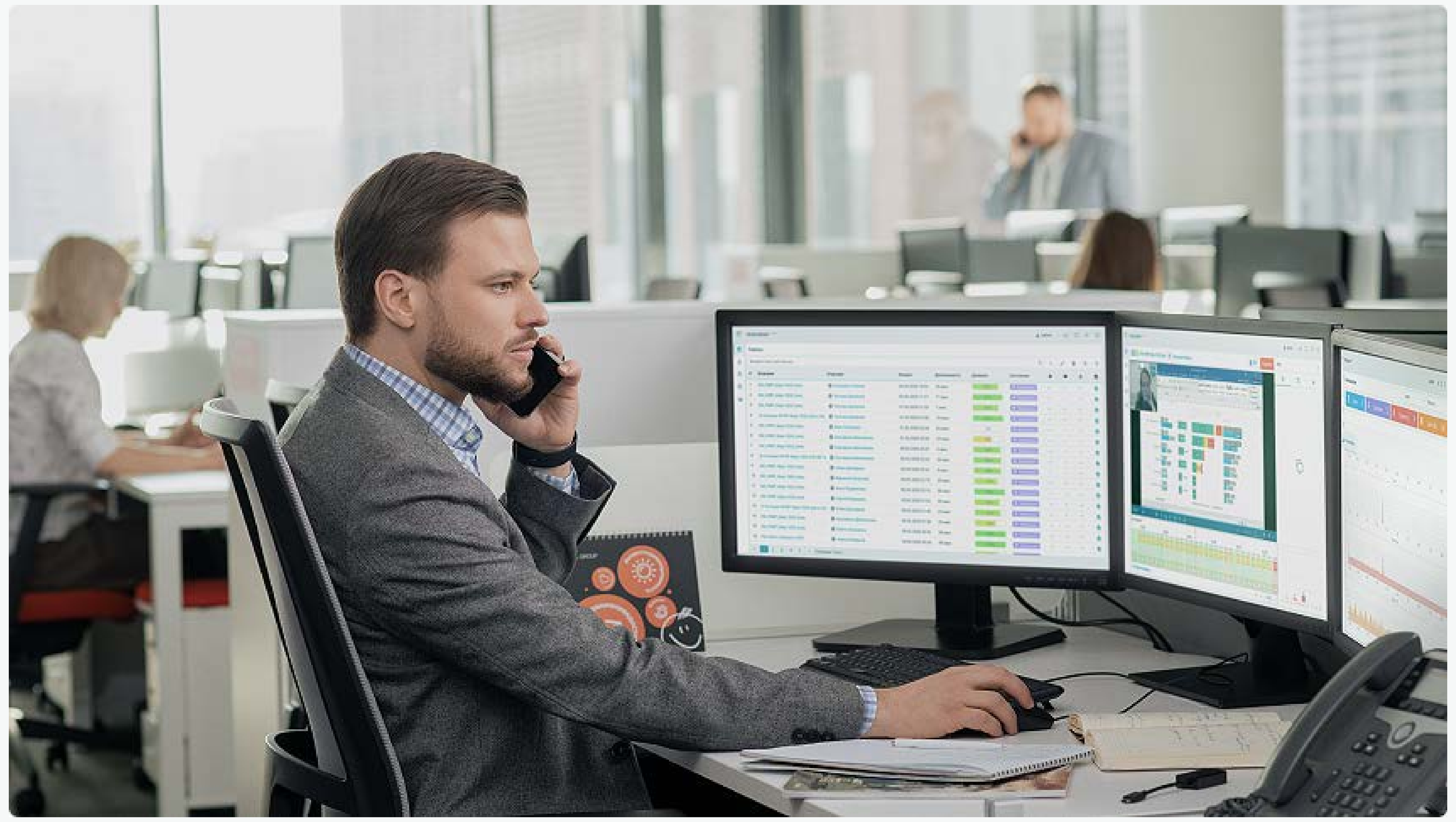
Big Data

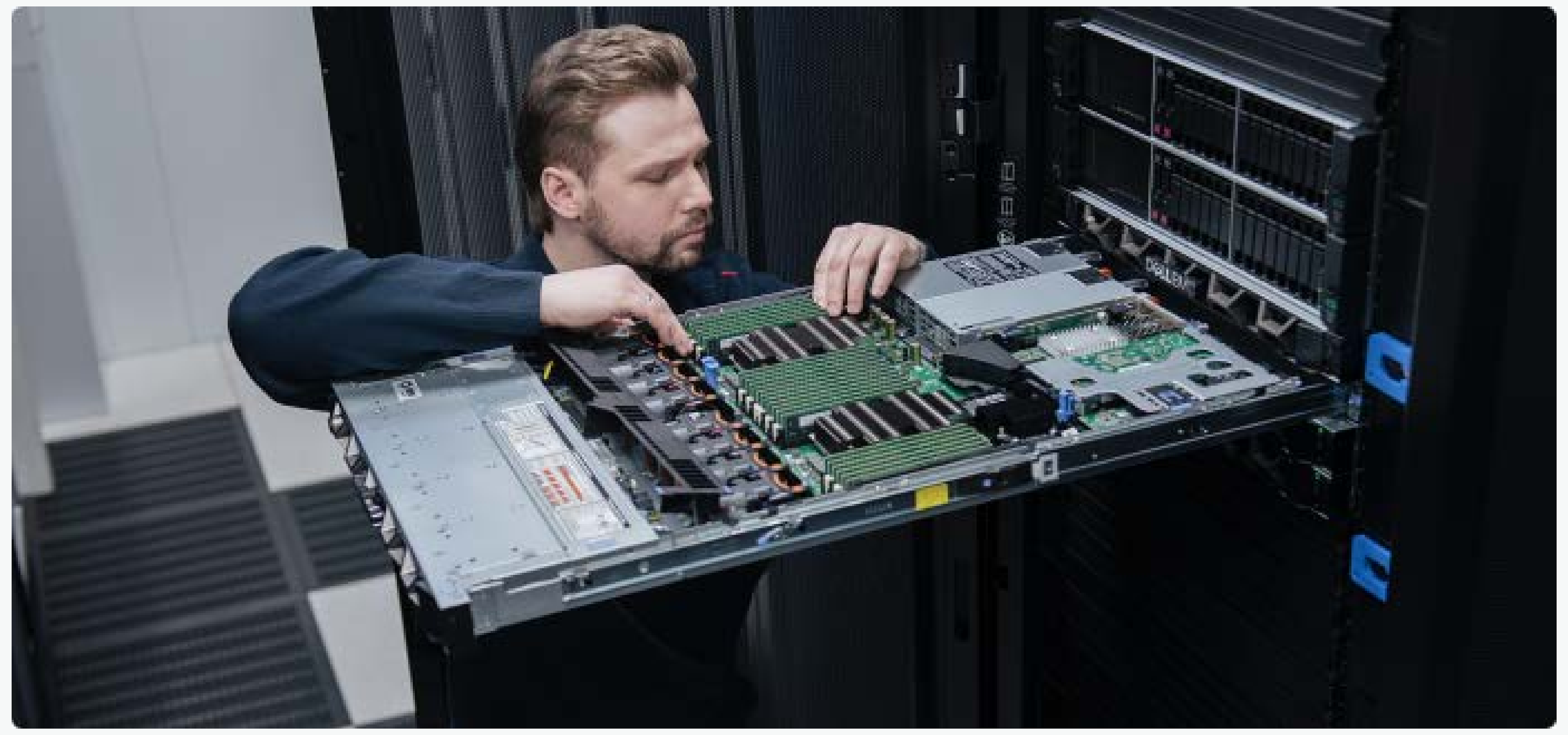
The quality and accessibility of data are key success factors, and X5 places particular emphasis on process structuring and its data management culture.

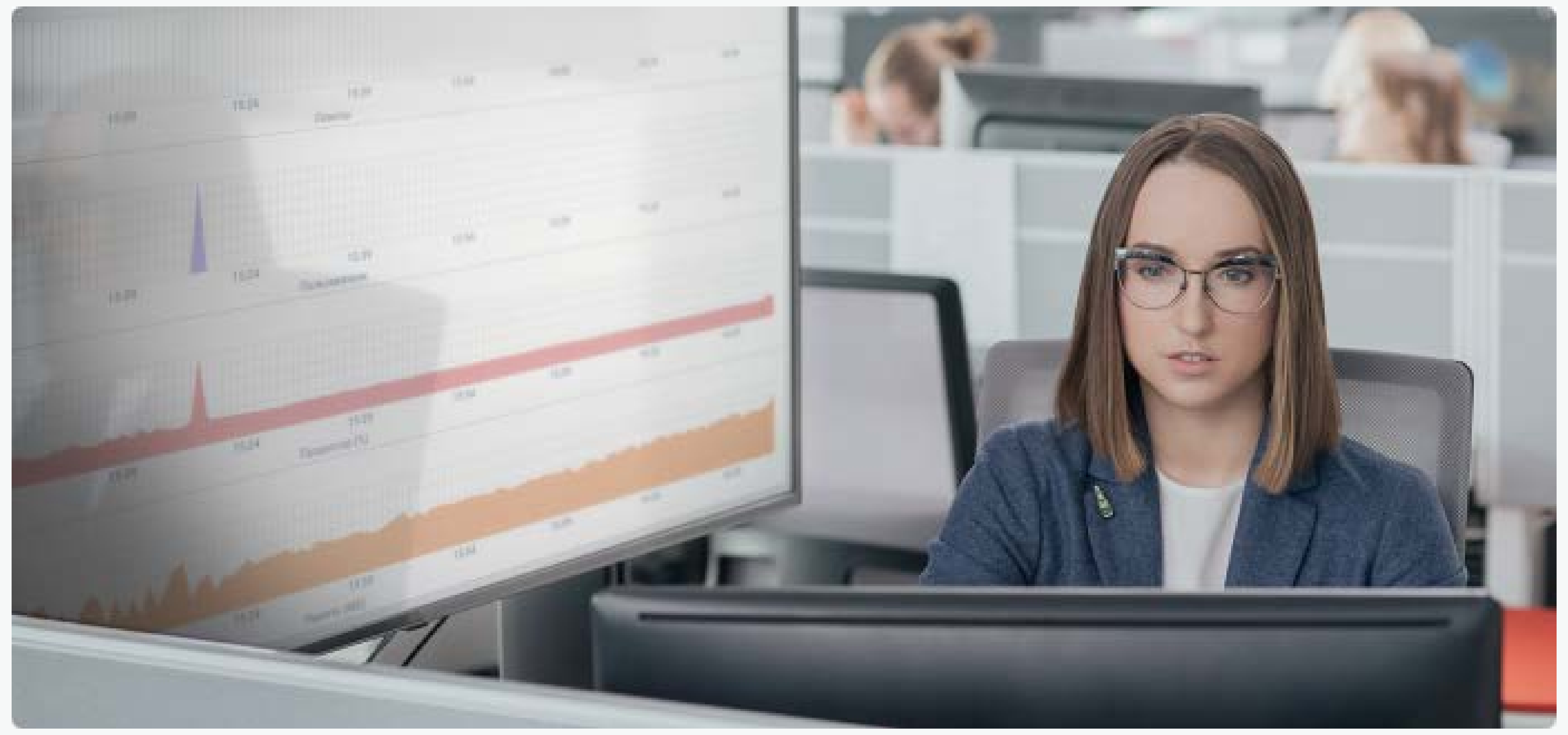
We are introducing a culture of data-driven management; today all business units and functions are involved in this process. For the formation and development of a culture of data-driven management, a policy aimed at the "democratisation" of data has been implemented: a unified data catalogue was created that contains a single-variant data corpus with an indication of the source and the method for calculating any given indicator; analytics tools for independent use are being introduced. Thanks to these continuous improvements, the processes of obtaining, cleansing and structuring data have been significantly optimised in terms of time.

State-of-the-art technologies open up excellent opportunities for automating decision-making processes. In our case, working with our assortment and pricing as key elements of our commercial activities has significant potential for using big data.

At X5, we created a big data analytical layer with a service that helps analysts make quick decisions by analysing all main types of data: goods, receipts, suppliers and counterparties. Algorithms are becoming a part of X5's data-driven culture, where all decisions are driven by data and advanced analytics. This enables the Company to reduce the cost of human error and increase the speed of decision-making.







X5 has several big data products that are unique to the Russian market:

- An A/B testing platform that helps validate the results of any pilot or business process with maximum precision by simulating the environment and selecting a system with similar factors – effectively creating a parallel reality to validate the results of the experiment. On the whole, forecasting based on machine learning can be used to assess the impact of promotions on consumers, to reduce customer churn and to determine customers' price elasticities, and also to calculate the impact on retail sales turnover and traffic. In 2020 alone, ad hoc analytics conducted 600 studies / business queries
- A unique platform for suppliers that uses accumulated information about sales and buying behaviour. Now every supplier can receive analytical reports practically in real time and structure their business with X5 more efficiently. Dialog X5 is a multifunctional platform for solving business problems, a set of digital tools that already include analytical and logistics reporting, advertising targeting and a tender platform
- X5 plans to integrate all services for suppliers into a single system based on the Dialog X5 platform. The Supplier Analytical Portal was brought to market at the end of 2019 – contracts have been signed with more than 30 suppliers
- Big data is at the heart of store digitalisation, including proprietary algorithms for facial recognition, product freshness, video monitoring of shelves and queues, etc.
- We are improving the effectiveness of promotions through the use of advanced big data analytics and analysis of the results of past promotions. Customer value management (CVM) aims to create further additional value for loyal customers at X5 stores, and also to maximise the value of each loyal customer for the Company. Pyaterochka has taken another step towards a customer-centric model, as CVM functionality is currently being created. Its technological core – the Digital CVM tool, which will enable us to cover 100% of Pyaterochka's client base with personalised offers – is being designed
- One of the Company's first digitalisation products, the Automated Pricing System at Pyaterochka, has been scaled up to cover all regions. The product is expected to increase margins by over RUB 1.2 billion per year, while maintaining retail sales turnover and traffic. The pilot of the Automatic Pricing System at Perekrestok was successful and has shown that, at this stage, the impact on gross profit is double what was predicted. The system is now being scaled up to cover all product categories and stores in the retail chain, and it is also being improved to achieve a greater impact and to make the user experience as convenient as possible
- Competitor price monitoring is becoming a must-have tool. With such data, it is possible to construct strategies to optimise turnover or profit, and to manage targets

X5 Technologies

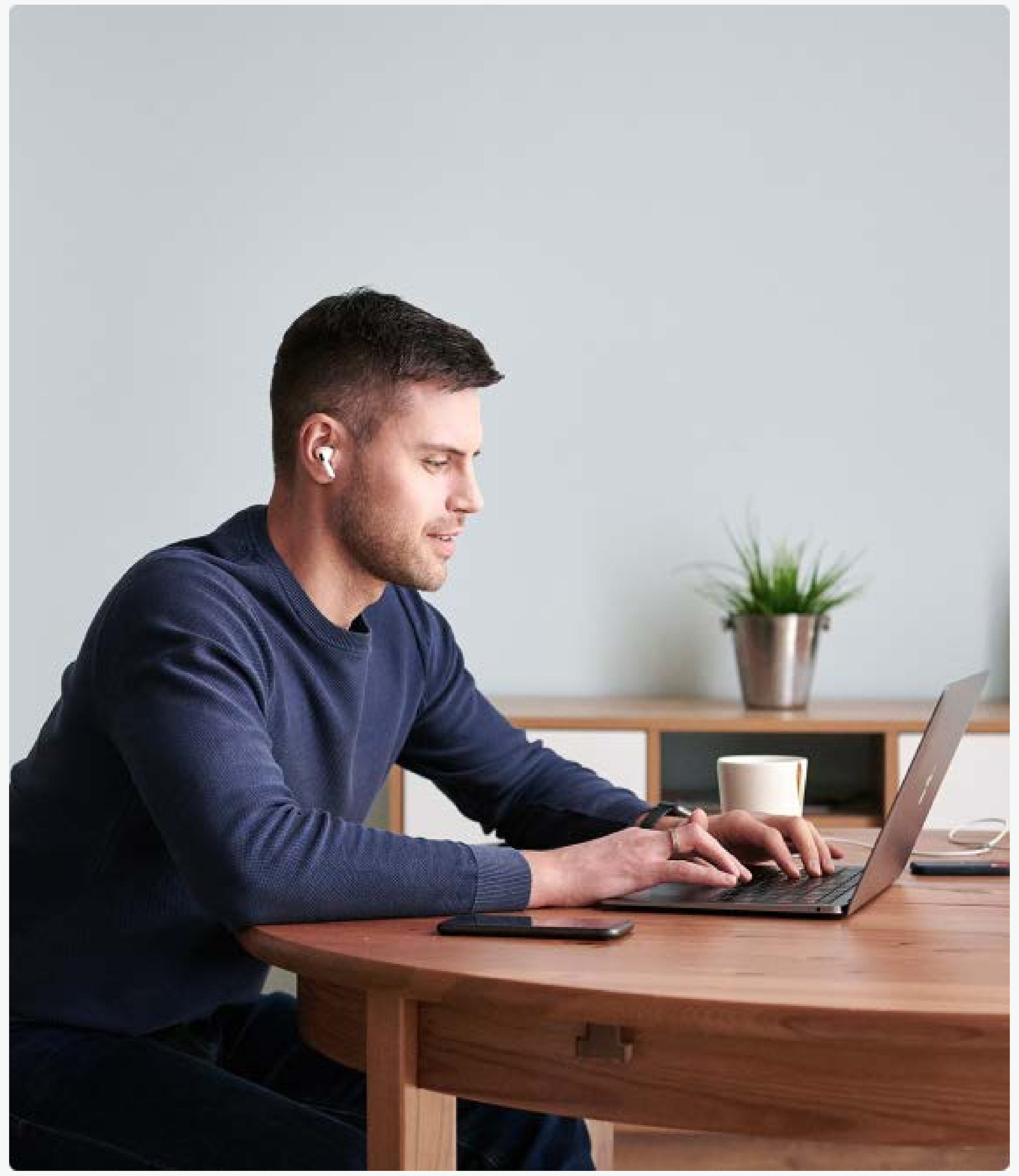
X5 Digital Leaders

The main limitation on the digitalisation of the industry is the availability of expert personnel who are able to find innovative solutions where business and technology intersect. The average growth rate in terms of the number of IT professionals at X5 over the past three years has been over 25% per year.

We expect the current growth rate to continue for at least several years and reach approximately 4,500 full-time technical personnel by 2023.

To meet its need for qualified technical personnel, X5 Technologies:

- Actively searches for new personnel, using various tools, from working with career sites and recommendations from referral programmes, to targeted advertising of vacancies on social networks and creating games for developers
- Conducts specialised training programmes. For example, at the end of 2020 X5 opened a department based at the Moscow Institute of Physics and Technology. In the new academic year, X5 will recruit the first flow of students for a master's programme in Industrial Data Analysis in Retail. The department will be taught by university lecturers and X5 data analysis experts. We expect to recruit 15–20 students who are ready to master the practical component of our business from their first days of study. Students will study for two years and train in the X5 Data Analysis Department, providing benefits to the Company while also gaining real-world work experience in Russia’s largest retailer
- Actively trains and retrains employees through the X5 Digital Academy. Schools for data analysts, technical specialists and online courses in technical skills (Python, SQL, Hive Spark) have already been created, and more than 350 employees have received training. Schools and courses are designed to increase employees’ technical competencies in order to work on X5 digital solutions, as well as provide an opportunity to learn a new profession. The Digital Academy will continue its work in 2021 and expand the range of courses and the flow of students
- Works on specialised value propositions for technology professionals, actively develops its brand as an employer and seeks to create an attractive image in the labour market



Plans

Today, X5 Technologies employs over 2,700 highly qualified digital professionals. These are technological visionaries who are defining the image of technologies at X5 and in the market as a whole, IT entrepreneurs who are leading and developing technological business areas, data analysts, creators of innovative IT systems and solutions, consultants and engineers. X5 Technologies’ main objective in 2021 will be the creation of value for shareholders and for society by reaching a new level of technological effectiveness and competitiveness.

Innovations

Innovation

For X5, innovation is a tool for business growth that enables us to stay, on average, two to three years ahead of food market peers.

Today we are benefitting from the practical value and success of what we did several years ago, and we continue to make advances by developing new approaches and turning them into reality. Our goal is to expand the innovation funnel, to increase the number of ideas and speed up the rate at which we test them.

Innovative solutions and projects bring value to shareholders and customers only when they are implemented at scale and used in practice by a considerable portion of the Company. For this reason, the department's principal KPI is its impact on EBITDA.

In 2020, 10 products were successfully completed and prepared for full-scale rollout. In 2021, we will continue to focus on improving the efficiency of X5's core business by introducing new technological solutions aimed at having a positive impact on the Company's P&L.

The next stage in the development of our innovation strategy – to be implemented in 2021 – is the further creation of new revenue streams and/or new businesses like express delivery or 5Post. The main goal is to create additional revenue streams for X5 by introducing new products and solutions to the B2B and B2C markets, through both in-house development and cooperation with the startup ecosystem.

External innovation

In what was a challenging year, we expanded our international scouting considerably through online meetings and pitches. We introduced scouting methods in line with functional verticals. This led to a narrowing of the tasks involved in the search for solutions and to an increase in conversion to working use cases. It also resulted in the engagement of a much larger number of participants from various functions and the emergence of new customers within functions. More and more employees and managers in the field see the innovation process as a practical way to achieve their departments' KPIs and to address internal problems and challenges.

In 2020, X5 added 1,516 startups – including 303 from abroad – to its innovation funnel. We continued to explore the foreign technology market, with a primary focus on Europe, Israel, the United States, China and Japan. Our plans for 2021 include entering the startup ecosystems of India and Singapore. Thirty new pilots were launched in 2020, and an additional 16 solutions moved on to the implementation phase.

At the end of 2019, X5 became an anchor partner of the Paris-based Lafayette Plug and Play retail accelerator. As part of this partnership, Plug and Play conducted seven public and seven private scouting sessions for X5 over the course of 2020. This channel produced 250+ solutions in areas such as in-store operational efficiency, customer experience, retail development, operations, logistics, food tech, etc. Five projects are at the stage of development or piloting.

Innovations

Collaborative innovation

We take a collaborative approach to innovative development. This approach makes it possible to solve several fundamental problems related to the dynamic innovative growth of each of the participants:

01. **The number of cases studied increases dramatically**

02. **Significant savings are achieved in scouting budgets and**

03. **The learning curve for new technologies is shortened thanks to the experience of the other participants**

This approach resulted in Russia's first-ever technological alliance of retailers, the Retail Innovation Tech Alliance (RITA)-created at the initiative of X5-which includes the leaders of Russian retail in various industries: X5 (food), M.video (consumer electronics), Hoff (household goods) and Beeline (telecoms).

In addition, as an anchor partner of the Lafayette Plug and Play accelerator, X5 also has access to best practices and cases involving the implementation of innovative solutions at the world's largest retailers-members of the Plug and Play ecosystem.

Sources

Skolkovo | BUSINESSFRANCE | фрии | techstars | the Untitled.

	01. SCOPING	02. BUSINESS CASE	03. PILOTS	04. ROLLOUT
December 2019	1,133 Startups	565 Startups	134 Pilots	19 Projects
Added in 2020	+1,567	+735	+30	+16
December 2020	>2,700 Startups	1,300 Startups	164 Pilots	35 Projects

Innovations

R&D

In 2020, X5 made a technological breakthrough in the creation and scaling of self - checkout systems.

During the year, the Company installed more self-checkout terminals than the entire Russian market combined over five years and approached the milestone of 6% of installations worldwide.

At the same time, our self-checkout terminals have shown excellent reliability; their operating cost is about the same as that of a conventional checkout counter, and the average traffic penetration is close to 25% at discounters and 30% at supermarkets, which indicates that they are very convenient and useful for customers due to their fine-tuned interface and focus on the customer experience.

Last year, we became the first company in the country to enable payment by mobile phone using our own proprietary Express-Scan technology and X5's Express-Scan mobile app. We introduced the system in more than 1,000 stores in Moscow, the Moscow region, St Petersburg and the Leningrad region.

With each check, customers reduce the amount of time they spend in-store by up to 40% and free up around three minutes of working time for a cashier.

Innovation projects in 2020

Completed projects

Contactless dispensers to fight COVID-19, process automation (Perekrestok RPA + Pyaterochka RPA), cashierless stores, smart screens at DCs, dynamic seasonal pricing, Revuze dashboards (reviews of stores and goods), developing software for NCR self-checkout solutions, and a system for preventing traffic accidents due to driver fatigue, distraction or sleepiness, smart screens at Karusel, automation of real estate inspections.

Launched in 2020

25 projects

13	In - store operations
2	Personnel
1	Quality
3	Marketing
4	Transport
2	Operations

Innovations

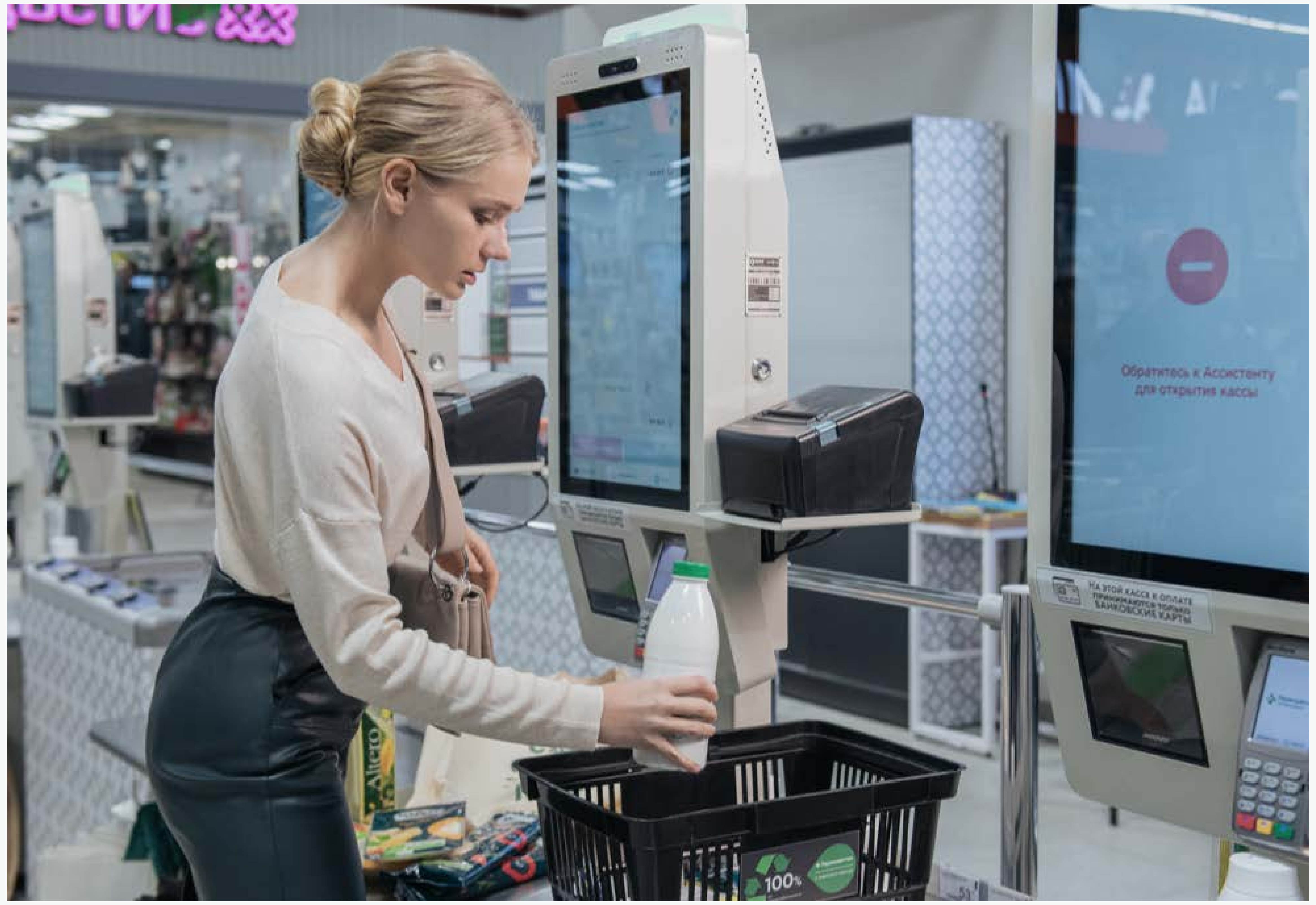
Examples of Innovations

Self-checkout terminals

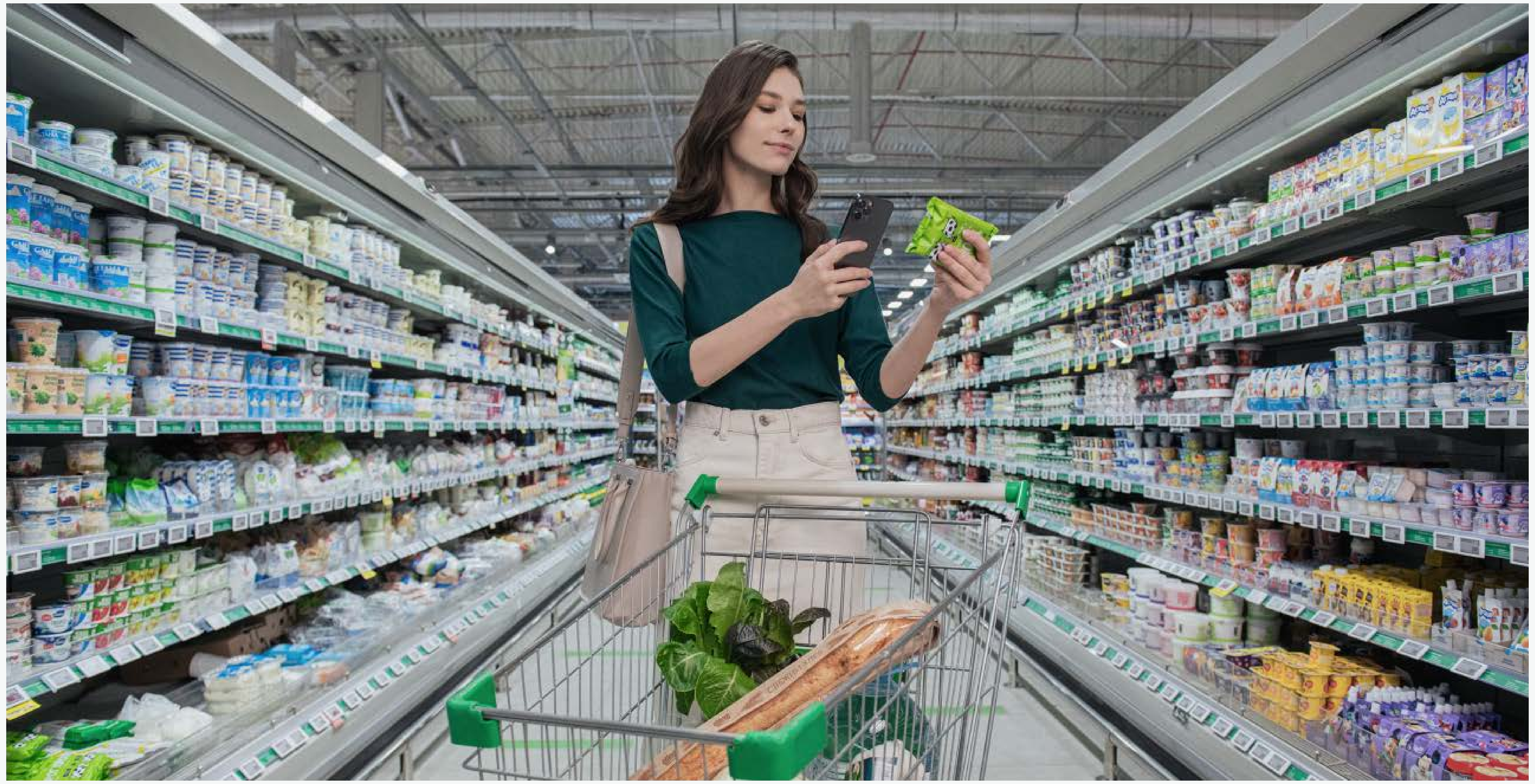
X5's Digital Cashier is a self-checkout solution fully developed at the X5 Lab. About 5,300 checkout terminals are already operating at 1,710 stores. In total, we plan to install 10,000 Digital Cashiers in 2021.

When mass-produced, these X5 checkout terminals cost four times less than similar self-checkout systems, while surpassing them in functionality.

Owning such devices will cost five times less compared with analogous devices.



Express-Scan



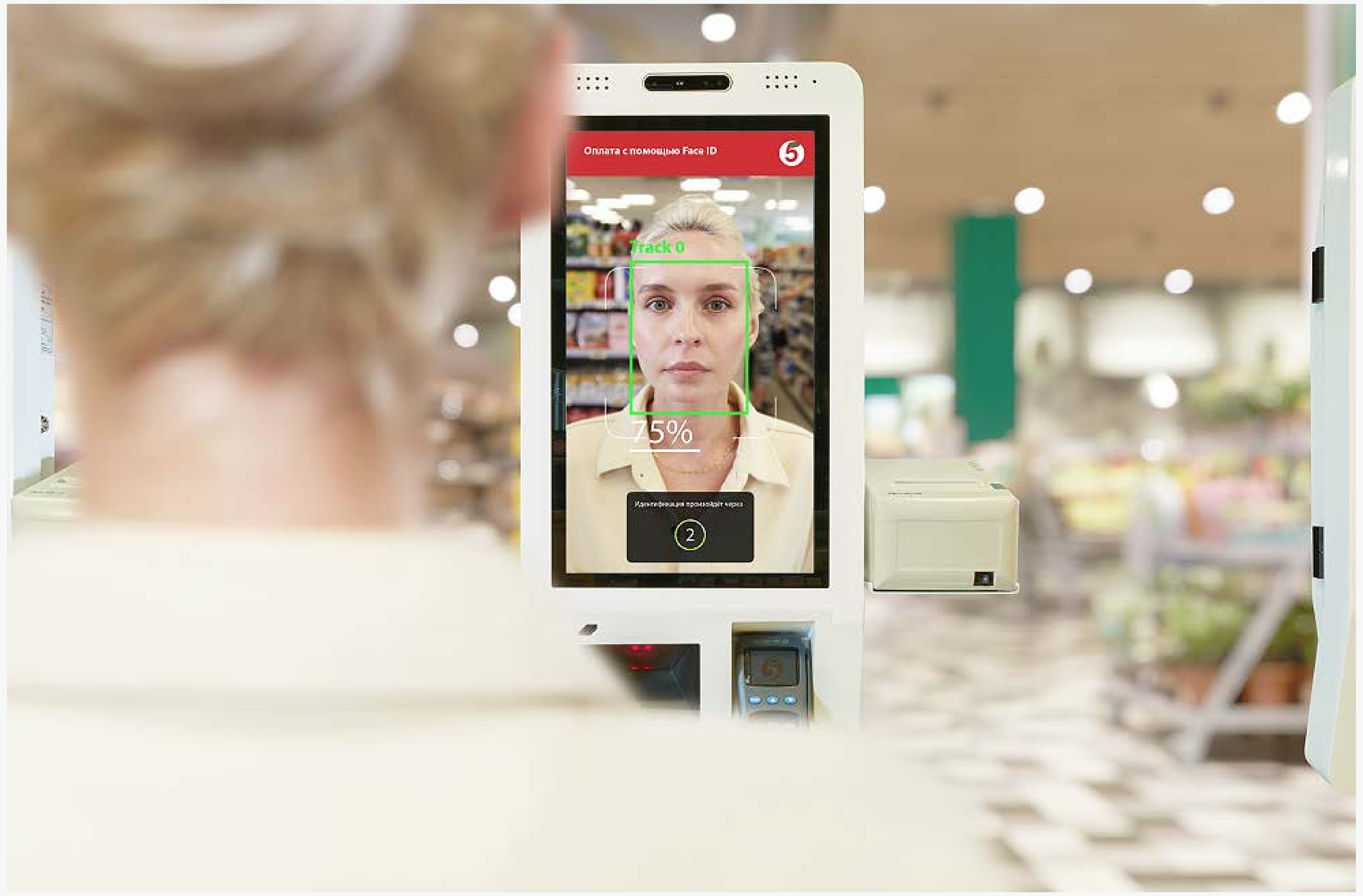
Express-Scan, an X5 proprietary technology that uses the X5.ID single sign-on, was developed to improve the safety of shoppers and to ensure convenient and quick purchases without queues and checkout counters.

For the first time in the Russian market, a completely contactless payment system has been created for use at neighbourhood convenience stores and supermarkets by integrating it into existing IT architecture and operational processes.

