Changing faster

2019

ANNUAL REPORT

X5.RU

X5 RETAIL GROUP

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All sections under Part 1 "Strategic Report" and Part 2 "Corporate Governance", with the exception of the Chairman's statement, Supervisory Board Report and Remuneration Report, together form the Management Report ("bestuursverslag") within the meaning of Section 2:391 of the Dutch Civil Code.

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STRATEGIC REPORT

Changing faster — leading by innovating and adapting

We are constantly adapting our business with our customers' needs at the centre of our decision-making. As technology-driven innovations are accelerating the pace of change in consumer behaviour and the competitive landscape, X5 is implementing a strategy that aims to strengthen the business today while preparing it to continue to lead tomorrow.

Overview

About this report

The X5 Retail Group annual report provides a yearly review of the Company's financial, operating, environmental, social and governance performance. The report also explains our latest strategic priorities and goals, and our progress against these objectives. In addition to complying with UK and Russian Federation listing requirements, as well as Netherlands Corporate Governance Code, our goal in publishing this report is to provide our stakeholders with an up-to-date and detailed picture of our current position and our plans for the future.

Report boundary and scope

This report covers the period from 1 January 2019 to 31 December 2019. The topics reviewed in this report include X5 Retail Group's business model and strategy, recently adopted sustainable development strategy, market and consumer trends, operating and financial performance, as well as the Company's progress on initiatives in the areas related to environmental, social and governance (ESG) criteria. The report covers the activities of X5 Retail Group and all of its operating subsidiaries. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). In order to ensure comparability during the transition period, IFRS financial results in this report are presented according to IAS 17 as well as new IFRS 16 standards. In addition to covering the financial year ending 31 December 2019, this report discusses any significant events that happened after the reporting date.

Materiality

The contents of this report were determined by X5 Retail Group management, based on its understanding of stakeholder interests, the economic and competitive landscape in Russia, our business model, risks and opportunities. Material issues are understood as both significant financial issues and material non-financial topics. 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. The framework of the United Nation Sustainable Development Goals (UN SDGs) and X5's sustainable development strategy, which was approved in 2019, were 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

In this report, we provide alternative performance measures (APMs) that are not defined or specified under IFRS requirements. We believe that these APMs provide important information on the performance of our business. We have included a glossary of the APMs used in this report on pages 132–135. This glossary includes an explanation of how each APM is calculated, why we use it and how it can be reconciled to a statutory measure, where relevant.

Financial and non-financial information

X5 Retail Group's management and Supervisory Board review the Company's financial, operating and other non-financial performance on a regular basis. This is reflected in this report, which also discusses the Company's performance in areas like innovation, consumer safety, reducing our impact on the environment, investments in local communities, providing our employees with a safe and enriching workplace, 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 confirms that this report addresses all material issues and provides a balanced overview of the Company's performance for the reporting period, as well as an accurate reflection of its strategic commitments. The Board approved the 2019 annual report for publication.

Our approach, mission and goals

X5 Retail Group operates a sustainable business model that aims to address three key priority areas that are important to our stakeholders and aligned with the UN SDGs that we have determined as being most relevant to our business: people (Zero Hunger, Good Health and Well-being, Decent Work and Economic Growth), the planet (Responsible Consumption and Production) and profits.

People

People are at the core of how we do business: we can only create value if we succeed at constantly adapting to changing demand from our customers in a highly competitive landscape. The people who work for us are essential to customer recognition: whether it is in-store staff who interact directly with customers or an employee in our Big Data Department developing new tools to help us better understand and respond to demand, we expect and value the contribution of every single person employed by X5 Retail Group. This is also reflected in the policies and practices we implement as an employer and the ways in which we help local communities to address issues that they face where X5 can make an impact.

Planet

We look at our impact on the planet in a broad sense that includes the environmental impact of our store and logistics operations. This ranges from constantly exploring measures to reduce energy consumption in our stores and seeking to reduce the carbon footprint or our fleet of trucks to recycling much of the waste produced at our stores and encouraging our customers to recycle packaging from the goods they purchase.

Profit

When our communities, customers and employees recognise the value that we create for them, we are confident that this will lead to recognition of the value that X5 Retail Group holds for shareholders. The key strategic KPIs that the management team uses to measure its success are based on customer recognition, employee recognition and shareholder recognition.

This defines our approach to business, which we believe enables X5 to build a sustainable business that creates value for all of its stakeholders. Detailed information on our sustainable development strategy is provided in the "Sustainable development" section on pages 162–209.

UN Sustainable Development Goals

■ Primary Goals
□ Secondary Goals

We took the decision in 2019 to structure our sustainable development activities based on the UN SDGs. We first reviewed these goals based on whether they are applicable to a food retailer, then looked at X5's own level of development with regard to its ability to contribute to these goals and reviewed their relevance to X5's stakeholders.

As a result of this process, we selected four key SDGs that will shape our strategy. The goals where we believe that X5 will have the greatest impact are zero hunger, good health and well-being, decent work and economic growth, and responsible consumption and production.

Beyond the four key objectives, X5 will focus on seven additional SDGs that we contribute to indirectly: climate action, marine ecosystem preservation, terrestrial ecosystem preservation, affordable and clean energy, gender equality, reduced inequalities, and sustainable cities and communities.

Our approach to doing business will be shaped by these SDGs as we integrate them into our overall business strategy and define measurable performance metrics for each.

Values

The values that we seek to instil in every one of our employees are key to achieving our strategic goals and are fully aligned with our people, planet, profits and approach to business.

Customer-oriented

- We put the customer at the centre of everything we do and at the centre of all of our decisions.
- We strive to find solutions that meet our customers' needs.
- We build long-term relationships with our customers.

Respect

- We are respectful in our interactions, problem-solving and feedback with customers, business partners, our employees and other stakeholders.
- We consider the opinions, interests and emotions of our stakeholders when making decisions and interacting.
- We help our stakeholders even if doing so goes beyond the scope of our job responsibilities.

Driven to achieve results

- We set goals for ourselves that require significant effort to achieve.
- We take responsibility for our actions.
- We reward our employees for their achievements, while also acknowledging that we sometimes make mistakes.

Honesty and integrity

- We respect the agreements we sign and honour our obligations to all of our business partners and other stakeholders.
- We provide accurate and complete information about our products, activities and performance in a timely and transparent way.
- 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.

Key highlights

Sustainable growth and value for all stakeholders

X5 Retail Group further expanded its market share in Russian food retail in 2019, reaching 11.5% for the full year. While our Pyaterochka and Perekrestok formats both maintained positive like-for-like (LFL) performance throughout the year, we also developed new business areas like the Perekrestok.ru online supermarket and 5Post delivery service, which we believe will be sources of growth in the future.

As X5 moves forward, we see our competitive landscape changing as players from industries spanning from technology to financial services seek to develop or expand their online marketplaces. With our large and efficient network of stores and logistics operations — backed by a robust IT infrastructure, industry-leading in-house big data capabilities and established innovations track record — we aim to be one of the key players in the future of retail.

As we look to the future, we are also taking steps to consolidate the various sustainability activities that we already implement under a unified strategy with new, measurable KPIs. Having approved our first sustainability strategy in December 2019, over the course of the next three years we will be integrating sustainable development criteria into our overall business strategy and will further enhance our reporting on performance in these areas on an ongoing basis.

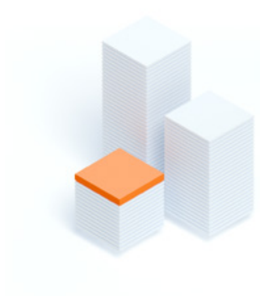
↑0.8 p.p. *2018/19*

11.5%

X5 market share

for the full year 2019

2019 financial and operating highlights



↑13.2% *2018/19*

1,734

BLN RUB

Revenue

2018/19

↑4.0%

Like-for-like sales

2018/19

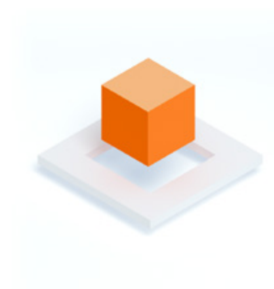
↑2.0%

Like-for-like traffic

↑18 b.p. *2018/19*

7.3%

Adjusted EBITDA* margin (under IAS 17)



1.71x

Net debt / EBITDA (under IAS 17)

As of 31 December 2019

12.0% *2018/19*

7,239

THOUSAND SQM

Selling space

As of 31 December 2019

* Adjusted EBITDA is EBITDA before costs related to the LTI programme, share-based payments, other one-off remuneration payments expense and one-off impact from Karusel transformation.

Strategic highlights

2019

Customer-centricity

Continued to adapt and innovate to refine our customer value proposition (CVP) to customer needs across all formats, further improving in-store service and leveraging efficiency gains to invest in customers. Added new client feedback tools into customer communication, marketing and assortment planning.

New store concepts

Tested and approved new store concepts for Pyaterochka and Perekrestok.

Adapting assortment

Expanded selection of fresh goods and fruits and vegetables. Launched Smart Kitchen to expand own production of ready-to-eat foods. Continued to develop private-label offerings, with a focus on health foods for this assortment.

Strengthen current business

Implemented successful measures to reduce staff turnover at both management level and store operations and reduce shrinkage, which helped to improve operational (LFL) and financial (margins) performance.

Digital transformation

Further strengthened X5's capacity to use digital technologies to enhance and improve business performance, with in-house Big Data Department piloting and launching services for internal and external use such as automated pricing, automated assortment for Pyaterochka and big data-driven promo tools for suppliers.

Innovation

Further expanded regular international search, review and piloting of innovative solutions, with 64 pilots of new technologies in 2019, including self-checkout counters developed in-house, loyalty terminals in stores, electronic price tags, a cashierless store and others.

Omnichannel and complementary businesses

The Perekrestok.ru online supermarket continued to grow, handling up to 8,000 orders per day at peak times and becoming the #2 online grocery platform in Russia. We launched the 5Post parcel delivery service for third-party e-commerce companies, expanded our parcel locker network to over 12,700 parcel lockers and pickup points in 9,957 stores and piloted same-day delivery service for groceries and ready-to-eat foods from our stores.

Maintaining profitability levels

While continuing to grow and consolidate the market, our focus on operational excellence and efficiency allowed us to maintain an adjusted EBITDA margin (under IAS 17) of 7.3%. Sustainable cash flows and profitability enabled X5 to pay out RUB 25 billion in dividends to shareholders in 2019, representing 87.3% of consolidated net profit for 2018. The Board recommended paying RUB 30 billion in dividends to shareholders in 2020, representing 115.8% of net profit under IAS 17 (153.8% under IFRS 16) for 2019.

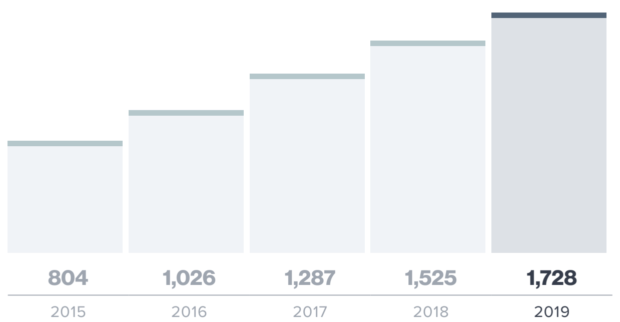
Adopted sustainability strategy

The Supervisory Board approved X5's first sustainable development strategy in December 2019. The strategy will be integrated with X5's overall business strategy and is based on the four UN Sustainable Development Goals through which the Company can make the most significant impact: end hunger, achieve food security and improved nutrition; ensure healthy lives and promote well-being for all at all ages; promote sustainable economic growth and decent work for all; ensure sustainable consumption and production patterns.

Operational highlights

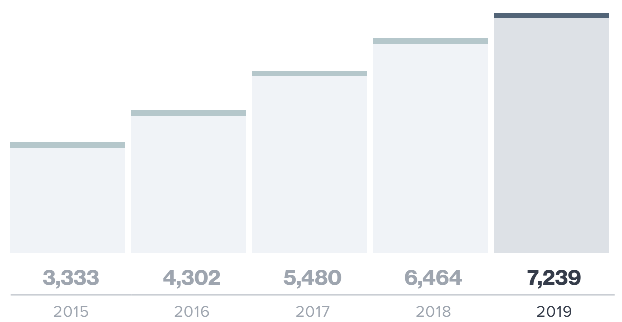
Net retail sales
21.1%
CAGR 2015–2019

BLN RUB

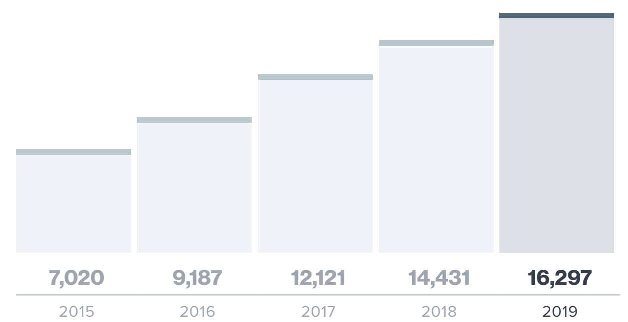


Selling space
21.4%
CAGR 2015–2019

THOUSAND SQM

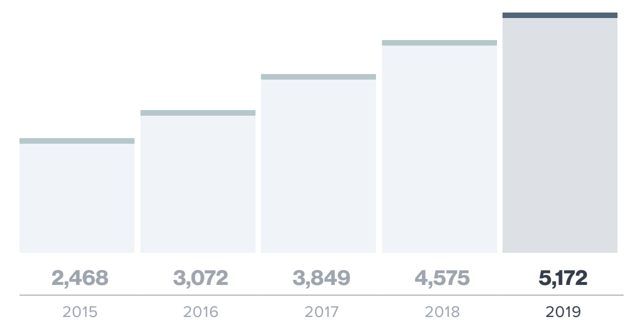


Number of stores
23.4%
CAGR 2015–2019



Customer visits
20.3%
CAGR 2015–2019

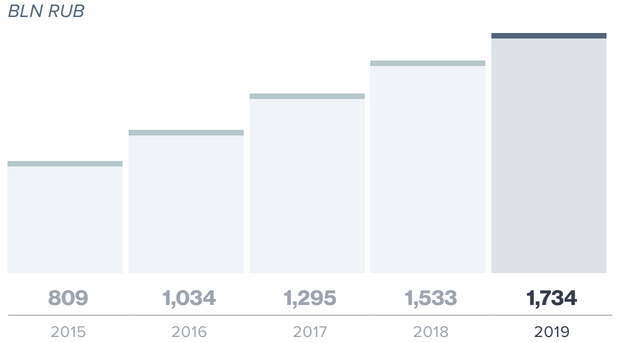
MLN



Financial highlights

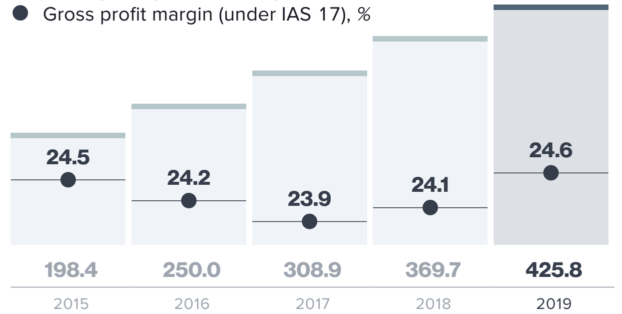
Revenue
21.0%
CAGR 2015–2019

BLN RUB



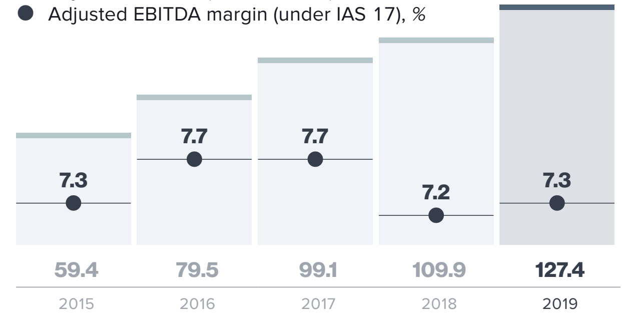
Gross profit
21.0%
CAGR 2015–2019

■ Gross profit (under IAS 17), *bln RUB*
● Gross profit margin (under IAS 17), %



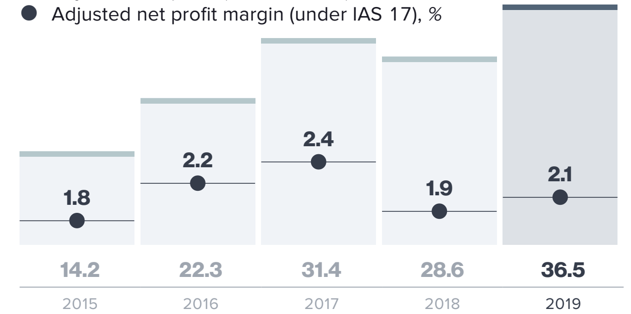
Adjusted EBITDA
21.0%
CAGR 2015–2019

■ Adjusted EBITDA (under IAS 17), *bln RUB*
● Adjusted EBITDA margin (under IAS 17), %



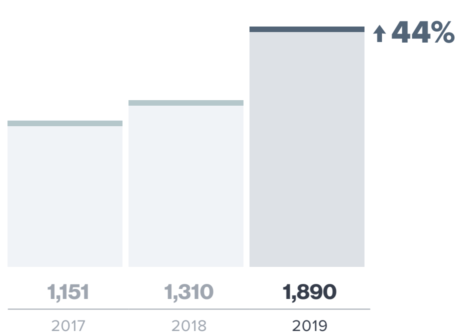
Adjusted net profit
26.7%
CAGR 2015–2019

■ Adjusted net profit (under IAS 17), *bln RUB*
● Adjusted net profit margin (under IAS 17), %



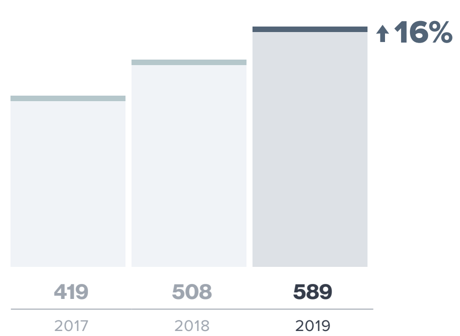
Sustainability highlights

Number of supplier audits conducted by Pyaterochka and Perekrestok (including audits of private-label goods)



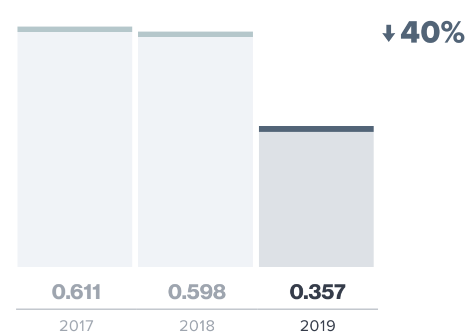
Amount of recyclable waste sold

THOUSAND TONNES



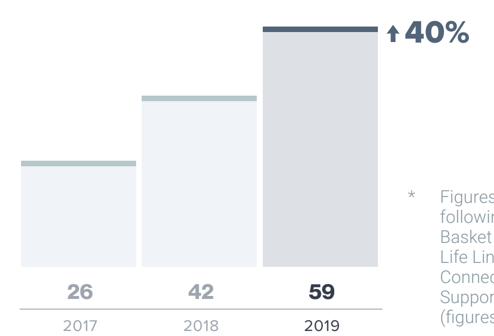
Lost time injury frequency rate (LTIFR) among employees

PER PERSON PER YEAR



Number of people receiving support through X5 social initiatives*

THOUSAND



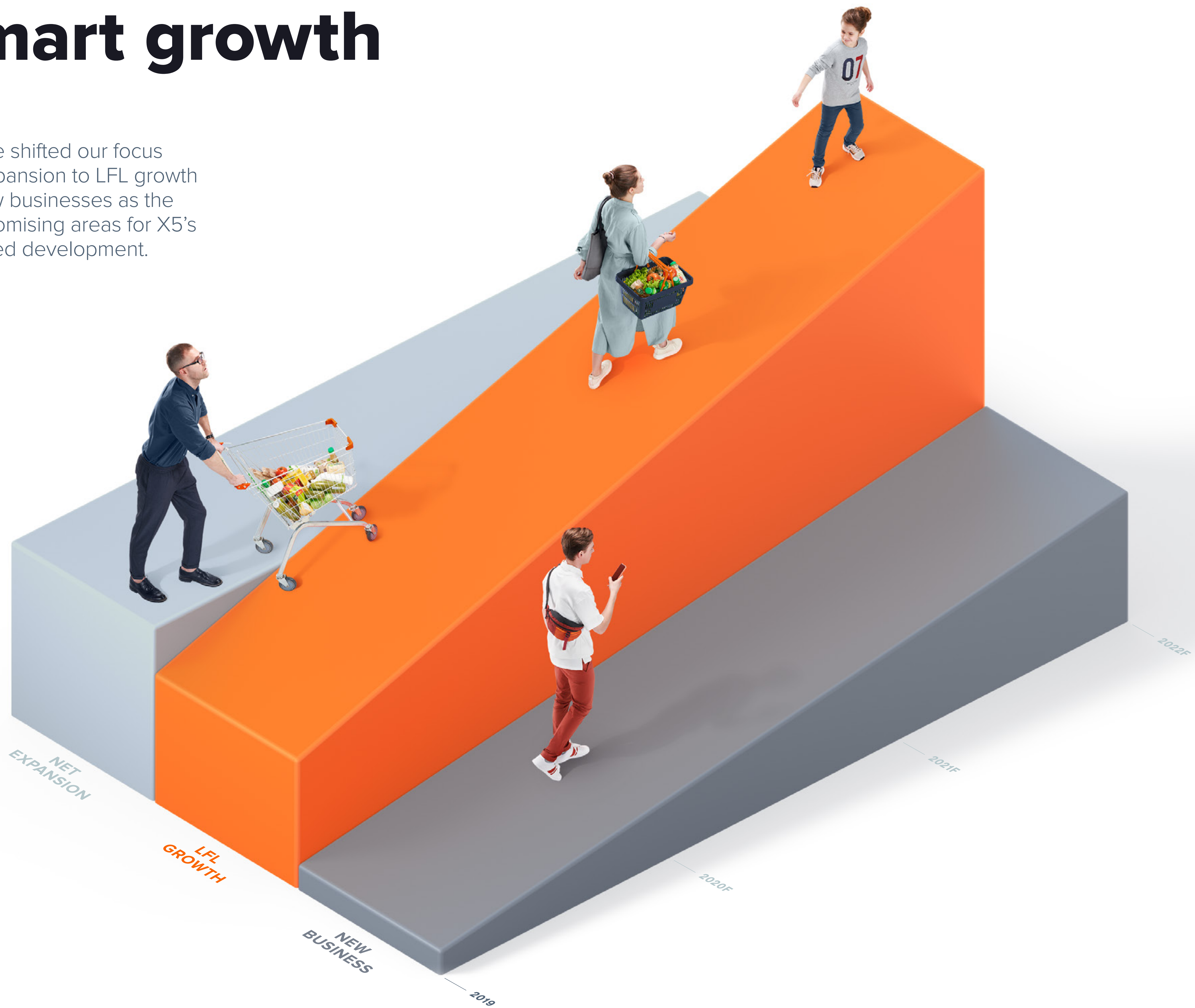
* Figures shown for the following initiatives: Basket of Kindness, Life Line Foundation, Connection Deaf–Blind Support Foundation, Liza Alert (figures for 2019 only)

Customer-centricity at the core of our business

We seek to understand our customers and meet, or even exceed, their expectations in every interaction they have with us. This ranges from constantly adapting our CVPs and piloting new store concepts to developing personalised offers based on individual customer behaviour and improving in-store processes to free up personnel to devote more time to customer service. Our customers and their needs are at the very core of our business, and they are the key factor in every decision that we make. We understand customers even better with the help of data from 130 million loyalty cards and constantly-upgraded customer feedback tools.

Smart growth

We have shifted our focus from expansion to LFL growth and new businesses as the most promising areas for X5's continued development.



Net expansion

As the pace of new store openings decelerates, we focus on quality and consolidation, with around 50% of our new stores replacing smaller players that previously occupied the premises. We continue to prefer leased premises for our organic expansion.

LFL growth

We are constantly adapting our CVPs and regularly updating store concepts in order to secure continued LFL growth. Key areas of focus include continued work on adapting assortment to changing customer needs, maintaining attractive pricing for products on our shelves, further enhancing freshness and introducing additional services in stores.

New business

We launch new businesses that enhance our existing client proposition and have strong prospects of becoming profitable: Perekrestok.ru and 5Post are examples that are already functioning, with others being piloted and prepared for launch.

Chairman's statement

Dear stakeholders,

In 2019 X5 Retail Group continued to expand and evolve, with new businesses emerging alongside the traditional retail formats. Entering into this exciting next phase of our development, the Supervisory Board adopted X5's first sustainability strategy, reflecting our commitment to embedding sustainable development priorities into X5's overall business strategy. This is something that I, as Chair of the Supervisory Board, take a personal interest in as the Board's attention to non-financial performance increases. Mindful of our social and environmental responsibilities, we are setting ambitious but realistic goals in order to move towards higher sustainability standards in line with generally accepted Sustainable Development Goals.

Stephan DuCharme
CHAIRMAN OF THE SUPERVISORY BOARD

Chairman's statement

Throughout the year X5 continued to focus on creating value for stakeholders across a wide range of areas.

Our strategy focused on further developing Pyaterochka proximity stores and Perekrestok supermarkets, which remain at the core of our business. Their success was supported by updated value propositions and the introduction of new store concepts, effective measures to improve efficiency, and innovative in-store solutions. In line with the global trend in food retail we accelerated our efforts in the ready-to-eat segment, with our first Smart Kitchen launched in 2019.

The Supervisory Board is continuously evolving X5's strategy to adapt to changes in the Russian market and global retail trends. To enhance our traditional businesses, X5's long-term development increasingly depends on commercial and technological innovation. Digital technologies and innovative retail concepts are being developed for the further benefit of customers, from the Perekrestok.ru online supermarket to in-store solutions that utilise artificial intelligence as as well as big data products that enable us to better understand and meet demand. Our digital transformation goes hand in hand with an approach to innovation based on partnerships with relevant startups, venture funds and technology accelerators to identify new ideas that benefit our businesses as well as our business partners.

X5 continues to seek transparent and partnership-based business relationships with suppliers, leveraging its logistics and IT infrastructure to bring a greater variety of high-quality food to the Russian consumer. X5 is also increasingly focused on direct import opportunities for itself and the Russian consumer.

Our employees are the key to X5's customer-centric strategy. As an employer of more than 300,000 people across Russia, the Company continued to invest in training and development, while also ensuring a safe and healthy workplace based on equal opportunities and inclusiveness. This is clearly reflected in decreasing staff turnover rates company-wide. We are confident that the launch of X5's Digital Academy, which will train employees in the skills needed to support the Company's digital transformation, will be a further contribution to this trend.

The Supervisory Board carefully monitors the development of the X5 culture and organisation, the way that colleagues work together, as well as leadership development and succession planning. I believe that one of the keys to X5's success is how we develop our talent and encourage leadership at every level. In doing so, we encourage diversity and diversity of thought across our operations, ensuring that X5 is able to attract, develop and promote talented individuals, regardless of gender, age or background.

In terms of corporate governance, we continue to seek ways to improve and enhance our standards in line with international best practices and the requirements of the Dutch Corporate Governance Code. Through annual self-assessments we ensure that the Supervisory Board is fit for the future, with the skills needed to support the management team and the ongoing development of the Company, taking into account the needs of all stakeholders. In this context I am delighted with the appointment, in May 2019, of Alexander Torbakhov, who chairs the Innovation and Technology Committee created to strengthen our understanding and oversight of one of our most promising areas for development. I personally had the pleasure of joining the senior management team for a seminar in Silicon Valley on technology and disruption in retail. While we continue to refine X5's governance model, we seek to operate as a team and be a partner to management in supporting the Company's sustainable growth.

In 2020 Andrei Elinson will retire as a member of the Supervisory Board at the end of his current term, having served on the Board since 2016. On behalf of the Supervisory Board I want to thank Andrei for his valuable contribution during these important years in X5's development.

With the successful implementation of our strategy bringing more value to customers and other stakeholders, I am pleased to say that X5 has delivered another impressive year of growth and profitability. This performance enables the Supervisory Board to recommend a dividend of RUB 110.47 per GDR to the 2020 General Meeting of Shareholders.

The Supervisory Board will continue to reflect on X5's strategy in light of the rapidly changing industry and the demands this places on the Company, keeping a keen eye on ensuring that X5 can achieve its full potential.

Our value creating business model

X5 is Russia's largest food retailer with 11.5% market share and 16,297 stores operating in 65 regions of the country as of 31 December 2019. We operate in a highly competitive sector with established players as well as new and innovative startups requiring that we maintain a constant focus on customer needs, efficiency and innovation. We also aim to leverage our considerable scale and infrastructure to create value for our stakeholders, from suppliers to customers to employees and, ultimately, shareholders.

Suppliers

5,946
Suppliers

27.8%
Share of top 30 suppliers in revenue

Corporate Centre

Provides strategic guidance and centralised services like corporate finance, IT infrastructure, big data products, innovation review and piloting, logistics management, best practice sharing, internal controls, business risk management and reporting.

Supply chain infrastructure

5
Direct import hubs

42
Distribution centres

4,124
Own trucks
AND 283 VEHICLES FOR ONLINE BUSINESS

11.5%
Market share

16,297
Total stores

65
Regions covered

Retail formats

15,354
Pyaterochka
proximity stores

852
Perekrestok
supermarkets

91
Karusel
hypermarkets
UNDERGOING TRANSFORMATION

Other businesses

- Perekrestok.ru
- 5Post
- Express delivery

Our value-creating business model

Suppliers

HOW WE INNOVATE

- Created analytics portal for suppliers that provides insights based on in-house big data analytics on topics like customer behaviour, factors influencing demand, changing preferences, etc.
- Automated the procurement of sugar, salt and other common groceries in Pyaterochka. This solution was developed in-house by X5 Big Data and aims to further improve the efficiency of procurement processes.
- Measure effectiveness of advertising campaigns by FMCG producers across communication channels (digital, TV, radio, etc.), helping to optimise advertising budgets.
- Automated ad displays on in-store video screens, enabling suppliers to advertise when their target audience is in the store.
- Collected customer feedback on new products with target audiences, enabling suppliers to get insights about consumer preferences before a product is put on the shelves.

HOW WE CREATE VALUE

- Offer regular training for local suppliers to help them leverage X5's logistics and retail infrastructure to expand their potential customer base.
- Uphold code of conduct that ensures transparent and trust-based relationships with all suppliers, regardless of size, and ensuring that X5's code of conduct and ethics is upheld through training on and regular monitoring of compliance with the code.
- Implement robust quality control systems to ensure that only high-quality goods reach our shelves.