The solution is being piloted at 150 Pyaterochka and 572 Perekrestok stores in Moscow, the Moscow region, St Petersburg and the Leningrad region. To make a purchase, a customer simply has to scan a product and pay for it using a mobile phone at the exit, bypassing the checkout counter.

Innovations

Biometrics



Biometrics offer a new way to pay in X5 stores. Developed jointly by X5 Lab and Sber.

Self-checkout terminals at X5 are equipped with Intel RealSense 3D cameras. These cameras enable highly accurate facial authentication and prevent spoofing.

The use of the cameras makes it possible to introduce a new method of payment at X5 stores – using biometric data. Now customers won't have to swipe their card or phone.

The shopper's authenticated face is validated in the biometric database, and the payment is debited from the bank card associated with the face.

Freshness labels

A chemical label uses a colour indicator to show the shelf life of temperature-controlled goods.

The project is being carried out in cooperation with the Israeli start-up Evigence.

The technology makes it possible to monitor the freshness of goods in real time, increase the transparency of the entire cold chain, identify inefficiencies when working with fresh products, manage stocks, increase the NPS and the level of customer confidence, and reduce the time spent checking expiration dates in stores. The shelf life and temperature storage conditions are encoded in a tag.

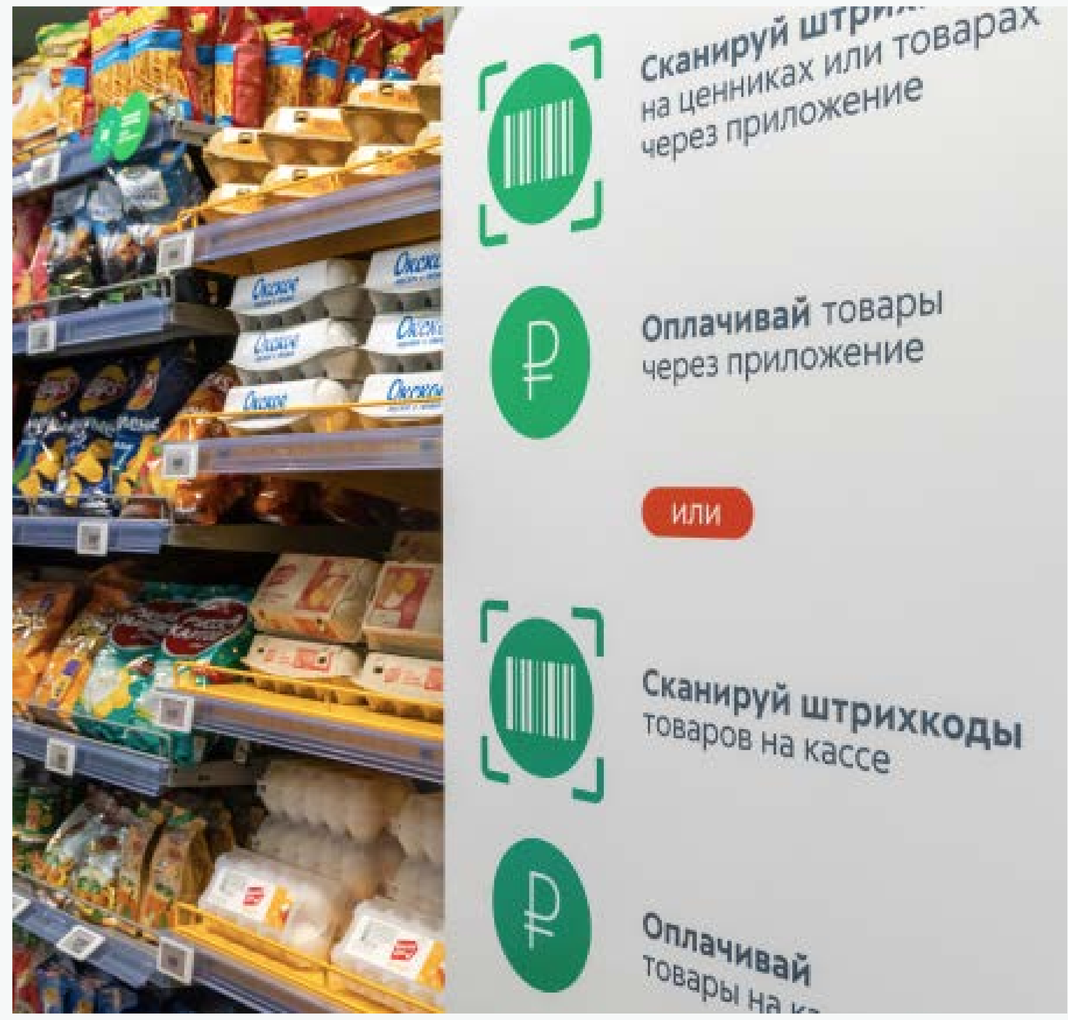
The sensors are activated and employed automatically on production lines. The label changes colour if the expiration date is reached or the temperature requirements are violated.

Innovations

Pyaterochka #naletu

The experimental Pyaterochka #naletu ("on the fly") is the first fully automated store in the Russian market. It was developed by X5 Lab:

- retail area of 80 square metres
- an assortment of 900 items
- 24/7 customer support system
- accessible through a mobile application
- based on smart home principles
- electronic price tags (information on the price of goods can be downloaded remotely)



In-store payment is processed at an X5 self-checkout terminal or through the Pyaterochka #naletu mobile application (Express-Scan technology).

The store is protected by a neural network–based anti-theft system.

The entire store is covered by video cameras which, using a neural network, makes it possible to monitor the number of items removed from shelves. In order to enter the store, you must use the #naletu application, which is available in the App Store and Google Play.

The system generates a dynamic QR code; having scanned the code, the customer can enter the store.

VR training

This is the first large-scale implementation of VR technology in the training of store personnel in the Russian market.

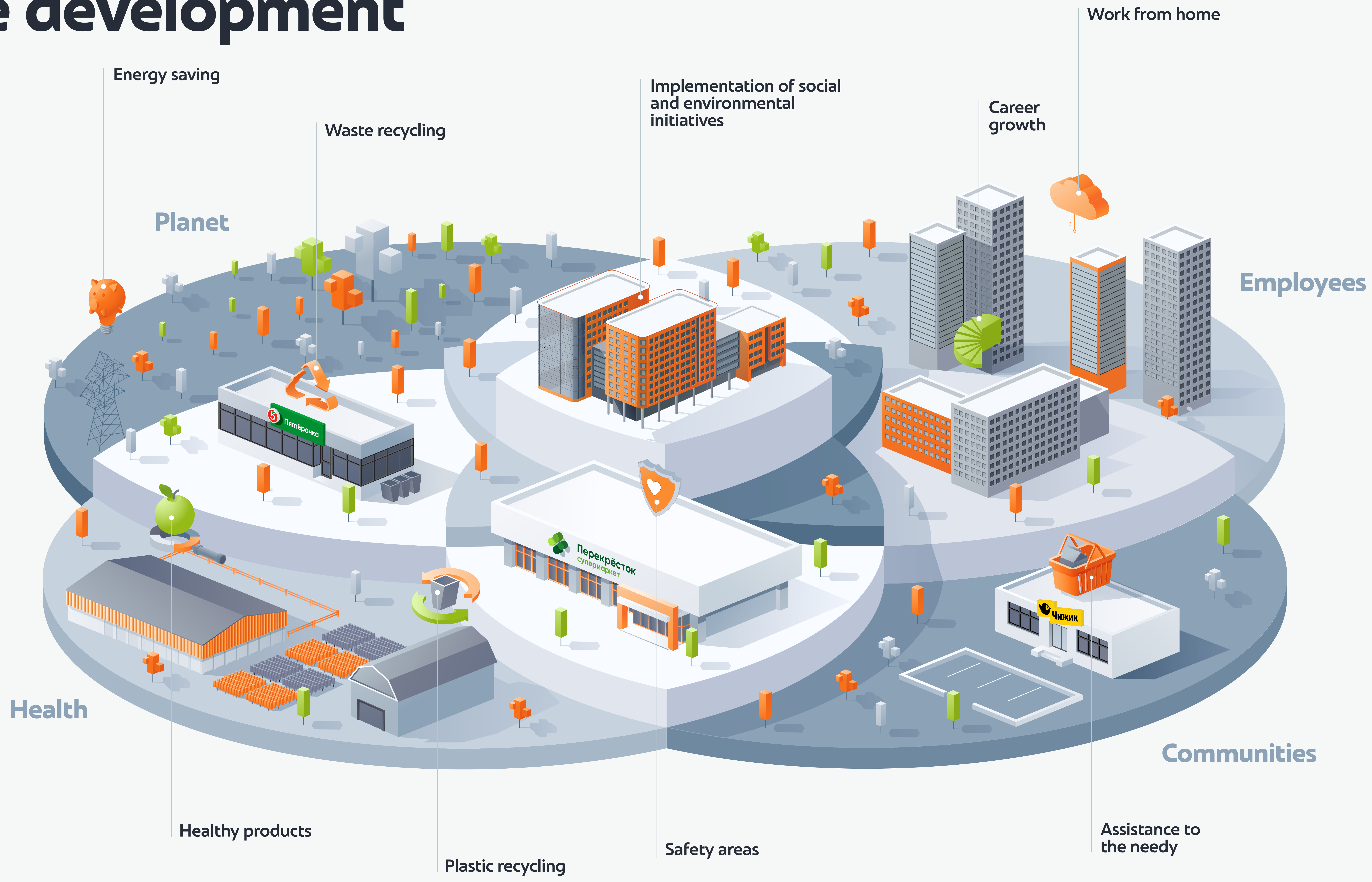
The main focus of the training is sales assistants and cashiers. In the course of individual lessons using Oculus Go VR headsets, employees are trained through communication with a virtual buyer. Using this new technology, sales staff learned faster, and the training was of higher quality compared with traditional methods, such as computer-based lectures and tests.

The introduction of VR technology has reduced the time and money spent on retail training. All existing supermarkets have already started using the new training method.

Sustainable development

We are implementing a comprehensive sustainability strategy that is aligned with the Sustainable Development Goals to 2030 of the United Nations. The main four SDGs we are focused on are Zero Hunger, Good Health and Well Being, Decent Work and Economic Growth, and Responsible Consumption and Production.

During 2020, we adopted specific strategic targets for 2023, as well as ambitious goals for 2030 under our “30×30” plan.



Our sustainability goals

After adopting our new sustainability strategy in December 2019, we established specific targets and integrated sustainability goals into the overall business strategy. These targets were announced in September 2020. Moreover, for the purposes of further enhancing our understanding of our stakeholders' priorities, for our 2020 Annual Report and 2020 Sustainability Report, we conducted in early 2021 our first extended stakeholder survey of the material issues that our stakeholders consider most important.

The following section provides an overview of our key goals and achievements in 2020, while more detailed information will be provided in our Sustainability Report – our first standalone publication prepared under GRI Standards, which is expected to be published in May 2021. Additional information, including an ESG databook, can be found at https://esg.x5.ru.

UN SDGs: Primary	UN SDGs: Secondary	Key goals for X5
2 ZERO HUNGER		• Support local communities by expanding social investments and charity programmes
3 GOOD HEALTH AND WELL-BEING		• Facilitate accessibility (across geography of operations) of a wide assortment of high-quality and healthy foods • Support healthy lifestyles • Monitor the production of the food (and non-food) goods we sell "from farm to fork" for quality and safety
8 DECENT WORK AND ECONOMIC GROWTH	5 GENDER EQUALITY 10 REDUCED INEQUALITIES	• Ensure that we offer decent working conditions and equal opportunities for all of our employees • Monitor the production of the food (and non-food) we sell "from farm to fork" for social impact • Further improve the productivity of every employee
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	7 AFFORDABLE AND CLEAN ENERGY 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION 14 LIFE BELOW WATER 15 LIFE ON LAND	• Reduce energy consumption • Develop sustainable packaging offerings • Monitor the production of the food (and non-food) goods we sell "from farm to fork" for environmental impact • Cut volumes of waste sent to landfills • Support responsible consumption

Stakeholder engagement

We interact with a wide range of stakeholders as part of our day-to-day business, and we believe that maintaining a regular dialogue with our stakeholders enables us to create value and grow our business in a sustainable and profitable way.

Among our key stakeholders are customers, employees, shareholders and investors, suppliers, local communities, as well as regulators and government officials. Below is a description of our key interactions with each group. Below are highlights of our stakeholder engagement activities. A detailed overview of how and why we engage with our stakeholders, as well as highlights of what we did in 2020 will be available in the 2020 Sustainability Report.

How we interact

Customers

- Maintain over 20 channels for interaction with customers, ranging from chatbots in messenger apps to social media and a telephone hotline
- Integrate feedback and rating tools into our apps and website to enable collection and analysis of customer preferences
- Measure customer satisfaction by conducting a country-wide Net Promoter Score (NPS) assessment
- Use big data analytics of customer transactions to help X5 and our suppliers make more informed decisions about customer demand

Employees

- Provide meaningful career opportunities in addition to competitive, fair and transparent salaries and motivation schemes
- Added and improved employee feedback mechanisms, enabling us to better shape the agenda in areas like working conditions, compensation, management and corporate culture
- Increased use of digital tools to link training, skills assessment and overall career growth
- Offer the X5 Digital Academy and other professional learning programmes to help our employees grow and develop in line with our strategic priorities
- Uphold our human rights policy and ensure that employees are provided with all freedoms they are entitled to
- Implement strict occupational health and safety policies, including in response to the COVID-19 pandemic, and inform employees about workplace health and safety requirements
- Support employees in need in cases of long-term illness or accidents, bereavement, or loss of property
- Recognise significant contributions to the company's performance
- Create opportunities to engage with corporate social responsibility agenda and make a positive social impact

Shareholders/ Investors

- Disclose information on updates and shifts in our strategic priorities
- Upgrade our ESG disclosure practices to align them with globally recognised best practices
- Explain our view of the food market and competitive environment, and how it will develop
- Implement corporate governance systems that are in line with global best practice
- Regularly publish timely, accurate and relevant information about company performance via our investor website with annual reports, financial statements, press releases, presentations
- Hold virtual and in-person roadshows
- Participate in virtual and in-person investor conferences
- Conference calls
- Group meetings with analysts and investors
- Over 300 group meetings with analysts and investors per year

Stakeholder engagement

How we interact

Suppliers and business partners

- Use big data-powered tools to provide suppliers with access to better analytics about customer demand and preferences
- Uphold high standards of business relations based on trust and respect
- Provide information and trainings for regional producers to increase the share of local goods offered across our formats
- Work with suppliers to develop responses to customer ratings and complaints
- Train suppliers on how to work efficiently with X5's logistics infrastructure
- Enable access for both large federal and smaller local suppliers to our transport and logistics infrastructure
- Develop the Dialogue X5 events into a virtual platform for suppliers to communicate with X5 and access information that will help them to better understand consumer needs
- Conduct regular surveys and other activities to collect and analyse supplier feedback

Society and local communities

- Continue to expand initiatives such as the Basket of Kindness food bank and Liza Alert search and rescue operations, adapting them to the COVID-19 pandemic where needed
- Implement programmes that empower our customers to donate to good causes together with X5
- Identify and execute events that are priorities for local communities like tree plantings, green-up days, Victory Day celebrations and others
- Ensure that our operations are compliant with environmental regulations
- Report about our environmental performance, including measures to reduce emissions, consumption and waste generated by our activities
- Work with municipal, regional and federal governments to facilitate initiatives aimed at supporting disadvantaged groups such as pensioners

Government / regulators

- Support and play an active role in industry associations that represent the interests of retailers with regards to regulation and legislation
- Engage with relevant government officials at key events such as DC openings in order to show how X5 is creating jobs and supporting local producers
- Engage in working groups on issues relevant to X5 Retail Group at federal and regional levels
- Facilitate testing of technological changes such as labelling for various categories of goods, electronic document exchange and electronic signatures
- Maintain an open dialogue with the industry association AKORT and provide X5's position on matters important for retailers, such as environmental and sanitary legislation, charity, etc.

Compliance and business ethics

Principal documents

When conducting business, X5 Retail Group is committed to a corporate culture of shared values based on ethical standards, mutual respect and compliance with applicable laws and regulations. These values and principles are reflected in our Code of Business Conduct and Ethics (the "Code"), underlying policies and procedures, and through learning and training programmes.

The Code of Business Conduct and Ethics and its underlying policies intend to help each employee comply with relevant legal and regulatory obligations and make ethical choices as related to our business. Our policies are posted on our website and/or intranet, enabling X5 employees and business partners to familiarise themselves with them. The Code and its underlying policies are reviewed and updated on a periodic basis in response to changes in legislation and Company processes.

Code of Business Conduct and Ethics

- Code of Interaction with Business Partners
- Policy on Countering Misconduct, Including Fraud and Corruption
- Declaration on Human Rights Protection
- Compliance Policy
- Inside Information and Dealing Code

Compliance and business ethics

Policy highlights

CODE OF BUSINESS CONDUCT AND ETHICS

The Code of Business Conduct and Ethics sets standards of conduct that employees are expected to strictly observe in relations with customers, suppliers and other employees, as well as a set of basic principles that guide our business practices.

The Code covers areas such as fair competition, fighting bribery and corruption, care for the environment, protection of personal data and company assets, avoiding conflicts of interest, equal opportunities for employees and safe working conditions, and how to deal with customers, suppliers and competitors. Furthermore, the Code includes provisions on mechanisms for reporting violations of the Code. The provisions of the Code apply to all employees regardless of their position or function; they are made familiar with the provisions of the Code through periodic, interactive learning programmes.

Throughout the Code, one of the key approaches is "when in doubt, ask". If employees have a question concerning the Code or any ethical issue that they encounter in their work at X5 Retail Group, they are obliged to contact their immediate supervisor or local management or report to the Compliance Officer or X5 Hotline.

A special email for reporting to the Compliance Officer is available: compliance@x5.ru. While we recommend that employees only use the X5 Ethics Hotline to report cases of violations, anyone contacting the hotline for advice will also receive an answer.

Practical guidance on specific topics outlined in the Code is given in additional documents described below.

DECLARATION ON HUMAN RIGHTS PROTECTION

X5's Declaration on Human Rights Protection defines principles and rules in respect of compliance with, and promotion of, high international standards for the protection of human rights at every level of the Company's operations:

- Prohibition of discrimination and forced labour
- Prohibition of harassment
- Respect for cultural diversity and values
- Respect for the right to freedom of assembly and association
- Occupational health and safety

As a complement to the Code of Business Conduct and Ethics, the Declaration on Human Rights Protection is a binding document for all X5 employees.

INSIDE INFORMATION AND DEALING CODE

X5's Inside Information and Dealing Code aims to ensure that X5 employees do not abuse, and do not place themselves under suspicion of abusing, inside information and comply with their obligations under the applicable rules on inside information and securities trading.

Compliance and business ethics

Policy highlights

CODE OF INTERACTION WITH BUSINESS PARTNERS

As an industry leader, we are aware of our responsibility to the government, society, our shareholders and business partners, and we aim to fully comply with legal and ethical standards, as well as best corporate practices, in order to serve as an example for other market participants.

The Code of Interaction with Business Partners contains provisions regarding compliance with trade and competition laws, anti-corruption and fraud legislation, legislation on the quality of products and services, legislation in the field of environmental protection, laws in the field of labour relations and occupational health and safety, communication standards, information protection, prevention of conflicts of interest, etc. Violations of the Code of Interaction with Business Partners are handled by X5's Conciliation Commission (see below).

COMPLIANCE POLICY

In order to ensure compliance with the requirements of regulators and stakeholders, as well as internal standards and rules on business conduct and ethics, X5 has adopted a Compliance Policy in accordance with ISO 19600:2014 (Compliance Management Systems).

Compliance risks are assessed and reviewed by the Audit and Risk Committee on an ongoing basis.

POLICY ON COUNTERING MISCONDUCT INCLUDING FRAUD AND CORRUPTION

X5 and its brands are committed to conducting business in an ethically responsible manner and complying with all applicable laws and regulations. This commitment specifically includes compliance with laws relating to anti-corruption and bribery.

In addition to the Code of Business Conduct and Ethics, X5's Policy on Countering Misconduct Including Fraud and Corruption (the "Anti-Corruption Policy") prohibits any form of corruption or bribery, including facilitation payments. It aims to create a culture of honesty and zero tolerance for illegal behaviour among staff, and also to eliminate any risks of involving the Company in corrupt activities. Our anti-corruption system includes a set of mechanisms, procedures and tools aimed at preventing, uncovering, investigating and responding to all possible cases of misconduct. Furthermore, it establishes roles and responsibilities for departments and management bodies within the anti-corruption system. Our aim is to conduct business only with those partners that share X5's principles of zero tolerance for corruption and fraud, and relevant provisions are included in the agreements with our suppliers and other business partners.

Compliance and business ethics

Compliance and ethics systems

ETHICS COMMITTEE

The Ethics Committee is responsible for:

- Objective review of disputes related to alleged violations of the Code of Business Conduct and Ethics and related policies
- Resolving conflicts of interest
- Approving anti-fraud and corruption measures

The Ethics Committee includes the Company's Chief Executive Officer (Chairman of the Committee), the Director for Legal Affairs and Government Relations, the Security Director, the Business Support Director and the Director for Human Resources and Organisational Development. The Committee's decisions are binding on all Company employees.

CONFLICTS OF INTEREST

Our internal procedure for declaring, monitoring and resolving conflicts of interest enables managers and employees to disclose situations where the personal interests of an employee at any level affects or could affect the rights and interests of the Company and establishes procedures for the purpose of resolving such situations.

The Compliance Department is responsible for the effectiveness of the procedure for reporting on and resolving conflicts of interest.

Additional information regarding X5's corporate governance systems and mechanisms for managing conflicts of interests is provided on page 149 of the Corporate Governance report.

REPORTING VIOLATIONS AND WHISTLE-BLOWING

Employees are encouraged to report any actual or suspected violations of the Code of Business Conduct and Ethics or labour laws. Various communication channels are available to employees for reporting violations: reports can be made through the ethics hotline or by e-mail, as well as through Company websites and intranet portals.

Responsible staff are required to review all reports and follow up in accordance with internal procedures. Reports via the ethics hotline can be made anonymously; moreover, provided that reports are made in good faith, employees can contact the ethics hotline without fear of retaliation, even if it is impossible to confirm that a violation has taken place. The Company guarantees confidentiality of any report made.

In 2020, there were no substantiated reports of significant financial reporting, accounting, fraud or ethical violations.

In addition to the whistle-blowing channels for employees, the Company operates a reporting channel for business partners and other third parties. Violations of the Code of Interaction with Business Partners are handled by X5's Conciliation Commission, which serves as a corporate arbitrator in disputes with business partners. Violations can be reported via the feedback form posted on X5's website.

Compliance and business ethics

Compliance and ethics systems

TRAINING

In addition to the fact that all Company employees are required to familiarise themselves with the Code of Business Conduct and Ethics, the Company conducts regular training on the Code of Business Conduct and Ethics and related policies, during which employees are required to take part in sessions covering the practical application of these documents.

The determination of standards and requirements, and the development of training programmes in the areas of compliance and ethics are entrusted to the Compliance Department.

Detailed information on our 2020 Compliance and business ethics performance is expected to be published in the X5 Retail Group Sustainability Report in May 2021.

Rational Consumption of Resources

LONG-TERM 30×30 GOALS

PLANET

30%
reduction of GHG emissions (Scope 1 + Scope 2)

30%
of renewable energy in in-house operations

30%
reduction of waste generation to retail sales

Under the sustainable development strategy approved in December 2019, we continue to implement measures aimed at supporting UN SDG 12 – Responsible consumption and production – which we have identified as a priority for X5. In order to continue to improve our performance in this area, we are also piloting and introducing new and innovative ways to optimise our own resource consumption and further encourage our customers to reduce, reuse and recycle.

Medium-term goals for 2023:

UP TO **–10%**
GHG emissions by 2023
2019 vs 2018: –3%

Renewable energy used by X5 operations
2019: 0%

UP TO **10%**
reduction in waste generation coefficient (volume of waste generated / retail sales) by 2023
2019: Pyaterochka 0.58, Perekrestok 1.84

UP TO **95%**
of recyclable waste* from X5 operations to be sent for recycling by 2023
2019: Pyaterochka 94%, Perekrestok 69%

UP TO **40%**
of none-expired food waste to be reprocessed by 2023
2019: Pyaterochka 6%, Perekrestok 5%

5% SUSTAINABLE SUPPLY CHAIN
At least every 5 supplier promotes sustainable packaging**
2020: 16% of purchasing turnover

>50%
Share of Private label products in sustainable packaging
2020: 48%

SUSTAINABLE SUPPLY CHAIN
Promote sustainable sourcing programmes and principles across the supply chain

* Recyclable solid waste: plastics, cardboard, film, banana boxes, wooden pallets, tires, scrap metal, etc.

** In line with X5 Retail Group recommendations for suppliers

Rational Consumption of Resources

At the end of 2020, X5 affirmed its commitment to sustainable development by setting an ambitious goal of reaching carbon neutrality by 2050. Our target will be reviewed against science-based criteria[1] over the next two years to ensure that we are on track to meet the goals of the Paris Agreement. We are also investing considerable efforts into meeting our target to achieve a 30% reduction in greenhouse gas (GHG) emissions by 2030.

In 2020, we initiated major steps towards achieving our long-term climate goals. First, we launched the process of calculating indirect GHG emissions, which covers most of our value chain processes[2]. Moreover, X5 is currently undertaking a climate risk assessment and scenario analysis[3].

Please refer to the section How We Manage Risks in this Report and our forthcoming 2020 Sustainability Report for further details.

1. X5 announced its commitment to the Science Based Target initiative (SBTi) in December 2020.
2. X5 disclosed its direct (Scope 1) and energy indirect (Scope 2) GHG emissions in 2020.
The non-energy indirect Scope 3 GHG emissions would be disclosed in Sustainability Report 2020.
3. X5 uses the Task Force on Climate-related Financial Disclosures (TCFD) recommendations for the assessment of climate-related risks.

Promoting responsible consumption and use of resources

Following a review of our sustainability performance and related ongoing and planned investment projects, the Company identified opportunities for improving operational efficiency and set annual targets for reducing GHG emissions through 2023 to limit its climate impact.

All new outlets and stores slated for refurbishment are now being equipped with a smart store system, which deploys special sensors, monitoring devices and software to integrate into existing operating processes, thereby helping to reduce energy consumption, automate equipment control (for refrigerators, refrigerated display cabinets, heating and air conditioning units, lighting and heating solutions for the selling space and utility rooms) and minimise the risk of accidents.

Rational Consumption of Resources

Waste management

IMPROVING INTERNAL WASTE MANAGEMENT PROCESSES

A review of our existing waste management processes was conducted during February and March 2020 at the Company's facilities in nine Russian regions.

The audit identified the following strengths in our waste management:

- sites equipped for separate waste accumulation
- collection and sale of recyclables
- collection and sale of food waste
- observance of waste pickup schedules
- returnable and reusable containers used in logistics operations

The Company has already begun to address the areas for improvement identified in relation to the above practices. Measures and programmes have been developed to reduce waste generation and boost recycling. Annual waste reduction and recycling metrics and targets have been set through 2023. An online waste management training programme for X5's employees has been developed to promote and support our efforts in this area. X5 has put a Waste Minimisation Policy in place along with other waste management by-laws.

RECYCLING OF WASTE GENERATED BY X5

In March 2020, Perekrestok Vprok began collecting plastic delivery bags for further recycling (this initiative was initially piloted by Perekrestok.ru in August 2019). Customers can return plastic bags used during delivery to the courier.

X5 teamed up with Unilever, Coca-Cola and Henkel to start collecting used plastic and aluminium containers via reverse vending machines installed in our stores. We have also partnered with dental care company Splat to collect and recycle toothbrushes and with household cleaner producer BioMio to offer product refills in Perekrestok stores. Pyaterochka and Perekrestok launched an initiative to transfer unsold food and merchandise that cannot be sold before the expiry date for recycling into animal feed.

PREVENTING WASTE GENERATION

Improving the accuracy of inventory planning is an important tool for reducing waste generation.

Ways to reduce waste generation include big-data-driven demand modelling, more frequent product deliveries, better adaptation of the product mix to customer needs, smaller minimum orders negotiated with suppliers and strict compliance with temperature requirements during transportation.

FOOD WASTE

As a food retailer, we seek to both minimise the volume of waste generated and the impact of its disposal.

All food waste generated by X5 stores is sent to third parties for landfilling or recycling. We are looking for opportunities and piloting technological solutions to transfer food waste for further processing. As noted above, in 2020 Pyaterochka and Perekrestok launched an initiative at its proximity stores to increase deliveries of unsold food to for recycling into animal feed.

Rational Consumption of Resources

Reducing disposable plastic consumption

We are implementing a project to promote reusable bags and weighing sacks for fruits and vegetables. Pyaterochka encourages its customers to buy eco-bags made of raw cotton and to use reusable weighing sacks for fruits and vegetables by crediting double bonus points to their loyalty cards. This is the first such circular economy loop in Russia. Perekrestok updated the requirements for all plastic bags sold at its checkout counters, making a high content of recycled materials compulsory. All of Pyaterochka's new concept stores have started using shopping baskets made of recycled plastics. From 2020 onwards, all new concept stores will use such baskets. Perekrestok's transition to similar baskets is in progress. Using recycled plastic in baskets is now a mandatory requirement for manufacturers engaged by all our retail chains.

Developing a responsible supply chain

In June 2020, X5 Retail Group developed and published sustainability recommendations for suppliers based on an analysis of: publicly available research; materials from government, public and environmental organisations; a supplier survey; and the results of open expert hearings.

The recommendations contain the following:

- establish a list of voluntary environmental and social certifications for different product categories to inform consumers of responsible production practices
- reflect X5's vision for sustainable packaging, including reusable packaging material, its potential to be recycled in Russia, the use of mono-materials, reusable packaging and lean design
- specify the most and least preferred raw materials for packaging

X5 updated its procurement policies in line with its sustainability recommendations for suppliers. In August, we developed a special training course on the topic of sustainable development for X5's suppliers, which is publicly available on the Company's website. X5 Retail Group will keep a record of suppliers that follow its sustainability recommendations via a dedicated survey on its Supplier Portal (the Company's official interface for supplier relations) and will also focus on raising supplier awareness and improving feedback collection in relation to sustainability. Going forward, the Company plans to verify suppliers' ESG performance on a selective basis by reviewing their public reporting and interacting directly with suppliers. X5 has also started incorporating its sustainability recommendations into joint marketing programmes with suppliers.

Plans for 2021

Looking ahead to 2021, Pyaterochka will continue to use Smart Store systems for all new openings while to retrofitting existing stores with the technology and improving our tracking of heating and electric energy. We will also pilot a more environmentally friendly refrigerant to potentially replace freon. For energy generation, we will conduct a feasibility study for installing biogas generators at DCs and some large supermarkets, while also developing the use of alternative energy sources, including solar panel installations.

In terms of waste management Pyaterochka will work on further automation of food waste tracking, while reducing overall food waste generation by increasing non-expired food waste sent for reprocessing by 15% year-on-year and installing composters in shops and DCs. Consumers will also be encouraged to recycle more with the further roll out reverse vending machines across the format's network. We will also continue a pilot of shopping bags containing at least 35% recycled plastic, as well as work on sustainable/recyclable packaging for private label goods.

Perekrestok will also continue to pilot reprocessing of non-expired food waste into animal feed. Recycling of store waste via DCs will continue, and we have made the use of at least recycled plastic in our shopping bags mandatory for all suppliers. In March 2021, after the announcement of sustainable packaging guidelines, we will work to introduce these guidelines for our private label goods and promote them among suppliers. For consumers, the further roll out of reverse vending machines and battery collection points will facilitate recycling, while customers will also have the option to opt out of paper receipts in favour of electronic ones.

Health

As part of our sustainable development strategy, we are committed to promoting health lifestyles as part of the CVPs of our retail formats. This includes increasing the share of healthy foods in the assortment matrix and implementing specific measures to attract customers' attention to healthy options when they are in the store. These initiatives are described in detail in the Pyaterochka and Perekrestok performance review sections (pages 51–59 and 60–70, respectively), and will also be outlined in the 2020 Sustainability Report.

LONG-TERM 30×30 GOALS

HEALTH

Promote responsible programmes and principles across the supply chain

Expansion of healthy lifestyle assortment*

* Healthy lifestyle assortment includes: gluten free, no added sugar, organic, fresh from farm, natural ingredients, high protein, low calories, vegan

Medium-term goals for 2023

UP TO

50%

share of Fresh and F&V products by 2023

2020:
Pyaterochka 44%,
Perekrestok 50%

Expansion of healthy lifestyle assortment*

* Healthy lifestyle assortment includes: gluten free, no added sugar, organic, fresh from farm, natural ingredients, high protein, low calories, vegan

People Review

To ensure that the Company can continue to evolve while remaining robust and efficient, we are building a flexible digital HR management system that can be quickly scaled up and adjusted, depending on business goals and market trends. The system is based on big data analytics, electronic services, continuous feedback from employees and the creation of flexible HR tools. Thanks to effective HR management systems that have improved the transparency of motivation schemes, workplace conditions and atmosphere, as well the quality of management, we are able to respond to employees' needs better; this is reflected in declining turnover and rising employee engagement, which was achieved again in 2020.

X5's HR strategy takes into account business needs, employee expectations and trends in the labour market.

LONG-TERM 30×30 GOALS

EMPLOYEES

#1

employee in ranking of Russian food retailers

Organisation of healthy and safe workplace for all employees

Medium-term goals for 2023

›75%

employee engagement by 2023

2018: 49% employee engagement

#1

employee in ranking of Russian food retailers

+

Organisation of healthy and safe workplace for all employees

Implementation of standarts at 100% of company's facilities by 2023

People Review

How we manage our HR function

Each of X5's businesses has its own HR function that reports to the managing director of that business. In addition to tasks like recruiting and adapting, evaluating, managing compensation and benefits, training and developing personnel, the HR function is responsible for organisational design, developing the HR brand and internal communications.

In the central offices of retail formats and other business units, we focus on strategic personnel management and maintaining the HR priorities for the business. Regional divisions are responsible for operational HR processes. New models of interaction are being introduced, including through the institution of HR business partners, to ensure that recently launched business areas operate effectively.

In order to support the successful implementation of the new strategy, X5 has begun the transformation of the operating model of management.

- The Corporate Centre has become a management company; in terms of personnel management, it will function as a centre of expertise and methodology for key HR competencies, as well as development of the X5 operating model
- All of X5's technological functions are combined into the X5 Technologies business unit, which will also act as a centre for the development of the group's digital competencies
- The X5 Business Support division is being formed and includes centralised expertise and support functions, such as management of buildings and offices, administrative services, budget consolidation, reporting and analytics on personnel costs, implementation of cross-format initiatives in the field of operational HR processes
- Transactional processes, including HR workflow, are being centralised as part of the expansion of the activities of the X5 multifunctional shared service centre in Nizhny Novgorod

People Review

From engagement to management of the corporate culture and HR brand

Our attractiveness as an employer is a reflection of the relationships, processes, working conditions and objectives within the Company. By adding and improving feedback instruments, we are able to gather the opinions of employees about working at X5.

This enables us to shape the agenda for change in all areas, from working conditions and compensation to relationships with managers and corporate culture. In doing this, we are moving from managing processes and results indicators to managing our HR brand, where internal changes improve the efficiency and the engagement of our staff, while also making X5 an increasingly attractive employer among external jobseekers.

We have established our value as an employer: everyone at X5 can change the entire industry, thus creating a new form of retail. At Pyaterochka, fresh perspectives await employees; the strength of the Perekrestok team is in teamwork. In 2021, we will have to scrutinise our teams in greater depth, finding out exactly what drives every employee and what motivates them to achieve more.

From long-term planning to adaptive management models

By implementing the most effective business practices into our work with personnel, we are moving from long-term planning to adaptive management based on the current needs of the business and employees.

Advanced HR analytics, digitalisation and robotisation of processes make it possible to build predictive models, to proactively propose management solutions and to ensure a balance between personnel and profitability in real time.

In 2020, X5 rapidly restructured the work set-up for its store personnel in response to COVID-19, swiftly planned the recruitment of personnel to scale up online services and express delivery, transferred all office employees to remote work within the course of two weeks – without a loss of efficiency – and launched a permanent hybrid home-office format as part of the X5 Home Office project.

From static HR processes to evolving digital products

We are moving from systematic process management to integrated management of the employee experience – from recruitment to transitioning staff to new roles. By analysing feedback from personnel regarding every point of contact with the Company, we can identify areas for development and improvement.

X5 is already digitalising recruitment, reducing the time needed for hiring, creating digital products for managing goals and performance indicators and offering hundreds of thousands of employees online offices with a wide range of self-service tools, from documentation and scheduling to training and career growth.

Our employees want to work for a company where:

- a manager is an inspiring and progressive leader
- the culture and environment stimulate personal development and the achievement of results
- tools and technologies are flexible and user-friendly, digital and mobile
- processes are digital, fast and easy to understand
- data management means decision-making based on easily accessible data

People Review

From training and development to conscious career management

We strive to create an environment in which every X5 employee can acquire knowledge when needed and can do so a convenient location, can independently develop their career prospects and can discover their potential.

New digital tools link training, skills assessments and the achievement of goals with professional and career growth, allowing all divisions and X5 as a whole to work systematically with talent, to personalise development and continuity programmes and to cultivate inspiring leaders. All of these are key elements of ensuring that we have the right team with the right skills to achieve the goals set out in our strategy to 2023.

Pyaterochka has launched a pilot programme to automate the succession pipeline in employees' personal accounts, as well as a relocation programme for retail staff. By developing the Perchatka mobile application for communication, training and development, Perekrestok has personalised interaction with store personnel. X5 Transport has strengthened the development of its talent pool and the preparation of candidates for key positions with its "Main Street" project.

From office and retail to generations, competencies and agility

We want to get to know our employees – their expectations and needs – even better. In-depth segmentation covering a large number of characteristics – from year of birth and marital status to knowledge, skills and expertise – helps us to understand what drives our staff, to offer them the right tools to do their jobs efficiently and successfully and to manage employee productivity and engagement in an effective manner both in our mature large businesses and in our young teams with a startup culture.

From a culture of results to a culture of care, recognition and gratitude

The stress test that the X5 team successfully underwent in 2020 once again highlighted the importance of caring for one another, of offering motivation and inspiration, and of saying "thank you". While maintaining a focus on efficiency and results, we encourage experimentation, openness and tolerance for mistakes; we are learning to work under conditions of constant change, and we are teaching staff to do the same.

The safety of our team and our customers, which became a priority as a result of the COVID-19 pandemic, is now being transformed into concern for the well-being – physical, psychological and financial – of our staff. In 2021, we are launching corporate volunteer programmes, we plan to expand well-being programmes, and we continue to improve working conditions while keeping safety as a top priority.

We would like to thank every X5 employee for taking care of one another and of our customers. Thanks to the combined efforts of our team, the Company was able to continue operating without interruption and to ensure the safety of its employees and customers. We quickly formed mobile teams to replace quarantined store personnel, provided staff with personal protective equipment, monitored the health of employees and, when necessary, helped those who were sick. During the lockdown, X5 was one of several companies that offered temporary employment people who had lost their jobs when other companies shut down as a result of COVID-19.

Occupational Health and Safety

Approach to occupational health and safety

In the area of occupational health and safety (OHS), we are constantly focused on identifying and implementing measures to improve our sustainable safety culture. In order to achieve this, we adhere to the following principles:

01

Be a leader: X5 managers at all levels pay special attention to OHS issues and set an example for employees by adhering to the principles of a sustainable safety culture; employees are actively involved in improving occupational health and safety, as well as personal and public safety at work and at home.

02

Identify dangers: we seek to identify hazards, assess OHS risks and analyse the root causes of accidents, as well as the conditions that led to accidents and hazardous situations.

03

Set goals: we develop action plans to mitigate risks to the life and health of employees, as well as the risks of property damage.

04

Improve the OHS management system: our OHS management system complies with national standards and practices; we have a process in place aimed at the continuous improvement of the system.

05

Ensure a safe working environment: our equipment, premises and workplaces comply with current national OHS standards.

06

Improve qualifications: we monitor the qualifications of every employee to ensure that they are in line with their duties; we also strive to ensure that employees continue to develop their professional skills and OHS-related knowledge.

07

Invest in personnel: we incentivise employees to comply with OHS requirements and to play a role in improving the OHS management system.

08

Focus on safety: our employees behave responsibly in respect of their own life and health and the life and health of those around them in the workplace.

Managers at all levels play a leading role in these activities.

X5 has adopted an OHS Policy. As a responsible employer, we guarantee every employee the right to a favourable work environment that meets state OHS regulations. Aware of our responsibility to create and maintain safe working conditions and to protect the life and health of our employees, X5 is committed to carrying out OHS-related activities; in doing so, it is guided by the following principles:

- Complying with legal requirements
- Prioritising the life and health of employees
- Continuously developing a culture of safety
- Creating and ensuring a safe working environment for suppliers

Occupational Health and Safety

OHS organisational chart

Corporate Centre
Head of Health and Safety

Pyaterochka
Health and Safety Manager
- Macro Region: Health and Safety Engineer

Perekrestok
Health and Safety Officer
- Division: Health and Safety Engineer

Karusel
Senior Health and Safety Engineer
- Region: Health and Safety Engineer

Agro-Avto (Transportation)
Health and Safety Manager
- Fleet Operators: Health and Safety Engineer

Other Business Units

Heads of Business Units

Our main OHS-related activities include:

- monitoring employees' rights and legally protected interests in the field of OHS
- planning OHS-related activities and developing measures to improve working conditions in order to prevent workplace injuries and occupational diseases
- organising OHS-related activities in accordance with Russian legislation
- inspecting working conditions and workplace safety
- assessing work-related risks and informing employees about any identified risks
- providing compensation for physically demanding work and for work in potentially harmful or hazardous conditions
- providing employees with personal protective equipment
- providing OHS training
- operating an OHS management system

Occupational Health and Safety

Improving OHS qualifications

We have a duty to arrange OHS training in order to improve the relevant qualifications of our employees. Training employees in OHS standards is one of our strategic preventive measures aimed at avoiding workplace injuries and occupational diseases, as well as improving working conditions. Upon being hired, every employee receives an e-mail with a link to an interactive training course about the need to take part in OHS training.

Protecting the health of employees and customers

Maintaining the health of employees and preventing workplace injuries is an integral part of X5's OHS Policy. Individuals employed in jobs with hazardous working conditions, as well as transport-related jobs and positions in sales, undergo mandatory preliminary (when joining) and periodic medical examinations in accordance with legal requirements.

Investigating incidents and accidents

Russian labour law requires compliance with the procedures for investigating and responding to workplace accidents. The regulations outlined in the Russian Labour Code and in special laws regulate the entire investigation process. All incidents involving the employees and those involving the employees of external contractor are subject to investigation.

Preventing workplace injuries

It is crucial that measures be put in place to avoid workplace injuries.

X5's Occupational Safety Department has identified the following priorities for the prevention of workplace injuries:

1. Identifying and preventing possible hazardous situations in the workplace and ensuring that employees know how to avoid and address such situations.
2. Carrying out campaigns and outreach work to raise employees' awareness
3. Continuously training employees at all levels on workplace safety rules
4. Investigating the causes of workplace accidents and occupational diseases, and developing and implementing measures to prevent their recurrence.

Measures to prevent workplace injuries are not limited to the general measures described above; every retail network and business unit – depending on its particular needs – takes additional measures to avoid workplace injuries.

Monitoring compliance

Continuous preventive monitoring of working conditions and occupational health and safety – one of the most effective means of preventing accidents, incidents, workplace injuries and occupational diseases – is carried out by quickly identifying deviations from OHS regulations and promptly taking the necessary measures to elimination those deviations.

Periodic assessments of OHS compliance with state regulations is carried out to improve the effectiveness of OHS management within our subsidiaries and business units.

Managing occupational risks

Occupational risk management is the foundation of our OHS management system. Identifying occupational risk factors, determining safe and harmful exposure levels related to such risk factors, monitoring workplace health and safety, analysing the causes of accidents and occupational diseases and a number of other issues are included in the range of tasks involved in assessing and managing occupational risks. Our policy, which is aimed at improving working conditions, establishes a risk register and stipulates analysis (assessment) of the risks inherent in employees' work.

Safety management for external contractors

The main goals of OHS management in relations with external contractors are to provide direction, coordinate efforts and achieve consistent results based on trust, while systematically monitoring the implementation of OHS requirements on the part of the contractor's personnel. All employees of contractors working on X5 property must take part in a mandatory briefing on occupational health and safety for third-party organisations.

Occupational Health and Safety

OHS highlights 2020

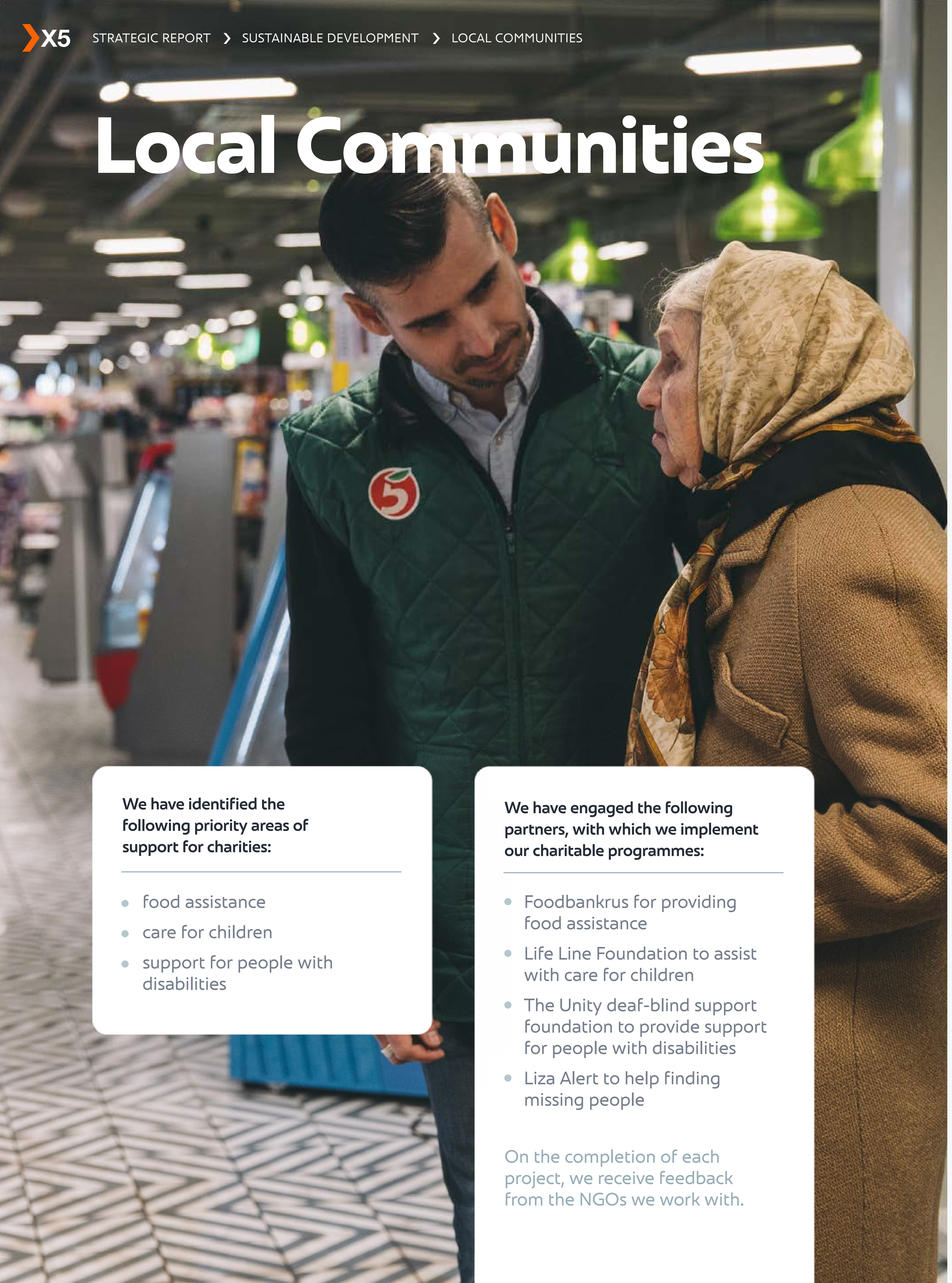
- An OHS management system is in place; functional responsibilities for occupational health and safety were assigned to executives and employees
- the principal on-site regulatory documents on occupational health and safety for all retail networks and business units were updated to take account of amendments to laws on occupational health and safety
- a special assessment of working conditions was conducted for 100% of workplaces to identify hazards and occupational risks
- OHS briefings and other types of OHS training were conducted
- employees were provided with the required personal protective equipment
- on-site OHS documents concerning all areas of activity were made available in all retail networks and business units; OHS-related document management is in place
- an OHS specialist (service) is available in all retail networks and business units
- compulsory insurance for employees is provided through Russia's Social Insurance Fund
- internal OHS audits through electronic checklists in the WRS-3* system continued, enabling us to reduce the number of working hours needed to carry out inspections, as well as to identify, in a timely manner, and rectify non-compliance with the requirements of OHS legislation
- X5 was in compliance with OHS and public health standards, resulting in the absence of cases of occupational diseases
- incidents involving work-related injuries, health impairments and illnesses were investigated in a timely manner, as was their impact on OHS-related activities
- as a result of the reconstruction and major renovation of stores, working conditions for retail and logistics workers were improved; natural lighting was installed at many stores, which has a positive impact on employees' well-being and performance

* WRS-3 is our automated system that helps us to monitor workplace safety across our operations. At Perekrestok, OHS service representatives use a tablet computer to complete OHS checklists (about 50 questions). These are uploaded to the WRS-3 system and corrective actions are automatically generated and assigned to the Store Director.

Plans for 2021

- In connection with the introduction of the so-called 'regulatory guillotine' in Russia designed to eliminate multiple outdated regulations, the main goal for 2021 is the extensive revision of all internal on-site regulations on occupational health and safety.
- Automating the process of using electronic signatures for documents on OHS training for all X5 retail networks and business units.
- Developing new training courses on occupational health and safety for all blue-collar jobs in connection with the introduction of new Russian legislation on all areas of activity.
- Developing requirements for the transition to an electronic workflow for OHS issues.

Local Communities



We have identified the following priority areas of support for charities:

- food assistance
- care for children
- support for people with disabilities

We have engaged the following partners, with which we implement our charitable programmes:

- Foodbankrus for providing food assistance
- Life Line Foundation to assist with care for children
- The Unity deaf-blind support foundation to provide support for people with disabilities
- Liza Alert to help finding missing people

On the completion of each project, we receive feedback from the NGOs we work with.

X5 Retail Group has sought to contribute to the health and well-being of the communities where it operates since its creation, and we will continue to do so under our Sustainability Strategy, in line with the UN SDGs of zero hunger and good health and well-being. The community-oriented projects that we implement have been developed based on our understanding of priority areas where we are best able to make a meaningful contribution to the general health and well-being of local communities.

We also work within the framework of the National Development Goals, drawing on the expert opinions of NGOs and global best practices. The X5 Corporate Brand Department, the retail networks' marketing departments and Pyaterochka's Transformation Office are responsible for implementing the Company's charity programmes.

Our Charity Policy defines the general principles and rules of our charity activities, describes the priority areas for our charitable giving and determines the roles and responsibilities of employees involved in our charity programmes. This policy applies to all divisions of X5 Retail Group.

LONG-TERM 30×30 GOALS

COMMUNITIES

UP TO

30%

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

Medium-term goals for 2023

+100%

families receiving Basket of Kindness help by 2023

2019: 19,200 families received support from Basket of Kindness. Since 2015 Basket of Kindness has provided more than 600 tonnes of food aid to 60,000 families

all stores engaged in the Missing Person program by 2023

2019: All Pyaterochka stores

Local Communities

Food assistance

FOOD DRIVES

In August 2015, X5, together with Foodbankrus, launched the nationwide Basket of Kindness project to donate food aid to those in need. About 1,300 stores were involved in the project in 2020. A total of 267 tonnes of food was collected and given to the elderly, large families and the disabled. More than 2,200 volunteers took part in the project. More than 142,000 people have received assistance.

Life Line Foundation

CANDIES OF KINDNESS

Through this initiative, shoppers at all Pyaterochka stores can purchase Candies of Kindness at checkout counters. RUB 5 from the sale of every candy helps cover the cost of operations for those under the care of the Life Line Foundation. In 2020, the project raised more than RUB 8.1 million for the treatment of 39 seriously ill children.

Unity deaf-blind support foundation

FOOD SUPPORT FOR QUIET HOMES

Since January 2017, the Company has been making weekly grocery deliveries to residential institutions for people with visual and hearing impairments. Pyaterochka stores in Troitsk and in Lyubertsy provide groceries – nearly RUB 1.3 million worth in 2020 – to two institutions.

The Centre for Missing Persons and the Liza Alert search-and-rescue team

SAFE SPACES

In 2020, store employees and volunteer rescuers helped 992 people, including 76 children, return home. The Safe Space project was piloted in the spring of 2019 at more than 2,600 Pyaterochka stores in Moscow and the Moscow region, and that autumn it was expanded to every Pyaterochka store in 66 regions where it operates.

Perekrestok stores also joined the project in November 2020. The safe space is a special area in the store marked by distinctive signage in the form of an orange geolocation pin, which acts as a reference point for anyone who is lost or disoriented. Anyone in such a situation can enter a Pyaterochka or Perekrestok store and make contact with a store employee or wait until help is offered.

Plans for 2021

- Increase the number of families receiving food aid through the Basket of Kindness project by 15%
- Connect 100% of Pyaterochka stores to the Safe Spaces programme to help people who are lost or disoriented
- Develop programmes with a focus on local communities, including programmes to combat social orphanhood

02.

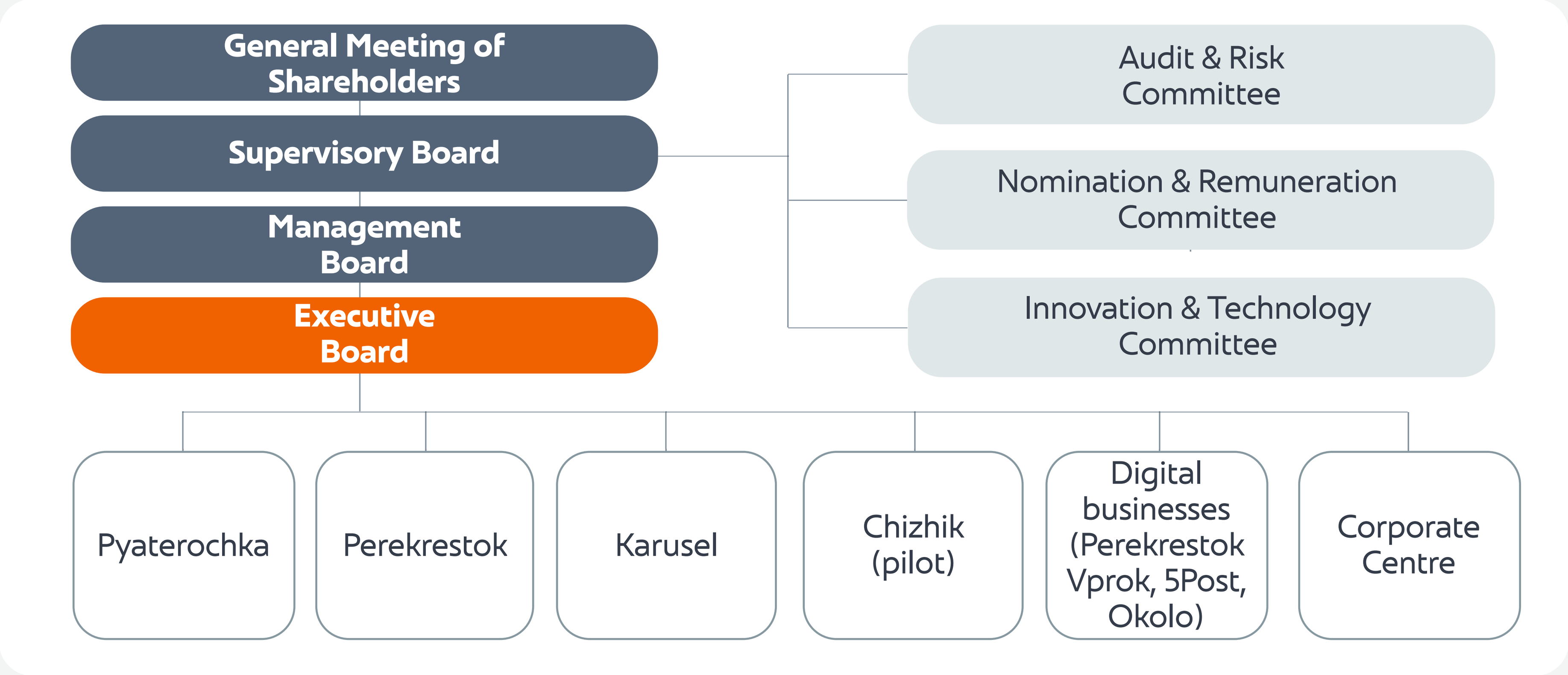
Corporate Governance

Governance structure

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

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

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 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.

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

The current members of the statutory Management Board and the Executive Board (the broader management team that handles day-to-day strategic, operational and financial issues), including their biographies, are presented on pages 49–50 and 160.

In 2020, the Management Board conducted a self-assessment by means of a questionnaire. Items that were assessed and discussed included the composition of the Management Board, its role versus that of the Supervisory Board and Executive Board, its tasks and duties as well as remuneration. The results of the evaluation will be taken into account in 2021.

The Supervisory Board has proposed to the 2021 Annual General Meeting of Shareholders to extend the appointment of Igor Shekhterman as CEO and member of the Management Board for a two-year period ending on the day of the annual general meeting of shareholders to be held in 2023, as such allowing Mr Shekhterman to lead the further implementation of X5’s strategy approved by the Supervisory Board in 2020.

Composition and reappointment schedule of the Management Board

Name	Year of birth	Year of first appointment	End of current term of appointment
Igor Shekhterman	1970	2015	2021
Frank Lhoëst	1962	2007	2023
Quinten Peer	1974	2019	2023

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. In 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.

X5's Supervisory Board currently consists of nine members, with a majority of five independent members and including one vacancy. The eight current members, including their biographies, are presented on pages 159–160.

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 results of the evaluation in 2020, along with the Board's profile and skill matrix, will be taken into account in future Board nominations. For further details, please refer to the Supervisory Board Report on pages 161–166.

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 Supervisory Board level. The total term of office may not exceed 12 years. The Supervisory Board has prepared a retirement and reappointment schedule to, as far as possible, prevent simultaneous reappointments. The Supervisory Board's profile and rotation plan can be viewed on the Company's website.

Composition and reappointment schedule of the Supervisory Board

Name	Year of birth	Year of first appointment	End of current term of appointment
Stephan DuCharme (Chairman) [1]	1964	2015	2021
Mikhail Fridman [2]	1964	2006	2021
Geoff King	1965	2015	2023
Peter Demchenkov	1973	2015	2023
Michael Kuchment	1973	2015	2022
Karl-Heinz Holland	1967	2018	2022
Nadia Shouraboura	1970	2018	2022
Marat Atnashev [3]	1977	2020	2023

Committees of the Supervisory Board

The Supervisory Board currently has three standing committees: the Audit and Risk Committee, the Nomination and Remuneration Committee and the Innovation and Technology Committee. The members of each committee are appointed by the Supervisory Board and 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.

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 and members of the Management Board.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee recommends the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders, prepares proposals for the Supervisory Board for remuneration of the individual members of the Management Board in line with the remuneration policy and advises the Management Board on the level and structure of compensation for other senior personnel.

The Nomination and Remuneration Committee also advises in respect of the selection and appointment of members of the Supervisory Board, the Management Board and the Executive Board.

1. Stephan DuCharme previously served on the Supervisory Board from 2008 until 2012.
2. In accordance with the Supervisory Board's Rules of Procedure, a Supervisory Board member who directly or indirectly holds at least 10% of the shares in the issued share capital of the Company may hold office for more than 12 years and is eligible for reappointment after that term (see "Compliance with Dutch Corporate Governance Code" in this report).
3. Marat Atnashev was appointed on 12 May 2020.

Innovation and Technology Committee

The Innovation and Technology Committee assists the Supervisory Board in its responsibility to oversee X5's e-commerce activities and initiatives in the area of technical and commercial innovation.

Composition of the Supervisory Board Committees

Name	Audit and Risk Committee	Nomination and Remuneration Committee	Innovation and Technology Committee
Stephan DuCharme			
Mikhail Fridman			
Geoff King	Chairman	Member	
Peter Demchenkov	Member	Chairman	
Michael Kuchment			Member
Nadia Shouraboura			Chair
Marat Atnashev	Member	Member	
Karl-Heinz Holland			

Diversity

The Supervisory Board operates a Leadership Diversity Policy that aims for a diverse composition of both the Management Board and the Supervisory Board in particular areas of relevance for X5. This includes diversity of experience, nationality and background. Appointments to the Management Board and Supervisory Board are evaluated against the relevant 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 considerations when examining and proposing nominations to the Management Board and 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 functioning and the functioning of the Management Board. In this context, the Supervisory Board gives careful consideration to the diversity of its own composition, as well as that of the Management Board, so as to be effective in performing its role. The results of the 2020 evaluation of the Supervisory Board and the Management Board are described in the Supervisory Board Report on pages 161–166.

While the Management and Supervisory Boards are currently not balanced with regard to gender, X5 recognises the benefits of gender diversity and of the importance that is attached to achieving this. We feel that gender is only one part of diversity, and future members of the Management Board and Supervisory Board will continue to be selected on the basis of specific experience, background, skills, knowledge and insights. X5 recognises the importance of diversity, including gender, at all levels of the Group and has a very strong track record of developing a critical executive layer of female business leaders. Across all of the Group's operations, specific diversity targets are taken into account in recruitment, talent development, appointments, retention of employees, mentoring and coaching programmes, succession planning, training and development.

Appointment, suspension and dismissal

The General Meeting of Shareholders appoints the members of the Management Board and 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.

Members of the Supervisory Board may in principle 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 Supervisory Board level. A Supervisory Board member may not serve more than 12 years. A Supervisory Board member who directly or indirectly holds at least 10% of the shares in the issued share capital of the Company may hold office for more than 12 years and is eligible for reappointment after that term (see "Compliance with Dutch Corporate Governance Code" in this report).

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

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

Remuneration

In line with the current remuneration policy, as adopted by the 2020 Annual 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. An amendment of the current remuneration policy for the Management Board, embedding the principles of the new LTI programme, has been submitted for approval at the 2021 Annual General Meeting of Shareholders.

The remuneration policy for the members of the Supervisory Board was adopted by the 2020 Annual 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 Chairman 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.

Shareholders and their rights

General Meeting of Shareholders

X5 Retail Group N.V. is required to hold a General Meeting of Shareholders within six months after the end of the financial year in order to, among other things, adopt the financial statements, decide on any proposal concerning profit allocation and discharge the members of the Management Board and 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 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 the annual General Meeting of Shareholders provided that they hold at least 3% of the issued share capital. Proposals for agenda items for the annual General Meeting of Shareholders must be submitted at least 60 days prior to the date of the meeting.

All shareholders and other persons who, pursuant to Dutch law or the Articles of Association, are entitled to attend and/or vote at a General Meeting of Shareholders are entitled to address the General Meeting of Shareholders. X5 uses the Bank of New York Mellon, the depositary 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", holders of GDRs may instruct the Depositary with regard to the exercise of the voting rights connected to the shares underlying their GDRs. Alternatively, upon request of the holders of such depositary receipts, the Depositary will grant a proxy to such holders who wish to vote in person at a General Meeting of Shareholders. Persons who hold a written proxy may represent shareholders at a General Meeting of Shareholders. The written proxy must be duly executed and 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 in the Articles of Association, on the right 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 capital is represented in that meeting.

Dividend rights

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

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

The Company's dividend policy was approved in 2017 and amended in 2020. The Company intends to pay a full-year dividend per share that will remain stable or grow over time in absolute Russian rouble–denominated terms. The dividend payout will be based on operating cash flow and a target consolidated net debt[1]/adjusted EBITDA[2] ratio of below 2.0× as of 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. Starting in 2020, X5 is committed to semi-annual dividend payments. The interim dividend will be announced following the release of the third quarter results.

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

Substantial shareholdings

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

Securities owned by Board members

The members of the Management Board and Supervisory Board and X5's other senior management are subject to the Company's 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 Supervisory Board must notify the AFM of X5 securities and voting rights at their disposal. These positions can be viewed in the AFM's public register.

The following table lists the shareholders on record on 28 February 2021 in the AFM's public register that hold an interest of 3% or more in the share capital of the Company:

	Shareholder	Year of disclosure	Capital interest[3]	Voting rigths[3]
1	CTF Holdings S.A. [4]	2 August 2007	48.41%	48.41%
2	Axon Trust	22 December 2009	11.43%	11.43%

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 terminations of lease agreements recognised under IFRS 16.
3. In accordance with the 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 AFM. Further details can be obtained at www.afm.nl.
4. The former name that appears in the AFM's public register is CTF Holdings Ltd.

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
- X5 and its subsidiaries would not, as a result, hold shares or GDRs thereof with an aggregate nominal value exceeding half of the issued share capital

In 2020, the Management Board was authorised to acquire up to 10% of the Company's shares or GDRs thereof. This authorisation is valid through 12 November 2021. In addition, the Supervisory Board resolved that, in case a purchase of shares or depositary receipts thereof by X5 would lead to X5 holding more than 5% of the shares or GDRs thereof, the Management Board would require the Supervisory Board's prior approval for such purchase.

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

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

In order to fulfil the Company's obligations under the Restricted Stock Unit Plan, the Company from time to time acquires GDRs under a restricted buyback programme pursuant to an authorisation of the General Meeting of Shareholders in accordance with Article 9 of the Company's Articles of Association. In March 2020, the Company repurchased 51,480 GDRs under the authorisation of the General Meeting of Shareholders held on 10 May 2019.

Issue of new shares and pre-emptive rights

Shares in X5 may be issued, and rights to subscribe for shares may be granted, pursuant to a resolution of the General Meeting of Shareholders or another X5 corporate body to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. In 2020, the General Meeting of Shareholders approved a delegation of this authority to the Supervisory Board relating to the issuance and/or granting of rights to acquire up to 6,789,322 shares (10% of the issued share capital) through 12 November 2021.

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

The General Meeting of Shareholders has delegated the authority to restrict or exclude the pre-emptive rights of shareholders upon the issue of shares and/or the granting of rights to subscribe for shares to the Supervisory Board through 12 November 2021.

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 and GDRs for inspection at the offices of X5 as of the date of the notice convening the meeting of the General Meeting of Shareholders until the end of the meeting of the General Meeting of Shareholders at which the proposed amendment is voted on.

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 a survey of its actual or potential anti-takeover measures and to indicate in what circumstances it is expected that they may be issued.

No special rights of control, as referred to in Article 10 of the EU Directive on takeover bids, are attached to any share or GDR in X5.

There are no important agreements to which the Company is a party and 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 situation of a change of control over the Company (as specified in the respective agreement).

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

On 12 May 2020, the General Meeting of Shareholders reappointed Ernst & Young Accountants LLP as external auditor for the 2020 financial year.

Compliance with the Dutch Corporate Governance Code

X5 applies the relevant principles and best practices of the Code in the manner as 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:

2.1.7–2.1.9

Independence of the Supervisory Board and Its Members, Independence of the Chairman

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 the shares in the Company. In accordance with best practice provision 2.1.9, the Chairman of the Supervisory Board should be independent within the meaning of best practice provision 2.1.8.

Supervisory Board members Mikhail Fridman and Marat Atnashev are both affiliated with CTF Holdings S.A., which has a capital interest of 47.86% in X5. Stephan DuCharme, Chairman of the Board, serves as Managing Partner of L1 Retail, part of the LetterOne investment group, which is partially controlled by the ultimate shareholders of CTF Holdings S.A.

Therefore, Mikhail Fridman, Marat Atnashev and Stephan DuCharme are not independent in the sense of the Dutch Corporate Governance Code.

X5 believes that the non-independent members of the Supervisory Board have in-depth knowledge of the geographic market, of business in general and of retail specifically, as well as a relevant track record in the markets in which X5 operates. This is of particular advantage to X5 and its shareholders.

It is Company policy that a majority of the members of the Supervisory Board must be independent at all times. A majority of the Supervisory Board, which currently consists of eight members, qualifies as independent within the meaning of the Dutch Corporate Governance Code.

2.2.2

Appointment and Reappointment Periods of Supervisory Board Members

Mikhail Fridman is the founder and chairman of the Alfa Group Consortium; he was appointed as a member of the Supervisory Board in 2006. In 2017, he was reappointed for a fourth term, thus exceeding the maximum of 12 years prescribed by the Code.

X5 believes that long-term value creation stands to benefit from committed shareholders, and that the interests of Supervisory Board members largely coincide with those of the Company. Supervisory Board members generally perform their duties for a prolonged period of time, which fits in well with long-term value creation for the Company.

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.

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. Members of the Supervisory Board of the Company are entitled to restricted stock units (RSUs). The number of annual RSU awards equals 100% of a Supervisory Board member's fixed base fee in the year of the award, divided by the average market value of an X5 GDR on the relevant award date. RSU awards to members of the Supervisory Board are not subject to performance criteria.

X5 acknowledges that the award of shares to members of the Supervisory Board constitutes a deviation from the Code. However, in order to attract and reward experienced individuals with a track record that is of specific relevance to the Company, X5 believes it is necessary to allow members of the Supervisory Board to participate in the Company's equity-based remuneration plan. This structure aligns the interests of Supervisory Board members with those of shareholders and strengthens their commitment to and confidence in the future of the Company.

The equity-based awards to members of the Supervisory Board are computed with respect to the fixed board fee of each member and are therefore not performance-based. X5 believes that the level and structure of the remuneration of the Supervisory Board members safeguard their independence of judgement and thought, and adequately reflect the time spent and responsibilities of their role. With a three-year vesting followed by a two-year lock-up, the equity award programme is in line with the spirit of the Dutch Corporate Governance Code that shares held by Supervisory Board members should be long-term investments.

How we manage risk

The Management Board, supported by the Executive Board and the Risk Management team, is responsible for designing, implementing and operating an adequately functioning risk management system for the Company.

The aim of this system 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.

COVID-19

The COVID-19 pandemic has had a significant impact on all aspects of society, including major adverse effects on the global economy in the medium and long term. It has had an impact on production and trade and on consumers' and employees' perception of the in-store experience. In 2020 the Russian economy experienced a significant slowdown and entered into recession. We faced significant challenges that forced us to operate in a new reality: a higher influx of customers, changes in demand and purchasing behaviour, competitors' actions and increased safety measures for employees and customers.

The pandemic forced us to adapt to new demands and to further accelerate our digital transformation. We adopted an internal digital transformation programme allowing the re-design and automation of critical internal processes to achieve new levels of speed and efficiency.
Our integrated risk management function allowed us to respond to the unprecedented changes in consumer demand resulting from the COVID-19 pandemic and to rapidly scale up our e-commerce and express delivery services.

We introduced additional safety measures in our stores (social distancing, barriers and hygiene protocols and rules) and reviewed our entire supply chain to support the accelerated change in demand.
In what was an unprecedented year, X5's business model provided the necessary stability for the Company's existing business and agility for its new business initiatives and digital transformation. We will continue to adapt the strategy to ensure business continuity and growth.

Risk management

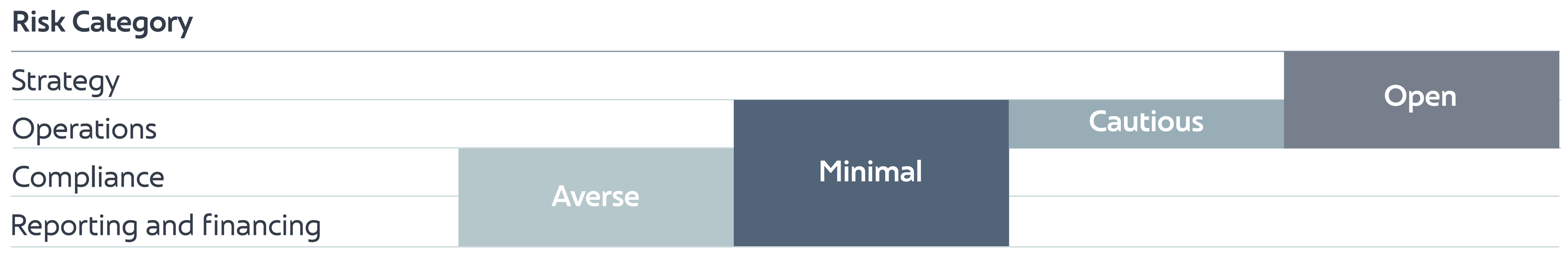
During 2020, the Management Board, supported by the Executive Board, continued to pay special attention to strengthening the design and effectiveness of the risk management and internal control system, ensuring that:

- The Company is resilient in handling the risks associated with the COVID-19 pandemic and that it has the ability to quickly adapt to changes in the market and its business
- A comprehensive review of both internal and external risks is carried out at least annually
- Risk appetite is reviewed and reconfirmed, and quantitative risk bounds are added to qualitative risk appetite
- Risk impact is quantified in addition to its qualitative assessment
- Risks of both our strategic and short-term objectives are assessed
- Desired risk responses and risk mitigating activities are put in place
- Our reporting is accurate and reliable, and
- We comply with relevant laws and regulations

Under the authority delegated by the Management Board, management teams at all levels 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 and functional divisions and ensures that the Management Board is continuously and promptly informed of important risk management developments.