Corporate Centre

HOW WE INNOVATE

- The Big Data Department develops in-house products and data-driven solutions for our retail formats and suppliers to enhance customer value management.
- The innovations team:
  - reviews and pilots new technologies and solutions to improve efficiency and customer experience.
  - conducts specialised technology workshops with various functions and business units.
  - organises exchanges of experience and best practices with the world's largest retailers on the basis of the Plug & Play platform.
  - conducts Innovation Days with companies that are technology leaders in various industries to exchange experience and best practices.
  - conducts internal events to develop our innovative corporate culture, exchange knowledge and share cases.

HOW WE CREATE VALUE

- Provide efficient management of Company-wide services to enhance performance of retail formats.
- Support the development of new businesses like Perekrestok.ru and 5Post that will contribute to the future growth of X5 Retail Group.
- Serve as the focal point for developing and monitoring the Group-wide sustainability strategy.

Supply chain infrastructure

HOW WE INNOVATE

- Automated truck monitoring, which enables us to remotely track a full range of technical characteristics, such as fuel levels, mileage, time that cooling or heating elements have been working, etc.
- Launched joint pilot project with Kamaz to start predictive analytics of maintenance needs. In December 2019, 10 trucks were equipped with the necessary hardware and software to gather data for an AI-driven solution.
- Tested various driver assistance technologies to decrease fuel consumption and improve safety and efficiency such as a smart feedback system for drivers, video cameras, smart sensors and systems that utilise big data.

HOW WE CREATE VALUE

- Robust supply chain helps to ensure reliable supply of high-quality goods to every one of our stores.
- Increasingly efficient fleet and DC management systems create cost savings.
- Installing mixed-cycle engines that can run on natural gas, helping to reduce emissions relative to other fuels.
- Direct import infrastructure gives X5 access to a wider array of suppliers and captures value within the business, making us less dependent on third-party importers.

Retail formats

HOW WE INNOVATE

- Installing self-service checkouts developed in-house by X5 Lab. These machines are 4x cheaper than what is available on the market, and have helped increase retail turnover in pilot areas thanks to increased traffic. The new machines have been included in the updated Pyaterochka concept. With 250 self-service checkouts in operation as of 31 December 2019, we plan to install 12,000 machines during 2020.
- Promo terminals developed by X5 Lab have helped to increase conversion of personalised coupons. The average monthly increase in retail turnover for each terminal is RUB 100,000. We plan to install these terminals in 600 Perekrestok stores in 2020.
- Opened the first prototype of a cashierless store in Russia. Currently accessible to over 1,000 employees of the Perekrestok Smart Kitchen.
- Over 136,000 electronic price tags have already been installed in X5 stores. This technology frees up employees to focus on servicing customers and eliminates price discrepancies.
- Piloting recycling points for plastic containers that offer consumers discounts on selected products.
- Developing and testing proprietary self-service solutions such as self-scan, mobile scan and checkout.
- Piloting automated control waste bins, which has a positive impact on the environment around stores.

HOW WE CREATE VALUE

- Continuously work to implement and improve our customer-centric business model.
- Develop and roll out updated CVPs in response to changing customer demand.
- Launched Smart Kitchen to increase capacity and ready-to-eat assortment.
- Implement energy-efficiency and waste reduction measures across store and logistics operations to reduce costs and environmental impact.
- Promote the responsible use of resources, with measures to cut energy consumption, reduce packaging and increase recycling.

Other businesses

HOW WE INNOVATE

We aim to allocate about 20% of our capex to developing new businesses that have the strong potential to develop into new sources of profitable growth. This could include existing and new business initiatives such as:

Perekrestok.ru: online supermarket with an expanding marketplace, offering customers an assortment of 27,000 stock-keeping units (SKUs) with its own delivery service, addressing shoppers with a stock-up mission.

5Post: delivery service for non-food e-commerce retailers that leverages X5's logistics infrastructure and store network. This addresses the convenience mission for shoppers looking for additional in-store services.

Express delivery services: same-day delivery of goods that leverage X5's assortment and network of stores, which covers customers' immediate consumption mission.

HOW WE CREATE VALUE

By 2022, we expect over 10% of our annual revenue growth to come from new businesses that complement or leverage our market-leading bricks-and-mortar food retail formats.

We apply strict investment criteria to potential new businesses: they should be complementary to our existing business and infrastructure, and must meet profitability targets approved as part of the business plan.

We expect both Perekrestok.ru and 5Post to be EBITDA positive by 2021, based on the business plans approved and monitored by the digital management committee.

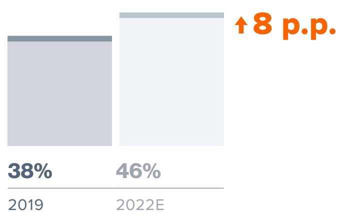
Our formats

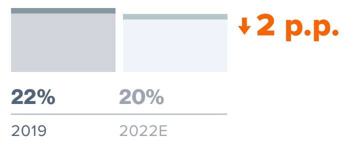
We are focusing on the development of our two largest retail formats: proximity stores (Pyaterochka) and supermarkets (Perekrestok), which we consider the most promising segments of Russia's traditional food retail market.

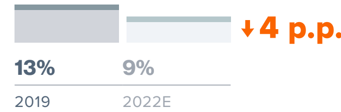
Due to the growing role of e-commerce for the stock-up mission, we decided in 2019 to transform our hypermarket format (Karusel). Most Karusel stores will be closed or transferred to the Perekrestok brand to operate as large supermarkets*. In addition to developing and piloting online businesses, both Pyaterochka and Perekrestok developed new store concepts in 2019, which will be rolled out as part of the formats' updated CVPs in the coming years.

	Pyaterochka	Perekrestok	Karusel
NUMBER OF STORES →	15,354 Proximity stores	852 Supermarkets	91 Hypermarkets
SELLING SPACE →	5,975 THOUSAND SQM	900 THOUSAND SQM	364 THOUSAND SQM
NET RETAIL SALES →	1,367 RUB BLN	273 RUB BLN	87 RUB BLN
SHARE OF X5'S NET RETAIL SALES →	79.1%	15.8%	5.1%

POTENTIAL MARKET SEGMENT GROWTH →







Pyaterochka

Pyaterochka is Russia's largest proximity format and was established in 1999. Our proximity format aims to provide Russian consumers with a convenient and high-quality shopping at affordable prices, with a market-leading loyalty programme and an extensive network of stores that we will be upgrading in line with the new concept approved at the end of 2019 (see pages 82–85), and which will be part of additional omnichannel businesses like 5Post (see pages 160–161) or express delivery services from local stores.

Perekrestok

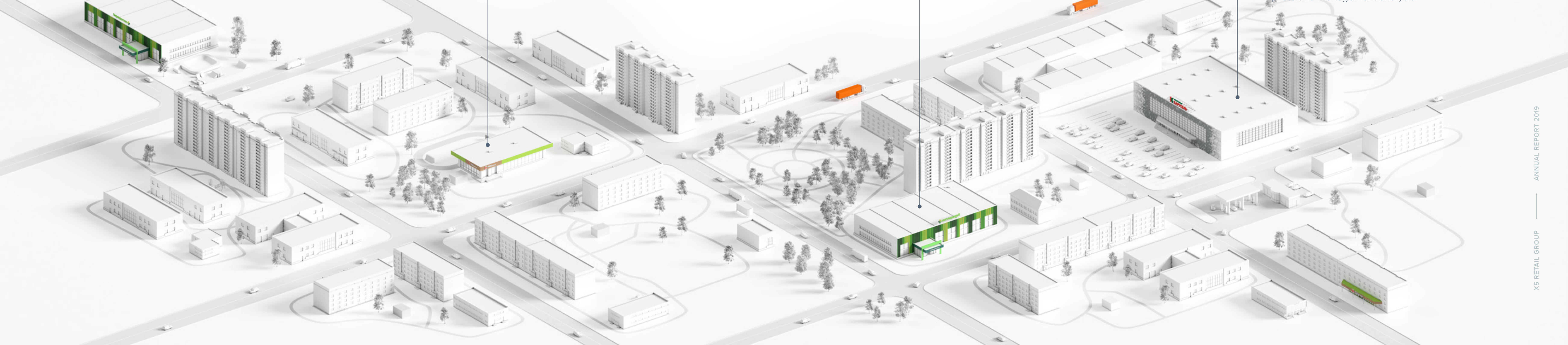
Russia's oldest supermarket format, Perekrestok was established in 1995. We position Perekrestok stores as the "main store in the neighbourhood", in the mass market segment offering customers a wide assortment of high-quality goods, with a focus on fresh and ready-to-eat goods, and a comfortable shopping experience. In addition to leading Russia's supermarkets segment, our online platform Perekrestok.ru is on track to become the country's #1 online food retail operator.

Karusel

Karusel, established in 2004, operates compact hypermarkets that are usually within city limits. With the development of e-commerce businesses in Russia, much of the hypermarkets' non-food space has become obsolete, and customers are opting to do more of their food shopping locally. As we transform our hypermarket business, X5 will close 20 Karusel stores and transfer 34 to the Perekrestok brand. Thirty-seven Karusel stores will continue operating as our branded hypermarkets and will be evaluated with a view to their being repurposed, sold or closed, subject to further test pilots and management analysis.

* For more information on the Karusel transformation, see the "Karusel" section on pages 114–119.

Source: X5 data, Rosstat, Infoline



Russia's food retail market

A large market with significant opportunities

Russia is home to the world's eighth-largest food retail market, with a total turnover of RUB 16.1 trillion in 2019. We see significant opportunities for growth in this sizeable market, from both the continued expansion of modern retail formats and the consolidation of the market around leading players.

8th
Largest globally by food retail turnover

29%
Share of top five players

76%
Share of modern formats in overall retail market

X5 Retail Group position

X5 Retail Group is the largest food retail operator in Russia by revenue, and our market share in 2019 was 11.5%. We will continue to consolidate our position in the market, predominantly by organic expansion.

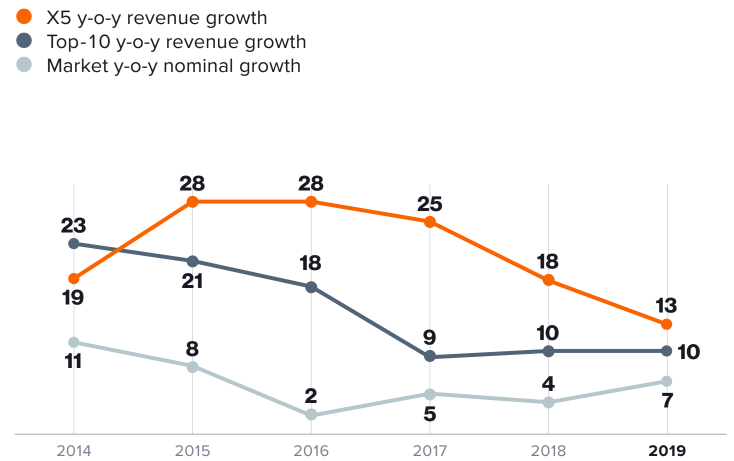
20th
Among global food retailers by revenue in 2019

11.5%
Share of the Russian food retail market in 2019

c.50%
of new openings replace other players

Competitive landscape

X5 vs. Russian food retail and top-10 players, %



SOURCE: INFOLINE, X5 ANALYSIS

Since 2015, X5 Retail Group has grown faster than the food retail market and faster than its top-10 peers. Even as we shifted to a strategy of selective and intelligent growth, we expanded our business at a faster pace while maintaining margins.

We see a strong trend towards food retail market consolidation, with over 50% of X5's new openings in 2019 replacing existing players.

Top 10 Russian food retailers, %

#	COMPANY NAME		MARKET SHARE 2019	MARKET SHARE 2018
1	X5	↑	11.5	10.7
2	Magnit	↓	7.6	7.7
3	DKBR *	↑	5.7	5.1
4	Lenta	↓	2.5	2.8
5	Auchan	↓	1.5	1.9
6	Metro	↓	1.1	1.3
7	O'Key	↓	1.0	1.1
8	Monetka	↑	0.7	0.6
9	Svetofor	↑	0.7	0.6
10	Globus	↔	0.6	0.6
TOTAL TOP 10			32.9	31.9

* IN JANUARY 2019, DIXY GROUP MERGED WITH RED AND WHITE AND BRISTOL.
SOURCE: INFOLINE

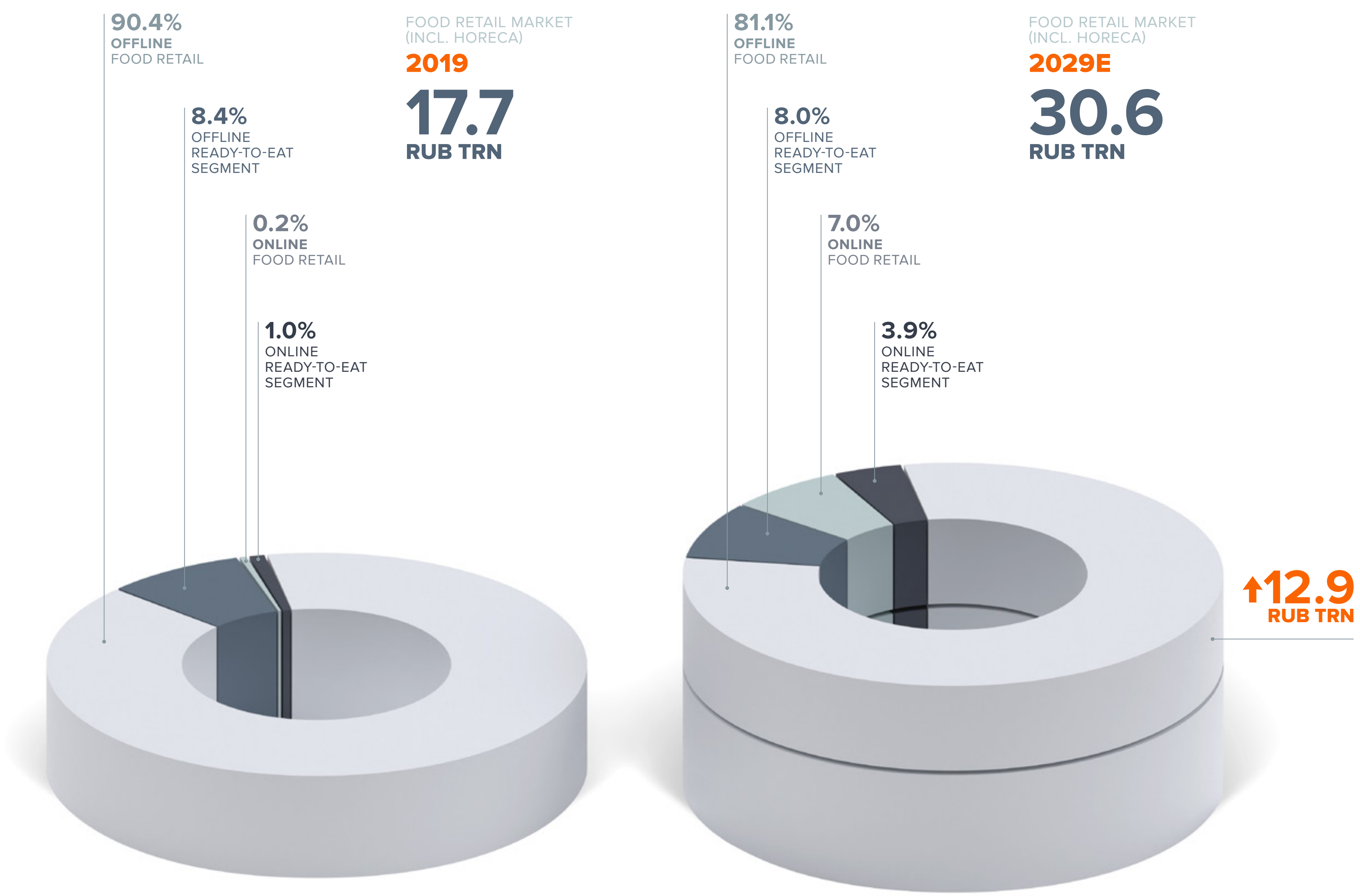
While we see regional modern and traditional food retailers losing their competitive position and reducing their market presence, a number of new offline competitors have emerged in recent years. This new competition can be divided into lower-price and higher-price segments. The lower-price segment targets lower-income consumer groups by focusing on a particular product (for example, cheap alcoholic beverages) or by offering very deep discounts on no-name or non-branded goods, but this segment offers a very poor shopping experience. Competitors in the higher-price segment target more affluent consumers who are looking for healthier foods (vegan, gluten-free, straight-from-the-farm products from local producers, expanded assortment of fruit and vegetables), with a tailored assortment and with greater customer engagement in product selection and ratings.