Throughout the year, management reassessed X5's risks and developed action plans to mitigate risks and allocate appropriate resources for risk mitigation. The results of risk mitigation actions are regularly monitored and reported to the Audit and Risk Committee quarterly.

X5's risk appetite is designed by the Management Board and the Supervisory Board and is integrated into the Company's businesses through its strategy, policies, procedures, controls and budgets. Our appetite for each risk is determined by considering key opportunities and potential threats to achieving our strategic objectives and can be categorised as reflected in the table below.



Averse
Risks are unacceptable in any circumstance despite mitigating factors and considerable potential reward.

Minimal
Potential losses from these risks should be calculated and planned in advance, provisions should be created or insurance contracts should be in place, and necessary controls should be in effect.

Cautious
The maximum **potential** impact from these risks should be lower or equal to the minimum return. The necessary mitigation actions and controls should prevent losses.

Open
The risk impact may exceed the potential level of return; compensating factors may partly mitigate this impact.

Internal control

To ensure the effectiveness and completeness of the Company's risk management and internal control system, X5 employs a "three lines of defence" model to establish and maintain control:

First line	Second line	Third line
Business unit / risk owners	Risk Management, Internal Control and Compliance	Internal Audit
Manage risks on a daily basis and provide assurance regarding the effectiveness of controls	Steer, monitor and support line management in (1) managing risks and (2) developing and maintaining an adequate framework for control and compliance	Conduct audits and test the internal control and compliance framework for assurance of the effectiveness of control

Ethics and compliance

Values and business principles are crucial elements of the internal environment for risk management. We are committed to values and business principles that contribute to a culture of integrity and long-term value creation. These values and principles are reflected in our Code of Business Conduct and Ethics and in underlying policies and procedures, and they are promoted and implemented across the Group through learning and training programmes.

Further information on these objectives can be found in the sections "Compliance and business ethics" on pages 125–129, and "Risk profile" below.

Monitoring and assurance

Internal Audit provides independent and objective assurance of the impact of the above-mentioned control and compliance processes. Systematic and disciplined evaluations of risk management, internal control and governance activities are performed with the help of X5's Control Heat Map, which lists all key business processes with an overall evaluation of the effectiveness of internal control in each business process. Following a risk-based audit planning approach, Internal Audit performs evaluations of operational, financial and information systems and tests of controls on key business processes that reveal internal control issues. Internal Audit provides recommendations to improve controls to the responsible executives. Action plans that address control issues raised by Internal Audit are prepared by business process owners and approved by the General Directors of retail formats or the Directors of corporate functions. The timely implementation of management action plans is monitored and followed up on a monthly basis, and the status of addressing these control issues is regularly reported and discussed with the CEO and the Audit and Risk Committee.

Emerging risks

As a fast-growing company exposed to a number of external risk factors related to a politically and economically changing environment, it is critical for X5's success to be able to identify emerging risks. This requires that the Company constantly evaluate risks factors related to different themes such as competition, macroeconomic environment, business continuity, climate and sustainability, technology, data protection and cyber-security.

The Company made "identification of emerging risk" a part of its ongoing risk assessment and analysis process. This new exercise is intended to identify potential internal and external risks in a timely manner and to measure their relative importance and the probability of their occurrence, as well as the significance of their impact. All identified emerging risks are discussed with business units and management as a part of our regular risk assessment.

The Company has also implemented a process for validating the effects of different digital projects. Risk assessment is integrated into project management activities and operational risks are assessed for all new business initiatives. This enables Risk Management to have a broad picture of the risks that the Company is currently exposed to and to be aware of potential emerging risks that may become important in the future. The evaluation of emerging risks in 2020 allowed us to promptly develop mitigation plans and to focus specifically on managing the most critical risks related to COVID-19, both directly (specifically health and safety and personnel availability) and indirectly (including macro-economic risks, the changing competitive landscape and government regulations). See the section "Expected risk trends" below.

Sustainable development and social responsibility

X5 acknowledges and recognises the urgency of action on climate change. As a responsible business that is committed to sustainable development, we understand our responsibility to advance the global transition towards a low-carbon economy, mitigate climate risks and adapt to the consequences of climate change. Our Company is proactively implementing various measures and tools to ensure that we become a driver of positive global change and contribute to the achievement of the United Nations sustainable development goals. As a part of our sustainable development strategy, we are investing considerable efforts into meeting our long-term goal to achieve a 30% reduction in greenhouse gas (GHG) emissions by 2030.

We strive to play our part in achieving the Paris Agreement goal of limiting global warming to well below 2 °C versus pre-industrial levels. This is why, at the end of 2020, X5 affirmed its commitment to sustainable development by setting an ambitious goal of reaching carbon neutrality by 2050. Our target will be reviewed against science-based criteria[1] over the next two years to ensure that we are on track to meet the Paris Agreement goal.

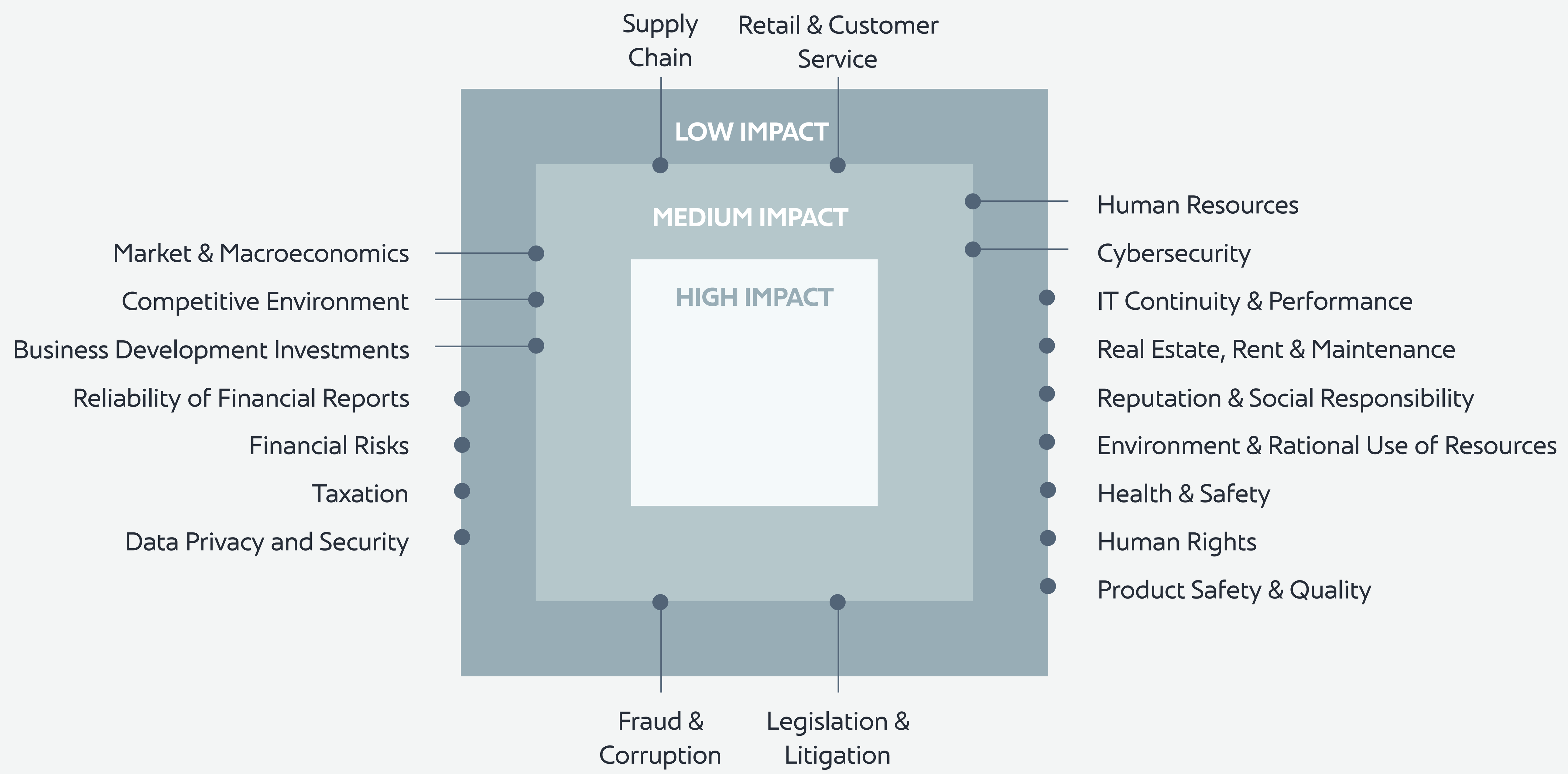
In 2020, we initiated major steps towards achieving our long-term climate goals. Firstly, we launched the process of calculating indirect GHG[2] emissions, which covers most of our value chain processes. The calculation is performed in accordance with the GHG Protocol standards and guidance, and includes the evaluation of all relevant and material emission categories. Upon completion of our calculations, we are planning to identify our most carbon-intensive business processes and start actively reducing our emissions after setting more accurate and descriptive GHG reduction targets across our value chain.

Moreover, X5 is currently undertaking a climate risk assessment and scenario analysis[3]. This review includes an assessment of both transition and physical risks according to three climate scenarios for short-term, medium-term and long-term planning. Our goal is to develop a clearer understanding of the potential implications of climate-related risks and opportunities for our Company and take corresponding actions to strengthen our resilience.

Specific measures taken to ensure the health and safety of our customers and staff are highlighted in the "Expected risk trends" section below. We intend to provide further details on our climate initiatives for stakeholders in our 2020 Sustainability Report. The report will include information about our performance in 2020 and is scheduled for publication in May 2021.

The Company's principal risks

X5's principal risks are those that may impede the achievement of X5's objectives on strategy, operations, compliance and reporting, and are marked in the medium impact zone on the heat map below. It should be noted that there are additional risks that management considers immaterial or common to companies in the same line of business.



[1] X5 announced its commitment to the Science Based Target initiative (SBTi) in November 2020.
[2] X5 disclosed its direct (Scope 1) and energy indirect (Scope 2) GHG emissions in 2020. The non-energy indirect Scope 3 GHG emissions would be disclosed in Sustainability Report 2020.
[3] X5 uses the Task Force on Climate-related Financial Disclosures (TCFD) recommendations for the assessment of climate-related risks.

The Company's principal risks

Principal risks	Mitigation
Strategy	
Market and macroeconomics • Major changes in the economic environment may challenge the existing business strategy or have a material impact on financial performance.	• We constantly monitor and forecast the economic environment and make adjustments to our strategy as needed. • We plan to develop our hard discounter format (Chizhik) and take other steps to address the pressure on personal income. Also see "Russia's food retail market" on pages 18–29.
Competitive environment • The actions of competitors or new entrants to the market affect the Company's competitive advantage and performance.	• We constantly analyse customer behaviour and adjust our strategy accordingly. • We continue to benchmark, adapt and innovate to refine our CVP to customer needs across all formats. • We are able to sustain our lead over traditional and new competitors by creating a digital infrastructure around the core business that covers all stages of the customer journey in food and complementary categories. • We have launched a new hard discounter format (Chizhik).
Business development investments • Insufficient return on investments in new business lines, and retail chain development capital cost.	• We adhere to strong investment control procedures. All new business initiatives are subject to pilot validation. • For non-performing stores we implement action plans to increase their efficiency.
Operations	
Retail and customer service • Non-effective and inconsistent operational management may affect X5's ability to provide our customers with an attractive shopping experience.	• We use trading and research data to assess our performance in meeting customer priorities and expectations regarding prices, product range, availability and service. • Every year we assess, and where required strengthen regional management teams to ensure that our stores are well supported across all locations.
Supply chain • Insufficiencies in our retail operations infrastructure and inventory management may lead to an inability to maintain effective inventory management and ensure a reliable supply of goods to our customers while minimising shrinkage and excessive stock.	• We run comprehensive supply chain operations with a decentralised logistics function, which allows our retail chains to effectively manage inventory across the supply chain. • We always seek to establish a balance between using our own and outsourcing transport to increase the efficiency of logistics. • We monitor the production of the food and non-food goods we sell "from farm to fork" for quality and safety. • We continue to develop X5's direct imports to diversify and reduce dependency on local distributors and move up the value chain to optimise alignment of demand and supply and shift focus from quality control to quality assurance. Also see "Retail infrastructure" on pages 102–120.
Human resources • Rapid changes in the labour market may cause an inability to recruit, train and retain the optimal number of employees and as a result lead to high personnel turnover. • Lack of personnel to grow our business in accordance with our strategy.	• We monitor the labour market and regularly assess X5's employer value proposition to ensure that we offer employee benefits in line with the market. • We have a system for employee onboarding, training and development in place, along with a talent pool. • We create a culture that enables us to attract, retain and promote the best professionals in the industry, and promote an environment that stimulates professional growth, collaboration and accountability together with safety and flexibility.
Cybersecurity • External and internal threats to information security, including cyberattacks, viruses and other malicious actions to, for instance, infiltrate our IT systems or damage data.	• We implement all necessary policies and procedures, tools, hardware and software to ensure confidentiality, integrity and availability of information assets. Also see "X5 Technologies" on pages 109–114.

The Company's principal risks

Principal risks	Mitigation
IT and business continuity performance • Interruptions in business processes due to crisis situations and emergencies. • Disruptions of business continuity due to emergencies, including the failure of our IT infrastructure, may result in a situation where our core business operations are unavailable.	• We manage the capacity of our IT systems in order to ensure that information technology resources are able to meet current and future business requirements in a cost-effective manner. • We constantly monitor and control business processes and IT system productivity. • We have implemented business continuity plans for our key business processes and disaster recovery plans for our critical IT systems. Also see "X5 Technologies" on pages 109–114.
Compliance	
Fraud and corruption • An inability to set and promote a Company-wide culture of ethical integrity and failure to detect or prevent corruption and fraud can lead to a decline in economic value and significant reputation damage.	• We uphold a zero-tolerance policy of abuse and continuously provide personnel training on anti-bribery and corruption. • We implement automated and manual controls in business processes, and adhere to strict segregation of duty principles, separating the rights to access information systems. • All employees are periodically required to disclose actual or potential conflicts of interest.
Legislation and litigation • Inability to identify, quickly respond to and attempt to modify unfavourable proposed changes to applicable laws. • Entering into contracts that are unfavourable for the Company and the failure to comply with or monitor contract terms to protect the Company from financial losses.	• Our legal team participates in every stage of important business negotiations and analyses business terms and conditions to minimise risk. • Contracts are largely standardised to ensure that 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 and regulations resulting in improper disclosure of confidential customer information.	• We regularly report on the progress of our security and privacy programmes to management and oversight committees. • Ongoing monitoring of our processes which includes assessment and monitoring of risk, continues to drive compliance throughout our business.

Expected risk trends

For the designated risk groups, X5's Risk Management analysed the actual risk impact in 2020 and made an assessment of the expected impact for 2021 and onwards, taking external conditions and trends into account.

Competitive environment

The COVID-19 pandemic is generally considered a crisis, but it is also a business development opportunity for companies that quickly adapt to the new reality where digital and online services have enjoyed explosive growth. Companies that in previous years built infrastructure for online services were well positioned to accelerate growth. As a result of our past strategy, we were able to quickly scale up our e-commerce and express delivery activities.

During the lockdown, a large number of new customers visited our stores, and movement restrictions made our proximity stores more attractive. Meanwhile, we continue to face the ongoing challenge of a changing competitive landscape and price pressure across most of our markets.

More generally, the scale and pace of change over the past five years has created a completely different competitive environment and is quickly forging a new type of consumer with different expectations. Analysing consumer trends has been key in designing and updating our strategy, and will continue to enable us to quickly adapt and change if these trends accelerate even further or move into different directions.

Business continuity and operational resilience

The Company's operating model and scale of business depend to a great extent on the capabilities and reliability of its critical resources including people, IT infrastructure, third parties and premises. We recognise that digital transformation is a factor for success now and will be even more so in the future, creating additional pressure on stability and dependency on IT infrastructure. The inability to meet business-driven IT requirements will limit expansion and decrease our profitability. Therefore, we are continually developing and adapting our business continuity management – including disaster recovery plans for critical IT services – which focuses on supporting critical business functions in the event of crises or emergencies.

Macro-economic and government risks

Changes in the Russian regulatory environment significantly affect the retail industry in general and X5's position in particular. In 2020, the Russian economy experienced a significant slowdown and entered into recession. To address the risk of a potential decrease in retained earnings from our existing businesses, the Company is constantly seeking to strengthen its core businesses while adjusting to market trends and changing customer needs. The government is closely monitoring the dynamics of food inflation, and the risk of regulatory intervention is becoming increasingly important. The Company is in close contact with all the regulatory authorities; our Government Relations team actively participates in discussions on key regulatory and legislative changes through different associations and forums.

Health and safety

COVID-19 has emphasised the importance of the health of our customers and our employees. Companies have faced a shortage of staff as a result of foreign employees leaving Russia and the reluctance of new employees to work in crowded stores during the pandemic. The Company has taken a number of measures aimed at attracting and retaining personnel: recruitment channels have been expanded, work is being organised on a rotational basis with safety being a top priority, and measures have been taken to increase the loyalty, involvement and retention of personnel. In March 2020, X5 became one of the first large companies to enable its office staff to work from home, with 90% of office staff offered this option. We value our personnel and are very aware of their importance in growing the Company's business in accordance with our strategy. We will continue to ensure the safety, health and well-being of all personnel. In addition to our regular e-commerce channels, our express delivery services allowed more customers to order and receive groceries without having to leave the comfort and safety of their homes.

Statement of the Management Board

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 internal risk management and control systems over the course of 2020. The outcome of this review and analysis has been shared with the Audit and Risk Committee and the Supervisory Board and has been discussed with X5's external auditors.

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; observations and measures to address issues were 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 for 2017-2020
- periodic risk reports reported by the management of corporate functions and the main business segments
- ongoing monitoring of key risk management initiatives aimed at mitigating risks and keeping risks at an acceptable level
- the external auditor's ongoing reflections on the control framework, and the management letter from the external auditor with observations and remarks regarding internal controls; this letter has been discussed with the Audit and Risk Committee and the Supervisory Board
- the internal audit director's overall opinion regarding X5's risk management, internal controls and corporate governance processes in 2020
- management assurances regarding the effectiveness of risk management and control systems in the retail chains and business support units during 2020

For more information on X5's risk management activities, internal control, risk management systems and key risks, see the above section "How we manage risk". The purpose of X5's internal risk management and control systems is to adequately and effectively manage the significant risks to which the Company is exposed.

These systems can never provide absolute assurance as to the realisation of operational and strategic business objectives, nor can they prevent all misstatements, inaccuracies, errors, fraud and non-compliance with legislation, rules and regulations. These systems do not provide certainty that the Company will achieve its objectives. Based on the annual evaluation and discussion of X5's internal control and risk management systems and identified risk factors, the Management Board confirms that, according to the current state of affairs and to the best of its knowledge:

- X5's internal risk management and 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 internal risk management and control systems
- there are no material risks or uncertainties that could reasonably be expected to have a material adverse effect on the continuity of X5's operations in the coming 12 months
- it is appropriate that financial reporting is prepared on a going concern basis; this conclusion is based on our review of the strategic plan, the budget for 2021 and our estimate of the economic outlook

In view of all of the above, the Management Board confirms that, to the best of its knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its consolidated subsidiaries, and the management report includes a fair review of the position on the balance sheet date and of the development and performance of the business during the financial year together with a description of the principal risks and uncertainties that the Company faces.

The Management Board
18 MARCH 2021

Supervisory and Management Boards

Supervisory Board

Stephan DuCharme

CHAIRMAN OF THE SUPERVISORY BOARD

Stephan DuCharme, a dual US/German citizen (1964), is Managing Partner of L1 Retail, part of the LetterOne investment group. Stephan currently serves as Executive Chairman on the Board of Directors of Distribuidora Internacional de Alimentación (DIA) and also is a Board member of Holland & Barrett. Stephan has been Chairman of X5 Retail Group since the beginning of 2016, having previously served as Chief Executive Officer from July 2012 until November 2015 and as a non-executive member of X5's Supervisory Board beginning in 2008. Prior to X5, Stephan held senior management positions with Alfa Group, the European Bank for Reconstruction and Development and Salomon Brothers Inc. He graduated with distinction from the University of California at Berkeley and received an MBA from INSEAD.

Peter Demchenkov

VICE-CHAIRMAN OF THE SUPERVISORY BOARD, CHAIRMAN OF THE NOMINATION AND REMUNERATION COMMITTEE

Peter Demchenkov, a Russian citizen (1973), is CEO of ALIDI, a leading provider of distribution and logistics services in Russia. From 2004 to 2005, he was Development Director of the investment bank CIT Finance, and from 1997 to 2004 Peter worked in Procter & Gamble's Business Development Department in Eastern Europe. Peter graduated from the St Petersburg Polytechnic University with a degree in Technical Cybernetics.

Mikhail Fridman

MEMBER OF THE SUPERVISORY BOARD

Mikhail Fridman, a dual Russian/Israeli citizen (1964), one of the original founders of Alfa Group Consortium, is Chairman of the Supervisory Board of Alfa Group Consortium, one of Russia's largest privately owned financial-industrial conglomerates. Mr. Fridman is also a member of the Supervisory Board of VEON, a member of the Board of Directors of Alfa Bank and a member of the Board of Directors at ABH Holdings. Mr Fridman is co-founder of LetterOne, an international investment business headquartered in Luxembourg. Mr Fridman is a member of the Board of the Russian Union of Industrialists and Entrepreneurs and of the International Advisory Board of the Council on Foreign Relations (USA). He graduated from the Moscow Institute of Steel and Alloys in 1986.

Geoff King

MEMBER OF THE SUPERVISORY BOARD, CHAIRMAN OF THE AUDIT AND RISK COMMITTEE

Geoff King, a UK citizen (1965), is CEO of The Food Purveyor, a leading premium supermarket operator in Malaysia. Prior to this role, he consulted for five years for food retail businesses across Europe and South-east Asia. Between 2010 and 2013, Geoff was Group CFO of Maxis, a major telecoms operator in Malaysia and India. Previously, Geoff held many leadership roles in a career with Tesco PLC spanning over 20 years, including 10 years as CFO in a number of markets in Europe and Asia. Geoff holds a degree in Pure Mathematics from Exeter University and is a prize-winning CIMA accountant.

Michael Kuchment

MEMBER OF THE SUPERVISORY BOARD

Michael Kuchment, a Russian citizen (1973), is the co-founder and Vice President of Hoff, one of the leading home furnishing retailers in Russia. Currently, Michael is also Chairman of the Supervisory Board of Sovcombank, one of the leading Russian consumer banks. From 2008 until 2015, Michael was a board member of M.video, the largest consumer electronics chain in Russia and the country's first public non-food retailer. Previously, from 2002 until 2008, Michael worked as the Commercial Director at M.video. Michael graduated from the Moscow Institute of Physics and Technology as a physics researcher, and he holds an Executive MBA from the Skolkovo Moscow School of Management.

Karl-Heinz Holland

MEMBER OF THE SUPERVISORY BOARD

Karl-Heinz Holland, a German citizen (1967), joined X5 in 2018. He served at Lidl Group for over 20 years in various leadership capacities, including six years as CEO, during which time he drove the expansion of Lidl across Europe. He has wide-ranging expertise in the international retail arena, and currently serves as CEO of Takko, a European fashion discount chain with around 2,000 stores in 17 countries. Until May 2020, Karl-Heinz served for one year as CEO on the Board of Directors of Distribuidora Internacional de Alimentación (DIA), where he successfully completed the first phase of DIA's turnaround. Karl-Heinz holds a degree in Business from Augsburg University of Applied Sciences.

* as of 31 December 2020

Source: X5 data

Supervisory and Management Boards

Supervisory Board

Nadia Shouraboura

MEMBER OF THE SUPERVISORY BOARD, CHAIR OF THE INNOVATION AND TECHNOLOGY COMMITTEE

Nadia Shouraboura, a US citizen (1970), joined X5 in 2018. She has extensive experience in development of innovative concepts for modern retail, as well as technology and data-driven solutions for consumers. From 2004 to 2012, Nadia served as Technology Vice President for Amazon's global supply chain and fulfilment platforms and was a member of Amazon's senior management team (S-Team). Subsequently, she launched her own technology consultancy for the retail industry globally, aimed at combining the best of the online and offline worlds. Nadia is a senior advisor to New Mountain Capital and serves as independent non-executive director at Ferguson plc and MTS Russia. Nadia holds a degree in Mathematics and Computer Science from Moscow State University and a PhD in Mathematics from Princeton University.

Marat Atnashev

MEMBER OF THE SUPERVISORY BOARD

Marat Atnashev, a Russian citizen (1977), is the Director of Group Portfolio Management at CTF Consultancy Limited. He is a member of the Boards of Directors of Management Company Rosvodokanal, A1 Investment Holding S.A., ABH Holdings S.A., Alfa Bank (Russia) and AlfaStrakhovanie PLC. From 2016 to 2019, Mr Atnashev was Dean of the Skolkovo Moscow School of Management. Before that, he worked at EVRAZ plc as Vice President, Major Projects, Head of the Iron Ore Division; he held the position of Director of the Directorate of Major Projects at JSC Gazprom Neft and worked at TNK-BP in various positions in supply chain management, finance and major project management.
Mr. Atnashev graduated with honours from the Energy Department of the State University of Management, Moscow, in 1999; in 2003, he received a PhD (Candidate) in Economics.

Management Board

Igor Shekhterman

X5 CHIEF EXECUTIVE OFFICER, CHAIRMAN 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 Institute d'Administration des Enterprises (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-II project. He lived in Russia from 2012 to 2016, where he managed international business development and the expansion of a major capital project as COO for Sakhalin Energy. Quinten holds a degree in Law from the University of Groningen in the Netherlands.

Source: X5 data

Report of the Supervisory Board

ABOUT THIS REPORT

The Supervisory Board is responsible for supervising and advising the Management Board and overseeing the general course of affairs, strategy and operational performance of the Company. In performing its duties, the Supervisory Board acts in accordance with the interests of the Company and its affiliated businesses, taking into consideration the overall good of the Company and the relevant interests of all its stakeholders. In X5's two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independently of the Management Board.

Composition and profile of the Supervisory Board

X5's Supervisory Board currently consists of nine members including one vacancy since Alexander Torbakhov stepped down in 2020. On an ongoing basis, the Supervisory Board reviews the profile of its size and composition, taking into account the evolving nature of X5's business and activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board profile is published on X5's corporate website.

At the 2020 Annual General Meeting of Shareholders, Marat Atnashev was appointed as a new member of the Supervisory Board. He succeeded Andrei Elinson, who had served on the Board since 2016. The Supervisory Board expresses its profound gratitude for the significant contribution of Andrei Elinson during these years.

On 3 July 2020, Alexander Torbakhov resigned as a member of the Supervisory Board in view of new executive responsibilities outside the group. The Supervisory Board expresses its sincere appreciation for Alexander's contribution to the important process of the Group's digital transformation and expansion of online businesses. Mindful of the need to maintain its first-class expertise in these areas, and in line with the Board profile, the Board started a search process to fill the vacancy.

Recognising the value and increasing importance of leveraging different points of view from among its members, 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. This also includes 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. While the Supervisory Board is currently not balanced with regard to gender, it recognises the benefits of gender diversity, and importance is attached to achieving this. The Board is conscious of the public debate and regulatory developments in this respect, and takes this into account in its succession planning, in line with the Group's Leadership Diversity Policy.

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 pages 159–160.

Composition of the committees

While retaining overall responsibility, the Supervisory Board assigns certain tasks to three committees: the Audit and Risk Committee, the Nomination and Remuneration Committee and the Innovation and Technology Committee.

Upon the appointment of Marat Atnashev by the 2020 Annual General Meeting of Shareholders, he became a member of the Audit and Risk Committee and the Nomination and Remuneration Committee, taking the place of Andrei Elinson.

As part of the annual review of the composition and profile of the Board and its committees, the Board changed the composition of the Nomination and Remuneration Committee. Allowing Stephan DuCharme to focus on his Chairman duties and specifically the Company's overall strategic development, sustainability agenda and digital transformation, he stepped down from the Nomination and Remuneration Committee in March 2020, with Geoff King taking his place.

Following the resignation of Alexander Torbakhov in July, Nadia Shouraboura was elected to chair the Innovation and Technology Committee.

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

Induction and ongoing education

Induction and permanent education are key elements of good governance. Following their appointment, new Supervisory Board members go through X5's strategic, financial, legal and reporting affairs with senior executives of the Company. In addition, prior to their appointment, they are invited to meetings of the Supervisory Board and its committees.

On an ongoing basis, and together with members of senior management, members of the Supervisory Board visit stores and distribution centres to gain a more in-depth understanding of local operations, opportunities and challenges. In 2020, these visits were limited due to travel restrictions stemming from the outbreak of the COVID-19 pandemic early in the year.

As an additional source of informal learning, external guest speakers with expert knowledge of topics that are of particular relevance to the Company are invited to plenary Board meetings. On two occasions in 2020, Board meetings included interactive presentations by guest speakers on "Winning the customer in the digital era" and on "ESG and the Board".

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 2020, the Supervisory Board held four regular meetings. In addition, resolutions in writing were taken when necessary during the year. Each of the four meetings of the Supervisory Board was preceded by meetings of the Audit and Risk Committee and the Nomination and Remuneration Committee. Meetings of the Innovation and Technology Committee were convened three times throughout the year.

The plenary Supervisory Board meetings also included a half-day strategy session, thus ensuring sufficient time for the meetings and discussions on specific themes, such as operational performance, digital transformation and new businesses, sustainability and management development. The CEO and CFO attended all meetings, and other members of senior management were regularly invited to present.

In 2020, the Supervisory Board held regular private sessions without members of the Management Board present to independently discuss matters related to the performance, functioning and development of members of the Executive Board. The external auditor attended the meeting in March at which the 2019 Annual Report and financial statements were recommended for adoption by the Annual General Meeting of Shareholders. In between Supervisory Board meetings, several informal meetings took place among Supervisory Board members and members of the Management Board and other Company management to consult with each other on various topics and to ensure that the Supervisory Board remained well informed about the running of the Company's operations. In 2020, these contacts intensified as a result of the COVID-19 pandemic and its considerable impact on X5's customers, employees and businesses.

The Supervisory Board confirms that all Supervisory Board members have adequate time available to give sufficient attention to the concerns of the Company. In 2020, the attendance rate was 100% for both the Supervisory Board and the committee meetings.

Activities in 2020

The year 2020 was defined by unprecedented challenges due to the COVID-19 pandemic. Following the outbreak in March, the Supervisory Board closely monitored the situation based on regular updates from the CEO, and intensified contacts with the management team to oversee the impact on X5's businesses and the safety of customers and employees.

Against the background of the pandemic, 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.

As part of its ongoing operational oversight, the Supervisory Board reviewed the performance of the Company's digital businesses, with particular attention to IT and technological infrastructure to support the accelerated growth in online demand. Meanwhile, the Board continued to review measures and initiatives to strengthen X5's core businesses; through the work of its Innovation and Technology Committee, the Board closely reviewed opportunities to automate and digitalise key functions and processes inside the Company to increase efficiencies and decrease operational risks.

Within the context of the annual strategy update, the Supervisory Board reviewed leadership requirements across the Group and the introduction of a new operating model to support the Company's growth and omnichannel ambitions in the rapidly changing market environment. Furthermore, building on the Company's ESG strategy approved in 2019, and conscious of the imperative to embrace health and safety, the Board discussed the Company's "30×30" sustainable development plan, setting ambitious targets to support local communities, reduce waste and climate impacts and promote healthier eating. Recognising these responsibilities as a licence to operate from society, the Board committed to strengthening its impact on X5's strategic priorities going forward.

Throughout the year, the Supervisory Board continued to discuss key trends recognised in the retail marketplace and opportunities for the Company to improve customer experience and accelerate growth. As part of these discussions, and as part of the Board's oversight in the area of technical and commercial innovation, Board members reviewed various initiatives and new business concepts. As further expansion of the Group's multi-format customer value propositions, the Board extensively reviewed the new hard discount store concept built around an expanded private-label assortment, resulting in the launch of the first pilot stores under the "Chizhik" banner in October.

Furthermore, during its meetings in 2020 the Supervisory Board reviewed reports from its various committees and discussed the following (regular) topics:

- the financial reporting process and in particular the approval of the 2020 Annual Report and review of the 2020 half-yearly and quarterly financial reports
- the agenda and explanatory notes for the Annual General Meeting of Shareholders held in May 2020, including the dividend proposal
- the 2020 interim dividend based on the Q3 financial results and the amended Dividend Policy approved in November
- reports by the internal and external auditors
- the assessment of the cooperation with the external auditor, based on a report from the Audit and Risk Committee
- the composition of the Executive Board and the evaluation of its individual members, including talent management and succession planning
- the profile and effectiveness of the Supervisory Board in the context of the annual board evaluation, as described in more detail below
- the composition and profile of the Supervisory Board and its committees
- the annual review of the financing strategy
- updates on X5's risk landscape and risk appetite, as well as risk mitigation measures and internal controls
- the annual budget for 2021

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 effectiveness 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 autumn 2020, the Board performed its annual self-assessment. Following the in-depth assessment performed in the previous year, the assessment particularly addressed key areas for improvement identified during the 2019 assessment. In addition to the evaluation by the Supervisory Board members, input was solicited and received from members of the Executive Board.

The evaluations were conducted on the basis of a questionnaire and interviews with the Chairman of the Nomination and Remuneration Committee.

The main conclusions of the evaluation were collectively discussed by the Supervisory Board at its meeting in December. Overall, the Board felt its work and performance during the year had been effective. Board discussions and its relationship with the Executive Board were open and constructive, and good progress was made in striking the right balance between the Board's operational oversight and strategic responsibilities. The Board paid special attention to its composition in light of the rapid changes happening in the industry, alongside the continued growth of the Company's traditional retail segment.

The Board concluded that searches for new members should reflect this and should focus on expertise in food retail, e-commerce and retail transformation trends in general. The results of the evaluation, along with the Board's profile and skill matrix, will be taken into account in future Board nominations.

The Supervisory Board attaches great value to these evaluations. They ensure continuous focus on the quality of its activities, the composition and functioning of the Supervisory Board and its Committees and the Supervisory Board's relationship with the Executive Board.

Meetings of the Committees

Audit and Risk Committee

The role of the Audit and Risk Committee is described in its charter, which is available on the Company's website. On 31 December 2020, the Audit and Risk Committee consisted of Geoff King (Chairman), Peter Demchenkov and Marat Atnashev. In 2020, the Committee held five meetings. Due to travel restrictions in connection with the COVID-19 outbreak, the Chairman attended these meetings by videoconference. The meeting in August to review the half-yearly results was held entirely by videoconference.

As a rule, all meetings were attended by the CFO, the external auditor and the internal audit director, while the Chairman and CEO were invited to attend all meetings. Other members of the Supervisory Board and senior management were invited when necessary or appropriate. The Committee met once with the external auditor without the presence of management.

The Audit and Risk Committee assists the Supervisory Board in its responsibility to oversee X5's financing, financial statements, financial reporting process and system of internal 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. The Committee also periodically reviewed the level of financial provisions, key movements in the balance sheet and any contingent liability movements. As part of this review, the Committee paid specific attention to COVID-19 accounting implications and disclosures.

Audit and Risk Committee

As part of its ongoing risk and risk management oversight in 2020, the Committee closely monitored new risks emerging from the COVID-19 outbreak and risk mitigation measures such as the establishment of an Emergency Response Team early in the year to effectively prioritise and address imminent health and safety risks and business continuity risks.

The Committee extensively discussed the effectiveness of the internal control framework, also with a strong focus on the impact of the COVID-19 pandemic. 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 Internal Audit 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 2021.

The Committee also discussed other issues and recurring topics, including:

- the external auditor's report with respect to accounting and audit issues and internal control recommendations in respect of their audit of the 2019 consolidated financial statements
- quarterly interim financial reports and trading updates
- financing strategy
- tax matters
- cybersecurity and data protection
- non-commercial procurement processes
- management processes and controls concerning stockholding and loss levels, with specific attention to the effectiveness of sales promotions
- audit plans of the internal and external auditors, and the approval thereof
- annual assessment of the functioning and independence of the external auditor
- ethics and compliance, including updates to the Company's whistleblower programmes, as well as activities and initiatives relating to detection and prevention of misconduct and irregularities, and risk mitigating measures to protect the Company in these areas
- effectiveness of the capital investment process, the appraisal methodology and the safeguarding of core assets and management actions addressing underperforming stores and impaired assets
- the operating model for the group's Finance function

With respect to the external auditor's management letter about the 2020 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 only approve a related party transaction if it is agreed on competitive terms which are customary in the market and in the best interest of the X5 group of companies.