Russia's evolving food market and consumer trends

We are adapting our business as the food retail market landscape in Russia changes. As we grow online businesses, we are also bringing new CVPs and store concepts to our offline businesses in order to meet the latest trends in consumer demand.

Online food and ready-to-eat will attract new customers from traditional retail

Evolution of Russia's food market



NOTE: MARKET SHARE EXCL. NON-FOOD
SOURCE: INFOLINE

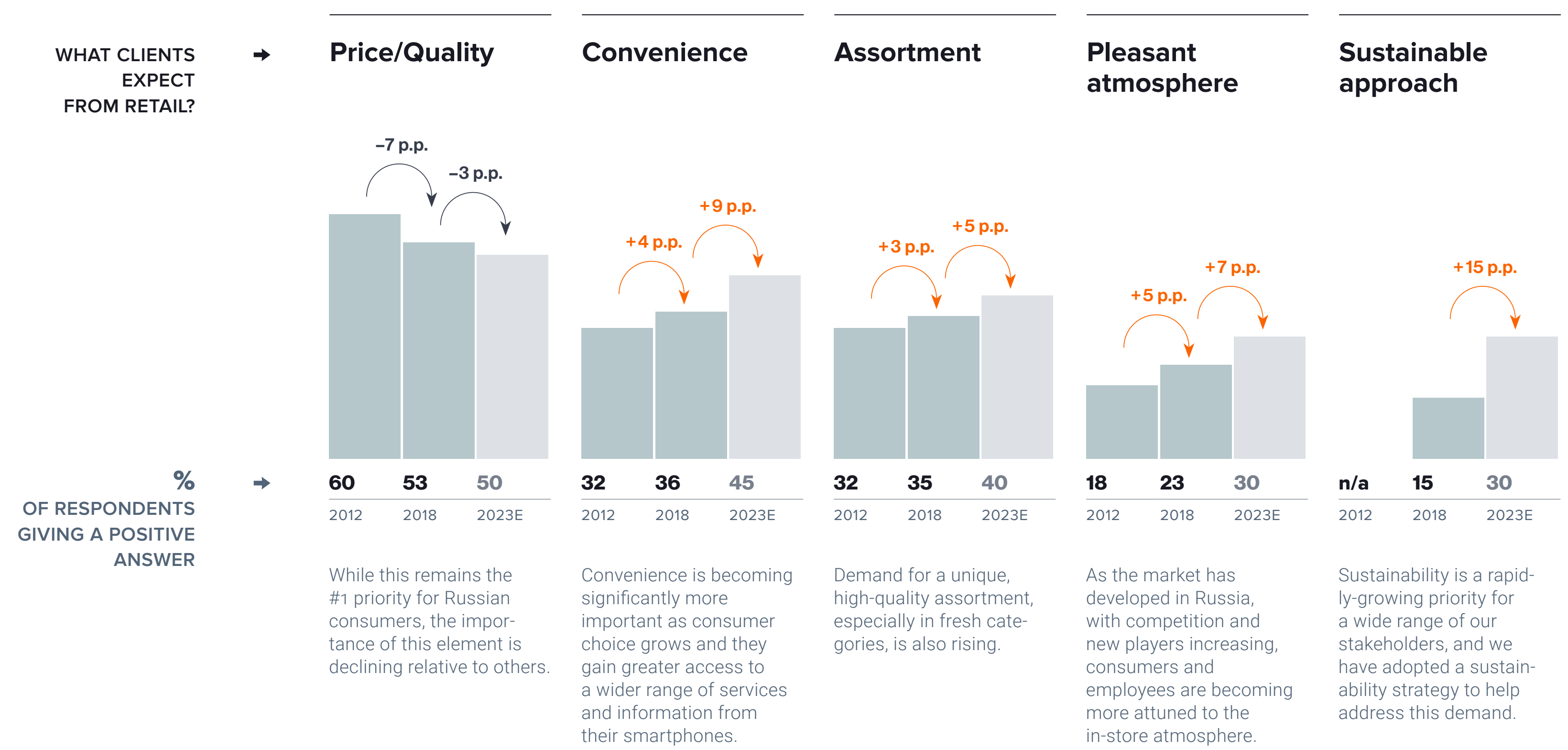
Non-price elements gain importance

The behaviour of Russian consumers is also changing. Factors like assortment and a pleasant shopping atmosphere are gaining importance, while price remains the top consideration for consumers in choosing where they shop. In response to these changes in customer behaviour, X5 is adapting the CVPs of its offline formats and developing new in-store services. We now offer more convenient store layouts with features like an in-store bakery, fresh coffee and juice, self-checkout counters, as well as additional services like parcel lockers.

The changes that we are introducing to our business on a regular basis are aimed at ensuring that we are able to adapt quickly as Russia's food market continues to evolve.

In line with global trends, Russian consumers in larger metropolitan areas are choosing between shopping for food and groceries in stores and ordering meals via mobile apps or online. While new food delivery businesses are growing rapidly, the overall offline food retail market remains significantly larger, with 2019 turnover of RUB 17.5 trillion compared to RUB 0.2 trillion for online grocery, online food delivery and express delivery, combined.

Our online supermarket Perekrestok.ru is fully operational, and we are starting express delivery from our stores. We have opened our first Smart Kitchen, which will enable us to significantly expand X5's own ready-to-eat offering for both proximity stores and supermarkets.

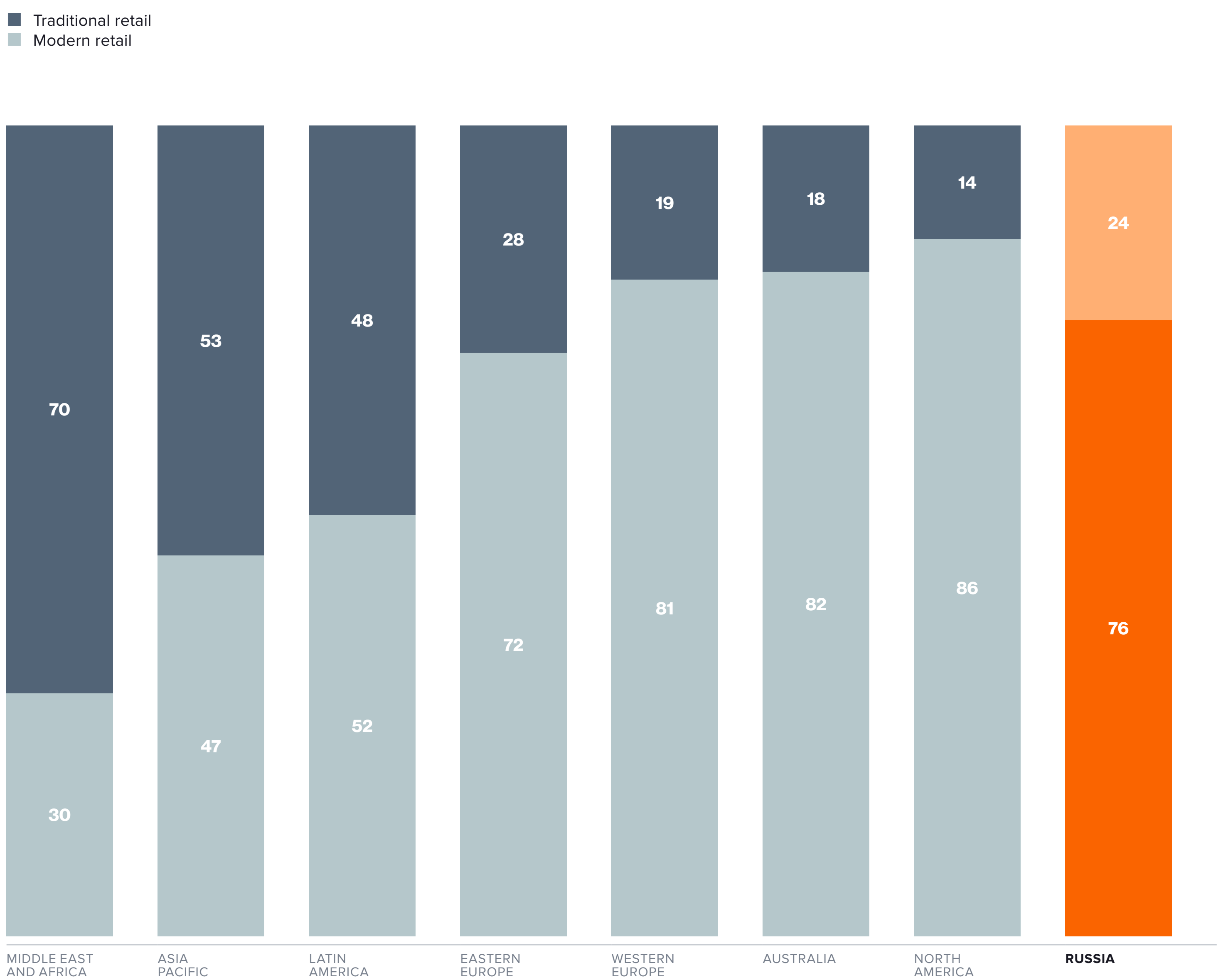


Overview of key market trends

Modern retail has room to grow

The share of modern formats in the Russian food retail market has grown significantly in recent years and currently stands at 76%. However, this level still lags behind several developed markets like North America, Australia and Western Europe, where modern formats represent 86%, 82% and 81% of the food retail market, respectively. We believe that the expansion of modern retail formats will be one of several drivers of growth in the years ahead.

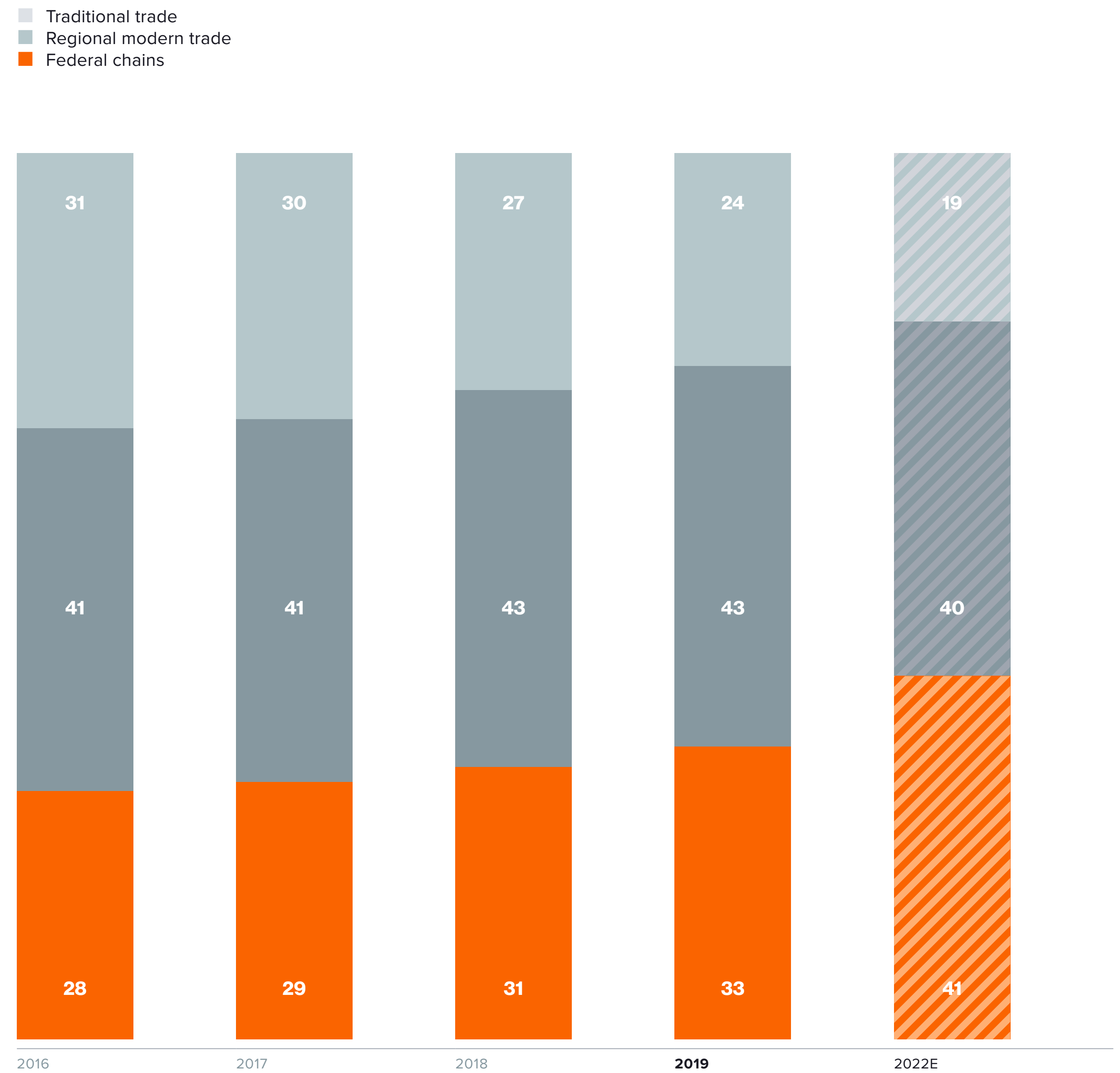
Traditional vs. modern retail across key world regions in 2019, %



NOTE: ALL VALUES USED ARE NOMINAL. ALL NUMBERS ARE EXCLUDING VAT/SALES TAX.
SOURCE: EUROMONITOR, X5 ANALYSIS

Just five years ago, traditional retail accounted for 37% of Russia's total food retail market. The balance of modern vs. traditional food retail formats has shifted rapidly since then and today modern retail like our Pyaterochka and Perekrestok formats accounts for 76% of the Russian food retail market.