During the year, the Audit and Risk Committee reviewed and/or approved related party transactions which, by their nature or materiality, could potentially have constituted a conflict of interest for members of the Supervisory Board and Management Board. In 2020, the following related party transactions were of material significance to the Company and/or members of the Management Board or Supervisory Board:

- service agreement with CTF Holdings S.A.
- foreign exchange agreements, bond issues, revolving credit facilities and other bank products with Alfa Bank
- advertising and marketing agreements with Alfa Bank
- payroll service agreement with Alfa Bank
- insurance services from Alfa Insurance (AlfaStrakhovanie)
- lease agreements with Alfa Capital Holdings Limited
- procurement of goods (for resale) from Borjomi Group
- agreements with Home Interior for the lease of retail and warehouse space
- agreements with VimpelCom for the lease of retail space
- telecommunication services provided by VimpelCom
- agreement for development, purchase and maintenance of online cash registers with VimpelCom
- procurement of goods (for resale) from RusBioTrade
- procurement of goods (for resale) from Alidi-Nord

These transactions were discussed and/or approved by the Audit and Risk Committee and the Supervisory Board with due observance of provisions 2.7.3 to 2.7.5 of the Corporate Governance Code, the Related Party Transactions Policy and the Rules of Procedure of the Supervisory Board, which Rules are available on the Company's website. While members of the Supervisory Board who have a conflict of interest in relation to a certain matter do not participate in the Supervisory Board's deliberations and decision-making on such matters, the Supervisory Board assessed that, to the extent that any of the listed transactions constituted a conflict of interest for certain members of the Supervisory Board, such conflict did not undermine the independent judgement of these Board members while performing their duties for X5.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is described in its charter, which is available on the Company's website. On 31 December 2020, the Nomination and Remuneration Committee consisted of Peter Demchenkov (Chairman), Geoff King and Marat Atnashev. In 2020, the Nomination and Remuneration Committee held eight regular meetings and six working group sessions to monitor and discuss the developments of the new long-term incentive programme. Due to travel restrictions in connection with the COVID-19 outbreak, the meetings were held by videoconference. The CEO was invited to attend every meeting, and other members of the Supervisory Board and senior management were invited when necessary or appropriate.

In 2020, the Nomination and Remuneration Committee continued to monitor succession planning, management development and human resource needs in relation to the Company's sustainable growth objectives. The Committee thoroughly reviewed the talent map and organisation structure in support of the ongoing developments driven by digitalisation and new trends.

The Committee reviewed the new operating model proposed as part of the updated, multi-year strategy, with a particular focus on the Group's central leadership and direct reporting structure. As part of its review of the governance and organisation structure, the Committee remained focused on the headcount and cost discipline at the central level, aiming to strike the right balance between the Group's decentralised operating model and the role and size of the Group's corporate centre as a platform for performing unique functions in support of the Company's businesses.

The Committee reviewed the new operating model proposed as part of the updated, multi-year strategy, with a particular focus on the Group's central leadership and direct reporting structure. As part of its review of the governance and organisation structure, the Committee remained focused on the headcount and cost discipline at the central level, aiming to strike the right balance between the Group's decentralised operating model and the role and size of the Group's corporate centre as a platform for performing unique functions in support of the Company's businesses.

The Committee continued to monitor attrition rates and measures to enhance employee engagement, recognising that employees committed to the best and highest in-store service levels are key factors in the Company's customer-centric business approach.

Throughout the year, Committee members discussed the new LTI programme as an extension of the 2018–2020 programme designed to support the strategy adopted by the Supervisory Board. The new LTI programme will be submitted for approval to the 2021 Annual General Meeting of Shareholders.

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

- Annual assessment of the Executive Board and its individual members, and changes in the composition of the Executive Board
- Proposals on fixed and variable remuneration of the members of the Executive Board, including adjustments following the annual remuneration benchmarking analysis
- Updated remuneration review and approval procedures for members of the Executive Board and other senior management
- Amendment of the remuneration policies of both Executive Board and Supervisory Board, in line with the revised EU Shareholders' Rights Directive implemented in the Netherlands in November 2019
- Proposed reappointment of the CEO for an additional two-year term as per the 2021 Annual General Meeting of Shareholders
- Nomination of Marat Atnashev as new Board member to succeed Andrei Elinson at the 2020 Annual General meeting of Shareholders
- Composition, profile and effectiveness of the Supervisory Board in the context of the annual board evaluation and the vacancy resulting from the stepping down of Alexander Torbakhov in July
- Review of X5's Leadership Diversity Policy and diversity levels across the Group
- Performance of the Group's Digital Academy launched in 2019

Details of actual remuneration in 2020 can be found in notes 28 and 29 to the consolidated financial statements.

Innovation and Technology Committee

The role of the Innovation and Technology Committee is described in its charter, which is available on the Company's website. On 31 December 2020, the Innovation and Technology Committee consisted of Nadia Shouraboura (Chairman) and Michael Kuchment. The Innovation and Technology Committee held three meetings in 2020. The CEO was invited to attend every meeting, and other members of the Supervisory Board and senior management were invited when necessary or appropriate.

The Innovation and Technology Committee assists the Supervisory Board in its responsibility to oversee X5's e-commerce activities and initiatives in the area of technical and commercial innovation. In 2020, the Committee reviewed the ongoing development of the Group's digital businesses including Perekrestok Vprok, 5Post and Express Delivery. Throughout the year, the Committee reviewed opportunities to digitalise key functions and processes inside the Company, and discussed and advised management on various innovative in-store and customer data-driven projects. Furthermore, the Committee reviewed the organisation of X5's new Technology Unit as part of the new operating model in support of the Company's strategy for growth and digital transformation.

Independence

The Supervisory Board endorses the principle that the composition of the Supervisory Board shall be such that its members are able to act critically and independently of one another and of the Management and Executive Boards and any particular interests. It is Company policy that a majority of the members of the Supervisory Board must be independent at all times. The majority of the members of the Supervisory Board, which currently consists of eight members, qualifies as independent.

According to best practice provisions 2.1.7 and 2.1.8 of the Dutch Corporate Governance Code, there can only be one Supervisory Board member who can be considered to be affiliated with or representing a shareholder who directly or indirectly holds more than 10% of the shares in the Company.

Supervisory Board members Mikhail Fridman and Marat Atnashev are both affiliated with CTF Holdings S.A., which has a capital interest of 47.86% in X5. Stephan DuCharme, Chairman of the Board, serves as Managing Partner of L1 Retail, part of the LetterOne investment group, which is partially controlled by the ultimate shareholders of CTF Holdings S.A. Therefore, Mikhail Fridman, Marat Atnashev and Stephan DuCharme are not independent in the sense of the Dutch Corporate Governance Code.

Remuneration

The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board in accordance with the remuneration policy for members of the Supervisory Board. The remuneration policy for the Supervisory Board was approved by the 2020 Annual General Meeting of Shareholders. The detailed amounts are reflected in the Remuneration Report on pages 167–175, as well as notes 28 and 29 to the consolidated financial statements.

Financial statements

This Annual Report and the 2020 consolidated financial statements, audited by Ernst & Young Accountants LLP, were presented to the Supervisory Board in the presence of the Management Board and the external auditor. Ernst & Young's report can be found on pages 262–267.

The Supervisory Board recommends that shareholders adopt these financial statements and, as proposed by the Management Board, appropriate an amount of RUB 184.13 per GDR for dividend payments, which includes RUB 73.645 per GDR that was paid as interim dividend on 31 December 2020. The remaining amount of RUB 110.49 per GDR shall be paid to GDR holders within 45 days from the date of the 2021 Annual General Meeting of Shareholders, in accordance with the dividend policy.

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 2020.

The COVID-19 pandemic has had, and is still having, a significant impact on X5's businesses, employees and customers. The Supervisory Board wishes to thank all members of the X5 team for their outstanding service during this crisis. Their agility and dedication have ensured the safety of our stores and distribution centres, sustained the strength of our supply chains and helped nourish families and local communities in 66 regions of Russia. The Board is grateful for the continued efforts of all employees and the results achieved in this challenging year.

The Supervisory Board
18 MARCH 2021

Remuneration Report

Statement from the chairman of the nomination and remuneration commitee

On behalf of the Nomination and Remuneration Committee, I am pleased to present the Remuneration Report 2020, providing a summary of the remuneration policies for the Management Board and the Supervisory Board and an account of the implementation of these policies in 2020.

A turbulent year in review

2020 was a challenging year for X5 as COVID-19 impacted our customers, employees and their families. Their health and safety were key focuses in our oversight, and they continue to be so as the pandemic is ongoing. Meanwhile, like other food retailers around the globe, the Company experienced unprecedented changes in consumer demand with an impressive surge in online sales. Thanks to our strategy of accelerated digitalisation, as well as the engagement and strong execution of our teams, this translated into outstanding results. Against the backdrop of the pandemic, an increasingly competitive environment and challenging macroeconomic conditions, the Company continued to grow in 2020, and maintained profitability margins in line with our strategic targets. Despite severe pressure on top-line growth as consumers avoided visiting large stores and shopping malls during the pandemic, revenue rose by 14.1% year-on-year, while EBITDA margin for FY 2020 was 7.3% under pre-IFRS 16.

During the year we closely monitored the extent to which the pandemic impacted X5's business and financial performance and we discussed the potential impact of the pandemic on remuneration. Meanwhile, we continued to reflect on the remuneration policy for the Executive Board to ensure that it remains aligned to support the strategy and long-term growth of the Company.

The Committee performed its annual remuneration benchmark reviews and evaluated performance measures under the short- and long-term incentive programmes. Applying like-for-like sales, return on investment, net promotor score and staff turnover as key strategic imperatives to the short-term incentive programme in 2020, and sustained leadership in revenue and enterprise value multiples to the long-term incentive programme, we feel that our performance measures for the Executive Board adequately contribute to the Company's success in the short term, while also securing long-term sustainable leadership in customer, employee and shareholder recognition.

With the three-year cycle of the 2018-2020 long-term incentive programme coming to an end, the Committee extensively discussed the extension of this programme for the next cycle. The new programme is designed to support the Company's goal of strengthening its leadership by enterprise value multiples and market share, while focusing on revenue as well as margins to increase profitability and prudently managing capital spending and expenses. In addition, as the Company integrated sustainable development goals in its overall business strategy, the proposed LTI programme includes ESG targets supporting the Company's sustainability strategy. We will describe the new LTI programme in more detail in the revised remuneration policy that will be submitted to the 2021 Annual General Meeting of Shareholders.

Early in the year, we finalised the review of remuneration policies for the Management Board and Supervisory Board, introducing adjustments to create more transparency and to better reflect how these policies support the strategy of sustainable long-term value creation for all stakeholders. In preparing these policies, the Supervisory Board took into account the external environment in which X5 operates, the relevant provisions of the Dutch Corporate Governance Code, competitive market practice as well as input from X5's major shareholders. The adjusted remuneration policies were adopted by the Annual General Meeting of Shareholders in May 2020. At the same meeting, the remuneration report for the financial year 2019 was submitted for an advisory vote. The voting results and shareholder feedback on specific topics were taken into account in this remuneration report, which will be submitted to the 2021 Annual General Meeting of Shareholders for an advisory vote in line with Dutch law.

At the 2021 Annual General Meeting of Shareholders, the Supervisory Board will propose the re-appointment of Stephan DuCharme and Mikhail Fridman for another term of two and three years, respectively. Also, as announced in September 2020, we will propose the re-appointment of Igor Shekhterman as CEO and member of the Management Board for another two-year term. The individual remuneration package for Igor will be detailed in the AGM convocation that will be released in March.

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 serves as a basis for the remuneration policy for the Executive Board. In view of the relative size and composition of both boards, this Remuneration Report refers to the Executive Board unless specific provisions apply to members of the Management Board only, which will be clearly indicated. While developing the remuneration policy, the Nomination and Remuneration Committee conducted scenario analyses to determine the risks to which variable remuneration may expose the Company.

Objectives

The remuneration policy of the Management Board is aligned with the Company's strategy and supports the long-term development of the Company, while aiming to be effective, transparent and simple. The objective of the remuneration policy is twofold:

- to create a remuneration structure that supports a healthy corporate culture and allows the Company to attract, reward and retain the best-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, that is aligned with the long-term strategy of the Company and that will foster alignment of the interests of management with those of shareholders and other stakeholders, including customers, employees and wider society

Remuneration in context

The table below reflects the total remuneration of each member 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.

	2016	2017	2018	2019	2020
Company performance					
Revenue, RUB bln	1,034	1,295	1,533	1,734	1,978
Selling space, ths sqm	4,302	5,480	6,464	7,239	7,840
Number of stores	9,187	12,121	14,431	16,297	17,707
Net profit (pre-IFRS 16), RUB bln	22	31	29	26	39
Share price, $ eop	32.5	37.8	24.8	34.5	36.1
Management board remuneration (RUB,mln)					
I. Shekhterman	455	344	347	259	275
F. Lhoëst	36	28	33	35	44
Q. Peer	-	-	-	10	38
Average employees' remuneration , RUB	665,257	659,344	701,192	754,990	782,079
Internal pay ratio (CEO vs. employee remuneration)*	**195**	**174**	**209**	**211**	**198**

* The pay ratio is calculated by dividing the total remuneration of the CEO (base salary and short-term incentive) by the average remuneration of all X5 employees. Given the irregular nature of awards under the LTI programme, LTI awards are not included in the pay ratio for fair and consistent presentation purposes. The average remuneration per employee is calculated as the total labour costs derived from note 28 on pages 228–232 divided by the number of employees on an FTE basis.

Internal pay ratio

As is commonly understood, pay ratios are specific to the company's industry, geographical footprint and organisational model. As a major food retail company, the relatively small number of executive staff vs. operational staff in stores and warehouses across seven federal districts in Russia adds to the variety of pay within the Company and substantially differentiates the average employee compensation with 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 of all other employees.

Benchmarking

The remuneration of Executive Board members is 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, as well as international, non-Russian retail companies.

In total, the reference group is composed of 39 companies in various sectors including:

- retail — 20%
- financial — 26%
- industrial — 23%
- digital and telecommunications — 23%
- transportation and logistics — 8%

Although external market data provide useful context, it is ultimately the responsibility of the Supervisory Board to determine 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 for Management and Executive Board members is set between the 50th and the 75th percentile.

Summary of remuneration elements and implementation in 2020

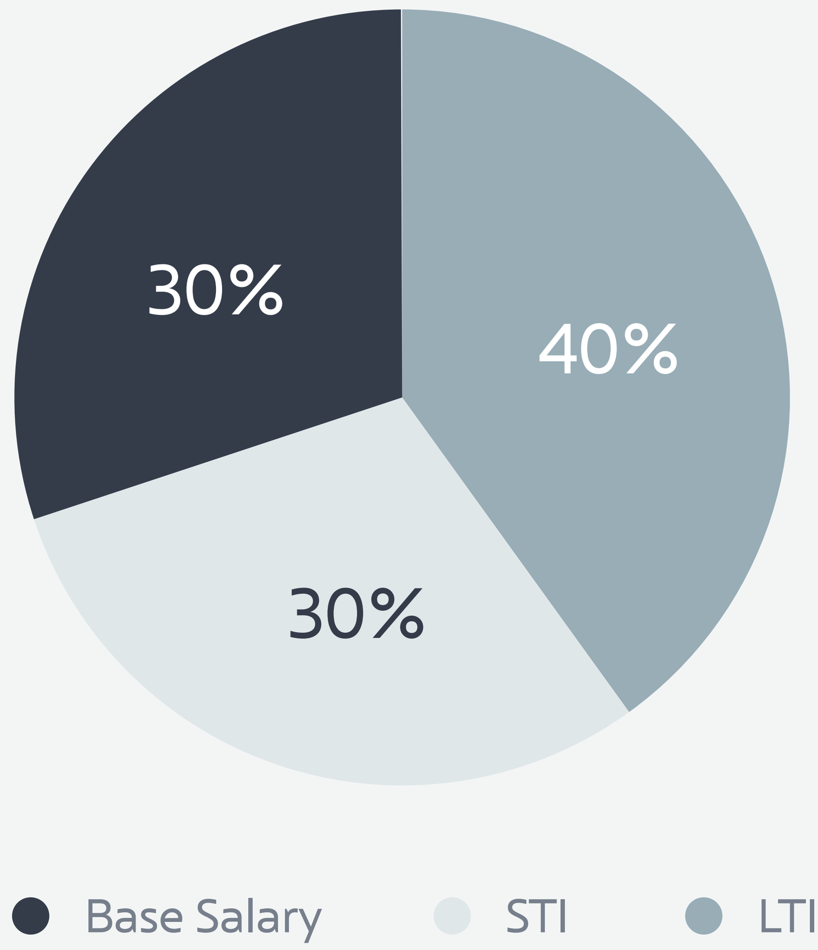
ROLE	POLICY SUMMARY	STRATEGIC ROLE	APPLICATION IN 2020 SUMMARY
BASE SALARY	• Base salaries are in line with compensation levels in peer group companies based on the salary benchmarking survey conducted annually	• Attract and retain the best-qualified talent • Reward performance of day-to-day activities	• Igor Shekhterman RUB 68,833,333[1] • Frank Lhoëst EUR 315,000 • Quinten Peer EUR 275,000
Short-Term Incentive	• Annual cash bonus • Target payout CEO: 100% • Target payout Management Board members based in the Netherlands: 60% • Maximum level: 140% 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	• Create focus on short-term goals • Align work with the overall success of the Company during a specific year • Align Management Board with shareholder interest	• Igor Shekhterman: Group targets: 100% • LFL sales 25% • ROI 25% • NPS 25% • Staff turnover: 25% Actual payout: 85.3% of base salary • Frank Lhoëst: Group targets: 50% • LFL sales 12.5% • ROI 12.5% • NPS 12.5% • Staff turnover: 12.5% Individual targets: 25% Divisional targets: 25% Actual payout: 61.08% of base salary • Quinten Peer: Group targets: 50% • LFL sales 12.5% • ROI 12.5% • NPS 12.5% • Staff turnover: 12.5% Individual targets: 25% Divisional targets: 25% Actual payout: 61.08% of base salary
Long-Term Incentive	• Cash incentive programme over a three-year period from 1 January 2018 until 31 December 2020, with an extension component of deferred, conditional payouts • Payout thresholds: EBITDA margin and net debt/EBITDA ratio to ensure business efficiency and retain focus on prudent financial and balance sheet management • 50% of the total award is paid in 2021 subject to maintaining achieved targets by the end of 2020, while the other 50% is deferred to 2022 with a profitability threshold as a condition for deferred payout. The second part is increased by the size of the average deposit rate of Sberbank	• Align the long-term interests of shareholders and management, with a focus on maintaining leadership in terms of revenue and enterprise value multiple relative to competition • Effective mechanism for motivating and retaining members of management who are critical to the ongoing success of the Company • Enhanced focus on sustainability and strategic objectives that contribute to long-term value creation for the Company	• Igor Shekhterman: Targets • Revenue • Enterprise value / EBITDA multiple Actual payout: RUB 155,000,000 Deferred payout: RUB 155,000,000 • Frank Lhoëst: N/A • Quinten Peer: N/A

1. Due to the COVID-19 pandemic, the Executive Board decided to deduct 20% of their base salary in May to support X5 employees most affected by the pandemic. The contractual annual base salary for Igor Shekhterman is RUB 70,000,000.

Elements of remuneration

The remuneration provided to Executive Board members consists of the following fixed and variable components (the "Total Direct Compensation"): a base salary, an annual 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.

The Executive Board's Total Direct Compensation is equally balanced between the fixed and annual variable remuneration components, and more heavily weighted on the LTI to strengthen the focus on long-term goals. The ratio between fixed and variable pay components for members of the Executive Board is as follows in case of on-target performance:



In addition to the Total Direct Compensation, members of the Executive Board are entitled to other benefits as described below under "Other remuneration components" and "Contractual arrangements".

2020 Management Board remuneration

The following table provides an overview of the Management Board's remuneration in 2020 (in millions of Russian roubles).

NAME	YEAR	BASE SALARY*	SHORT TERM INCENTIVE**	LONG TERM INCENTIVE***	SOCIAL SECURITY COST****	FIXED VS. VARIABLE REMUNERATION	TOTAL
I. Shekhterman	2020	74	59	108	34	31%-69%	275
	2019	76	53	97	33	34%-66%	259
F. Lhoëst	2020	27	17	-	-	61%-39%	44
	2019	22	13	-	-	63%-37%	35
Q. Peer	2020	23	15	-	-	61%-39%	38
	2019	6	4	-	-	60%-40%	10
Total	**2020**	**124**	**91**	**108**	**34**		**357**
	2019	**104**	**70**	**97**	**33**		**304**

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 in peer group companies based on the salary benchmarking survey conducted annually.

For Igor Shekhterman, the total remuneration in the table includes remuneration paid in the Netherlands and Russia: as a Russia-based member of the Management Board, Igor Shekhterman also has a contract of employment with an operational subsidiary in Russia. Under this contract, 75% of his total base salary as well as variable remuneration components are paid in Russia. No other remuneration has been granted or allocated by subsidiaries or other companies whose financials are consolidated by the Company to members of the Management Board.

In 2020 the total contractual annual base salary for Igor Shekhterman is RUB 70,000,000. The table reflects the adjustments made in relation to the COVID-19 pandemic, whereby the Executive Board decided to deduct 20% of their base salary in May to support X5 employees most affected by the pandemic. Furthermore the base salary is adjusted based on number of days spent on vacation, in accordance with Russian labour law. The amount also includes other fixed benefits not exceeding 2% of Igor's total contractual annual base salary.

The base salaries of Frank Lhoëst and Quinten Peer are set at, respectively, EUR 315,000 and EUR 275,000.

Ad 2
Short-term incentive (STI)

The short-term incentive is an annual cash bonus ensuring focus on the delivery of performance targets over the financial year. It drives behaviour and reflects the key priorities for the year.

Performance measures are aligned with the Company's strategic objective to deliver sustainable value to shareholders and other stakeholders, and include both financial and non-financial measures at group level, as well as divisional and individual measures. At the beginning of each financial year, the Supervisory Board sets performance thresholds as key conditions for STI payout and 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.

Ad 2
Short-term incentive (STI)

Financial performance measures comprise components related to the Company's operational performance, as defined by sales growth and return on investment (ROI). Revenue and profitability targets serve as thresholds. 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 for key strategic imperatives that reflect and support the Company's strategic objectives. For 2020, non-financial performance measures are a mix of quantitative and qualitative measures that reflect and support the Company's strategic goals, and include staff turnover as a measure to stay focused on staff engagement, as well as net promotor score (NPS) as a qualitative strategic imperative to achieve leadership in customer recognition. Both financial and non-financial performance measures contribute to the Company's success in the short term, while also securing the long-term objectives of the Company. X5 does not disclose the actual targets per performance measure, as this is considered commercially sensitive information.

For each performance measure a 80% threshold and 100% target performance level is set as percentage of target payout. In the event of above-target performance, the maximum payout level is 140% 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. The target payout as a percentage of base salary is 100% for the CEO and other members of the Executive Board and 60% for Management Board members based in the Netherlands, contingent on the targets being fully achieved.

For the reporting year 2020 the achievement of performance targets was assessed and determined by the Supervisory Board for each Management Board member individually. The revenue and profitability thresholds as a condition for payout were met, and the achievement levels of financial performance targets were as follows: like-for-like sales, 72%; and ROI, 110.6%. The achievement levels of NPS and staff turnover (non-financial targets) were, respectively, 82.1% and 146.7%. Performance targets like-for-like sales and NPS were achieved below target thresholds; taking into consideration the exceptional impact of COVID-19 on these specific performance measures and the Company's overall performance in 2020, the Supervisory Board decided to apply its discretionary authority under the remuneration policy to increase the payout with 20% of target payout.

For Igor Shekhterman the STI opportunities are weighted 100% based on the group financial and non-financial performance measures, each measure having a weight of 25%. Due to the achievement of like-for-like sales and NPS performance targets below threshold level, and taking into account 121.2% and 140% payout for ROI and staff turnover respectively, this leads to a payout level of 65.3% of the target payout (or base salary) for Igor Shekhterman. Taking into account the discretionary adjustment applied by the Supervisory Board this results in a total payout of 85.3% of target payout (or base salary) for Igor Shekhterman.

For Frank Lhoest and Quinten Peer, the STI targets are weighted at 50% for the group financial and non-financial performance measures, 25% for division-related targets and 25% for individual, function–related performance measures, also with revenue and profitability thresholds as a condition for STI payout. Division-related targets achievement resulted in a weight-adjusted payout of 35.0% of target payout, and individual targets achievement resulted in a weight-adjusted payout of 27.5% of target payout. The achievement of group financial and non-financial performance measures resulted in a weight-adjusted payout amount of 39.3% of target payout, which results in an aggregate cash payout of 101.8% of target payout, or 61.1% of base salary for both Frank Lhoest and Quinten Peer.

Ad 3
Long-term incentive (LTI)

The CEO and other members of the Executive Board participate in the Company's long-term incentive programme. Under the LTI programme, performance is calculated and cash awards are paid after a revolving three-year performance period, with a 50% deferred payout subject to maintaining achieved targets in the fourth year, with a profitability threshold as a condition for deferred payout. This creates a focus on long-term goals throughout the programme and provides an effective mechanism for motivating and retaining members of management who are critical to the ongoing success of the Company.

Targets under the LTI programme are structured to align the long-term interests of shareholders and management, with a focus on maintaining leadership in terms of revenue and enterprise value multiple relative to the competition. Additionally, the LTI programme includes thresholds relating to the EBITDA margin and the net debt/EBITDA ratio to retain focus on business efficiency and prudent financial and balance sheet management.

Under the programme, 50% of the total award is paid in 2021 subject to maintaining achieved targets until the end of 2020, while the other 50% is deferred to 2022 with a profitability threshold as a condition for deferred payout. X5 does not disclose the actual targets per performance measure, as this is considered commercially sensitive information.

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 to meeting the LTI targets at both individual and team level, with an on-target payout level of 133% per year of the participant's base salary during the three-year programme.

Members of the Management Board based in the Netherlands do not participate in the LTI programme.

For the CEO, the long-term incentive amount in 2020 represents an accrual-based amount in line with IFRS requirements (see note 28 "Staff costs" on pages 228–232). On 31 December 2020 the 2018-2020 LTI programme came to an end, with targets and thresholds achieved. In recognition of exceptional results and efforts during the period, the LTI reward includes an additional one-off amount of RUB 30,000,000 awarded by discretion of the Supervisory Board. This additional reward represents a deviation from the remuneration policy and results in an increased weight of the LTI in the Total Direct Compensation.

The following table reflects the LTI performance and payout for the CEO (in millions of Russian roubles):

	Perfomance measure	Weight	Target payout %	Achievement	Actual bonus (CEO)	50% actual payout in 2021	50% deferred payout in 2022[1]
LTI 2018-2020	Revenue	50%	100%	100%	155	77.5	77.5
	EV/EBITDA multiple	50%	100%	100%	155	77.5	77.5

Ad 4
Social security cost

For the year ended 31 December 2020 the social security costs include statutory pension contributions in the amount of RUB 28.024 mln (2019: RUB 24.253 mln).

1. Subject to achievement of EBITDA threshold throughout 2021

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. The Company's 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, as a Russia-based member of the Management Board, also has a contract of employment with an operational subsidiary in Russia. The fixed and variable salary components stipulated in each contract reflect the relevant responsibilities of the CEO in the Netherlands and in Russia.

The severance payment is generally limited to six months' base salary; however, the Supervisory Board may increase this to a maximum of one year's base salary if required under individual circumstances. For the CEO and other members of the Executive Board, the severance pay is structured as a non-competition reward payable in quarterly instalments following contract termination, subject to compliance with non-competition conditions. The non-competition period for the CEO is 12 months, and six months for other Executive Board members. In case of breach of the non-competition obligations, the contract provides for a penalty in the amount of two annual base salaries for the CEO and one annual base salary for other Executive Board members. No severance pay will be awarded if the agreement is terminated at the initiative of the Management or Executive Board member, or in the event of seriously culpable or negligent behaviour on his/her part.

Agreements with members of the Management Board may be terminated by either party with a notice period of two months or, in case of the CEO, three months.

Legacy arrangements

As disclosed when Mr Shekhterman took office in 2015, he is entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, Mr Shekhterman will be entitled to the difference upon completion of his full term as CEO. Furthermore, Mr Shekhterman is eligible to a termination compensation of up to USD 5,000,000 at the discretion of the Supervisory Board, repayable in case of breach of the non-competition obligations as described herein under “Contractual arrangements”.

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 the conditions of the bonus. Furthermore, the Supervisory Board has the discretionary authority to adjust an unpaid bonus to an appropriate amount if payment of the bonus is considered unreasonable or unfair.

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 fulfil all stakeholders' requirements.

The level and structure of remuneration for members of the Supervisory Board is periodically benchmarked against a reference group of Dutch and other European companies that are comparable in size and complexity, as well as leading Russian and international retailers. In order to attract the most talented individuals with the necessary experience, knowledge and ability, the allowances for members of the Supervisory Board are set between the 50th and the 75th percentile. For the current Supervisory Board fees, the peer group consists of 33 mostly non-Russian international companies in various retail sectors, i.e. food retail and wholesale (61%), drug retail (9%), specialty retail and other types of retail (30%).

The Company acknowledges that the awarding of shares to members of the Supervisory Board constitutes a deviation from the Dutch Corporate Governance Code. However, in addition to the cash allowance, X5 believes it is necessary to compensate members of the Supervisory Board in the form of equity to align the interests of Supervisory Board members with the long-term interests of shareholders and strengthen their commitment to the future of the Company. The equity-based awards paid to members of the Supervisory Board are computed 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 Supervisory Board members chairing a committee, X5 believes that the level and structure of the remuneration of the Supervisory Board members safeguard their independence of judgment and thought, and adequately reflect the time spent and the responsibilities of their role.

2020 Supervisory Board remuneration

In 2020, the remuneration policy for members of the Supervisory Board was applied.

The following table provides an overview of the Supervisory Board's remuneration that became unconditional in 2020 or at year end (in millions of Russian roubles).

		Base remuneration		Share-based compensation		Total remuneration	
Name	Position	2020	2019	2020	2019	2020	2019
Stephan Ducharme	Chairman	21	19	20	21	41	40
Andrei Elinson [2]		-	-	-	-	-	-
Mikhail Fridman [1]		-	-	-	-	-	-
Geoff King	Chairman Audit and Risk Committee	21	18	13	18	34	36
Peter Demchenkov	Chairman Nomination and Remuneration Committee	22	17	13	14	35	31
Michael Kuchment		10	8	6	7	16	15
Karl-Heinz Holland		8	7	5	4	13	11
Nadia Shouraboura	Chairman Innovation and Technology Committee	12	8	6	4	18	12
Alexander Torbakhov [3]		8	14	(3)	3	5	17
Marat Atnashev [4]		-	-	-	-	-	-

1. Mikhail Fridman, Andrei Elinson and Marat Atnashev, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.
2. Andrei Elinson stepped down as of 12 May 2020.
3. Alexander Torbakhov stepped down as of 3 July 2020.
4. Marat Atnashev was appointed on 12 May 2020.

Ad 1
Base remuneration

In 2020, the General Meeting of Shareholders approved the remuneration policy for the Supervisory Board. 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

In accordance with the remuneration policy, Supervisory Board members Stephan DuCharme, Peter Demchenkov, Geoff King, Michael Kuchment, Karl-Heinz Holland, Nadia Shouraboura and Alexander Torbakhov were awarded a number of RSUs equal to 100% of their gross annual cash allowance in 2020 divided by USD 29.82, the average market value of one GDR as of 20 May 2020, the award date.[1] The RSUs awarded in 2020 will vest in 2023, followed by a lock-in period ending in 2025.

Following the resignation of Alexander Torbakhov, the RSU Plan rules on forfeiture and accelerated vesting of RSUs, and accelerated release of GDRs, were applied as described in Note 6 to the table below.

Ad 2
Share-based compensation

The share-based compensation reflects the accrued amounts related to the Restricted Stock Unit Plan (see table below). Each remunerated Supervisory Board member is entitled to an annual equity award in the form of restricted stock units (RSUs), for an award value equal to his/her annual cash allowance.

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.

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

	Tranche	RSUs awarded in 2016	RSUs awarded in 2017	RSUs awarded in 2018[4]	RSUs awarded in 2019[5]	RSUs awarded in 2020	Year of vesting	RSUs vested	Value on vesting date[2]	Vested GDRs after tax	GDRs locked up as per 31/12/2020[3]	End of lock-up period	RSUs outstanding as per 31/12/2020	RSUs outstanding as per 31/12/2019
S. DuCharme	7	25,703					2019	25,703	53	13,257	13,257	2021		
	8		9,631				2020	9,631	21	9,631	9,631	2022		9,631
	9			9,977			2021					2023	9,977	9,977
	10				9,722		2022					2024	9,722	9,722
	11					9,335	2023					2025	9,335	
G. King	7	14,280					2019	14,280	29	9,449	9,449	2021		
	8		8,026				2020	8,026	18	5,433	5,433	2022		8,026
	9			9,977			2021					2023	9,977	9,977
	10				9,373		2022					2024	9,373	9,373
	11					9,211	2023					2025	9,211	
P. Demchenkov	7	5,712					2019	5,712	12	3,779	3,779	2021		
	8		5,618				2020	5,618	12	3,803	3,803	2022		5,618
	9			7,982			2021					2023	7,982	7,982
	10				8,942		2022					2024	8,942	8,942
	11					9,800	2023					2025	9,800	
M. Kuchment	7	5,712					2019	5,712	12	3,779	3,779	2021		
	8		3,210				2020	3,210	7	2,173	2,173	2022		3,210
	9			3,991			2021					2023	3,991	3,991
	10				4,099		2022					2024	4,099	4,099
	11					4,274	2023					2025	4,274	
K.-H. Holland	9			1,995			2021					2023	1,995	1,995
	10				3,749		2022					2024	3,749	3,749
	11					3,684	2023					2025	3,684	
N. Shouraboura	9			1,995			2021					2023	1,995	1,995
	10				4,099		2022					2024	4,099	4,099
	11					4,274	2023					2025	4,274	
A. Torbakhov[6]	10				7,365		2022	2,455	6	1,604		2024		7,365
	11					7,958	2023					2025		

1. Under the rules of the RSU Plan, the average market value is defined as the volume-weighted average price of a GDR over the 30 calendar days immediately preceding 19 May 2021. The volume-weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange.
2. The vesting date is 19 May of each respective year of vesting. If 19 May falls in a weekend, the vesting date is the immediately following business day (in 2018: 21 May; in 2019: 20 May).
3. The number of GDRs held during the lock-up period is equal to the number of vested RSUs minus GDRs sold to cover taxes, if any.
4. 2018 RSUs for Karl-Heinz Holland and Nadia Shouraboura were effectively awarded in 2019, as both were appointed as Supervisory Board members after the award date in 2018. The awards were based on a 6/12 pro rata factor.
5. For Alexander Torbakhov, a pro rata factor of 11/12 was applied for the 2019 RSU award, in view of his nomination on 25 January 2019.
6. Alexander Torbakhov stepped down from the Supervisory Board on 3 July 2020. As per the RSU Plan rules, 7,958 RSUs awarded under tranche 11 were forfeited and 4,910 RSUs awarded under tranche 10 were forfeited as of 3 July 2020, and consequently a total of 2,455 RSUs were awarded under tranche 10 vested in 2020. After tax, Mr. Torbakhov was entitled to immediate release of 1,604 GDRs relating to awards under tranches 10 and 11.

Other policy information and contract terms

Other items

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 Articles of Association of the Company. No clawback or change in control arrangements are in place for Supervisory Board members.

Legacy arrangements

Mr King was appointed as member of the Supervisory Board by the General Meeting of Shareholders on 7 May 2015 and, as of the same date, he was appointed by the Board as Chairman of both the Audit and Risk Committee and the Related Party Committee, with an annual base fee of EUR 250,000. In December 2019, the Board resolved to dissolve the Related Party Committee as of 1 January 2020, integrating its responsibilities into the overall remit of the Audit and Risk Committee. In view of the additional tasks assumed by Mr King as Chairman of the Audit and Risk Committee, and his membership of the Nomination and Remuneration Committee as of 18 March 2020, Mr King's annual fee remained unchanged. 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).

	2016	2017	2018	2019	2020
Stephan DuCharme	42	34	39	40	41
Mikhail Fridman[1]	-	-	-	-	-
Geoff King	36	34	35	36	34
Peter Demchenkov	11	20	24	31	35
Michael Kuchment	9	24	13	15	16
Andrei Elinson[1,2]	-	-	-	-	-
Karl-Heinz Holland	-	-	4	11	13
Nadia Shouraboura	-	-	4	12	18
Alexander Torbakhov[3]	-	-	-	17	5
Marat Atnashev[1,4]	-	-	-	-	-

1. Mikhail Fridman, Andrei Elinson and Marat Atnashev, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.
2. Andrei Elinson stepped down as of 12 May 2020.
3. Alexander Torbakhov stepped down as of 3 July 2020.
4. Marat Atnashev was appointed by the General Meeting of Shareholders on 12 May 2020.

Other information

Total remuneration

The annual remuneration for Management Board and Supervisory Board members during 2020 amounts to RUB 519 mln (2019: RUB 466 mln).

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 2020, and no variable remuneration was clawed back.

Shareholder voting

This Remuneration Report will be submitted to the 2021 Annual General Meeting of Shareholders for an advisory vote in line with Dutch law.

The Supervisory Board
18 MARCH 2021

03. Financial Statements

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X5 Retail Group N.V.

Consolidated Statement of Financial Position

at 31 December 2020

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
Assets			
Non-current assets			
Property, plant and equipment	10	322,707	315,257
Right-of-use assets	11	480,511	428,166
Investment properties	12	4,502	5,564
Goodwill	13	104,890	101,927
Other intangible assets	14	30,757	24,338
Investments in associates and joint ventures		–	200
Other non-current assets		3,120	2,646
Deferred tax assets	30	20,458	16,478
		966,945	**894,576**
Current assets			
Inventories	15	144,393	127,462
Indemnification asset	7	171	140
Trade, other accounts receivable and prepayments	17	19,277	15,853
Current income tax receivable		12,119	5,631
VAT and other taxes receivable	18	10,316	12,066
Cash and cash equivalents	9	20,008	18,602
		206,284	**179,754**
TOTAL ASSETS		**1,173,229**	**1,074,330**

	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	22	2,458	2,458
Share premium		46,086	46,150
Retained earnings		46,194	67,843
Share-based payment reserve	29	104	105
		94,842	**116,556**
TOTAL EQUITY		**94,842**	**116,556**
Non-current liabilities			
Long-term borrowings	21	184,921	153,178
Long-term lease liabilities	11	480,059	427,173
Deferred tax liabilities	30	2,769	5,501
Other non-current liabilities		1,954	3,349
		669,703	**589,201**
Current liabilities			
Trade accounts payable		170,909	160,434
Short-term borrowings	21	77,026	74,755
Interest accrued		1,380	1,734
Short-term lease liabilities	11	68,442	57,622
Short-term contract liabilities	20	2,198	2,206
Current income tax payable		2,753	750
Provisions and other liabilities	19	85,976	71,072
		408,684	**368,573**
TOTAL LIABILITIES		**1,078,387**	**957,774**
TOTAL EQUITY AND LIABILITIES		**1,173,229**	**1,074,330**

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
18 March 2021

Svetlana Demyashkevich
CHIEF FINANCIAL OFFICER
18 March 2021

X5 Retail Group N.V.

Consolidated Statement of Profit or Loss

for the year ended 31 December 2020

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	NOTE	2020	2019
Revenue	24	1,978,026	1,734,347
Cost of sales	25	(1,483,406)	(1,301,868)
Gross profit		**494,620**	**432,479**
Selling, general and administrative expenses	25	(406,389)	(356,890)
Net impairment losses on financial assets	17	(251)	(215)
Lease/sublease and other income	26	17,737	14,024
Operating profit		**105,717**	**89,398**
Finance costs	27	(56,686)	(56,957)
Finance income	27	50	54
Share of loss of associates and joint ventures		(20)	–
Net foreign exchange (loss)/gain		(3,391)	2,203
Profit before tax		**45,670**	**34,698**
Income tax expense	30	(17,326)	(15,191)
Profit for the year		**28,344**	**19,507**
Profit for the year attributable to:			
Equity holders of the parent		28,344	19,507
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	417.54	287.33
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	417.52	287.33

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
18 March 2021

Svetlana Demyashkevich
CHIEF FINANCIAL OFFICER
18 March 2021

X5 Retail Group N.V.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	2020	2019
Profit for the year	28,344	19,507
Total comprehensive income for the year, net of tax	**28,344**	**19,507**
Total comprehensive income for the year attributable to:		
Equity holders of the parent	28,344	19,507

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
18 March 2021

Svetlana Demyashkevich
CHIEF FINANCIAL OFFICER
18 March 2021

X5 Retail Group N.V.

Consolidated Statement of Cash Flows

for the year ended 31 December 2020

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	NOTE	2020	2019
Profit before tax		**45,670**	**34,698**
Adjustments for:			
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment properties and intangible assets	25	137,905	122,085
Gain on disposal of property plant and equipment, investment properties and intangible assets and gain on derecognition of right-of-use assets		(3,705)	(1,470)
Finance costs, net	27	56,636	56,903
Net impairment losses on financial assets	17	251	215
Impairment of prepayments	17	237	134
Share-based compensation expense	29	60	63
Net foreign exchange loss/(gain)		3,391	(2,203)
Share of loss of associates and joint ventures		20	–
Other non-cash items		336	1,225
Net cash from operating activities before changes in working capital		**240,801**	**211,650**
Increase in trade, other accounts receivable and prepayments and VAT and other taxes receivable		(2,119)	(5,938)
Increase in inventories		(16,931)	(11,472)
Increase in trade payable		10,491	5,604
Increase in other accounts payable and contract liabilities		10,806	1,157
Net cash flows from operations		**243,048**	**201,001**
Interest paid		(55,461)	(55,664)
Interest received		44	48
Income tax paid		(28,071)	(14,922)
Net cash flows from operating activities		**159,560**	**130,463**

	NOTE	2020	2019
Cash flows from investing activities			
Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets		(73,427)	(64,222)
Acquisition of businesses, net of cash acquired	7	(3,138)	(8,426)
Proceeds from disposal of property, plant and equipment, investment properties and intangible assets		4,365	784
Purchase of other intangible assets		(12,084)	(9,290)
Acquisition of interest in associates and joint ventures		(150)	–
Proceeds from sale of interest in associates and joint ventures		120	3
Net cash flows used in investing activities		**(84,314)**	**(81,151)**
Cash flows from financing activities			
Proceeds from loans	21	203,046	97,540
Repayment of loans	21	(169,175)	(77,502)
Purchase of treasury shares		(126)	(118)
Payments of principal portion of lease liabilities	11	(57,557)	(50,059)
Dividends paid to equity holders of the parent	22	(49,993)	(25,000)
Net cash flows used in financing activities		**(73,805)**	**(55,139)**
Effect of exchange rate changes on cash and cash equivalents		(35)	61
Net increase/(decrease) in cash and cash equivalents		**1,406**	**(5,766)**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	9	18,602	24,368
Net increase/(decrease) in cash and cash equivalents		1,406	(5,766)
Cash and cash equivalents at the end of the year	9	**20,008**	**18,602**

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
18 March 2021

Svetlana Demyashkevich
CHIEF FINANCIAL OFFICER
18 March 2021

X5 Retail Group N.V.

Consolidated Statement of Changes In Equity

for the year ended 31 December 2020

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
	NUMBER OF SHARES	SHARE CAPITAL	SHARE PREMIUM	SHARE-BASED PAYMENT RESERVE	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY	TOTAL
Balance as at 1 January 2019	67,890,099	2,458	46,192	118	73,336	122,104	122,104
Profit for the period	–	–	–	–	19,507	19,507	19,507
Total comprehensive income for the period	–	–	–	–	19,507	19,507	19,507
Acquisition of treasury shares	(11,719)	–	(75)	–	–	(75)	(75)
Dividends (Note 22)	–	–	–	–	(25,000)	(25,000)	(25,000)
Share-based payment compensation (Note 29)	–	–	–	63	–	63	63
Transfer and waiving of vested equity rights (Note 29)	11,674	–	33	(76)	–	(43)	(43)
Balance as at 31 December 2019	67,890,054	2,458	46,150	105	67,843	116,556	116,556
Balance as at 1 January 2020	67,890,054	2,458	46,150	105	67,843	116,556	116,556
Profit for the period	–	–	–	–	28,344	28,344	28,344
Total comprehensive income for the period	–	–	–	–	28,344	28,344	28,344
Acquisition of treasury shares	(12,870)	–	(107)	–	–	(107)	(107)
Dividends (Note 22)	–	–	–	–	(49,993)	(49,993)	(49,993)
Share-based payment compensation (Note 29)	–	–	–	60	–	60	60
Transfer and waiving of vested equity rights (Note 29)	5,260	–	43	(61)	–	(18)	(18)
Balance as at 31 December 2020	67,882,444	2,458	46,086	104	46,194	94,842	94,842

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
18 March 2021

Svetlana Demyashkevich
CHIEF FINANCIAL OFFICER
18 March 2021

FOR THE YEAR ENDED 31 DECEMBER 2020
(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 2020 the Group operated a retail chain of 17,707 proximity stores, supermarket, hypermarket, hard discounter and online hypermarket stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Chizhik" and "Perekrestok Vprok" (each representing separate format) in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg (31 December 2019: 16,297 proximity stores, supermarket, hypermarket and online hypermarket stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Vprok"), with the number of stores as presented in the table.

As at 31 December 2020 and 31 December 2019 the principal shareholder exerting significant influence over the Company was CTF Holdings S.A. ("CTF"). As at 31 December 2020 CTF directly owned 47.86% of total issued shares in the Company (31 December 2019: indirectly through Luxaro Retail Holding S.a.r.l.). As at 31 December 2020 and 31 December 2019 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).

	31 DECEMBER 2020	31 DECEMBER 2019
"Perekrestok" – Supermarket		
Central FD	519	500
Volga FD	144	128
North-Western FD	129	115
Ural FD	75	48
Southern FD	56	49
Northern Caucasus	10	8
TOTAL	**933**	**848**
"Pyaterochka" – Proximity stores		
Central FD	6,147	5,759
Volga FD	4,462	4,153
North-Western FD	1,772	1,703
Ural FD	1,459	1,306
Southern FD	1,660	1,447
Siberian FD	886	702
Northern Caucasus	323	284
TOTAL	**16,709**	**15,354**

	31 DECEMBER 2020	31 DECEMBER 2019
"Karusel" – Hypermarket		
Central FD	30	39
Volga FD	14	25
North-Western FD	8	17
Ural FD	1	4
Southern FD	2	5
Northern Caucasus	1	1
TOTAL	**56**	**91**
"Perekrestok Vprok" – Online hypermarket		
Central FD	3	3
Volga FD	1	–
North-Western FD	1	1
TOTAL	**5**	**4**
"Chizhik" – Hard discounter		
Central FD	4	–
TOTAL	**4**	**–**
TOTAL STORES	**17,707**	**16,297**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020
(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

2

Summary of significant accounting policies

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

2.1 Basis of preparation

These consolidated financial statements for the year ended 31 December 2020 have been prepared in accordance with and comply with International Financial Reporting Standards as adopted by the European Union and with Part 9 Book 2 of the Dutch Civil Code.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities (including derivative instruments) that have been measured at fair value. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3. Management prepared these consolidated financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations, access to financial resources (Note 31) and the potential impact of COVID-19. On 18 March 2021 the Management Board authorised the consolidated financial statements for issue. Publication is on 19 March 2021.

2.2 Basis of consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (1) has power to direct relevant activities of the investees that significantly affect their returns, (2) has exposure, or rights, to variable returns from its involvement with the investees, and (3) 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.

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES,
UNLESS OTHERWISE STATED)

2 Summary of significant accounting policies

2.2 Basis of consolidation (continued)

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

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

2.3 Foreign currency translation and transactions

a Functional and presentation currency

The functional currency of the Group's entities is the national currency of the Russian Federation, the Russian Rouble ("RUB"). The presentation currency of the Group is the Russian Rouble ("RUB"), which management believes is the most useful currency to adopt for users of these consolidated financial statements.

b Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the Central Bank of Russian Federation ("CBRF") at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items.

2.4 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Management Board. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Group identifies retail chains of each format (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2.5 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.

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

Land and assets under construction are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Buildings are divided into foundation and frame with a depreciation period of 40-50 years and other parts of 7-8 years. Other parts mainly include fixtures and fitting.

The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

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

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

2.6 Investment properties

Investment properties consist of buildings held by the Group to earn rental income or for capital appreciation, or both, and which are not occupied by the Group. The Group recognises the part of owned shopping centres that are leased to third party retailers as investment properties, unless they represent insignificant portions of the property and are used primarily to provide auxiliary services to retail customers not provided by the Group

2 Summary of significant accounting policies

2.6 Investment properties (continued)

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” and “Karusel” brands are estimated to be indefinite-lived as there is no foreseeable limit to the period over which the brands are expected to generate net cash inflows for the Group. Change in estimate was based on the demonstration of the brands’ ability to survive changes in the economic environment.

	USEFUL LIVES
Private labels	1-8 years

c Software and other intangible assets

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

Research costs related to software development are expensed as incurred. Software development expenditures on an individual project are recognised as an intangible asset when the following criteria are met:

- It is technically feasible to complete the intangible asset so that the asset will be available for use or sale;
- The Group intends to complete the asset and use or sell it;
- There is an ability to use or sell the asset;
- It can be demonstrated how the asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available;
- The expenditure attributable to the asset during its development can be reliably measured.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is ready for use.

d Impairment of intangible assets

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

2.8 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The Group’s right-of-use assets comprise leased land and buildings with depreciation periods mostly ranging from 5 to 45 years.

2 Summary of significant accounting policies

2.8 Leases (continued)

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. 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.

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 estimate of the selling price in the ordinary course of business, less selling expenses.

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

2 Summary of significant accounting policies

2.10 Financial instruments (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) is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment on 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.

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.

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Summary of significant accounting policies

2.11 Borrowings (continued)

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

Employee stock plan

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

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

The fair value of the employee services received in exchange for the grant of the conditional rights is recognised as an expense over the vesting period with the corresponding increase in equity (Share-based payment reserve) and measured by reference to the market price of the GDRs which is determined at grant date.

Service and non-market performance 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 unless there are also service and/or performance conditions. No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The cumulative expense recognised for equity-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.

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Summary of significant accounting policies

2.21 Earning per share

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

2.22 Taxes

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

Current income tax liabilities (assets) are measured in accordance with IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments*, based on legislation that is enacted or substantively enacted at the reporting date, taking into consideration applicable tax rates and tax exemptions.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted within the consolidated group of taxpayers (CGT) and within individual companies of the Group for the entities that are not members of the CGT.

The Group considers whether it is probable that a taxation authority will accept an uncertain tax treatment. If the Group concludes it is probable that the taxation authority will accept an uncertain tax treatment, the Group determines the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

If the Group concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the Group reflects the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. The Group reflects the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty: the most likely amount or the expected value.

If an uncertain tax treatment affects current tax and deferred tax (for example, if it affects both taxable profit used to determine current tax and tax bases used to determine deferred tax), the Group makes consistent judgements and estimates for both current tax and deferred tax.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, any known court or other rulings on such issues, and relevance and effect of a change in facts and circumstances or of new information in the context of applicable tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge and included in current income tax payable line of the consolidated statement of financial position. Interest incurred in relation to taxation is included in finance costs in the consolidated statement of profit or loss. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing.

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.

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2 Summary of significant accounting policies

2.23 Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.24 Income and expense recognition

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

a Revenue from contracts with customers

The Group is in the retail business and sells its goods both through stores operated by the Group and through franchisees (agents) acting as a principal. The revenue recognised by the Group meets the definition of revenue from contracts with customers as per IFRS 15. The Group recognises revenue when control of goods and services is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods.

The Group has loyalty points programmes, which allow customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance are charged against revenue.

b Cost of sales

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

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

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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3

Critical accounting estimates and judgements in applying accounting policies

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

Impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of a cash-generating unit has been determined based on the higher of fair value less costs to sell or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 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 2020 and 2019 were treated by the Group as business combinations.

Litigations

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 35).

Deferred tax assets and liabilities

Group's management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. In the event that an assessment of future utilisation indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

IAS 12 requires a deferred tax liability to be recognised for all taxable temporary differences associated with investments in subsidiaries unless: (a) the parent, investor joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. The Group exercises significant judgment in assessing the amount of taxable temporary differences associated with investments in subsidiaries (unremitted earnings) that will not reverse in the foreseeable future.

If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Property, plant and equipment

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

3 Critical accounting estimates and judgements in applying accounting policies

Property, plant and equipment (continued)

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. The Group performs assets impairment testing (Note 10). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2020 the Group recognised an impairment loss in the amount of RUB 4,010 (year ended 31 December 2019: a net impairment loss in the amount of RUB 4,333).

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 2020 the Group recognised a net impairment gain in the amount of RUB 50 (year ended 31 December 2019: a net impairment loss in the amount of RUB 434).

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 2020 the Group recognised a net impairment gain in the amount of RUB 350 (year ended 31 December 2019: a net impairment loss in the amount of RUB 1,805).

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 expected selling price 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 twelve 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 2020, the estimated liability for unredeemed points was RUB 1,955 (31 December 2019: RUB 1,836).

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 2020 the Group recognised an impairment loss in the amount of RUB 885 (year ended 31 December 2019: Nil).

3 Critical accounting estimates and judgements in applying accounting policies

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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4 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 2020. Standards, Interpretations and amendments other than those described to the right effective 1 January 2020 did not have a material impact on the financial position or performance of the Group.

Definition of a Business – Amendments to IFRS 3

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs and explained how to assess whether an acquired process is substantive

As a result of the amendments the Group changed its accounting policy for determination of whether an acquisition is an acquisition of business. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

The following other new standards and amendments to IFRSs effective for the financial year beginning on or after 1 January 2020 do not have a material impact on the Group:

- Amendments to IFRS 7, IFRS 9 and IAS 39: *Interest Rate Benchmark Reform;*
- Amendments to IAS 1 and IAS 8: *Definition of Material;*
- Revised *Conceptual Framework for Financial Reporting;*
- Amendment to IFRS 16 *Leases Covid-19 Related Rent Concessions.*

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE IN THE EUROPEAN UNION	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*	1 January 2023*
Amendments to IFRS 3 *Business Combinations*; IAS 16 *Property, Plant and Equipment*; IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as well as Annual Improvements 2018-2020	1 January 2022*
Amendments to IFRS 4 *Insurance Contracts* – deferral of IFRS 9	1 January 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2*	1 January 2021
IFRS 17 *Insurance Contracts* including Amendments to IFRS 17	1 January 2023*
Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023*
Amendments to IAS 8 Accounting policies, *Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates	1 January 2023*

* *Subject to EU endorsement.*

5 Segment reporting

The Group identifies retail chains of each format (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8.

The following significant operating functions are decentralised by formats:

- Category management, including purchasing, pricing, assortment management, promotion management;
- Distribution centres logistics;
- Development function.

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

Upon adoption of IFRS 16 the Management Board started to assess the performance of the operating segments based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment pre-IFRS 16 (EBITDA pre-IFRS 16). EBITDA pre-IFRS 16 is calculated by adjusting EBITDA to include fixed lease expenses, fixed non-lease components of lease contracts and exclude gain on derecognition of right-of-use assets and lease liabilities. Adjusted capital expenditures include additions of property, plant and equipment, investment properties and intangible assets adjusted to replace capitalised depreciation of right-of-use assets with capitalisation of fixed lease expenses, acquisitions of property, plant and equipment, investment properties and intangible assets through business combinations as well as goodwill acquired through such business combinations.

The accounting policies used for segments are the same as accounting policies applied for these consolidated financial statements. In 2020 a new methodology of segments division and overhead expenses allocation was used for more accurate measurements of segments' performance. The comparative figures for earlier periods have been adjusted in order to provide meaningful comparative information.

The segment information for the year ended 31 December 2020, 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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5 Segment reporting

YEAR ENDED 31 DECEMBER 2020	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	CORPORATE CENTRE	TOTAL
Revenue (Note 24)	**1,598,315**	**309,460**	**56,245**	**14,006**	**–**	**1,978,026**
EBITDA pre-IFRS 16	**130,041**	**22,264**	**474**	**(2,855)**	**(4,787)**	**145,137**
Fixed lease expenses and fixed non-lease components of lease contracts						96,630
Gain on derecognition of right-of-use assets and lease liabilities						1,855
Depreciation, amortisation and impairment						(137,905)
Operating profit						**105,717**
Share of loss of associates and joint ventures						(20)
Finance cost, net						(56,636)
Net foreign exchange result						(3,391)
Profit before income tax						**45,670**
Income tax expense						(17,326)
Profit for the year						**28,344**
Adjusted capital expenditure	66,895	17,588	718	4,726	3	**89,930**
31 December 2020						
Inventories	115,674	23,963	3,952	804	–	**144,393**

YEAR ENDED 31 DECEMBER 2019	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	CORPORATE CENTRE	TOTAL
Revenue (Note 24)	1,370,414	270,451	88,459	5,023	–	1,734,347
EBITDA pre-IFRS 16	107,595	19,048	2,160	(1,442)	(4,776)	122,585
Fixed lease expenses and fixed non-lease components of lease contracts						87,420
Gain on derecognition of right-of-use assets and lease liabilities						1,478
Depreciation, amortisation and impairment						(122,085)
Operating profit						89,398
Finance cost, net						(56,903)
Net foreign exchange result						2,203
Profit before income tax						34,698
Income tax expense						(15,191)
Profit for the year						19,507
Adjusted capital expenditure	58,943	18,033	2,083	2,030	38	81,127
31 December 2019						
Inventories	100,281	19,951	7,015	215	–	127,462

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Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2020 and 31 December 2019 were as follows:

			OWNERSHIP (%)	
COMPANY	COUNTRY	NATURE OF OPERATIONS	31 DECEMBER 2020	31 DECEMBER 2019
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
Perekrestok Holdings B.V.	The Netherlands	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
X5 Finance B.V.	The Netherlands	Bond issuer	–*	100
Agro-Avto LLC	Russia	Assets holding company	100	100
X5 Corporate Center LLC	Russia	Assets holding company	100	100

* *In 2020 X5 Finance B.V. was liquidated.*

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7 Acquisition of businesses

Acquisitions in 2020

In 2020 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 2020 the acquired businesses contributed revenue of RUB 8,137 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 2020 as though the acquisition date had been the beginning of that period.

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

	PROVISIONAL FAIR VALUES AT THE ACQUISITION DATE
Right-of-use assets (Note 11)	8,507
Deferred tax assets (Note 30)	575
Cash and cash equivalents	55
Lease liabilities (Note 11)	(8,505)
Net assets acquired	**632**
Goodwill (Note 13)	2,963
Purchase consideration	**3,595**
Net cash outflow arising from the acquisition	**2,699**

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 2,754 and RUB 841 as deferred consideration measured at fair value.

The goodwill recognised was attributable to:
i) the business concentration in the Russian regions;
ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers.
The goodwill related to these acquisitions was allocated to Pyaterochka segment in amount of RUB 1,142, Perekrestok segment in amount of RUB 1,158 and other segment in amount of RUB 663.

During the 12 months ended 31 December 2020 the Group transferred RUB 439 as deferred payments for the prior periods acquisitions.

Acquisitions in 2019

Acquisition of business from Polushka retail chain

During 2019 the Group acquired a number of stores from Polushka retail chain in St. Petersburg and Leningrad region.

In the year ended 31 December 2019 the acquired business contributes revenue of RUB 3,775 from the date of acquisition. Net loss from the date of acquisition comprised RUB 914. The business 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 2019 as though the acquisition date had been the beginning of that period.

At 31 December 2019 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2020 the Group completed the purchase price allocation, which resulted in the insignificant changes in fair values at the acquisition date:

	FINALISED FAIR VALUES AT THE ACQUISITION DATE
Right-of-use assets (Note 11)	6,235
Indemnification asset	171
Trade, other accounts receivable and prepayments	171
VAT and other taxes receivable	10
Cash and cash equivalents	3
Lease liabilities (Note 11)	(6,182)
Current income tax payable	(55)
Provisions and other liabilities	(360)
Net assets acquired	**(7)**
Goodwill (Note 13)	2,549
Purchase consideration	**2,542**
Net cash outflow arising from the acquisition	**2,197**

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7 Acquisition of businesses

Acquisition of business from Polushka retail chain (continued)

The purchase consideration for the reporting period comprised RUB 2,200 and RUB 342 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 2,263 and Perekrestok segment in amount of RUB 286.

Other acquisitions

In 2019 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 2019 the acquired businesses contributed revenue of RUB 10,555 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 2019 as though the acquisition date had been the beginning of that period.

At 31 December 2019 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2020 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)	284
Right-of-use assets (Note 11)	13,269
Deferred tax assets (Note 30)	1,187
Lease liabilities (Note 11)	(13,248)
Net assets acquired	**1,492**
Goodwill (Note 13)	4,751
Purchase consideration	**6,243**
Net cash outflow arising from the acquisition	**5,926**

The purchase consideration for the reporting period comprised consideration paid in cash of RUB 5,926 and RUB 317 as deferred consideration measured at fair value.

The goodwill recognised was attributable to:
i) the business concentration in the Russian regions;
ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers.
The goodwill related to these acquisitions was allocated to Pyaterochka segment in amount of RUB 2,166 and Perekrestok segment in amount of RUB 2,585.

During the 12 months ended 31 December 2019 the Group transferred RUB 303 as deferred payments for the prior periods acquisitions.

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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 effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2020 and at 31 December 2019 are provided as follows. The ownership structure is disclosed in Note 1.

Key management personnel compensation

Key management personnel compensation is disclosed in Note 28.

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 2020 and 2019, 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.

The following transactions were carried out with related parties:

	RELATIONSHIP	2020	2019
CTF Holdings S.A.	Entity with significant influence over the Company		
Management services received		125	100
Other	Under control by the entity with significant influence over the Company		
Purchases from related parties		3,826	3,384
Other operating expenses		–	6
Bonuses from related parties		185	228
Other	Other		
Other operating expenses		39	17

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

	RELATIONSHIP	31 DECEMBER 2020	31 DECEMBER 2019
CTF Holdings S.A.	Entity with significant influence over the Company		
Other accounts payable		–	22
Other	Under control by the entity with significant influence over the Company		
Trade accounts payable		757	567
Trade accounts receivable		24	24
Other	Other		
Other accounts payable		12	14

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9 Cash and cash equivalents

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

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

	31 DECEMBER 2020	31 DECEMBER 2019
Bank current account – Roubles	528	533
Bank current account – other currencies	2	2
Cash in transit – Roubles	12,590	11,459
Cash in hand – Roubles	6,888	6,608
TOTAL	20,008	18,602

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

BANK	MOODY'S	FITCH	S&P	31 DECEMBER 2020	31 DECEMBER 2019
Alfa-Bank	Ba1	BB+	BB+	263	31
Sberbank	Baa3	BBB	–	11	5
Gazprombank	Ba1	BBB-	BB+	25	251
Vneshtorgbank	Baa3	–	BBB-	181	239
Other banks				50	9
Cash in transit and in hand				19,478	18,067
TOTAL				20,008	18,602

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Property, plant and equipment

	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	REFRIGERATING EQUIPMENT	VEHICLES	OTHER	CONSTRUCTION IN PROGRESS*	TOTAL
Cost							
1 January 2019	**274,582**	**47,518**	**57,036**	**21,573**	**44,242**	**7,573**	**452,524**
Additions	–	–	–	–	–	63,186	63,186
Transfers	29,604	10,985	10,096	5,189	10,340	(66,214)	–
Transfers to investment property (Note 12)	(40)	–	–	–	–	–	(40)
Assets from acquisitions (Note 7)	–	–	–	–	–	284	284
Disposals	(4,331)	(3,186)	(2,475)	(1,215)	(2,154)	(192)	(13,553)
31 December 2019	**299,815**	**55,317**	**64,657**	**25,547**	**52,428**	**4,637**	**502,401**
Additions	–	–	–	–	–	74,275	74,275
Transfers	30,216	15,585	12,077	1,142	12,499	(71,519)	–
Disposals	(13,486)	(4,915)	(4,006)	(1,016)	(5,837)	(119)	(29,379)
31 December 2020	**316,545**	**65,987**	**72,728**	**25,673**	**59,090**	**7,274**	**547,297**

** 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 2020 and 31 December 2019.

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 2020.

	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	REFRIGERATING EQUIPMENT	VEHICLES	OTHER	CONSTRUCTION IN PROGRESS*	TOTAL
Accumulated depreciation and impairment							
1 January 2019	**(74,673)**	**(19,046)**	**(19,901)**	**(6,888)**	**(23,723)**	**(603)**	**(144,834)**
Depreciation charge	(22,372)	(7,404)	(8,293)	(3,115)	(9,587)	–	(50,771)
Impairment charge	(5,546)	(762)	(541)	(21)	(227)	(20)	(7,117)
Reversal of impairment	2,495	–	–	79	–	210	2,784
Transfers to investment property (Note 12)	9	–	–	–	–	–	9
Disposals	3,935	2,991	2,416	1,098	2,153	192	12,785
31 December 2019	**(96,152)**	**(24,221)**	**(26,319)**	**(8,847)**	**(31,384)**	**(221)**	**(187,144)**
Depreciation charge	(27,764)	(9,171)	(8,668)	(3,636)	(10,484)	–	(59,723)
Impairment charge	(3,151)	(1,096)	(884)	(5)	(385)	(58)	(5,579)
Reversal of impairment	1,508	–	–	61	–	–	1,569
Disposals	10,884	4,700	3,897	914	5,773	119	26,287
31 December 2020	**(114,675)**	**(29,788)**	**(31,974)**	**(11,513)**	**(36,480)**	**(160)**	**(224,590)**
Net book value at 31 December 2020	**201,870**	**36,199**	**40,754**	**14,160**	**22,610**	**7,114**	**322,707**
Net book value at 31 December 2019	**203,663**	**31,096**	**38,338**	**16,700**	**21,044**	**4,416**	**315,257**
Net book value at 1 January 2019	**199,909**	**28,472**	**37,135**	**14,685**	**20,519**	**6,970**	**307,690**

** This category also includes machinery and equipment, refrigerating equipment, vehicles and other items of property, plant and equipment not yet available for use.*

10 Property, plant and equipment

Impairment test

At the end of 2020 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 and investment property.

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

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

The resulting impairment charge arose primarily from underperforming stores and Karusel transformation. At the same time the Group recognised the reversal of previously recorded impairment charges due to improved performance of certain stores. Due to the great number of CGUs being tested for impairment it is considered impracticable to disclose detailed information for each individual CGU.

The Group analysed external and internal sources of information including the potential impact of COVID-19 pandemic on the Group itself and on the macro economic environment and identified that COVID-19 caused lower traffic in certain stores located in shopping malls which however was outweighed by improved performance of other stores and segments.

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 2021 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan is extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4.00% to 6.78% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2019: 3.74% to 7.15%). For the years beyond the forecast period the long term consumer price index forecast of 4.00% at 31 December 2020 is used (31 December 2019: 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)) – 12.14% (31 December 2019: 11.43%). 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 2,216 (31 December 2019: RUB 2,383), if 200 b.p. lower – increase by RUB 1,487 (31 December 2019: RUB 2,452). 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 619 (31 December 2019: RUB 856), lower – decrease by RUB 705 (31 December 2019: RUB 1,052).

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11 Leases

Group as a lessee

The Group has lease contracts for land and buildings used in its operations. Leases of land and buildings generally have fixed lease terms between 5 and 45 years and contain extension options provided by the law. However vast majority of lease contracts include cancellation options on 2-12 months notice.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Set out as follows, 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 2020	**428,166**	**(484,795)**
Additions	115,529	(114,970)
Acquisition of businesses (Note 7)	8,507	(8,505)
Depreciation expense	(69,206)	–
Impairment charge	(1,806)	–
Reversal of impairment	2,156	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(2,835)	4,690
Interest accrued	–	(39,996)
Payments	–	97,553
Effect of changes in foreign exchange rates	–	(2,478)
At 31 December 2020	**480,511**	**(548,501)**

	RIGHT-OF-USE ASSETS (LAND AND BUILDINGS)	LEASE LIABILITIES
At 1 January 2019	**386,903**	**(433,813)**
Additions	92,373	(91,988)
Acquisition of businesses (Note 7)	19,504	(19,430)
Depreciation expense	(61,581)	–
Impairment charge	(3,723)	–
Reversal of impairment	1,918	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(7,228)	8,706
Interest accrued	–	(38,772)
Payments	–	88,831
Effect of changes in foreign exchange rates	–	1,671
At 31 December 2019	428,166	(484,795)

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11 Leases

The expenses related to short-term leases for the year ended 31 December 2020 amounted to RUB 15 (2019: RUB 39). The expense related to variable lease payments not included in the measurement of lease liabilities for the year ended 31 December 2020 amounted to RUB 11,271 (2019: RUB 7,950). 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 2020 amounted to RUB 108,737 (2019: RUB 96,608).

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

As at 31 December 2020 potential future cash outflows of RUB 3,057 (undiscounted) (31 December 2019: RUB 4,164) 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 2020 and 31 December 2019 the Group had a certain amount 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.

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 2020	31 DECEMBER 2019
Within 1 year	2,863	2,967
Between 1 and 2 years	984	869
Between 2 and 3 years	733	777
Between 3 and 4 years	571	633
Between 4 and 5 years	397	523
Later than 5 years	773	1,330
TOTAL	**6,321**	**7,099**

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2020 amounted to RUB 6,284 (2019: RUB 7,592). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2020 amounted to RUB 276 (2019: RUB 138).

Income from subleasing right-of-use assets under operating lease agreement for the year ended 31 December 2020 amounted to RUB 2,464 (2019: RUB 2,921).

Impairment test

At the end of 2020 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 2020 and 31 December 2019.

The Group's investment properties consist of land and buildings. Rental income from investment property amounted to RUB 1,235 (2019: RUB 1,642). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 821 (2019: RUB 916). 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 2020 amounted to RUB 7,666 (31 December 2019: RUB 8,223). 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 2020 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 2020 and 31 December 2019:

Cost	2020	2019
Cost at 1 January	**9,383**	**9,392**
Transfer from fixed assets (Note 10)	–	40
Disposals	(1,027)	(49)
Cost at 31 December	**8,356**	**9,383**
Accumulated depreciation and impairment		
Accumulated depreciation and impairment at 1 January	**(3,819)**	**(3,195)**
Depreciation charge	(188)	(213)
Impairment charge	(16)	(474)
Reversal of impairment	66	40
Transfer from fixed assets (Note 10)	–	(9)
Disposals	103	32
Accumulated depreciation and impairment at 31 December	**(3,854)**	**(3,819)**
Net book value at 31 December	**4,502**	**5,564**
Net book value at 1 January	**5,564**	**6,197**

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13

Goodwill

Goodwill impairment test

For the purposes of impairment testing, goodwill is allocated to groups of cash-generating units (groups of CGUs) being store chains of each format. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The group of CGUs to which goodwill has been allocated is tested for impairment annually or more frequently if there are indications that the particular group of CGUs might be impaired. Goodwill is tested for impairment at the group of CGUs level by comparing carrying values of particular group of CGU assets including allocated goodwill to their value in use. The Karusel group of CGUs was reorganised during 2019. The reorganisation is expected to be finalised in 2022. The reorganisation did not result in an impairment charge for the goodwill for the year ended 31 December 2020.

The Group analysed the potential impacts and effects of the COVID-19 pandemic, including the estimated impact on the macro economic environment. COVID-19 pandemic did not negatively affect the overall Group's performance during the reporting period as demand for food products remains stable.

Movements in goodwill arising on the acquisition of businesses at 31 December 2020 and 31 December 2019 are:

Cost	2020	2019
Gross book value at 1 January	**168,239**	**161,225**
Acquisition of businesses (Note 7)	2,963	7,300
Disposal	–	(286)
Gross book value at 31 December	**171,202**	**168,239**
Accumulated impairment losses		
Accumulated impairment losses at 1 January	**(66,312)**	**(66,598)**
Disposal	–	286
Accumulated impairment losses at 31 December	**(66,312)**	**(66,312)**
Carrying amount at 1 January	101,927	94,627
Carrying amount at 31 December	**104,890**	**101,927**

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13 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 2021 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4.00% to 6.78% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2019: 3.74% to 7.15%). For the years beyond the forecast period the long term consumer price index forecast of 4.00% at 31 December 2020 is used (31 December 2019: 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)) – 12.14% (31 December 2019: 11.43%). 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.

Impairment test

The recoverable amount of the groups of CGUs calculated exceeds their carrying amounts and therefore no impairment was recognised for them during the year ended 31 December 2020 and 31 December 2019.

The allocation of carrying amounts of goodwill to each group of CGUs was as follows:

	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	TOTAL
Year ended 31 December 2020					
Goodwill	79,693	22,655	1,879	663	**104,890**
Year ended 31 December 2019					
Goodwill	78,551	18,826	4,550	–	101,927

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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 2019: RUB 4,029) and brand "Karusel" with the carrying amount of RUB 373 (31 December 2019: RUB 1,258). The brand "Karusel" was impaired in 2020 as a result of reorganization of the operating segment started at the end of 2019. The reorganisation is expected to be finalised in 2022.