Russian food retail market development, %

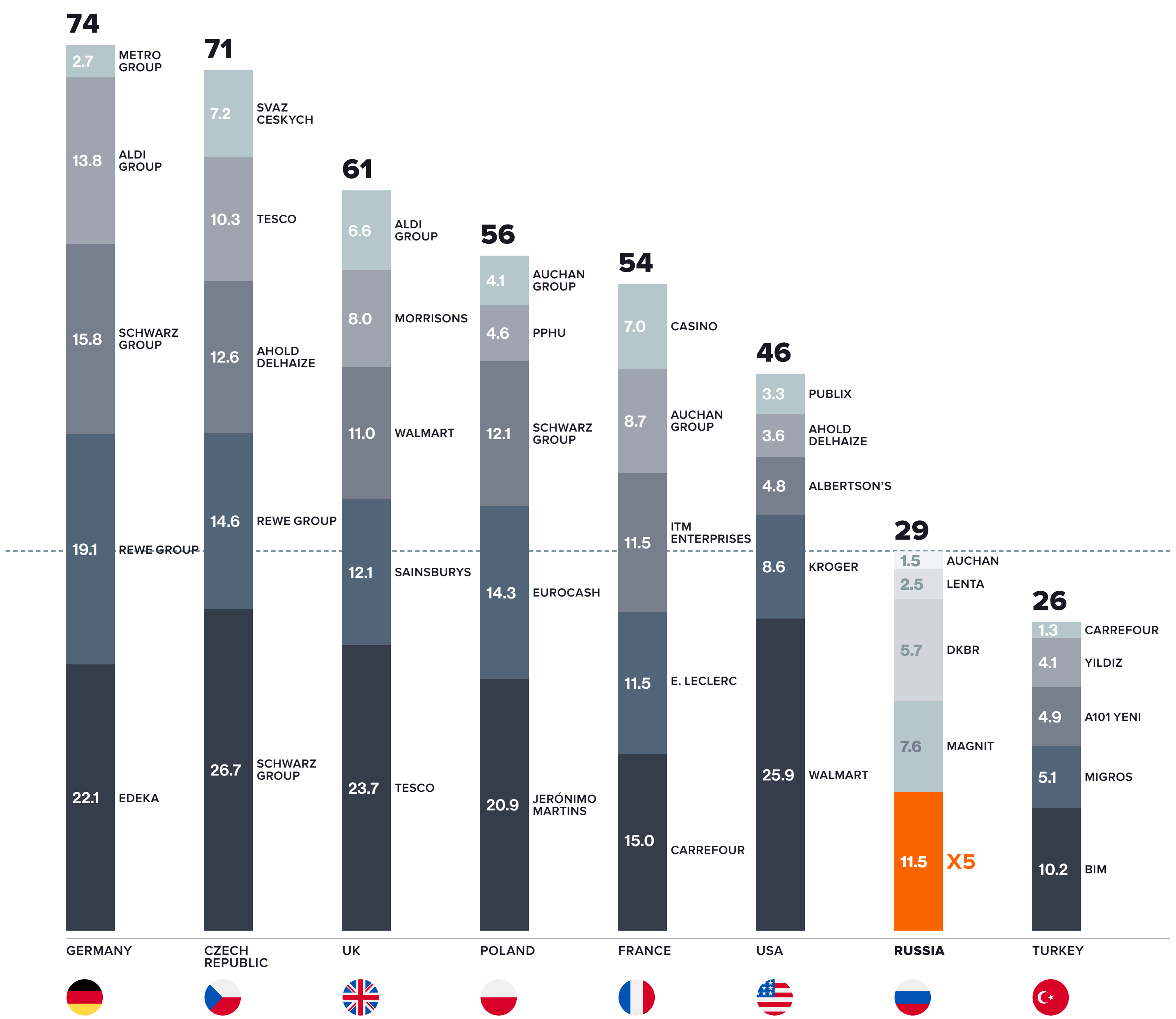


SOURCE: INFOLINE

A future of smart growth and consolidation

The cumulative market share of Russia's top five was just 29% in 2019. While the overall food retail market is forecast to expand from RUB 16.1 trillion in 2019 to RUB 18.8 trillion in 2022 (source: Infoline), leading players in Russian food retail are likely to focus on smart growth and consolidation. We are already witnessing this trend, with around 50% of X5's new openings during 2019 coming from the replacement of existing players.

Share of top 5 grocery retailers globally in 2019, *%*

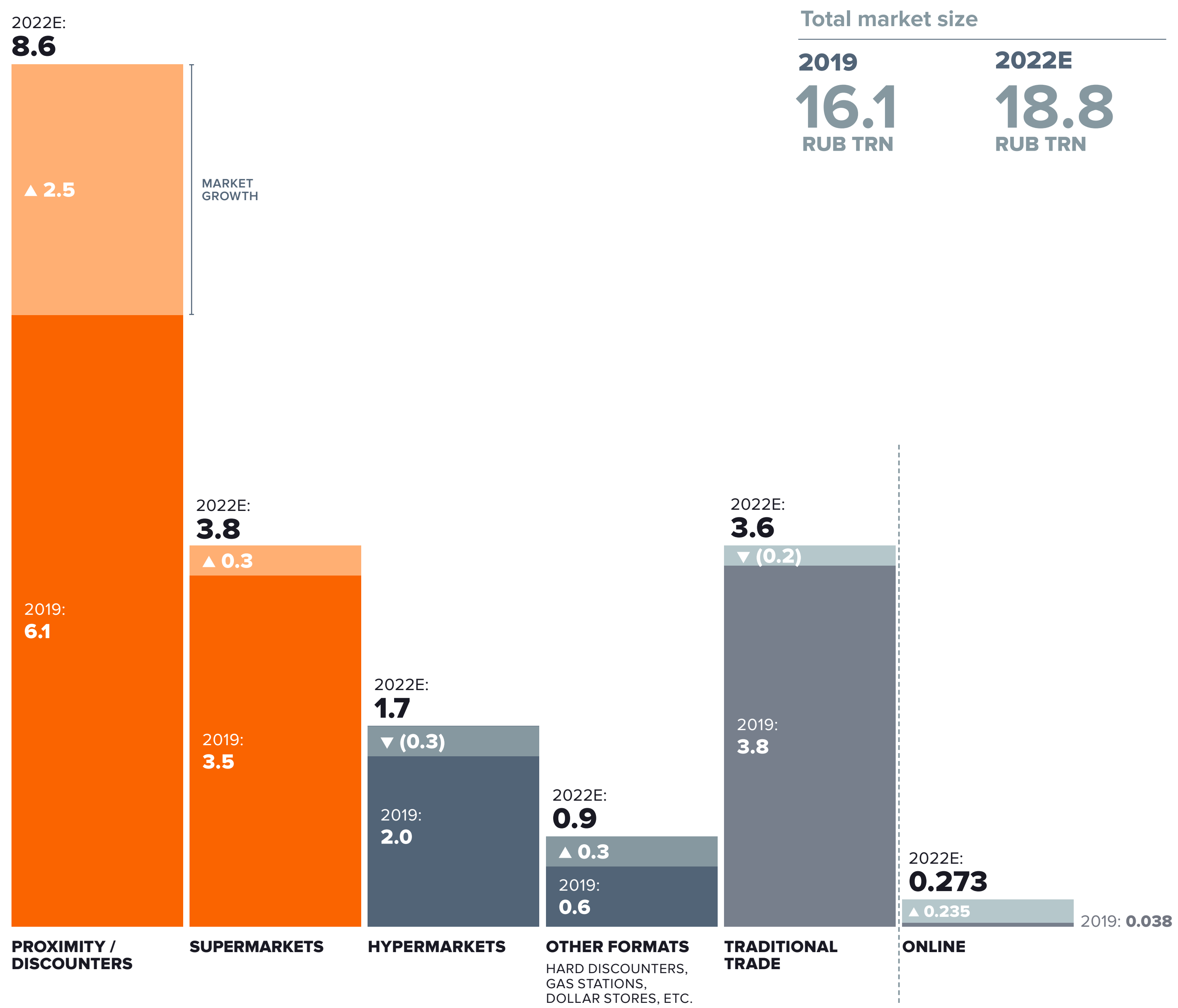


SOURCE: EUROMONITOR, INFOLINE (FOR RUSSIAN MARKET ONLY), COMPANY REPORTS, X5 ANALYSIS

Focus on proximity, supermarkets and online

X5 already operates Russia's leading proximity and supermarket formats, and we aim to achieve market leadership in the online grocery market by 2021 with our Perekrestok.ru online business. In 2019, we took the decision to transform our Karusel hypermarkets, as this segment is under structural pressure from online and the attractively priced proximity segment.

Substantial mid-term growth potential for proximity and supermarkets, *RUB trn*



NOTE: MARKET SIZE INCLUDING ONLINE
SOURCE: INFOLINE

Economic and market trends

The macro backdrop for Russia's food retail sales in 2019 was moderately positive. GDP expanded by about 1.3% p.a. Real wage growth was firmly in positive territory with annual growth of 2.9%. Food inflation was supportive for food retailers in H1 2019 but started decelerating in H2 2019, staying healthy overall. These factors were supportive of expansion of the food retail market in 2019 amidst high competition and additional pricing pressure from hypermarket operators due to structural changes in consumer behaviour.

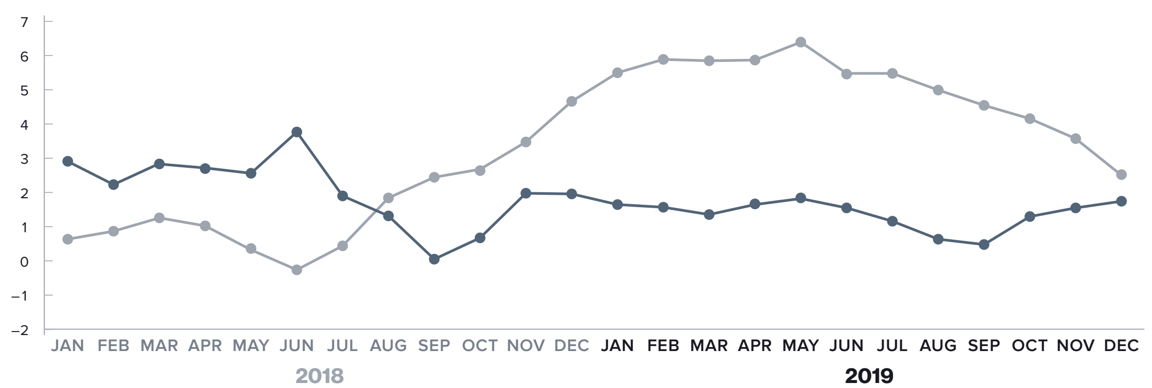
Selected macroeconomic data

RUSSIAN MACROECONOMIC INDICATORS, YEAR-ON-YEAR COMPARISON, %	2019					2018				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Real GDP	0.5	0.9	1.7	2.3	**1.3**	1.9	2.2	2.2	2.7	**2.5**
RUB/USD exchange rate, weighted average for the period	65.8	64.5	64.6	63.7	**64.7**	56.8	61.9	65.5	66.5	**62.7**
CPI	5.2	5.0	4.3	3.5	**4.5**	2.3	2.4	3.0	3.9	**2.9**
Food inflation	5.8	5.9	5.0	3.5	**5.1**	1.0	0.4	1.6	3.6	**1.7**
Real wage growth	1.3	2.6	3.0	4.6	**2.9**	10.2	7.6	6.3	7.4	**8.5**
Real income growth	(1.8)	1.0	3.1	1.1	**0.8**	1.0	0.2	0.0	(0.8)	**0.1**
Unemployment rate	4.8	4.5	4.4	4.6	**4.6**	5.1	4.8	4.6	4.7	**4.8**
Retail turnover	7.5	6.8	5.3	5.4	**6.2**	5.0	5.9	5.8	6.9	**5.9**
Food retail turnover	7.5	7.8	6.2	5.5	**6.7**	4.4	4.6	2.9	5.1	**4.3**

SOURCE: ROSSTAT, MINISTRY OF ECONOMIC DEVELOPMENT

Food retail trade and CPI dynamics, *% Y-O-Y growth rates*

CPI food
Food retail trade



SOURCE: ROSSTAT

Key trends affecting X5 and food retailers' performance in 2019 were:

- The food retail market continued its incremental growth in 2019, increasing by 1.4% in real terms and by 6.7% in nominal terms year-on-year to RUB 16.1 trillion.
- Inflationary pressure was higher in 2019: food price inflation increased to +5.1% (year-on-year annual average), outpacing overall inflation of 4.5%. Food inflation was uneven in 2019 with growth in H1 2019 and deceleration resulting from a good harvest in H2 2019. From its peak of 6.4% in May 2019, food inflation declined to 2.6% in December 2019.
- Real wage growth was 2.9% (+7.5% nominal), while real disposable income for the year grew by 0.8%. Real income dynamics in H2 2019 switched to solid 2.1% growth after a prolonged decline.
- Consumer confidence showed a gradual recovery from low levels seen in 2018. Despite the negative impacts of pension reform and the VAT rate hike, there were no visible signs of trading down among consumers, though they remained rational and promo-oriented.
- Unemployment remained at a record low in 2019 of 4.6%.
- The hypermarket segment continued to lose market share, which led to deeper promo activity from hypermarket operators.

Taking into account the stable macro outlook for 2020, with slightly improving consumer confidence supported by declining inflationary pressure, we see our customers remaining rational and price-sensitive but at the same time ready to consider food products with greater health benefits, online services and express delivery options.

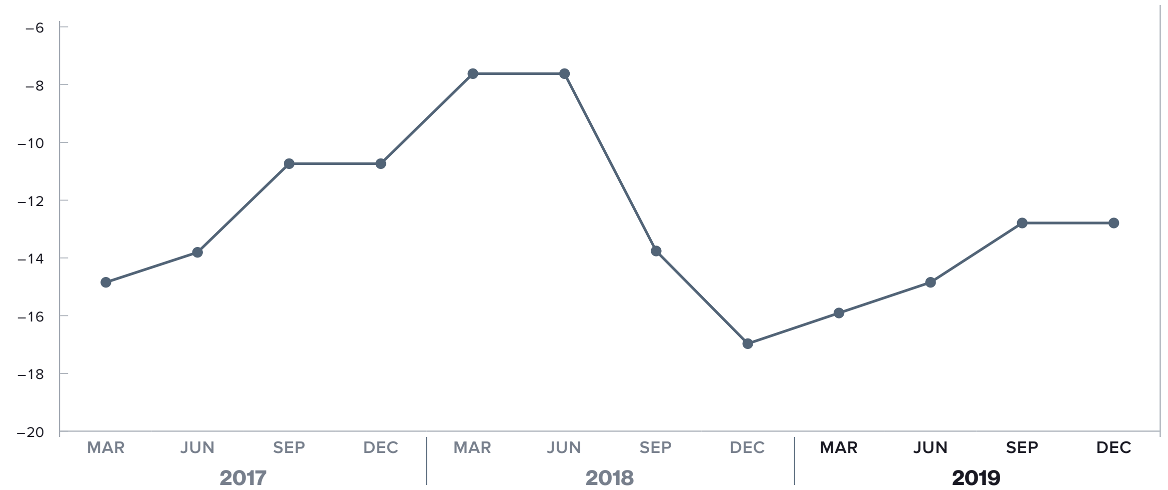
In response to this, we maintain our strategy of expanding organically at a moderate pace, while shifting our focus towards operational efficiency, cost optimisation and digital transformation.

Analyst expectations for economic performance in 2020 were mainly positive before the coronavirus outbreak and the failure to extend OPEC's oil deal, which caused a sharp drop in the oil price and devaluation of the rouble starting in mid-March 2020. Food consumption will continue its moderate but consistent growth.

- Economic growth in 2020 was expected to be slightly higher than in 2019 driven by a gradual recovery of investment demand linked with the implementation of national projects, which are projects in areas like education, agriculture, public health and housing that receive Russian government funding.
- Inflation was expected to further decelerate in H1 2020 on the back of seasonality and the good harvest of 2019; however, the rapid devaluation of the rouble in mid-March 2020 caused by the COVID-19 pandemic and the collapse in oil prices will likely cause inflation to pick up from Q2 2020.
- Before the outbreak of COVID-19 and oil market turmoil, we expected a slight acceleration of real food retail trade in 2020 backed by lower inflation and a recovery in personal income. As of 19 March 2020, it remains difficult to accurately predict the retail market trajectory in Russia for 2020. There is a high likelihood that high food inflation will, for the most part, be transferred to the consumer, as was the case in 2014–2015.
- Consumer demand and consumer expectations could continue their smooth recovery if the COVID-19 pandemic can be brought under control within a short period of time and if the situation in the oil markets causing rouble volatility do not persist for the majority of 2020.

Consumer behaviour indicators, *%*

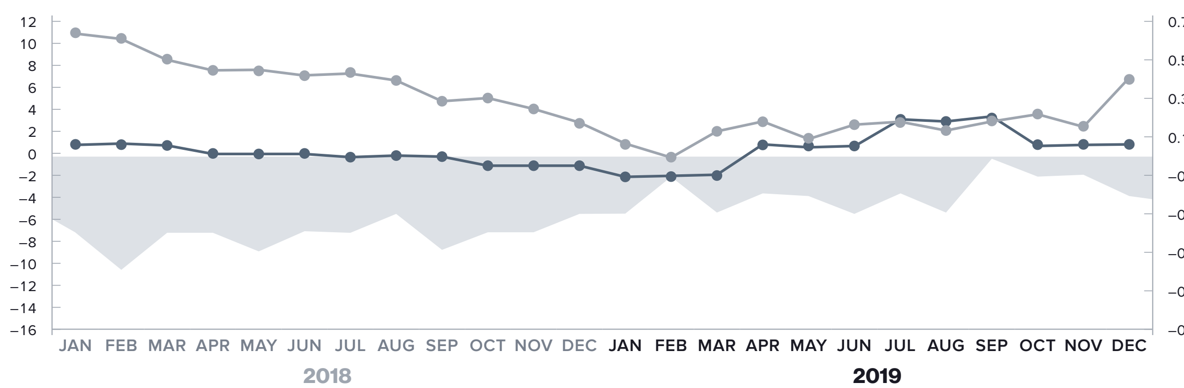
Consumer confidence index



SOURCE: ROSSTAT, FOM

Personal income dynamics, *% Y-O-Y growth rates*

Real wages
Real disposable income
Unemployment level y-o-y change (right scale)



SOURCE: ROSSTAT

Legislative changes

Requirements	Main legislative amendments	Date of entry into force
VAT rate increase	The VAT rate increase to 20% applies only to those goods previously taxed at 18%. The VAT rate on goods previously taxed at 0% or 10% for socially important goods, including a number of groceries (bread, dairy, corn, meat, fish, oil, butter etc.) and children's goods, remains unchanged. For more information, please refer to Federal Law No 303-FZ of 3 August 2018.	1 JANUARY 2019
Requirements established for the owners of aggregators of information on goods (services)	The owner of an aggregator of information on goods (services) is responsible for losses incurred by the consumer as a result of the provision to said consumer of inaccurate or incomplete information about the product or the seller. The consumer has the right to request a refund from the owner of the aggregator in the amount of the advance payment for goods (services) made by the consumer. For more information, please refer to Law of the Russian Federation No 2300-1 of 7 February 1992.	1 JANUARY 2019
Creation of an information system for monitoring the sale of goods subject to an identifying label	A monitoring system shall be created in order to automate the processes of collecting and processing information on the sale of goods subject to mandatory labelling and to ensure the traceability thereof. For more information, please refer to Federal Law No 381-FZ of 28 December 2009 and Federal Law No 54-FZ of 22 May 2003.	1 JANUARY 2019
Conducting control purchases to monitor protection of consumer rights and compliance with sanitary and epidemiological regulations	In the course of monitoring consumer rights protection and ensuring sanitation and disease prevention, oversight (supervisory) bodies are allowed to conduct control purchases of goods. • control purchases are carried out without prior notice, but the prosecution authorities are notified; • if no violations are discovered, an unscheduled inspection on the same grounds is not allowed; • information on any control purchases carried out must be added to the unified inspections register. • For more information, please refer to Federal Law No 81-FZ of 18 April 2018.	29 APRIL 2019

Requirements	Main legislative amendments	Date of entry into force
General rules for labelling and tracking products	General rules for labelling and tracking products have been put in place. The state monitoring information system will record all stages in the movement of labelled goods from production (import) to retail sales. For more information, please refer to Resolution of the Government of the Russian Federation No 515 of 26 April 2019.	14 MAY 2019
Return of food products to suppliers	A requirement has been introduced that retailers and suppliers are prohibited from: 1. Imposing on a counterparty conditions for the return to the supplier of food products with an expiration date of more than thirty days unless the return of such goods is permitted or provided for by the legislation of the Russian Federation. 2. Concluding with one another an agreement containing a condition for the return to the supplier of food products with an expiration date of up to thirty days inclusive, or for the replacement of such goods with the same type of goods, or for the reimbursement of the value thereof unless otherwise permitted or provided for by the legislation of the Russian Federation. For more information, please refer to Federal Law No 446-FZ of 28 November 2018.	7 JUNE 2019
Introduction of brand-based records on alcohol products	The use of brand-based records makes it possible to track every bottle of alcohol from the moment of production until its sale to the end consumer by using a two-dimensional barcode with EGAIS identifier contained on excise stamps (to mark imported alcohol) or on special federal stamps (to mark alcohol produced in Russia). For more information, please refer to Federal Law No 433-FZ of 28 December 2017.	1 JULY 2019
Mandatory visual separation of dairy products without milk fat substitutes from dairy products containing milk fat substitutes	Requirements for mandatory visual separation of dairy products without milk fat substitutes from dairy products containing milk fat substitutes (placement in separate refrigerators, on separate shelves, segregated with coloured price tags, coloured ribbons, shelf dividers, etc.). For more information, please refer to Joint Order No 2098/368 of the Ministry of Industry and Trade of the Russian Federation and Rospotrebnadzor of 18 June 2019 and to Resolution of the Government of the Russian Federation No 50 of 28 January 2019.	1 JULY 2019

Legislative changes

Requirements	Main legislative amendments	Date of entry into force
Producers and importers of tobacco products enter data into information monitoring system	Producers and importers of tobacco products are required to enter into the information monitoring system information about the labelling of tobacco products, as well as the commercialisation, decommercialisation and sale of tobacco products. This requirement also applies to wholesalers of tobacco as well as market participants engaged in the retail sale of tobacco products. For more information, please refer to Resolution of the Government of the Russian Federation No 224 of 28 February 2019.	1 JULY 2019
Special requirements for point-of-sale devices	Special requirements have been introduced for point-of-sale devices used when checking out goods subject to mandatory labelling. In particular, the specified devices must ensure that the labelling code and notifications of the sale of labelled goods, their encryption and transmission to the operator of the labelling system are requested through the fiscal data operator. For more information, please refer to Federal Law No 238-FZ of 26 July 2019.	6 AUGUST 2019
Requirements for storage facilities and technical storage conditions for alcoholic and alcohol-containing products enclosed in retail packaging	The Ministry of Finance formalised requirements for storage facilities and technical storage conditions for alcoholic and alcohol-containing products enclosed in retail packaging. The exceptions are beer, beer-based drinks, cider, perry, mead, as well as alcohol-containing medicines and medical devices. In addition, the document does not apply to the retail sale of the mentioned goods. For more information, please refer to Order of the Ministry of Finance of the Russian Federation No 272n of 17 December 2018.	21 AUGUST 2019
Fire safety regulations adjustments	Russia's Fire Safety Regulations have been adjusted: in relation to sales outlets during working hours, the loading (unloading) of goods and packaging should be carried out in areas away from the evacuation exits for shoppers. For more information, please refer to Decree of the Government of the Russian Federation No 1216 of 20 September 2019.	2 OCTOBER 2019

Requirements	Main legislative amendments	Date of entry into force
Dairy products certification	All dairy products ready for sale are now subject to mandatory veterinary certification. The production, transport and transfer of ownership thereof must be formalised in the Mercury system. For more information, please refer to Order of the Ministry of Agriculture of the Russian Federation No 648 of 18 December 2015 (as amended on 15 April 2019).	1 NOVEMBER 2019
Introduction of labelling for certain products	The list of individual goods subject to the addition of an identifying label has been approved, in accordance with which the Rules for the Introduction of Labelling for Each Individual Category of Goods were approved. For more information, please refer to Federal Law No 381-FZ of 28 December 2009, Order of the Government of the Russian Federation No 792-r of 28 April 2018, Resolution of the Government of the Russian Federation No 224 of 28 February 2019, Decree of the Government of the Russian Federation No 860 of 5 July 2019.	1 DECEMBER 2019
Minimum prices for alcohol	New minimum retail prices for products containing more than 28% alcohol by volume were approved as of 1 January 2020. For more information, please refer to Order of the Ministry of Finance of the Russian Federation "on Setting Minimum Prices for the Purchase (Excluding Import), Supply (Excluding Export) and Retail Sale of Alcohol Products with Alcohol by Volume of over 28%, and on Recognising to Be Null and Void Order of the Ministry of Finance of the Russian Federation No 58n of 11 May 2016 'on Setting Minimum Prices for the Purchase (Excluding Import), Supply (Excluding Export) and Retail Sale of Alcohol Products with Alcohol by Volume of over 28%'".	1 JANUARY 2020

Omnichannel retailing

Our omnichannel approach is one of the keys to becoming a next-gen retailer. As technology and innovations change the competitive landscape, we want to continue to ensure that our loyal customers can get the goods they want, when they want them, in a way that is convenient for them.

1.

Stores

Our stores are the core of our business, where we interact directly with about 14–16 million customers on a daily basis, offering them an assortment and experience that is regularly adjusted to their needs and a growing array of additional services.

2.

Online

X5's online offering is currently focused on the online supermarket Perekrestok.ru, which achieved revenue growth of 234% year-on-year in 2019, making it the #2 online grocery service in Russia.

3.

Mobile apps

Our mobile apps offer cus-tomers a convenient way to manage their loyalty programme points, receive personalised offers and provide feedback. In addition, users of the Perekrestok app are able to use it to shop at Perekrestok.ru.

4.

Click & collect services

Click & collect services offer our customers a quick and convenient way to optimise their shopping trips by enabling them to pick up goods ordered online at store.

5.

Express delivery

Express delivery is a new service that we are currently offering at Pyaterochka stores in Moscow and Kazan. Express delivery offers customers the full assortment from their local Pyaterochka delivered to their doorstep in less than 60 minutes.

6.

Large purchase

For customers who would prefer to have large purchases and/or heavier goods delivered straight to their door, we offer home delivery services through the Perekrestok.ru online supermarket.

7.

Parcel lockers and pickup points

Parcel lockers offer a convenient way for customers to have orders from third-party online retailers delivered for safe and convenient pickup or to return goods that did not meet expectations. These additional in-store services are integrated into our 5Post parcel delivery service.

8.

Cashierless stores

Another operating model that we are currently piloting in-house is a cashierless store, where customers can use a special mobile app to enter the store, pick up the goods they want and pay for them without having to wait in a queue.

CEO statement

Dear stakeholders,

In 2019, we continued on our path of growth, digital transformation and improvements in operational efficiency across our formats and business units.

I am pleased to report that X5 Retail Group and its traditional retail formats, as well as our new businesses, delivered strong financial performance in 2019. Revenue rose 13.2% year-on-year in 2019 to RUB 1.7 trillion, and we achieved a 7.3% adjusted EBITDA margin under IAS 17, in line with our internal target. X5's online sales rose 234% year-on-year to RUB 4.3 billion. This solid growth enabled us to further solidify our food retail sector leadership, and our market share reached 11.5% (excluding online).

X5 achieved positive like-for-like revenue and traffic in each quarter of 2019, which was possible thanks to our strong retail brands, as well as the greater loyalty of our client base as we continued to invest in our customers, deliver improvements in key areas like assortment and in-store service, as well as reach higher penetration of loyalty cards in our customer traffic and revenue. Perekrestok supermarkets led in terms of LFL revenue and traffic growth in 2019, followed by the Pyaterochka proximity format, which also maintained positive LFL revenue and traffic despite a competitive pricing environment.

Igor Shekhterman
CHIEF EXECUTIVE OFFICER

CEO statement

We made several important decisions during 2019, including the transformation of our Karusel hypermarkets and the establishment of 5Post and Perekrestok Online as separate business units within the organisation. We also resolved to gather our numerous sustainable development initiatives under a more cohesive system and for sustainable development to become an integral part of our business strategy and decision-making. In December 2019, the Supervisory Board approved a three-year sustainable development strategy for X5 Retail Group.

Our investments in 2019 totalled RUB 81 billion, which represents 4.6% of 2019 revenue. The structure of our investments is changing towards a higher share of refurbishment and non-store capex, which reflects the evolving technological landscape and customer preferences for a better shopping atmosphere. We adhered to an 80/20 approach to dividing our efforts and investments between existing offline operations that are already generating profits and cash flows, and development of new initiatives with strong business cases that will enable X5 to stay competitive and profitable in the fast-changing and increasingly digital retail universe.

Despite our sizeable investment programme, our net debt/EBITDA under IAS 17 remained at a comfortable level of 1.71x, and we increased our dividend payouts to RUB 30 billion (RUB 110.47 per GDR) for 2019, up 20% vs. 2018 in roubles.

Main highlights of 2019

- We maintained leadership in revenue and LFL revenue growth against our main peers.
- We achieved positive developments in personnel turnover and labour productivity.
- Despite the downward trend in food inflation in H2 2019, our EBITDA margin under IAS 17 was in line with target levels for the full year.
- Our investments in prices in H2 2019 were successful at stimulating consumer traffic.
- We continued to adapt to consumer needs with the successful testing and launches of new CVPs in our proximity and supermarket formats.
- We took steps to develop new businesses with the establishment of 5Post as a separate business unit with an approved growth model and organisational structure.
- We continued to develop our omnichannel business model and pilot new services.
- The transformation of X5's hypermarket format was launched in order to focus on the most promising segments of the market.
- To support our digital transformation we created a digital management committee, started the implementation of a more flexible IT platform and launched the X5 Digital Academy.
- X5 has launched a massive digital transformation programme, with over 30 product teams working on digitalisation of critical business processes, developing the CVM system and improving our ability to make data-driven decisions.
- In Pyaterochka alone, the digitalisation of key commercial processes like assortment, pricing and promotions yielded an estimated RUB 2 billion positive effect on EBITDA in 2019. These systems will be further refined and expanded in 2020.
- Our CVM process is based on constant analysis of customer behaviour and feedback through a wide variety of channels, and we are putting in place systems that enable us to respond even faster to requests, complaints and recommendations.
- X5's Supervisory Board approved our first Sustainability Strategy, which covers the period 2020–2022.

Sources of growth in 2019

At X5, we aim to ensure that customers can shop with X5 however, wherever and whenever they want. We already help them to get an affordable meal on the table through our extensive network of Pyaterochka proximity stores (15,354 stores at the end of 2019) and through omnichannel shopping for an expanded assortment within our Perekrestok supermarket brand (852 supermarkets at the end of 2019 and four dark stores that delivered 1.4 million online customer orders in 2019).

We increased our selling space by 12.0% in 2019 to 5,975 thousand square metres and opened 1,866 new stores (net of 300 closings), which was less than in 2018. Around 50% of these openings replaced less efficient food retail operators. X5 continued to consolidate the offline food retail market in both the proximity and supermarket segments in 2019 and gained market share. Management sees this trend as ongoing.

Our LFL revenue was positive in both the proximity and supermarket formats, while Karusel hypermarket LFL results were below expectations, as online grocery shopping is replacing hypermarkets for customers with a stock-up shopping mission, and most hypermarket operators suffer from weak or negative LFL trends.