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 2020 and 31 December 2019.

Impairment test

At the end of 2020 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 2019	16,843	20,689	37,532
Additions	–	10,055	10,055
Disposals	–	(240)	(240)
At 31 December 2019	16,843	30,504	47,347
Additions	–	12,160	12,160
Disposals	–	(362)	(362)
At 31 December 2020	**16,843**	**42,302**	**59,145**
Accumulated amortisation and impairment			
At 1 January 2019	(11,542)	(8,050)	(19,592)
Amortisation charge	(12)	(3,201)	(3,213)
Impairment charge	–	(424)	(424)
Disposals	–	220	220
At 31 December 2019	(11,554)	(11,455)	(23,009)
Amortisation charge	–	(4,323)	(4,323)
Impairment charge	(885)	(533)	(1,418)
Disposals	–	362	362
At 31 December 2020	**(12,439)**	**(15,949)**	**(28,388)**
Net book value at 31 December 2020	**4,404**	**26,353**	**30,757**
Net book value at 31 December 2019	5,289	19,049	24,338
Net book value at 1 January 2019	5,301	12,639	17,940

15 Inventories

At 31 December 2020 inventories in the amount of RUB 144,393 were accounted at the lower of cost and net realisable value (31 December 2019: RUB 127,462). Write-off of inventory to net realisable value at 31 December 2020 amounted to RUB 2,590 (31 December 2019: RUB 2,412). At 31 December 2020 and 31 December 2019 inventories consisted mainly of goods for resale.

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16 Financial instruments by category

	FINANCIAL ASSETS AT AMORTISED COST	
	31 DECEMBER 2020	31 DECEMBER 2019
Assets as per consolidated statement of financial position		
Trade and other receivables excluding prepayments	16,626	13,907
Cash and cash equivalents	20,008	18,602
TOTAL	**36,634**	**32,509**

	FINANCIAL LIABILITIES AT AMORTISED COST	
	31 DECEMBER 2020	31 DECEMBER 2019
Liabilities as per consolidated statement of financial position		
Lease liabilities	548,501	484,795
Borrowings	261,947	227,933
Interest accrued	1,380	1,734
Trade, other current and non-current payables excluding statutory liabilities and advances	236,863	217,999
TOTAL	**1,048,691**	**932,461**

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17 Trade, other accounts receivable and prepayments

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.

During the year ended 2020 the Group made a detailed analysis of coronavirus influence on the expected credit losses and did not identify significant effects. In general COVID-19 did not negatively affect the Group's main debtors mostly being food suppliers, as well as other receivables turnover except for minor debtors, so there was no need for the revision of the provision matrix for expected credit losses.

	31 DECEMBER 2020	31 DECEMBER 2019
Trade accounts receivable	13,828	12,501
Other receivables	3,879	2,465
Allowance for expected credit losses of trade and other receivables	(1,081)	(1,059)
TOTAL TRADE AND OTHER ACCOUNTS RECEIVABLE	**16,626**	**13,907**
Prepayments	2,452	2,097
Advances made to trade suppliers	699	341
Allowance for impairment of prepayments and advances	(500)	(492)
TOTAL PREPAYMENTS	**2,651**	**1,946**
TOTAL	**19,277**	**15,853**

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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.

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.

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		ESTIMATED TOTAL GROSS CARRYING AMOUNT AT DEFAULT		EXPECTED CREDIT LOSS	
	AT 31 DECEMBER 2020	AT 31 DECEMBER 2019	31 DECEMBER 2020	31 DECEMBER 2019	31 DECEMBER 2020	31 DECEMBER 2019
Not overdue – 1 month	0.18%	0.09%	13,116	11,915	**24**	11
1-6 months	7.37%	34.38%	190	64	**14**	22
6-12 months	29.41%	57.14%	34	35	10	20
Over 1 year	86.89%	81.72%	488	487	424	398
TOTAL			13,828	12,501	472	451

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

	2020	2019
At 1 January	**(451)**	(548)
Addition of allowance for expected credit losses	(77)	(86)
Release of allowance for expected credit losses	29	68
Trade receivables written off as uncollectable	27	115
At 31 December	**(472)**	(451)

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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.

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.

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.

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		ESTIMATED TOTAL GROSS CARRYING AMOUNT AT DEFAULT		EXPECTED CREDIT LOSS	
	AT 31 DECEMBER 2020	AT 31 DECEMBER 2019	31 DECEMBER 2020	31 DECEMBER 2019	31 DECEMBER 2020	31 DECEMBER 2019
Not overdue – 1 month	1.15%	10.53%	2,606	1,377	30	145
1-6 months	15.51%	15.82%	690	335	107	53
6-12 months	68.42%	26.47%	190	204	130	54
Over 1 year	87.02%	64.85%	393	549	342	356
TOTAL			**3,879**	**2,465**	**609**	**608**

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

	2020	2019
At 1 January	**(608)**	**(550)**
Addition of allowance for expected credit losses	(440)	(326)
Release of allowance for expected credit losses	237	129
Other receivables written off as uncollectable	202	139
At 31 December	**(609)**	**(608)**

Movements on the allowance for impairment of prepayments and advances made to trade suppliers were as follows:

	2020	2019
At 1 January	**(492)**	**(627)**
Addition of allowance for prepayments and advances to trade suppliers impairment	(312)	(330)
Release of allowance for prepayments and advances to trade suppliers impairment	75	196
Prepayments and advances to trade suppliers written off as uncollectable	229	269
At 31 December	**(500)**	**(492)**

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18 VAT and other taxes receivable

	31 DECEMBER 2020	31 DECEMBER 2019
VAT receivable	8,216	11,551
Other taxes receivable	2,100	515
TOTAL	10,316	12,066

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19 Provisions and other liabilities

There were no significant amounts of other payables to foreign counterparties as at 31 December 2020 and 31 December 2019.

	31 DECEMBER 2020	31 DECEMBER 2019
Other accounts payable and accruals	26,604	20,689
Accrued salaries and bonuses	23,318	20,656
Accounts payable for property, plant and equipment	13,264	12,371
Taxes other than income tax	15,689	12,452
Advances received	1,844	1,649
Payables to landlords	1,055	961
Provisions and liabilities for tax uncertainties (Note 35)	4,202	2,294
TOTAL	85,976	71,072

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20 Contract liabilities

	31 DECEMBER 2020	31 DECEMBER 2019
Short-term contract liabilities		
Short-term contract liabilities related to loyalty programmes	1,955	1,836
Advances received from wholesales customers	32	116
Advances received from other customers	211	254
TOTAL	**2,198**	**2,206**

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

	2020	2019
At 1 January	**1,836**	**1,489**
Deferred during the year	1,955	1,836
Recognised as revenue during the year	(1,836)	(1,489)
At 31 December	**1,955**	**1,836**

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Borrowings

In March 2020 the Group passed the put-option on the exchange-registered corporate bonds series 001P-03 in the amount of RUB 10,000 and bought back RUB 9,952 from the issue. For the remaining RUB 48 the new annual rate for the next 6 semi-annual coupon periods was fixed at 0.01%.

In April 2020 the Group issued RUB 10,000 exchange-registered corporate bonds series 001P-10 with 6.90% coupon rate and put-option in 2 years.

In May 2020 the Group issued RUB 10,000 exchange-registered corporate bonds series 001P-11 with 5.75% coupon rate and put-option in 2.5 years.

In June 2020 the Group issued RUB 10,000 exchange-registered corporate bonds series 001P-12 with 5.65% coupon rate and put-option in 3 years.

In October 2020 the Group passed the put-option on the exchange-registered corporate bonds series BO-04 in the amount of RUB 2,150. The new annual rate for the next 4 semi-annual coupon periods was fixed at 5.55%.

In November 2020 the Group passed the put-option on the exchange-registered corporate bonds series 001P-02 in the amount of RUB 10,000 and bought back RUB 9,992 from the issue. For the remaining RUB 8 the new annual rate for the next 6 semi-annual coupon periods was fixed at 5.65%.

The weighted average effective interest rate on X5's total borrowings for the year ended 31 December 2020 comprised 6.78% per annum (year ended 31 December 2019: 7.94%).

The Group had the following borrowings at 31 December 2020 and 31 December 2019:

		FAIR VALUE		CARRYING VALUE	
CURRENT	FINAL MATURITY YEAR*	2020	2019	2020	2019
RUB Bonds X5 FINANSE LLC series BO-04		–	2,013	–	2,150
RUB Bonds X5 FINANSE LLC series BO-05	2021	386	–	390	–
RUB Bonds X5 FINANSE LLC series 001P-02		–	10,551	–	9,995
RUB Bonds X5 FINANSE LLC series 001P-03		–	10,030	–	9,998
RUB Bonds X5 FINANSE LLC series 001P-04	2021	5,115	–	4,998	–
RUB Eurobond X5 Finance B.V.		–	20,171	–	19,985
RUB Bilateral Loans	2021	71,638	32,627	71,638	32,627
TOTAL CURRENT BORROWINGS		**77,139**	**75,392**	**77,026**	**74,755**

* *In case of the Group's Bonds – the next put-option date.*

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Borrowings

All borrowings at 31 December 2020 are shown net of related transaction costs of RUB 98 which are amortised over the term of the loans using the effective interest method (31 December 2019: RUB 134). Borrowing costs capitalised for the year ended 31 December 2020 amounted to RUB 25 (for year ended 31 December 2019: RUB 71). 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 34,014 in 2020 equals to the proceeds from borrowings in amount of RUB 203,046 repayment of borrowings in amount of RUB 169,175 (the Consolidated Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 143. 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 20,169 in 2019 equals to the proceeds from borrowings in amount of RUB 97,540, repayment of borrowings in amount of RUB 77,502 (the Consolidated Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 131. 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 2020 the Group complied with this covenant and Net Debt/EBITDA pre-IFRS 16 was equal to 1.67 (31 December 2019: 1.71). 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 2020 and 31 December 2019:

		FAIR VALUE		CARRYING VALUE	
NON-CURRENT	FINAL MATURITY YEAR*	2020	2019	2020	2019
RUB Bonds X5 FINANSE LLC series BO-04	2022	2,134	–	2,149	–
RUB Bonds X5 FINANSE LLC series BO-05		–	365	–	390
RUB Bonds X5 FINANSE LLC series BO-06	2022	1,330	1,257	1,201	1,201
RUB Bonds X5 FINANSE LLC series BO-07	2022	5,188	5,175	4,998	4,996
RUB Bonds X5 FINANSE LLC series 001P-01	2023	99	98	96	96
RUB Bonds X5 FINANSE LLC series 001P-02	2023	8	–	8	–
RUB Bonds X5 FINANSE LLC series 001P-03	2023	42	–	48	–
RUB Bonds X5 FINANSE LLC series 001P-04		–	5,148	–	4,994
RUB Bonds X5 FINANSE LLC series 001P-05	2022	5,163	5,255	4,997	4,995
RUB Bonds X5 FINANSE LLC series 001P-06	2022	10,245	10,044	9,993	9,998
RUB Bonds X5 FINANSE LLC series 001P-07	2022	5,080	4,994	4,996	4,999
RUB Bonds X5 FINANSE LLC series 001P-08	2022	5,100	4,950	4,996	4,999
RUB Bonds X5 FINANSE LLC series 001P-09	2022	5,100	4,994	4,996	4,999
RUB Bonds X5 FINANSE LLC series 001P-10	2022	10,215	-	9,990	–
RUB Bonds X5 FINANSE LLC series 001P-11	2022	10,025	–	9,998	–
RUB Bonds X5 FINANSE LLC series 001P-12	2023	9,991	–	9,999	–
RUB Bilateral Loans	2024	116,536	111,972	116,456	111,511
TOTAL NON-CURRENT BORROWINGS		**186,256**	**154,252**	**184,921**	**153,178**
TOTAL BORROWINGS		**263,395**	**229,644**	**261,947**	**227,933**

* *In case of the Group's Bonds – the next put-option date.*

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Share capital

As at 31 December 2020 the Group had 190,000,000 authorised ordinary shares (31 December 2019: 190,000,000) of which 67,882,444 ordinary shares were outstanding (31 December 2019: 67,890,054) and 10,774 ordinary shares in amount of RUB 92 were held as treasury stock (31 December 2019: 3,164 ordinary shares in amount of RUB 20). The nominal par value of each ordinary share is EUR 1.

Dividends approved for distribution at the General Meeting in May 2019 have been paid in the amount of RUB 25,000 during the year ended 31 December 2019 (RUB 368.23 per share).

Dividends approved for distribution at the General Meeting in May 2020 have been paid in the amount of RUB 29,996 during the year ended 31 December 2020 (RUB 441.88 per share).

In December 2020 interim dividends proposed by the Supervisory Board for the nine months ended 30 September 2020 have been paid in amount of RUB 19,997 (RUB 294.58 per share).

The Supervisory Board proposed to the General Meeting to distribute in 2021 current year profit in the amount of RUB 30,000 (RUB 441.94 per ordinary share) to shareholders in addition to paid interim dividends.

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23 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:

	2020	2019
Profit attributable to equity holders of the parent	28,344	19,507
Weighted average number of ordinary shares in issue	67,883,361	67,890,071
Effect of share options granted to employees, number of shares	3,135	238
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,886,496	67,890,309
Basic earnings per share for profit (expressed in RUB per share)	**417.54**	**287.33**
Diluted earnings per share for profit (expressed in RUB per share)	**417.52**	**287.33**

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Revenue

	2020				
	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	TOTAL
Revenue from sale of goods through own stores (at a point of time)	1,581,157	307,292	55,662	12,779	1,956,890
Revenue from sale of goods through franchisees (at a point of time)	16,017	438	–	–	16,455
Revenue from wholesale of goods (at a point of time)	215	1,156	508	455	2,334
Revenue from other services (over time)	926	574	75	772	2,347
TOTAL	1,598,315	309,460	56,245	14,006	1,978,026

	2019				
	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	TOTAL
Revenue from sale of goods through own stores (at a point of time)	1,355,849	268,454	87,397	4,768	1,716,468
Revenue from sale of goods through franchisees (at a point of time)	10,808	438	–	–	11,246
Revenue from wholesale of goods (at a point of time)	3,092	1,281	919	214	5,506
Revenue from other services (over time)	665	278	143	41	1,127
TOTAL	1,370,414	270,451	88,459	5,023	1,734,347

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25 Expenses by nature

Other expenses included impairment of prepayments in amount of RUB 237 in 2020 (2019: RUB 134).

	2020	2019
Cost of goods sold	1,427,974	1,257,565
Staff costs (Note 28)	188,863	165,245
Lease expenses (Note 11)	11,286	7,989
Depreciation, amortisation	132,877	115,089
Impairment of non-current assets	5,028	6,996
Other store costs	29,664	25,234
Utilities	41,940	38,128
Net impairment losses on financial assets	251	215
Other	52,163	42,512
TOTAL	1,890,046	1,658,973

The fees listed below related to the procedures applied to the Group by Ernst & Young Accountants LLP and Other EY Network as referred to in article 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta):

In addition to the statutory audit of the financial statements the EY member firm in Russia provided non-audit services in the areas of supply chain network design, retail pricing proof, business trainings and tax advisory.

The external auditor of the Group is Ernst & Young Accountants LLP.

	2020	2019
Statutory audit of financial statements performed by Ernst & Young Accountants LLP	26	22
Statutory audit of financial statements performed by Other EY Network	46	47
Non-audit services by Other EY Network	40	42
TOTAL	112	111

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26 Lease/sublease and other income

	2020	2019
Lease/sublease income (Note 11)	6,284	7,592
Income from sales of waste	3,820	2,631
Other	7,633	3,801
TOTAL	**17,737**	**14,024**

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27 Finance income and costs

	2020	2019
Interest expense on lease liabilities	39,916	38,739
Interest expense on borrowings	15,191	16,889
Interest income	(44)	(48)
Other finance costs, net	1,573	1,323
TOTAL	56,636	56,903

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Staff costs

Wages and salaries in 2020 included expenses of RUB 247 related to the long-term incentive programme (LTI) for key employees, including members of the Management Board, other key management and other key employees (2019: RUB 2,407).

Social security costs in 2020 included pension contributions amounted to RUB 28,024 (2019: RUB 24,253).

The number of employees as at 31 December 2020 amounted to 339,716 (31 December 2019: 307,444).

	2020	2019
Wages and salaries	147,148	128,950
Social security costs	41,655	36,232
Share-based payments expense	60	63
TOTAL	188,863	165,245

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Group considers all members of the Management Board, Executive Board and the Supervisory Board to be key management personnel as defined in IAS 24 Related Party Disclosures. The CEO is a member of both the Management Board and the Executive Board.

At the end of 2020 the Executive Board consisted of eight members. The total direct compensation for the CEO and other Executive Board members consists of a base salary, a performance related annual cash incentive (STI) and a performance related long-term cash incentive (LTI). Members of the Supervisory Board receive an annual base compensation in cash and share-based payments.

Total compensation of key management personnel:

	2020	2019
Management Board and Executive Board	1,543	1,182
Supervisory Board	162	162
TOTAL	1,705	1,344

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Staff costs

Remuneration of the Management Board

Service agreements with individual Management Board members

Igor Shekhterman

In 2020 the Company provided Igor Shekhterman with an annual base salary, participation in the annual cash incentive plan and participation in the Company's long-term incentive plan. For 2020 Igor's annual base salary was RUB 70 million. The target payout under the annual cash incentive plan is 100% of base salary and is capped at 140% in the event of above-target performance. The target award under the long-term incentive plan is 133% of base salary per year for the period of the implementation of the long-term incentive plan. Igor Shekhterman was re-appointed in 2019 for another two-year term, until the annual General Meeting of Shareholders in 2021. As disclosed when Mr. Shekhterman took office in 2015, he is entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, Mr. Shekhterman shall be entitled to the difference upon completion of his full term as CEO. Furthermore, Mr. Shekhterman is eligible to a termination compensation of up to USD 5,000,000 at the discretion of the Supervisory Board. Upon contract termination and subsequent compliance with non-competition obligations, Igor Shekhterman shall be entitled to an amount equal to the net annual base salary under his contract, payable in four quarterly instalments. In case of breach of the non-competition obligations, the agreement provides for a penalty in the amount of two annual base salaries on a net basis, and repayment of the termination compensation. The agreement with Igor Shekhterman may be terminated by either party with a notice period of three months.

Frank Lhoëst

In 2020, the Company provided Frank Lhoëst with an annual base salary and participation in the annual cash incentive plan. Frank Lhoëst was re-appointed in 2019 for another four-year term, until the annual General Meeting of Shareholders in 2023. His annual base salary is EUR 315,000. The target payout under the annual cash incentive plan is 60% of base salary and is capped at 120% in the event of above-target performance. The agreement with Frank Lhoëst provides for a severance payment of six month's base salary, and may be terminated by either party with a notice period of two months.

Quinten Peer

In 2020, the Company provided Quinten Peer with an annual base salary and participation in the annual cash incentive plan. Quinten Peer was appointed in 2019 for a four-year term, until the annual General Meeting of Shareholders in 2023. As at 1 January 2020 Quinten Peer's annual base salary amounts to EUR 275,000 on a 100% FTE basis. The target payout under the annual cash incentive plan is 60% of base salary and is capped at 120% in the event of above-target performance. The agreement with Quinten Peer provides for a severance payment of six month's base salary and may be terminated by either party with a notice period of two months.

Expenses recognised for remuneration of the members of the Management Board:

NAME	YEAR	BASE SALARY[1]	SHORT-TERM INCENTIVE[2]	LONG-TERM INCENTIVE[3]	SOCIAL SECURITY COST[4]	TOTAL
I. Shekhterman	2020	74	59	108	34	275
	2019	76	53	97	33	259
F. Lhoëst	2020	27	17	–	–	44
	2019	22	13	–	–	35
Q. Peer	2020	23	15	–	–	38
	2019	6	4	–	–	10
TOTAL	2020	124	91	108	34	357
	2019	104	70	97	33	304

1 The table reflects actual base salary amounts, including adjustments based on number of days spent on vacation, in accordance with Russian labour law. Quinten Peer was appointed as member of the Management Board effective 10 May 2019. His 2019 remuneration reported as member of the Management Board reflects a partial year.

2 Short-term incentives are based on results achieved in 2020 and payable in 2021. The short-term incentive levels are based on achievement of individual and group targets, resulting in payouts of 85.3% of base salary for Mr. Shekhterman (31 December 2019: 76%), 61.1% of base salary for Mr. Lhoëst (31 December 2019: 60%) and 61.1% of base salary for Mr. Peer (31 December 2019: 60.6%).

3 For Igor Shekhterman the expense recognised in 2020 for the long-term incentive award is composed of an accrual based on the probability of achieving the targets under the 2018-2020 LTI programme. The expense recognised in 2019 for the long-term incentive award were composed of two elements: (i) the deferred payout under the 2015-2018 LTI programme and (ii) an accrual based on the probability of achieving the targets under the 2018-2020 LTI programme.

4 For the year ended 31 December 2020 statutory pension contributions amounted to RUB 22 (2019: RUB 21).

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28 Staff costs

Remuneration of the Executive Board ('Other key management personnel')

Other key management personnel comprises all members of the Executive Board excluding the CEO. In comparison to the previous year one executive was added to the Executive Board, i.e. the Legal Director. In accordance with the remuneration policy for the Executive Board, the total direct compensation of other key management personnel consists of a base salary, a performance-related annual cash incentive (STI) and a performance-related long-term cash incentive (LTI).

Expenses recognised for remuneration of the Executive Board members (excluding the CEO):

	YEAR	BASE SALARY[1]	SHORT-TERM INCENTIVE[2]	LONG-TERM INCENTIVE[3]	EXIT PAYMENT	NON-COMPETITION REWARD[4]	SOCIAL SECURITY COST[5]	TOTAL
Other key management personnel	2020	296	218	446	70	3	153	1,186
	2019	259	173	276	6	48	116	878

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

2 Short-term incentive for performance in the year 2020 (2019) paid in cash in 2021 (2020).

3 The expense recognised in 2020 for the long-term incentive award is composed of an accrual based on the probability of achieving the targets under the 2018-2020 LTI programme. The expense recognised in 2019 for the long-term incentive award was composed of two elements: (i) the deferred payout under the 2015-2018 LTI programme and (ii) an accrual based on the probability of achieving the targets under the 2018-2020 LTI programme.

4 For other key management personnel the severance payment is structured as a non-competition reward payable in two equal installments after the expiry of the period of three months from the Termination Date and after the expiry of the period of six months from the Termination Date following contract termination, subject to compliance with non-competition conditions. The non-competition period for other key management personnel is six months.

5 For the year ended 31 December 2020 statutory pension contributions amounted to RUB 100 (2019: RUB 80).

Remuneration of the Supervisory Board

The table to the right specifies the remuneration of the members of the Supervisory Board. Details on Supervisory Board remuneration in 2020 are reflected in the Remuneration Report on pages 167–175.

Supervisory Board, as approved by the Annual General Meeting of Shareholders held on 12 May 2020, members of the Supervisory Board receive remuneration in cash and an annual award of Restricted Stock Units (RSUs).

Expenses recognised for remuneration of the members of the Supervisory Board:

	BASE REMUNERATION[1]		SHARE-BASED COMPENSATION[2]	
	2020	2019	2020	2019
P. Demchenkov	22	17	13	14
G. King	21	18	13	18
S. DuCharme	21	19	20	21
N. Shouraboura	12	8	6	4
M. Kuchment	10	8	6	7
K.-H. Holland	8	7	5	4
A. Torbakhov[3]	8	14	(3)	3
M. Fridman	–	–	–	–
M. Atnashev	–	–	–	–
A. Elinson[3]	–	–	–	–
TOTAL	102	91	60	71

1 The annual membership allowance for independent Supervisory Board members is determined and paid in Euro, as follows: chairman EUR 250,000; members EUR 100,000; additional fee for vice-chair EUR 50,000; members chairing a committee EUR 100,000 and committee members EUR 16,000 per committee. Mikhail Fridman, Andrei Elinson and Marat Atnashev, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.

2 Based on 100% of the board member's fixed annual remuneration, divided by the average market value of a GDR on the relevant award date. RSU awards are subject to a three-year vesting period and a further two-year lock-in period. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders. The share-based compensation reflects the accrued amounts related to the Restricted Stock Unit Plan and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

3 Andrei Elinson stepped down as member of the Supervisory Board on 12 May 2020, Alexander Torbakhov stepped down as member of the Supervisory Board on 3 July 2020.

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Staff costs

Remuneration of the Supervisory Board (continued)

Restricted Stock Units

Furthermore, in 2020 the Annual General Meeting of Shareholders approved the RSU awards under tranche 11, meaning that the Supervisory Board members Stephan DuCharme, Petr Demchenkov, Geoff King, Mikhail Kuchment, Karl-Heinz Holland, Nadia Shouraboura and Alexander Torbakhov were awarded a number of RSUs with award date 19 May 2020, equal to 100% of the gross annual remuneration of the relevant Supervisory Director in 2020, divided by USD 29.82, the volume weighted average closing market price of one GDR over the thirty immediately preceding calendar days of 19 May 2020. The RSUs awarded under tranche 11 will vest on 19 May 2023, followed by a lock-in period ending on 19 May 2025.

The number of RSUs awarded and outstanding to the members of the Supervisory Board is shown further. For the calculation of the intrinsic value and further details please refer to Note 29.

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

	TRANCHE	RSUs AWARDED IN 2016	RSUs AWARDED IN 2017	RSUs AWARDED IN 2018	RSUs AWARDED IN 2019	RSUs AWARDED IN 2020	YEAR OF VESTING	RSUs VESTED	VALUE ON VESTING DATE[1]	VESTED GDRs AFTER TAX	GDRs LOCKED-UP AS PER 31/12/2020[2]	END OF LOCK-UP PERIOD	RSUs OUTSTAND-ING AS PER 31/12/2020	RSUs OUTSTAND-ING AS PER 31/12/2019
S. DuCharme	7	25,703	–	–	–	–	2019	25,703	53	13,257	13,257	2021	–	–
	8	–	9,631	–	–	–	2020	9,631	21	9,631	9,631	2022	–	9,631
	9	–	–	9,977	–	–	2021	–	–	–	–	2023	9,977	9,977
	10	–	–	–	9,722	–	2022	–	–	–	–	2024	9,722	9,722
	11	–	–	–	–	9,335	2023	–	–	–	–	2025	9,335	–
G. King	7	14,280	–	–	–	–	2019	14,280	29	9,449	9,449	2021	–	–
	8	–	8,026	–	–	–	2020	8,026	18	5,433	5,433	2022	–	8,026
	9	–	–	9,977	–	–	2021	–	–	–	–	2023	9,977	9,977
	10	–	–	–	9,373	–	2022	–	–	–	–	2024	9,373	9,373
	11	–	–	–	–	9,211	2023	–	–	–	–	2025	9,211	
P. Demchenkov	7	5,712	–	–	–	–	2019	5,712	12	3,779	3,779	2021	–	–
	8	–	5,618	–	–	–	2020	5,618	12	3,803	3,803	2022	–	5,618
	9	–	–	7,982	–	–	2021	–	–	–	–	2023	7,982	7,982
	10	–	–	–	8,942	–	2022	–	–	–	–	2024	8,942	8,942
	11	–	–	–	–	9,800	2023	–	–	–	–	2025	9,800	–

1 Vesting date is 19 May of each respective year of vesting. If 19 May falls in a weekend, vesting date is the immediately following business day (in 2019: 20 May).

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

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Staff costs

Remuneration of the Supervisory Board (continued)

Restricted Stock Units (continued)

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

	TRANCHE	RSUs AWARDED IN 2016	RSUs AWARDED IN 2017	RSUs AWARDED IN 2018[3]	RSUs AWARDED IN 2019[4]	RSUs AWARDED IN 2020	YEAR OF VESTING	RSUs VESTED	VALUE ON VESTING DATE[1]	VESTED GDRs AFTER TAX	GDRs LOCKED-UP AS PER 31/12/2020[2]	END OF LOCK-UP PERIOD	RSUs OUTSTAND-ING AS PER 31/12/2020	RSUs OUTSTAND-ING AS PER 31/12/2019
M. Kuchment	7	5,712	–	–	–	–	2019	5,712	12	3,779	3,779	2021	–	–
	8	–	3,210	–	–	–	2020	3,210	7	2,173	2,173	2022	–	3,210
	9	–	–	3,991	–	–	2021	–	–	–	–	2023	3,991	3,991
	10	–	–	–	4,099	–	2022	–	–	–	–	2024	4,099	4,099
	11	–	–	–	–	4,274	2023	–	–	–	–	2025	4,274	–
K.-H. Holland	9	–	–	1,995	–	–	2021	–	–	–	–	2023	1,995	1,995
	10	–	–	–	3,749	–	2022	–	–	–	–	2024	3,749	3,749
	11	–	–	–	–	3,684	2023	–	–	–	–	2025	3,684	–
N. Shouraboura	9	–	–	1,995	–	–	2021	–	–	–	–	2023	1,995	1,995
	10	–	–	–	4,099	–	2022	–	–	–	–	2024	4,099	4,099
	11	–	–	–	–	4,274	2023	–	–	–	–	2025	4,274	–
A. Torbakhov[5]	10	–	–	–	7,365	–	2022	2,455	6	1,604	–	2024	–	7,365
	11	–	–	–	–	7,958	2023	–	–	–	–	2025	–	–

1 Vesting date is 19 May of each respective year of vesting. If 19 May falls in a weekend, vesting date is the immediately following business day (in 2019: 20 May).

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

3 2018 RSUs for Karl-Heinz Holland and Nadia Shouraboura were effectively awarded on in 2019, as both were appointed as Supervisory Board member after the award date in 2018. The awards were based on a 6/12 pro rata factor.

4 For Alexander Torbakhov a pro rata factor of 11/12 was applied for the 2019 RSU award, in view of his nomination on 25 January 2019.

5 Alexander Torbakhov stepped down from the Supervisory Board on 3 July 2020. As per the RSU Plan rules 7,958 RSUs awarded under tranche 11 forfeited and 4,910 RSU awarded under tranche 10 forfeited as per 3 July 2020, and consequently a total of 2,455 RSUs awarded under tranches 10 vested in 2020. After tax, Mr. Torbakhov was entitled to immediate release of 1,604 GDRs relating to awards under tranches 10-11.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020
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29 Share-based payments

Restricted Stock Unit plan

Members of the Supervisory Board are entitled to annual awards of restricted stock units (RSUs) under the Group's Restricted Stock Unit Plan (RSU Plan) approved at the AGM in 2010. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders.

During the year ended 31 December 2020, a total number of 48,536 RSUs were awarded under tranche 11 of the RSU Plan and will vest in 2023. In 2020 28,940 RSUs vested. Upon vesting these RSUs were converted into GDRs registered in the participant's name. The GDRs are kept in custody during a two-year lock-in period during which the GDRs cannot be traded. In accordance with the RSU Plan rules the lock-in restrictions do not apply in case of accelerated release of GDRs, if and when a Supervisory Board member ceases to be a member of the Supervisory Board.

In total, during the year ended 31 December 2020 the Group recognised expense related to the RSU Plan in the amount of RUB 60 (expense during the year ended 31 December 2019: RUB 63). At 31 December 2020 the equity component was RUB 104 (31 December 2019: RUB 105). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding were as follows:

	2020		2019	
	NUMBER OF CONDITIONAL RIGHTS	WEIGHTED AVERAGE FAIR VALUE, RUB	NUMBER OF CONDITIONAL RIGHTS	WEIGHTED AVERAGE FAIR VALUE, RUB
Outstanding at the beginning of the period	109,751	1,987.74	109,819	1,645.55
Awarded during the period	48,536	2,185.02	51,339	2,003.03
Vested during the period	(28,940)	2,105.86	(51,407)	1,272.00
Forfeited during the period	(12,868)	2,120.24	–	–
Outstanding at the end of the period	**116,479**	**2,025.96**	**109,751**	**1,987.74**

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30 Income tax

As at 31 December 2020 37 Russian subsidiaries of the Group were the members of the CGT (consolidated group of taxpayers) with Agroaspect LLC acting as a responsible CGT member.

	2020	2019
Current income tax charge	23,463	15,379
Deferred income tax benefit	(6,137)	(188)
Income tax charge for the year	**17,326**	**15,191**

The theoretical and effective tax rates are reconciled as follows:

	2020	2019
Profit before taxation	**45,670**	**34,698**
Theoretical tax at the effective statutory rate*	**9,134**	**6,940**
Tax effect of items which are not deductible or assessable for taxation purposes		
Effect of income taxable at rates different from standard statutory rates	(138)	(18)
Expenses on inventory shortage	215	165
Unrecognised tax loss carry forwards for the year	338	699
Current tax on dividends distributed by the Group's subsidiaries	5,087	–
Change in deferred tax liability associated with investments in subsidiaries	(2,451)	1,579
Other non-deductible expense	5,141	5,826
Income tax charge for the year	**17,326**	**15,191**

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

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES,
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30 Income tax

Deferred income tax

Unrecognised deferred tax liability on unremitted earnings of certain subsidiaries amounted to RUB 3,834 (2019: RUB 2,579) for which the deferred tax liability was not recognised as such amounts are being reinvested for the foreseeable future.

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 5,487 recognised at 31 December 2020 for the carry forward of unused tax losses (31 December 2019: RUB 5,537).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards at 31 December 2020 of RUB 2,949 (31 December 2019: RUB 3,941).

At 31 December 2020 these unused tax losses in the amount of 905 were available for carry forward for a period not less than two years, unused tax losses in the amount of 2,044 have 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 2020:

	1 JANUARY 2020	CREDITED/ (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	31 DECEMBER 2020
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	5,537	(50)	–	5,487
Right of use assets and lease liabilities	15,442	2,489	575	18,506
Property, plant and equipment and Investment property	402	(126)	–	276
Other intangible assets	121	(69)	–	52
Inventories	2,107	186	–	2,293
Accounts receivable	11	16	–	27
Accounts payable	6,621	1,376	–	7,997
Other	375	21	–	396
Gross deferred tax assets	**30,616**	3,843	**575**	**35,034**
Less offsetting with deferred tax liabilities	(14,138)	(438)	–	(14,576)
Recognised deferred tax assets	**16,478**	**3,405**	**575**	**20,458**

	1 JANUARY 2020	CREDITED/ (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	31 DECEMBER 2020
Tax effects of taxable temporary differences				
Right of use assets and lease liabilities	(40)	29	–	(11)
Property, plant and equipment and Investment property	(11,125)	1,566	–	(9,559)
Investments into subsidiary	(4,031)	2,451	–	(1,580)
Other intangible assets	(3,293)	(1,587)	–	(4,880)
Accounts receivable	(849)	(300)	–	(1,149)
Accounts payable	(3)	(1)	–	(4)
Other	(298)	136	–	(162)
Gross deferred tax liabilities	**(19,639)**	**2,294**	**–**	**(17,345)**
Less offsetting with deferred tax liabilities	14,138	438	–	14,576
Recognised deferred tax liabilities	**(5,501)**	**2,732**	**–**	**(2,769)**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020
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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 2019:

	1 JANUARY 2019	CREDITED/ (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	31 DECEMBER 2019
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	4,893	644	–	5,537
Right of use assets and lease liabilities	12,762	2,680	–	15,442
Property, plant and equipment and Investment property	465	(144)	81	402
Other intangible assets	993	(1,978)	1,106	121
Inventories	1,701	406	–	2,107
Accounts receivable	41	(30)	–	11
Accounts payable	5,600	1,021	–	6,621
Other	606	(231)	–	375
Gross deferred tax assets	**27,061**	**2,368**	**1,187**	**30,616**
Less offsetting with deferred tax liabilities	(12,778)	(1,360)	–	(14,138)
Recognised deferred tax assets	**14,283**	**1,008**	**1,187**	**16,478**

	1 JANUARY 2019	CREDITED/ (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	31 DECEMBER 2019
Tax effects of taxable temporary differences				
Right of use assets and lease liabilities	(14)	(26)	–	(40)
Property, plant and equipment and Investment property	(12,171)	1,046	–	(11,125)
Investments into subsidiary	(2,452)	(1,579)	–	(4,031)
Other intangible assets	(1,821)	(1,472)	–	(3,293)
Accounts receivable	(705)	(144)	–	(849)
Accounts payable	(8)	5	–	(3)
Other	(288)	(10)	–	(298)
Gross deferred tax liabilities	**(17,459)**	**(2,180)**	**–**	**(19,639)**
Less offsetting with deferred tax assets	12,778	1,360	–	14,138
Recognised deferred tax liabilities	**(4,681)**	**(820)**	**–**	**(5,501)**

31 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

The Group is exposed to foreign exchange risk arising from foreign currency denominated assets and liabilities with respect to import purchases and lease liabilities. As at 31 December 2020 the Group had trade accounts payable denominated in foreign currency in the amount of RUB 6,336 (31 December 2019: RUB 3,813) and leases in the amount of RUB 14,649 (31 December 2019: RUB 10,857). As at 31 December 2020 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

As at 31 December 2020 the Group had no floating interest-bearing assets, but had 28% share of borrowings with floating interest rates based on the Key rate of the Central Bank of the Russian and financial instruments limiting the corridor of rate fluctuations for share of borrowings. If the Key rate had been 100 b.p. higher the profit before tax for the year ended 31 December 2020 had been RUB 400 lower. If the Key rate had been 100 b.p. lower the profit before tax for the year ended 31 December 2020 had been RUB 400 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 held in banks, trade and other receivables (Note 9 and Note 17). Due to the nature of its main activities (retail sales to individual customers) the Group had no significant concentration of credit risk. Cash was placed in financial institutions which were considered at the time of deposit to have low risk of default (Note 9).