Our Perekrestok supermarket operations continued to enjoy positive customer response to the updated CVP, which is centred around fresh assortment, in-store gastronomic experiences and attractive offers to loyal customers. Perekrestok successfully piloted a large supermarket format that will feature cafes, in-house cooking facilities and a larger assortment of premium food products. Stores transformed from Karusel hypermarkets will be opened in this format. The net promoter score (NPS) in Perekrestok stores reached 21 points and for the online service 82 points.

In the proximity segment, we worked on the assortment in 2019 to boost LFL sales: we revised the 28 main product categories to make our offer within these categories more relevant to customers, we launched initiatives aimed at improving the freshness of goods in several traffic-building categories, and we continued to develop new private-label products. We expect these initiatives will further increase the attractiveness of our product range to clients in X5's proximity and supermarket formats. During 2019, we also achieved greater engagement among personnel in our stores, which enabled us to improve service and keep the format's NPS positive.

To further cement our leadership in the proximity segment, the Pyaterochka team, after careful piloting of innovative new store features, opened the first proximity store using a new CVP in September 2019 in Moscow. Over the course of Q4 2019, we opened 32 new-concept Pyaterochka stores. Regardless of location (by traffic, income or region), the first results of the new CVP proximity stores are encouraging. We see solid customer traffic pickup in these stores, which feature a completely new look and feel, as well as expanded fresh categories and a ready-to-eat assortment, an in-store bakery and a coffee point, plus innovative retail solutions such as self-checkouts and electronic price tags. One of the main challenges for our team in 2020 will be to deliver the planned number of new store openings, all of which will use the new CVP, plus the renovation of 1,300 existing Pyaterochka stores to the updated format. Keeping capex per store at levels that will boost our ROIC is another challenge the team will have to address.

Market environment

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

The macro backdrop for Russia's food retail sales in 2019 was generally positive. GDP expanded by about 1.3% p.a. in real terms. Real wage growth was firmly in positive territory each month of the year, with annual growth of 2.9%. Food inflation averaged 5.9% for H1 2019 and 4.3% for H2 2019, staying healthy overall, but normalising towards 2.6% by the year end. The consumer confidence index improved from -16% to -13% over the course of 2019, and the VAT increase from 18% to 20% did not have a significant impact on food demand. Retail sales overall grew year-on-year by 6.2% in nominal and 1.6% in real terms. Food retail sales (excluding online and ready-to-eat deliveries) increased by 6.7% year-on-year in nominal terms in 2019, which is a moderate expansion rate.

The share of the top five retailers in 2019 increased to 29%. Some retailers, including X5, continued organic expansion at a pace faster than market average, while others either slowed or opted for mergers as a way to consolidate their market share. Two large mergers took place in the sector. One of them created Russia's third-largest food retailer through the merger of Red & White, Dixy and Bristol. Another was the merger of the offline Lenta hypermarkets with the online grocery operator Utkonos, which has created a new omnichannel player. In addition, we saw active development of online and tech players in the Russian food market, including Yandex.Lavka, Samokat and others.

X5 has chosen a strategy of balanced organic growth, with a focus on efficiency, innovation and technological advancement, while keeping our customers at the centre of everything we do.

The regulatory framework in the food retail industry did not materially change during 2019. Going into 2020, the market expects liberalisation of certain alcohol retail regulations, which may give a boost to online sales of this product category.

Customers in focus

As the CEO, I strongly believe that the right way for X5 Retail Group to further strengthen its market leadership is through continued customer-centricity and technological advancement.

We spent considerably more time in 2019 digging deeper into our customers' needs and their shopping missions. We strengthened our Strategy department and redefined our addressable market to the food service market from just food retail.

Customer data from our loyalty cards and our big data team and their capabilities were the main pillars of this process. By the end of 2019, we had issued over 130 million loyalty cards and had 40.6 million active loyalty card holders across our retail formats. These loyal customers contributed 70% of our net retail sales even though they represent only 55% of customer traffic. We already service 14–16 million customers on a daily basis in our stores but want to continue attracting new customers and increasing the base of highly valuable loyal clients through personalised offers. Our ability to do this is constantly growing thanks to the roughly 7 million data points we receive every day to use for data analytics.

In order to address more customer missions based on new technologies, we launched express delivery of ready-to-eat and groceries from our network of physical stores. Demand for express delivery of food and discretionary consumer products is growing in large cities, and we have already started to build our team and internal expertise to address this new trend.

In hypermarkets, customer trends are different. A number of Russian hypermarket operators, including Karusel, are either downsizing their operations or continue to suffer from a customer outflow to the online and proximity segments. We will offer our Karusel customers the opportunity to stock up with Perekrestok online instead of 54 Karusel stores — X5 will close 20 of these stores and transfer the remaining 34 to Perekrestok. In Q4 2019, we combined the loyalty programmes of Perekrestok and Karusel so that consumers could redeem their points in either of the two formats or online. There are an additional 37 Karusel stores that will continue operating as our branded hypermarkets, as their customer traffic and operating metrics are satisfactory.

We continued our work in 2019 to expand our fresh assortment and offer more healthy products, with greater variety, on our shelves. This was achieved partly by introducing private-label health food brands to our assortment. Within this framework, we increased the share of private-label goods to 13.9% in the proximity segment and to 7.9% in the supermarket segment by the end of 2019.

To better adjust the assortment in stores to customer needs, our formats worked with their in-house big data colleagues on an assortment review process powered by advanced analytics. We should expect a positive impact on sales from the introduction of automated assortment reviews across our retail formats.

Margin performance

The commercial and operating departments of our retail formats delivered solid results in 2019 through more efficient procurement, and also by reducing inventory shrinkage, maintaining a stable level of promo activity and achieving greater efficiency in promo. Among these factors, reduction of shrinkage was the largest contributor to X5's 43 b.p. gross margin expansion year-on-year in 2019. This result was possible thanks to a renewed focus on operational excellence, supply chain and in-store business processes, as well as new quality control initiatives in fresh product categories that we introduced last year. At the same time, we operate in a competitive environment against a stagnating consumer income backdrop. For these reasons and in order to support our attractive price positioning in the Pyaterochka and Perekrestok formats, management of our retail operations resolved to be more price-aggressive in H2 2019, which resulted in lower gross margin performance during this period but enabled the Company to maintain positive LFL traffic throughout the period.

In 2019, we successfully developed and introduced a new pricing system that provides centralised pricing solutions with higher-quality decision-making and greater speed based on advanced analytics. When rolled out in 1,700 Pyaterochka stores in Moscow, the use of this system yielded an improvement in commercial margin performance. The rollout of the system across all Pyaterochka stores is planned for Q1 2020.

The main source of operating leverage within our operating costs is in-store personnel. Their motivation and compensation, as well as the resulting engagement and labour productivity, were among the KPIs for the formats and for X5 Retail Group top management in 2019. I consider the results achieved in this area to be very encouraging: in the proximity format, we reduced personnel turnover by 24 percentage points during 2019; in the supermarket format, turnover was down by 14 percentage points. We continued to invest in compensation of our retail personnel, closely monitoring labour market benchmarks for the sector. We believe that fair compensation, training and motivation for our employees are crucial for our stores to generate sustainable positive LFL traffic.

In order to support and enhance the efficiency of our operations, X5 opened three distribution centres, increasing the total count to 42 as of the end of 2019. We also purchased 468 new trucks (including smaller cargo vehicles for client deliveries in our online operations and heavy trailer units for the truck fleet). We invested RUB 5.1 billion in logistics and transportation in 2019, including efficiency projects to reduce supply chain operating costs, optimise empty-run rates for our fleet and cut CO_2 emissions by replacing truck engines with hybrid-gas ones. Our logistics costs as a percentage of revenue decreased by 14 b.p. year-on-year in 2019.

New regions of our operations in Russia, where our local market share is still below 10%, continued to demonstrate a positive trend in per store cash EBITDA margin and ROI evolution over 2019. This result was achieved due to our stricter requirements for new store openings, more detailed post-investment analysis of previous openings and use of big data tools for new location selection. We will continue expanding our store network at a reasonable pace in order to minimise cannibalisation, and will rely on data analytics for greater accuracy of decision-making.

CEO statement

Sustainable development

In 2019, the Supervisory Board approved a three-year sustainable development strategy. We worked out a detailed plan and will be setting measurable targets next year that will incorporate sustainable development principles into all business processes. When the strategy was approved in December, we had already identified areas where we have systems in place to measure performance, and we identified those areas where management processes need to be introduced in order to establish targets and measure performance.

More and more of our customers want to know where our products come from and how they are produced. We are committed to offering the best-quality products for affordable prices in our stores. Addressing key environmental, social and governance issues will also be part of our core activities going forwards.

In line with our business profile, X5 has identified four key sustainable development goals (SDGs) where we can have the greatest impact:

- zero hunger,
- good health and well-being,
- decent work and economic growth,
- responsible consumption and production.

Beyond these four key objectives, X5 will also focus on seven additional SDGs that it contributes to indirectly: climate action, marine ecosystem preservation, terrestrial ecosystem preservation, affordable and clean energy, gender equality, reduced inequalities, and sustainable cities and communities.

I am pleased that X5 can now integrate sustainable development into our strategic objectives. We have already embarked on a mission to reduce our environmental footprint, promote responsible consumption, support efficient resource use and protect vulnerable groups in society. Our vehicles are now greener and produce less emissions, and the energy-saving equipment in our stores is more efficient. X5 is also one of the leading Russian companies when it comes to waste recycling, having sent nearly 600 kt of cardboard, polyethylene and plastics to recycling facilities in 2019. As part of our sustainability strategy, we are also establishing targets to reduce the solid waste and food waste generated by our activities. We leverage our scale to support food aid programmes and to run our own social initiative called the Basket of Kindness. All of this is just a fraction of what we are doing in the area of sustainable development.

Strategy evolution — new initiatives

Our strategy has three main pillars: ongoing improvements to the efficiency of the existing business, digital transformation and development of new businesses based on new technologies and innovation. Following the adoption of our sustainability strategy in 2020, we will also be integrating sustainability targets into our overall business strategy.

We have advanced in the main part of our current strategic plan, which is strengthening the existing business. We slowed the pace of our expansion so that we could improve the quality of new openings and investment returns. We focused on driving sales densities in our stores higher, and this will remain the priority for our offline operations. We understand what our target client looks like today, but more importantly, we have a vision of how this client will look and act 10 years from now, driven by technological change. This knowledge directs us towards greater adaptation of the assortment to local needs, more automation of our business processes and increased integration of advanced analytics in our decision-making across all business processes within X5.

Within our digital transformation, we continue to develop our big data capabilities, now tested with several applications and successful pilots. Our online business will be expanding into several new regions in 2020. To further move towards satisfying demand from customers with a stock-up mission via online, we will continue to downsize our Karusel operations, aiming to capture most of the traffic from closing stores through our online business.

The 5Post fulfilment business has increased its number of strategic e-commerce partners and will be expanding its network of lockers and fulfilment points in our stores.

We set a strategic target to develop competitive advantage of a new kind that will be based on deep predictive analytics and knowledge of our client, on the one hand, and our ability to offer an attractively priced adequate selection of quality products in the most convenient manner, on the other.

Finally, I am sure that our strategic approach to sustainable development will enable us to scale up our sustainable development projects for the clear benefit of all stakeholders.

Outlook

Our outlook for the Russian consumer remains constructive, and we saw no signs of deterioration in consumer demand or consumer confidence before the COVID-19 pandemic and oil market weakness.

In 2020, we will continue our transformation into a more client-centric and more technologically advanced retailer. This path is not without challenges, but I believe we have the team with the skills and knowledge to identify them and move ahead with innovative solutions. It will be important, as ever, not to lose focus on our profitable current operations, while constantly making decisions in order to prioritise the investments that generate the best returns, but also those that will help X5 to secure its position in the next-gen retail landscape.

We updated our strategy in 2019 to cover new client needs with express delivery and an expanded ready-to-eat assortment. We will be offering express deliveries from our physical stores, which will be managed separately from Perekrestok Online or Pyaterochka offline operations.

We confirm our target to open up to 2,000 new stores in 2020, gross, in the proximity and supermarket formats. The number of Karusel hypermarkets will decrease in line with the 20 stores that we will close and the 34 stores that will become large Perekrestok supermarkets. In addition to network expansion, we plan 1,300 proximity store refurbishments. While this will require additional capital expenditure, returns on the first refurbished stores that we have launched are above even the returns seen in X5's previous refurbishment cycle in 2013–2017.

We will further strengthen our digital capabilities, which should help us to support margins in the fast-changing and challenging food market in Russia, both online and offline. Big data–enabled and automated pricing, assortment and promo planning processes should support our net retail sales and the gross margin.

We have the ambition to maintain the sustainable growth of our business and to adhere to strict capital allocation discipline while making smart investments in new businesses. Our focus on efficiency of existing operations will support our annual dividend payments, which we expect to grow steadily.

Our future-ready strategy

X5's strategy is constantly evolving, with the main objective being to operate an efficient and profitable business today while preparing for changes and opportunities that will arise in the future driven by continued market consolidation and technology-driven changes to the food retail market landscape.

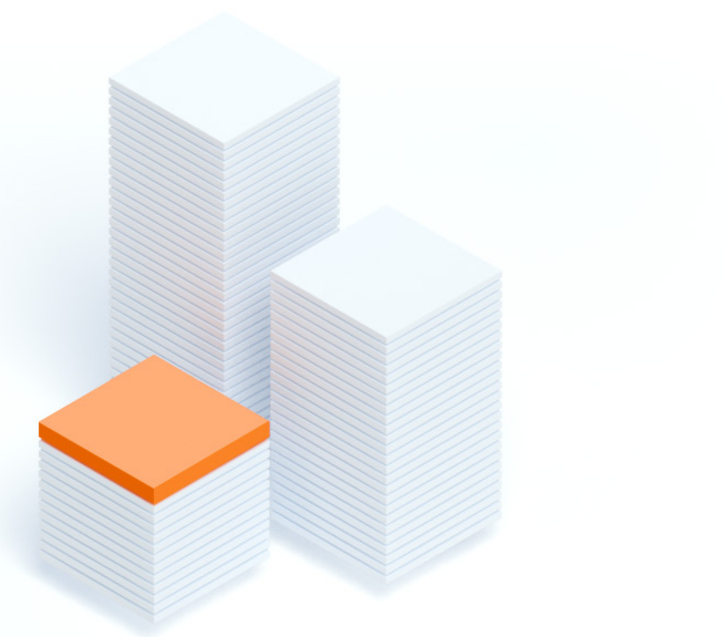
The first core principle of our strategy is to strengthen the existing business, focusing on initiatives with a horizon of one to two years, examples of which include the ongoing adaptation of our CVP, updated store concepts, further improvements in efficiency, as well as the reduction of shrinkage and staff turnover. In these areas, we continue to make good progress, as demonstrated by X5's operating and financial performance for 2019. Customer experience and feedback remains our key source of information for continuous improvement. We maintain a constant focus on customer needs in order to meet and exceed expectations.

Our second core strategic workstream is digital transformation. Within this priority area, we are implementing and expanding our use of big data analytics, automating processes and improving the information we have available for decision-making. Our loyalty programmes are a key element of our digital transformation, providing data that feeds our advanced analytics and giving us a channel through which we can provide our customers a more personalised experience. We seek to invest 80% of our effort into internal digital transformation projects that will improve the way we do business now, such as automated assortment planning or automated pricing. The remaining 20% will be committed to customer-facing projects, including further development of our omni-channel service model.