The Group has policies in place to ensure that in case of credit sales of products and services to wholesale customers and reverse franchise schemes only those counteragents with an appropriate credit history are selected. Although collection of receivables could be influenced by economic factors, management believes that there was no significant risk of loss to the Group beyond the allowance already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits were continually monitored and no individual exposure was considered significant.

c Liquidity risk

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

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

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Financial risk management

C Liquidity risk (continued)

At 31 December 2020 the Group had net current liabilities of RUB 202,400 (31 December 2019: RUB 188,819) including short-term borrowings of RUB 77,026 (31 December 2019: RUB 74,755). At 31 December 2020 the Group had available bank credit lines of RUB 457,086 (31 December 2019: RUB 415,592). At 31 December 2020 the Group had RUB registered bonds programme available for issue on MOEX of RUB 200,000 (31 December 2019: RUB 30,000).

Management regularly monitors the Group's operating cash flows and available credit lines/limits to ensure that these are adequate to meet the Group's ongoing obligations and its expansion programmes. Part of the existing lines is provided on rolling basis which is closely monitored by detailed cash flow forecasts and are managed by the Corporate Finance Department.

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

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

The 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 2020	DURING 1 YEAR	IN 1 TO 5 YEARS	OVER 5 YEARS
Lease liabilities	105,141	369,835	260,555
Borrowings	90,435	197,530	–
Trade payables	170,909	–	–
Other financial liabilities	64,627	1,935	–
TOTAL	431,112	569,300	260,555

YEAR ENDED 31 DECEMBER 2019	DURING 1 YEAR	IN 1 TO 5 YEARS	OVER 5 YEARS
Lease liabilities	96,142	340,765	232,559
Borrowings	89,343	162,621	–
Trade payables	160,434	–	–
Other financial liabilities	54,677	2,888	–
TOTAL	400,596	506,274	232,559

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Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The COVID-19 worldwide outbreak was also increasing uncertainties. Mobility restrictions, quarantines and similar lockdown measures implemented in Russia to cope with the pandemic affected the operations of the Group leading to less frequent customer visits to stores but larger purchases and shift towards digitalisation. From the beginning of COVID-19 pandemic the Group has taken necessary measures to avoid direct impact of the pandemic on its operations with a special focus on protection of the health of employees and customers and uninterrupted business processes. The Group introduced measures such as mandatory body temperature checks for all employees entering its premises, provided masks and disposable gloves to operational personnel, introduced additional disinfection hours daily for all stores as well as additional disinfection in stores and other premises. The Group has assessed a potential impact of the COVID-19 outbreak on its going concern (Note 2), impairment of non-current assets (Notes 10, 13) and allowance for expected credit losses (Note 17). There have been no modifications to financial liability contracts and covenants.

The future stability of the Russian economy is largely dependent upon the impact and span of the COVID-19, the measures taken to contain the spread of the virus and further government reforms, developments and the effectiveness of economic, financial and monetary measures undertaken by the government. Should the economy be in a long-term recession after the pandemic that may affect the Group's financial position, cash flows and results of operations. The Group expects that this effect may be compensated by transfer of customers from HORECA segment (hotels, restaurants, cafes) as well as by new opportunities provided by online sales and express deliveries.

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 performed in Note 5. This ratio is included as covenants into some of Group's loan agreements (Note 21). At 31 December 2020 the Group complied with the requirements under the loan facilities.

34 Fair value of financial instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

The carrying amount of cash and cash equivalents and trade and other financial receivables approximates their fair value.

Liabilities carried at amortised cost

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

The fair value of bonds traded on the MOEX and the SE is determined based on active market quotations and amounted to RUB 75,221 at 31 December 2020 (31 December 2019: RUB 85,045). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 73,853 at 31 December 2020 (31 December 2019: RUB 83,795) (Note 21). The fair value of long-term borrowings amounted to RUB 116,536 at 31 December 2020 (31 December 2019: RUB 111,972). The measurement is classified in level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using interest rate of similar instruments available on the market. The sensitivity analysis shows that the increase/decrease of the market interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 1,273 at 31 December 2020. The fair value of short-term borrowings was not materially different from their carrying amounts.

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FOR THE YEAR ENDED 31 DECEMBER 2020
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Commitments and contingencies

Capital expenditure commitments

At 31 December 2020 the Group contracted for capital expenditure for the acquisition of property, plant and equipment and intangible assets of RUB 7,144 (net of VAT) (31 December 2019: RUB 7,386).

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 2020.

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.

In 2020 Russian legislative authorities performed further update of state taxation system and continue to diligently collaborate with foreign tax authorities in the framework of an international tax information exchange which makes corporate operations more transparent. After the speech of the Russian President about the intention to increase withholding tax rate on dividends and interest paid from Russia to the so-called "offshore jurisdictions" it is generally known that the Russian Ministry of Finance sent letters to finance ministries of some foreign jurisdictions regarding proposed changes to the current tax rates provided in Double Tax Treaties (DTTs), including Cyprus, Luxembourg, Malta and the Netherlands.

In the second half of 2020 it was officially announced by the Russian Ministry of Finance, Russia signed a Protocol to amend the double tax treaties with Cyprus, Luxembourg and Malta. The changes related to DTT with Cyprus come into force from 1 January 2021 and would not apply retrospectively to income paid in 2020. With the Netherlands the negotiations are still in process. In case of denunciation the treaty will cease to have effect not earlier than from 1 January 2022.

The Russian transfer pricing legislation is to the large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. Starting from 1 January 2019, a significant number of domestic transactions was excluded from the transfer pricing control in Russia. Only transactions between Russian companies that apply different tax rates on profits or special tax regimes are subject to the rules, and only if income from those transactions exceeds RUB 1 billion per year. Moreover, starting from 1 January 2019, a threshold of RUB 60 million applies for cross-border transactions to be classified as controlled for transfer pricing purposes.

The amendments described above as well as 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.

The Russian authorities also take an array of measures meant to support the public and businesses during the COVID-19 outbreak, including a number of tax initiatives which are aimed to shield the business and which are relevant to the Group:

- Right to pay monthly advances on actual profit;
- Right to deduct the "expenses for COVID-19" under article 264 of the Russian Tax Code;
- Licenses for retail sale of alcoholic and alcohol-containing products are extended for 12 months if their term expires during the period from 15 March 2020 till 31 December 2020.

Notes to the Consolidated Financial Statements

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Commitments and contingencies

Tax contingencies, commitments and risks (continued)

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.

In 2020 the Group made net accrual of provisions and liabilities for tax uncertainties attributable to income tax and non-income tax risks in amount of RUB 5,286 including net accrual of non-income tax provision of RUB 1,882 , income tax provision of RUB 3,373 and net accrual of indemnification asset of RUB 31.

In 2019 the Group made net accrual of provisions and liabilities for tax uncertainties attributable to income tax and non-income tax risks in amount of RUB 5,879 including net accrual of non-income tax provision of RUB 2,176 and income tax provision of RUB 3,583. This accrual of provision also includes tax provision recognised as a result of business combinations (Note 7) of RUB 120 with simultaneous recognition of indemnification asset of RUB 120.

At the same time management has recorded liabilities for income taxes in the amount of RUB 2,384 (31 December 2019: RUB 444) and provisions for taxes other than income taxes in the amount of RUB 4,202 at 31 December 2020 (31 December 2019: RUB 2,294) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2019	**517**
Release of provision	(718)
Accrual of provision	6,597
Offset of provision	(3,658)
Balance at 31 December 2019	**2,738**
Release of provision	(431)
Accrual of provision	5,717
Offset of provision	(1,438)
Balance at 31 December 2020	**6,586**

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Subsequent events for the group

There were no significant events after the reporting date.

X5 Retail Group N.V.

Company Statement of Financial Position

at 31 December 2020
Before appropriation of profit

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
Assets			
Non-current assets			
Financial fixed assets	38	125,231	205,067
Deferred tax assets	44	569	–
		125,800	**205,067**
Current assets			
Amounts due from subsidiaries		2,945	2,031
Prepaid expenses		6	12
Other receivables		470	220
Cash and cash equivalents		1	–
		3,422	**2,263**
TOTAL ASSETS		**129,222**	**207,330**
Equity and liabilities			
Paid up and called up share capital	39	6,156	4,708
Share premium account	39	46,086	46,150
Share-based payment reserve	39, 42	104	105
Translation reserve	39	(3,698)	(2,250)
Retained earnings	39	17,850	48,336
Profit for the year	39	28,344	19,507
TOTAL EQUITY		**94,842**	**116,556**
Provisions			
Deferred tax liabilities	44	395	4,031
		395	**4,031**
Non-current liabilities			
Loans from group companies	40	1,175	3,784
Bank loan	41	–	46,531
		1,175	**50,315**
Current liabilities			
Loans from group companies	40	–	3,706
Amounts due to group companies		32,294	32,479
Accrued expenses and other liabilities		516	243
		32,810	**36,428**
TOTAL LIABILITIES		**34,380**	**90,774**
TOTAL EQUITY AND LIABILITIES		**129,222**	**207,330**

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
18 March 2021

Svetlana Demyashkevich
CHIEF FINANCIAL OFFICER
18 March 2021

X5 Retail Group N.V.

Company Statement of Profit or Loss

for the year ended 31 December 2020

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	NOTE	2020	2019
Other income		903	450
General and administrative expenses	43	(745)	(655)
Operating profit/(loss)		**158**	**(205)**
Finance costs		(3,959)	(3,698)
Finance income		1,156	1,397
Net foreign exchange (loss)/gain		(616)	182
Loss before tax		**(3,261)**	**(2,324)**
Withholding tax	44	(1,272)	–
Income tax benefit/(expense)	44	4,205	(1,579)
Income on participating interest after tax	38	28,672	23,410
Profit for the year		**28,344**	**19,507**

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
18 March 2021

Svetlana Demyashkevich
CHIEF FINANCIAL OFFICER
18 March 2021

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

37 Accounting principles

The Company was incorporated as a limited liability Company under the laws of The Netherlands on 13 August 1975 and has its statutory seat in Amsterdam. The Company is publicly owned. The principal activity of the Company is to act as holding company for retail chains operating mainly in Russia. The Company is registered with the Amsterdam Chamber of Commerce under number 33143036.

Basis of presentation

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

Accounting principles

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

As the Company mainly exploits Russian grocery stores, the functional currency of the Company is the Russian Rouble as this is the currency of its primarily business environment and reflects the economic reality. Unless stated otherwise all amounts are in millions of Russian Rouble ("RUB").

Investments in group companies

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

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

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

When the Company's share of losses in an investment in a group company equals or exceeds its interest in the investment (including separately presented goodwill or any other unsecured non-current receivables being part of the net investment), the Company does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case the Company will recognise a provision.

Amounts due from group companies

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

To avoid the difference between equity in the Consolidated and the Company's Financial Statements any expected credit losses on intercompany receivables recognised in the Company's statement of Profit or Loss are eliminated (reversed) through the respective intercompany receivable account.

Financial guarantee

At initial recognition the financial guarantees contracts are measured at the fair value.

On subsequent measurement financial guarantees contracts are measured at the 'higher of': The expected credit losses allowance as defined above, and the amount initially recognised (i.e. fair value) less any cumulative amount of income amortisation recognised.

For intercompany financial guarantees issued by the Company, the expected default is not significant and therefore the financial guarantees are not recognised.

Shareholders' equity

Issued and paid-up share capital, which is denominated in Euro, is restated into Russian Rouble ("RUB") at the official exchange rate of the Central Bank of the Russian Federation as at reporting date in accordance with section 2:373.5 of the Dutch Civil Code. The difference is settled in the translation reserve.

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020
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Financial fixed assets

The list of significant group companies was disclosed in the consolidated financial statements (please refer to Note 6 of the consolidated financial statements).

	31 DECEMBER 2020	31 DECEMBER 2019
a. Movements in the interests in group companies have been as follows		
Opening balance	183,481	160,063
Acquisitions / capital contribution	100	8
Deinvestment of Group company	(199)	–
Change in equity of a subsidiary due to dividend distributions	(97,913)	–
Profit from group companies for the year	28,672	23,410
Closing balance	**114,141**	**183,481**
b. Movements in the loans to group companies were as follows		
Opening balance	21,586	7,433
Additions	9,619	35,079
Settlement/repayment	(20,154)	(20,903)
Foreign exchange differences	39	(23)
Closing balance	**11,090**	**21,586**
Non-current financial assets	125,231	205,067
Total financial fixed assets	**125,231**	**205,067**

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

38 Financial fixed assets

31 DECEMBER 2020	LOAN CURRENCY	CARRYING VALUE	INTEREST RATE, % P.A.	MATURITY DATE
Borrowing group company				
Kelwin Ltd	RUB	10,402	10.5%	December 2022
Perekrestok Holdings B.V.	USD	203	11%	December 2022
ALPEGRU RETAIL PROPERTIES Ltd	RUB	189	10.5%	December 2022
Trade House PEREKRIOSTOK JSC	EUR	110	10%	December 2022
X5 Corporate Center LLC	RUB	105	6.5%	December 2024
SPEAK GLOBAL Ltd	RUB	62	10.5%	December 2022
Perekrestok Holdings B.V.	EUR	18	11%	December 2022
Retail Express Ltd.	RUB	1	10.5%	December 2022
Total loans to group companies		**11,090**		

31 DECEMBER 2019	LOAN CURRENCY	CARRYING VALUE	INTEREST RATE, % P.A.	MATURITY DATE
Borrowing group company				
Agrotorg LLC	RUB	19,398	9%	December 2024
Kelwin Ltd	RUB	1,252	10.5%	December 2022
GSWL Finance Ltd	RUB	662	11%	December 2021
Perekrestok Holdings B.V.	USD	169	11%	December 2022
ALPEGRU RETAIL PROPERTIES Ltd	RUB	66	11%	December 2022
SPEAK GLOBAL Ltd	RUB	29	0%	December 2022
Perekrestok Holdings B.V.	EUR	9	11%	December 2022
Retail Express Ltd.	RUB	1	11%	December 2022
Total loans to group companies		**21,586**		

The total amount of loans provided to group companies was RUB 11,090 (2019: RUB 21,586) and it approximated the fair value. The loans have not been secured.

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

39 Shareholders' equity

As at 31 December 2020 total equity included the reserve for capitalised IT development costs in the amount of RUB 17,116 (31 December 2019: RUB 9,022).
As at 31 December 2020 equity available for distribution of dividends to shareholders comprised RUB 71,466 (31 December 2019: RUB 102,721).

Share capital issued

As at 31 December 2020 the Company had 190,000,000 authorised ordinary shares (31 December 2019: 190,000,000) of which 67,882,444 ordinary shares were outstanding (31 December 2019: 67,890,054) and 10,774 ordinary shares held as treasury stock (31 December 2019: 3,164). The nominal value of each ordinary share is EUR 1.

Statutory profit appropriation

On 12 May 2020, the General Meeting of Shareholders approved the dividend over 2019 in the amount of RUB 29,996 (RUB 441.88 per share).

On 18 November 2020, the Company announced the interim dividend for 2020 in the amount of RUB 19,997 (RUB 294.58 per share) and paid them in December 2020.

The Supervisory Board proposed to the General Meeting of Shareholders that a dividend of RUB 30,000 (RUB 441.94 per ordinary share) be paid with respect to 2020. If approved, this will be in addition to the interim dividend of RUB 19,997 (RUB 294.58 per share). The total dividend payment for the full year 2020 would therefore total RUB 49,997 (RUB 736.52 per share) (2019: RUB 29,996 (RUB 441.88 per share)).

	SHARE CAPITAL[1]	SHARE PREMIUM	SHARE-BASED PAYMENT (EQUITY)	RETAINE EARNINGS	PROFIT FOR THE YEAR	TRANSLATION RESERVE	TOTAL
Balance as at 1 January 2019	**5,395**	**46,192**	**118**	**44,694**	**28,642**	**(2,937)**	**122,104**
Acquisition of treasury shares	–	(75)	–	–	–	–	(75)
Share-based payment compensation (Note 29)	–	–	63	–	–	–	63
Transfer	–	–	–	28,642	(28,642)	–	–
Currency translation	(687)	–	–	–	–	687	–
Transfer of vested and waived equity rights (Note 29)	–	33	(76)	–	–	–	(43)
Profit for the year	–	–	–	–	19,507	–	19,507
Dividends	–	–	–	(25,000)	–	–	(25,000)
Balance as at 1 January 2020	**4,708**	**46,150**	**105**	**48,336**	**19,507**	**(2,250)**	**116,556**
Acquisition of treasury shares	–	(107)	–	–	–	–	(107)
Value of employee services	–	–	60	–	–	–	60
Transfer	–	–	–	19,507	(19,507)	–	–
Currency translation	1,448	–	–	–	–	(1,448)	–
Transfer of vested and waived equity rights (Note 29)	–	43	(61)	–	–	–	(18)
Profit for the year	–	–	–	–	28,344	–	28,344
Dividends	–	–	–	(49,993)	–	–	(49,993)
Balance as at 31 December 2020	**6,156**	**46,086**	**104**	**17,850**	**28,344**	**(3,698)**	**94,842**

1 Share capital translated at the year-end exchange rate EUR/RUB of 90.6824 (2019: 69.3406).

Notes to the Company Financial Statements

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Loans from group companies

In September 2020 the currency of the loan from Trade House PEREKRIOSTOK JSC was changed to RUB.

	LOAN CURRENCY	31 DECEMBER 2020	INTEREST RATE, % P.A.	FINAL MATURITY DATE
Trade House PEREKRIOSTOK JSC	RUB	1,175	6%	December 2022
TOTAL		1,175		

	LOAN CURRENCY	31 DECEMBER 2019	INTEREST RATE, % P.A.	FINAL MATURITY DATE
Trade House PEREKRIOSTOK JSC	RUB	1,150	6.5%	December 2020
Trade House PEREKRIOSTOK JSC	EUR	1,347	5%	December 2020
Trade House PEREKRIOSTOK JSC	USD	1,209	7%	December 2020
X5 FINANSE LLC	RUB	3,784	7.5%	December 2022
TOTAL		7,490		

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FOR THE YEAR ENDED 31 DECEMBER 2020
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Bank loan

During the year ended 31 December 2020 the Company repaid bank loans.

	31 DECEMBER 2020	31 DECEMBER 2019
Balance as at 1 January		
Opening balance	46,531	21,572
Proceeds from the bank loan	–	24,938
Settlement / repayment	(46,603)	–
Amortisation of transaction costs	72	21
Closing balance	**–**	**46,531**

Notes to the Company Financial Statements

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Share-based payments

X5 Retail Group N.V. operates equity settled share based compensation plan in the form of its Restricted Stock Unit Plan.

Members of the Supervisory Board receive an annual award of Restricted Stock Units (RSUs). For the annual award of RSU's for members of the Supervisory Board, please refer to Note 28 in the consolidated financial statements, which are deemed incorporated and repeated herein by reference.

The receivable or expense is accounted for at the fair value determined in accordance with the policy on share-based payments as included in the consolidated financial statements, including the related liability for cash settled plans or as equity increase for equity settled plans (Note 29).

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

	2020	2019
Share-based payment reserve as at 31 December	104	105
Expenses for the year ended 31 December	60	63

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020
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General and administrative expenses

Total fees as referred to in section 2:382a Dutch Civil Code, paid to audit firm Ernst & Young Accountants LLP amounted to RUB 26 (2019: RUB 22).

	2020	2019
Other expenses	659	570
Audit expenses	26	22
RSU	60	63
TOTAL	745	655

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020
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Income tax expense

	2020	2019
Current tax on dividends distributed by the Company's subsidiaries*	1,272	–
Deferred income tax (benefit)/charge	(4,205)	1,579
Income tax (benefit)/ charge for the year	**(2,933)**	**1,579**

** During 2020 the Company received dividends of RUB 101,728 (gross amount including current tax on dividends distributed by the Group's subsidiaries of RUB 5,087, please refer Note 30) from Russian subsidiary.*

Theoretical and effective tax rates are reconciled as follows:

	2020	2019
Loss before taxation	**(3,261)**	**(2,324)**
Theoretical tax at the effective statutory rate*	**(815)**	**(581)**
Tax effect of items which are not deductible or assessable for taxation purposes:		
Change in deferred tax liability associated with investments in subsidiaries	(3,636)	1,579
Deferred tax benefit arising from the recovery of the deferred tax assets unrecognised in previous periods	(648)	–
Current tax on dividends distributed by the Group's subsidiaries	1,272	–
Unrecognised tax loss carry forwards for the year	759	564
Other non-deductible expense	135	17
Income tax (benefit)/charge for the year	**(2,933)**	**1,579**

** Profit before taxation on operations in Netherlands is assessed based on the statutory rate of 25%.*

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

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Income tax expense

Deferred income tax

The Company estimates that part of the temporary difference related to investments in subsidiaries will be reversed in the foreseeable future and therefore accrued related deferred tax liability.

The Company estimated the temporary differences related to unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 2,282 (2019: RUB 4,880) and unused tax credits of RUB 5,051 (2019: RUB 2,004).

At 31 December 2020 these temporary differences in the amount of RUB 2,282 were available for carry forward for a period not less than two years, temporary differences related to unrecognised potential deferred tax assets in respect of unused tax credits in the amount of RUB 5,051 have no time restrictions for carry forward.

Deferred tax assets and the deferred tax benefit in the Company statement of profit or loss were attributable to the following items for the year ended 31 December 2020:

	1 JANUARY 2020	CREDITED/ (DEBITED) TO PROFIT AND LOSS	31 DECEMBER 2020
Tax effects of deductible temporary differences and tax loss carry forwards			
Tax losses available for carry forward	–	569	569
Gross deferred tax assets	**–**	**569**	**569**
Recognised deferred tax assets	**–**	**569**	**569**
Tax effects of taxable temporary differences			
Investments into subsidiary	(4,031)	3,636	(395)
Gross deferred tax liabilities	**(4,031)**	**3,636**	**(395)**
Recognised deferred tax liabilities	**(4,031)**	**3,636**	**(395)**

Deferred tax liabilities and the deferred tax charge in the Company statement of profit or loss were attributable to the following items for the year ended 31 December 2019:

	1 JANUARY 2019	CREDITED/ (DEBITED) TO PROFIT AND LOSS	31 DECEMBER 2019
Tax effects of taxable temporary differences			
Investments into subsidiary	(2,452)	(1,579)	(4,031)
Gross deferred tax liabilities	**(2,452)**	**(1,579)**	**(4,031)**
Recognised deferred tax liabilities	**(2,452)**	**(1,579)**	**(4,031)**

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020
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45 Staff numbers and employee expenses

The number of persons (excluding members of the Management board and the Supervisory board) having an employment contract with the Company is seven. For the remuneration of members of the Management Board and the Supervisory Board, please refer to Note 28 in the consolidated financial statements, which are deemed incorporated and repeated herein by reference. Incurred wages, salaries and related social security charges in relation to the other seven employees comprise RUB 33 (included former employee) (2019: RUB 16).

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

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Contingent rights and liabilities

Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Company had the following guarantees issued under obligations of its group companies:

	31 DECEMBER 2020	31 DECEMBER 2019
Irrevocable offer to holders of X5 FINANSE LLC bonds	74,848	64,920
Irrevocable offer to holders of X5 Finance B.V. Eurobonds	–	20,375
Suretyship for Agrotorg LLC	–	25,054
TOTAL	**74,848**	**110,349**

The guarantees issued mature as follows:

	31 DECEMBER 2020	31 DECEMBER 2019
Not later than 1 year	8,967	42,840
Later than 1 year and no later than 5 years	65,881	67,509
TOTAL	**74,848**	**110,349**

Notes to the Company Financial Statements

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Related party transactions

Please refer to Note 8 of the consolidated financial statements; all group companies are also considered related parties. During 2019 and 2020 there no transactions with related parties outside the normal course of business.

Statutory director's compensation

The Company has a Management Board and a Supervisory Board. The total remuneration of all Board members as well as key management personnel is disclosed in Note 28 and Note 29 of the Consolidated Financial Statements.

Loans to group companies

For loans issued to and interest income from group companies please refer to Note 38.

Loan from group companies

For loan received from and interest expenses to group companies please refer to Note 40.

Notes to the Company Financial Statements

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Subsequent events for the company

There were no significant events after the reporting date.

Amsterdam, 18 March 2021

Management Board:

Frank Lhoëst
Igor Shekhterman
Quinten Peer

Supervisory Board:

Stephan DuCharme
Mikhail Fridman
Marat Atnashev
Geoff King
Peter Demchenkov
Michael Kuchment
Karl-Heinz Holland
Nadia Shouraboura

X5 Retail Group N.V.

Other information

Auditor's report

The auditor's report is included on pages 262-267.

Statutory profit appropriation

In Article 30 of the Company's Articles of Association the following has been stated concerning the appropriation of result:

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

The Supervisory Board proposes to the General Meeting of Shareholders that a dividend of RUB 30,000 (RUB 441.94 per ordinary share) be paid with respect to 2020. If approved, this will be in addition to the interim dividend of RUB 19,997 (RUB 294.58 per share). The total dividend payment for the full year 2020 will therefore total 49,997 (RUB 736.52 per share) (2019: RUB 29,996 (RUB 441.88 per share)).

Subsequent events

For subsequent events, please refer to Notes 36 and 48 of the financial statements.

Independent's auditor report

To: The Supervisory Board and
Shareholders of X5 Retail Group N.V.

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

We have audited the financial statements 2020 of X5 Retail Group N.V., based in Amsterdam, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2020, and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2020, and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2020;
- The following statements for 2020: the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity;
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- The company statement of financial position as at 31 December 2020;
- The company statement of profit or loss for 2020;
- The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of X5 Retail Group N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

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

Our audit approach

Our understanding of the business

X5 Retail Group N.V. is at the head of a group of subsidiaries operating food retail stores in Russia. Taking into account the structure of the group, we have determined the nature, timing and extent of the audit procedures for the subsidiaries as described in the section 'Scope of the group audit'. In our audit we have paid specific attention to various topics based on the activities of the group, significant developments during the year and our risk assessment as described in the section 'Our key audit matters'.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks and to 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.

Materiality

Materiality	RUB 4.9 billion (2019: RUB 3.1 billion)
Benchmark applied	2% of EBITDA
Explanation	Based on our professional judgment, we consider an earnings-based measure as the most appropriate basis to determine materiality. On the basis of our analysis of stakeholders' needs and main KPIs set for the Management Board, we believe that EBITDA, is an important benchmark for the financial performance of the Group. The materiality and applied benchmark are in line with the 2019 audit.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of RUB 243 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

X5 Retail Group N.V. is at the head of a group of subsidiaries operating food retail stores in Russia. The financial information of this group is included in the consolidated financial statements of the Group. The Group's accounting function is centralized in Moscow and Nizhny Novgorod in the Russian Federation and the Group is primarily managed as a single operating unit with multiple operating segments.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. We have used the work carried out by EY Moscow to perform full-scope audit procedures to obtain sufficient coverage for financial statement line items from a consolidated financial statement perspective. We executed a program of regular communication that has been designed to ensure that the audit progress and findings were discussed between us and the EY Moscow audit team.

Due to the COVID-19 pandemic the direction, supervision and performance of the group audit engagement were performed remotely. The review of audit work papers of the component team was facilitated by having remote access to EY Moscow's electronic audit file platform. In order to compensate for the limitations related to the absence of physical meetings and direct observations, we increased the frequency and attendance of our interactions with the component team. We have had virtual conference calls with EY Moscow during planning and execution phases, as well as meetings with the Group's Management Board, finance and reporting, risk management, security, internal audit and legal representatives.

Due to the centralized accounting function and our corresponding audit approach, these procedures are performed on a consolidated level with the coverage that represents 100% of the group's total assets, profit and gross revenues.

By performing the procedures mentioned above, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Teaming and use of specialists

We ensured that our team and the EY Moscow team included the appropriate skills and competences which are needed for the audit of a listed client in the food retail industry. We included specialists in our audit team in the areas of IT audit, forensics, tax, real estate and business valuations, corporate governance (including remuneration) and IFRS reporting.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives, directors (including finance and reporting, internal audit, legal, tax, security and risk management) and the Supervisory Board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic and legal specialists. We also considered whether the COVID-19 pandemic gave rise to specific fraud risk factors resulting from a potential dilution in the effectiveness of internal controls.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in Note 3 to the financial statements. We have also used data analysis to identify and address high-risk journal entries.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes, inspection of internal audit and compliance reports, inspection of legal claims reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations from the management board that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern

We performed the following procedures in order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting. Management made a specific assessment of the company's ability to continue as a going concern and to continue its operations for at least the next 12 months from when the financial statements are authorized for issue. We discussed and evaluated the assessment with management exercising professional judgment and maintaining professional skepticism, and specifically focusing on the process followed by management to make the assessment, management bias that could represent a risk, the impact of current events and conditions have on the company's operations and forecasted cash flows, with a focus on whether the company will have sufficient liquidity to continue to meet its obligations as they fall due.

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

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General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter "IFRS 16 implementation", which was included in our last year's auditor's report, is not considered a key audit matter for this year as the key estimates and judgements underpinning management's IFRS 16 impact assessment and related transition disclosures were concluded upon in 2019.

Impairment of goodwill (see note 13 to the financial statements)

Risk

As a result of past acquisitions, the Group carries capitalized goodwill with a carrying amount of RUB 105 billion as at 31 December 2020. In accordance with the requirements of IAS 36 Impairment of Assets, management performs an impairment assessment of the capitalized goodwill on an annual basis and whenever there is an indication of impairment.

The Group identifies separate operating segments for each of its retail formats. The goodwill impairment assessment is performed at the level of operating segments.

The impairment assessment includes the assessment of the recoverable amount based on expected future cash flows. These cash flows are based on current budgets and forecasts approved by the Management Board and are extrapolated for subsequent years based on consumer price index.

Key assumptions used are revenue growth, projected EBITDA margin and the discount rate.

We consider this a key audit matter as the goodwill amount is significant, the assessment requires significant judgment in relation to the assumptions used in the model, and there is complexity in the valuation methodology used to determine whether the carrying amount of goodwill is recoverable.

Our audit approach

We obtained an in-depth understanding of the Group's methodology used for performing the goodwill impairment test and ensured it is in accordance with EU-IFRS. We challenged management's key assumptions used in the goodwill impairment test by comparing these to industry trends and forecasts developed by independent analysts.

Regarding the key assumptions used and methodology applied, we involved internal valuation experts, who compared assumptions used in the model to observable market data. They also verified the methodology applied is compliant with EU-IFRS. We also verified that the ongoing restructuring of the Group's Karusel retail format and the impact of the COVID-19 pandemic have been appropriately taken into account in the goodwill impairment test.

We tested the accuracy of prior year estimates and assumptions used by management to identify potential bias.

We tested mathematical accuracy of the goodwill impairment test, reconciled internal inputs in the model with audited accounting records and ensured consistency of data used for goodwill impairment testing with other information obtained during the audit.

We considered the adequacy of the disclosures to the financial statements.

Key observations

We consider management's key assumptions to be within a reasonable range of our own expectations and goodwill to be appropriately accounted. Additionally, we consider the related disclosures in note 13 to the financial statements to be adequate.

Impairment of stores and other non-current assets (see notes 10, 11, 12, and 14 to the financial statements)

Risk	The Group operates more than 17,000 retail stores in Russia. The associated carrying amount of stores and other non-current assets, such as right-of-use assets, property, equipment and intangible assets, excluding goodwill, approximated RUB 838 billion as at 31 December 2020 is considered a key audit matter due to the magnitude of the carrying value as well as the judgment involved in assessing the recoverability of the invested amounts. Management assesses annually the existence of triggering events for impairment of assets or reversals thereof related to underperforming stores. For the impairment assessment that is performed in accordance with Group policies and procedures, management first determines the value in use for each store and compares this to the carrying value. Where the carrying value is higher than the value in use, the fair value less cost of disposal is determined. We consider this a key audit matter as the assessment requires significant judgment. The judgment involved focuses predominantly on the discount rate and future store performance, which is, among others, dependent on the expected revenue and the local competition. The expected revenue is determined based on the strategic growth plan prepared with reference to macroeconomic forecasts. Management assesses the impairment and impairment reversal on an annual basis using an internal calculation model. Judgment is also involved in determination of the fair value of property undertaken on the basis of internal and external property valuation reports.
Our audit approach	We assessed appropriateness of the Group's policies and procedures to identify triggering events for (reversal of) impairment of assets related to underperforming stores and other non-current assets. For stores subject to an impairment test, we challenged management's key assumptions used in the cash flow forecast such as revenue growth and compared the assumptions used with internal forecasts, external data and historical performance. We also verified that the ongoing restructuring of the Group's Karusel retail format and the impact of the COVID-19 pandemic have been appropriately taken into account in managements key assumptions and forecasts. We also assessed the accuracy of management's forecasts used in prior year to identify potential bias. We involved our business valuation experts to evaluate the methodology, inputs and assumptions used in the model for consistency with general practice and market observable data. The audit of the model also included verification that the impairment methodology is consistently applied and that the model is mathematically accurate. We involved our real estate valuation experts to assess the (market) property valuations performed by the Group. We also assessed objectivity and competency of external appraisers engaged by the Group. We considered the adequacy of the disclosures to the financial statements.
Key observations	We consider management's key assumptions to be within a reasonable range of our own expectations and stores and other non-current assets to be appropriately accounted. Additionally, we find the related disclosures in notes 10, 11, 12 and 14 to the financial statements to be adequate.

Recognition of vendor allowances (see note 2.24 to the financial statements)

Risk	The Group receives various types of vendor allowances such as rebates and service fees. Rebates largely depend on volumes of products purchased and service fees are received for promotional activities that the Group undertakes with respect to certain products. These allowances represent a significant component of cost of sales and are recognized as a reduction of the cost value. While the majority of the allowances are settled during the financial year, a significant amount remains outstanding at each year-end and is recognized as part of trade receivables. The Group evaluates all required disclosures for vendor allowances to determine that they are appropriately included in the financial statements. We consider this a key audit matter because the arrangements in respect of these allowances are individually different and can be complex. Recognition of vendor allowances income and receivables requires certain judgment from management, for example, concerning delivery of the service and evidence thereof. The allocation of the allowances to inventory cost value also has an element of judgment.
Our audit approach	Our procedures included testing of internal controls related to occurrence, completeness and measurement of the allowances recorded in the accounting system and covered both IT application and manual controls, including controls related to periodic reconciliations with vendors. We selected a sample of vendors and obtained direct confirmations from vendors of their settlements with the Group as of 30 September 2020. We performed roll-forward procedures over vendor rebates including substantive analytical procedures and test of details over a sample of vendor rebates transactions and settlements to cover the period until year-end. We also tested on a sample basis documents supporting journal entries regarding the recognition of vendor rebates and services 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 verified that the accounting policy for the reduction of inventory cost related to vendor allowances is appropriate and has been applied correctly.
Key observations	We did not identify material exceptions and we found the management's recognition of vendor allowances to be reasonable. Additionally, we found the related disclosures in note 2.24 to the financial statements to be adequate.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Strategic Report including the CEO statement;
- Corporate governance reporting, including the Risk chapter, the report of the Supervisory Board and Remuneration report;
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 and Section 2:135b and 2:145 sub section 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 and Section 2:135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Management Board is responsible for the preparation of the other information, including the Management Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, other information required by Part 9 of Book 2 of the Dutch Civil Code and the remuneration report in accordance with Section 2:135b and 2:145 sub section 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the extraordinary general meeting of shareholders as the auditor of X5 Retail Group N.V. on 12 November 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

All non-prohibited services, both in the Netherlands and abroad, comply with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence).

Description of responsibilities for the financial statements

Responsibilities of the Management Board and the Supervisory Board for the financial statements

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

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

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

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Our audit approach section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Communication

We communicate with the Audit and Risk Committee, the Supervisory Board and the Management Board and regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the Audit and Risk Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

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

Amsterdam, 18 March 2021
Ernst & Young Accountants LLP
Signed by G.A. Arnold