The third area of our strategy is next-gen retail. We are aware of how fast consumer trends and retail business models are changing the market, and we invest significant efforts into preparing X5 to maintain leadership into this next strategic period. We expect a dramatic increase of sales through digital channels, and we are building out our digital CVP to address all customer missions from express food delivery to regular stock-up purchases. We also see a growing preference among our customers for ready-to-eat products, and we aim to achieve strong growth in this category by both improving our own production and establishing strategic partnerships. Finally, we have started our journey beyond food with 5Post, a parcel delivery service for e-commerce. Thanks to our federal logistics and retail infrastructure, we aim to become a preferred choice in Russia for local and international marketplaces. New innovative technology solutions give us the opportunity to establish personal relationships with each customer and not only make personalised offers but also collect valuable feedback to improve and further develop our business. Looking ahead to 2020, we plan to introduce a meaningful update to our strategy, which will further strengthen our customer-centricity, expand current initiatives and enumerate new ones in order to address emerging customer needs to ensure X5's sustainable leadership in food retail and beyond.

Vladimir Salakhutdinov
DIRECTOR OF STRATEGY

2029 vision



2019	2029
Today, X5's market share is 11.5%	**Market share will be c. 20%**
X5 is the largest food retailer in Russia.	LFL is significantly higher than competitors.
X5 continues its expansion, while implementing projects to improve operational efficiency.	Excellence in operational KPIs (shrinkage, logistics).
X5 strives to meet new customers' needs by enhancing its CVP with digital services.	Up to 50% of revenue is generated through digital channels, including personalised promo through CVM.
X5 is already launching new businesses (online, 5Post, ready-to-eat production).	Up to 20% of the Company's revenue is from new businesses (online, 5Post, logistics services, food delivery and other new businesses to be launched).
Started development of long-term sustainable development initiatives.	X5 is a leader in sustainable development among Russian retailers.

A fit-to-purpose business strategy

OUR STRATEGY IS EVOLVING

1–2 YEARS
STRENGTHEN THE CURRENT BUSINESS

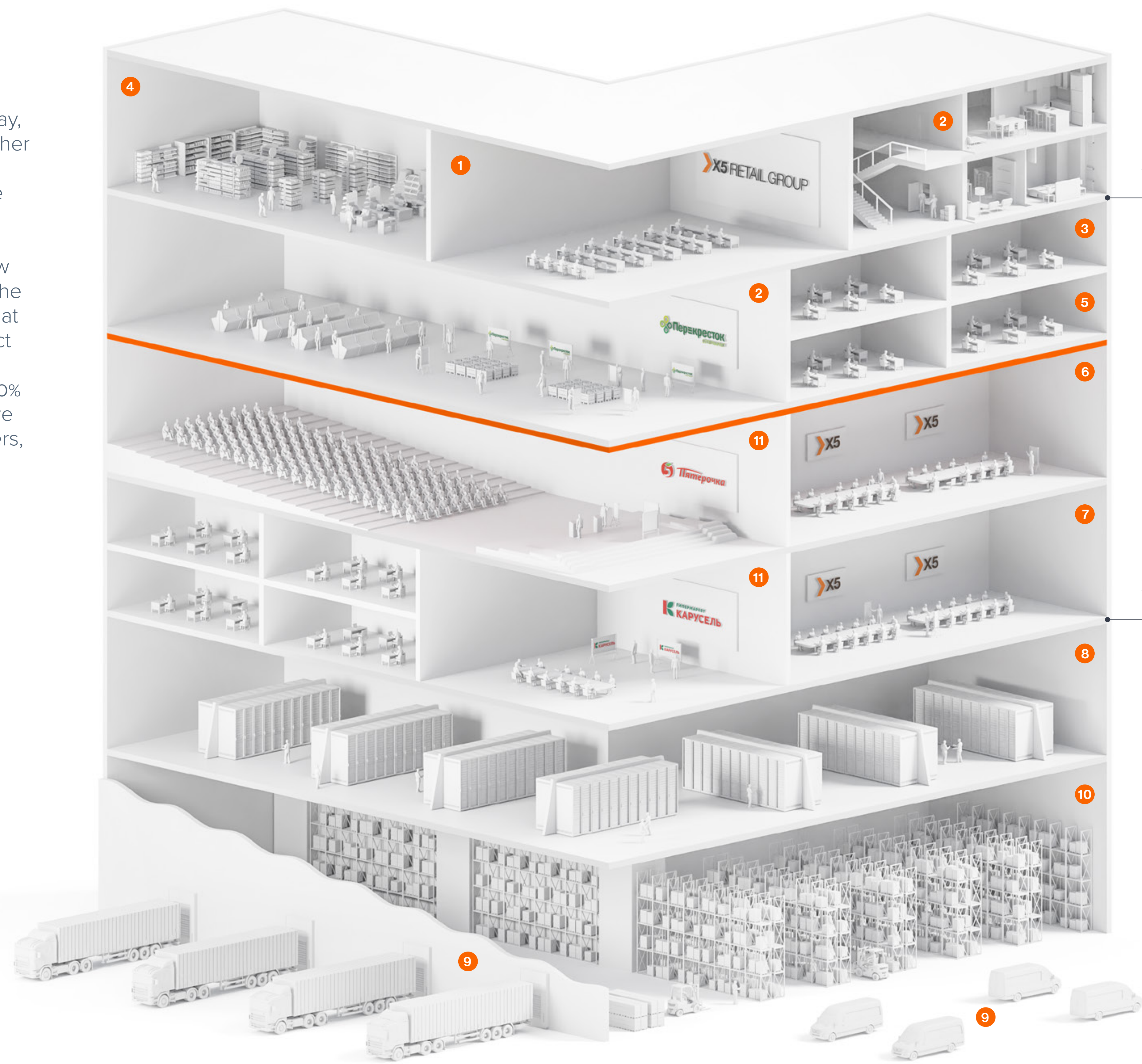
1–3 YEARS
CREATIVE NEW INNOVATIVE CAPABILITIES

1–5 YEARS
NEXT-GEN RETAIL

With our strategic principles, we seek to maintain a constant focus on further improving and adapting our value proposition for customers while also increasing efficiency and preparing for the future. We set our strategic goals based on three core principles aimed at creating value for all stakeholders in our Company in the short, medium and long terms.

Digital transformation at every level

X5's digital transformation is well underway, with new technologies enabling us to further improve our customers' experience. This includes automated systems that improve operational efficiency, as well as customer-facing innovations that improve the in-store experience. As we search for new ideas and innovations, we are driven by the goal of improving our business in ways that create value for our customers. We expect that 80% of our digital transformation will concern X5's internal operations, while 20% will be aimed at the outside world: how we communicate with our customers, suppliers, which digital services to offer and which tools to develop for feedback.



20% X5 **external** processes

1. **Big data**
   - Automation of assortment, pricing and shop promo
   - Development of personalised promo
2. **Online and marketplace**
   - Perekrestok.ru
   - Express delivery from Pyaterochka
   - Click & collect
   - Growth of online sales
   - First omnichannel clients
3. **Mobile**
   - Development of mobile apps
4. **Innovation and operating performance**
   - Video analytics
   - Electronic price tags
   - Self-checkouts
   - Smart shelves
5. **Feedback**
   - Development of feedback line and feedback response

80% X5 **internal** processes

6. **Automation of business processes**
   - at the Corporate Centre
   - in Commercial Management
   - in Finance
   - in Logistics
   - in HR
7. **Efficiency**
   - Back-office automation
   - Service centre automation
8. **IT**
   - Architecture development
   - Digital CVP
9. **Logistics**
   - Automation of transport
   - Automation of direct import
10. **Storage**
    - Automation of distribution centre
    - Video analytics for fresh goods
11. **HR**
    - Training a new kind of team
    - Teaching digital services to personnel

Strategic progress

In 2019, we delivered strong operational and financial results implementing these **strategic business priorities:**

Core principles	2019 actions	2019 results	Next steps
1. STRENGTHEN THE CURRENT BUSINESS Ongoing adaptation of CVP, new store concepts, efficiency measures, slower pace of expansion.	• Improved efficiency and results. • Adapted CVPs and launched new concepts for Pyaterochka and Perekrestok. • Began transformation of Karusel. • Continued investments in efficient and reliable retail operations infrastructure. • Increased focus on creating value for employees with comprehensive approach to HR management, covering remuneration, OHS, training, career opportunities, equality and human rights.	• Maintain focus on operational efficiency to drive higher sales densities and ROIC. • Launch comprehensive customer value management programme to utilise personalised sales and marketing opportunities. • Roll out new CVPs at Pyaterochka and Perekrestok, continue regular updates of CVP to drive LFL traffic. • Maintain focus on private-label and ready-to-eat strategies. • Transformation of Karusel. • Slower pace of organic expansion compared with 2018.	• Maintain focus on operational efficiency to drive higher sales densities and ROIC. • Roll out new CVPs at Pyaterochka and Perekrestok, continue regular updates of CVP to drive LFL traffic. • Maintain focus on private-label and ready-to-eat strategies. • Transformation of Karusel. • Continued focus on returns and gradual slowdown in pace of new store openings.
2. DIGITAL TRANSFORMATION Implement measures to support front-end and back-end digital transformation of business.	• Continued to build out robust IT infrastructure. • Big Data Department with 340 employees developing and supporting products for internal and external users. • Expanded innovation scouting programmes to identify new technologies that can enhance and transform our business. • Tested and refined new technologies that create value for customers by enhancing our operations and improving in-store experience.	• Maintained IT platform capable of supporting all aspects of operations. • Implemented technology solution to automate pricing and assortment decisions based on advanced analytics. • Launched AI-driven video monitoring of queues, shelf availability and fresh areas to support increased efficiency and service levels. • X5's "innovation funnel" has reviewed several thousand startups since its launch in 2017, with 134 innovative projects being piloted. • Opened the first prototype of a cashierless store in Russia. Currently accessible to over 1,000 employees of the Perekrestok Smart Kitchen facility. • Big Data Department with 340 people developing internal and external products such as automated pricing, automated assortment and promo management to enhance X5's ability to meet customer demand.	• Further implementation of digital transformation roadmap. • Further automate in-store operations to improve customer experience. • Transform IT in order to support continued growth of operations and increasing role of data-driven and digital services in X5's business. • Automation of key business processes such as purchasing of common groceries like sugar, salt and certain cereals. • Continue to develop international scouting programme to select most promising innovative solutions and review with X5's "innovation funnel". • Further develop data-driven customer solutions.
3. NEXT-GEN RETAIL Pilot and launch new business initiatives that will enable X5 to compete with emerging players in areas like online grocery, ready-to-eat delivery and others in order to remain relevant for our customers and adapt to changing demand and new trends.	• Perekrestok.ru online store has reached the #2 spot in e-grocery in less than two years. • Expanded Perekrestok.ru assortment and added partners' assortment to our online offering. • After successful pilot, began active development of 5Post last-mile delivery service for e-commerce providers. • Launch of express delivery service.	• Perekrestok.ru daily orders peaked at 8,000 in December 2019. NPS exceeded target levels and reached 80% in 2019. • Perekrestok.ru assortment (including partners) increased to 27,000 SKUs. • Perekrestok.ru's market share increased to 13.0% of the e-grocery market, making it the #2 player in online food retail in Russia. • Increased number of dark stores serving the greater Moscow area and St Petersburg to four. • Over 12,700 parcel lockers and pickup points available in 9,957 stores for Russian and international e-commerce platforms including Ozon, Lamoda, Santens, Ali-Express and Unitrade. • 5Post delivered 5.3 million parcels during five months of operation in 2019.	• Continue to evaluate opportunities to launch new businesses and services to improve X5's CVP. • Continue to expand our digital business including Perekrestok.ru and express delivery from stores. • Develop comprehensive strategy for ready-to-eat segment and expand our offer through strategic partnerships. • Take a leading position in online food retail in Russia. • Become a strong player in last-mile delivery for e-commerce. • Focus on sustainable development initiatives.

Inaugural sustainable development strategy approved

In December 2019, X5's Supervisory Board approved the Company's first-ever sustainable development strategy. The document focuses on establishing targets for X5 Retail Group based on the UN's 17 Sustainable Development Goals, with the aim of establishing measurable targets and integrating applicable SDGs into our overall business strategy in its next iteration.

Detailed information about our sustainability strategy is presented in the "Sustainable development" section on pages 162–209.

- ■ Primary Goals
- □ Secondary Goals

In order to fully embrace these SDGs, we will draft new policies and develop metrics to assess our performance in each of the four areas. We expect this process to be complete by the end of 2022. At present, our overall strategic goals with regard to the SDGs are as follows:

UN SDGs	What the goal means to X5	Metrics
	• Support local communities by expanding social investments and charity programmes.	• Increase the number of stores participating in, the volume of food collected and the number of families helped by the Basket of Kindness food bank project. • Increase share of employees trained to provide assistance to lost people as part of the Liza Alert project. • Increase awareness among X5 employees about the Company's social initiatives.
	• 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.	• Increase share of suppliers that have completed production standards audit. • Increase share of fresh and fruits and vegetables in assortment. • Increase number of health foods in total assortment and private-label offerings. • Increase number of customers familiar with healthy lifestyle initiatives. • Increase employee awareness of healthy lifestyle initiatives.
	• Ensure that we offer decent working conditions and equal opportunities for all of our employees. • Monitor the production of the food (and non-food) goods we sell "from farm to fork" for quality and safety. • Further improve the productivity of every employee.	• Further reduce staff turnover rates. • Increase employee engagement. • Increase awareness of sustainable development. • Increase share of employees with training about X5's sustainable development initiatives and strategy. • Increase employee productivity.
	• Reduce energy consumption. • Develop sustainable packaging offerings. • Monitor the production of the food (and non-food) goods we sell "from farm to fork" for quality and safety. • Cut volumes of waste sent to landfills. • Support responsible consumption.	• Continue to increase share of fleet with mixed-cycle engines. • Reduce empty runs. • Reduce electricity consumption. • Increase share of direct import and private labels. • Decrease shrinkage. • Increase number of customers familiar with rational consumption initiatives (using polling). • Increase number of stores participating in recycling initiatives. • Increase employee awareness of rational consumption.

Geography of operations

X5 today

Russia's #1 food retailer

X5's 16,297 stores and 42 DCs operate in 65 Russian regions. With a population of over 146 million people living in 11 time zones, Russia presents both significant opportunities and challenges. In order to ensure a reliable assortment of high-quality goods to every single store, we maintain extensive logistics operations, including distribution centres and a fleet of modern trucks.

Online business

Perekrestok.ru currently operates four dark stores and a fleet of 283 delivery vehicles that serve customers in Moscow, the Moscow region and St Petersburg. Our e-grocery offering provides customers in Russia's two largest metropolitan areas with a convenient way to access a growing assortment of goods (27,000 SKUs at the end of 2019, with an 11.1% share of non-food in 2019 online revenue) that can be delivered directly to their doors.

Omnichannel business

We are developing new business opportunities using our existing stores and logistics infrastructure by launching services like 5Post, through which third-party e-commerce platforms can offer their customers deliveries to convenient pickup points and parcel lockers at 9,957 X5 stores in 63 regions of Russia.

Store dynamics

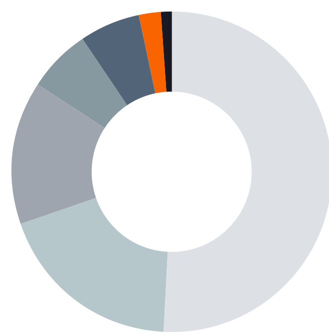
AS OF 31 DECEMBER

FEDERAL DISTRICT	2019	2018	2017	2016	2015
Central	6,301	5,822	5,198	4,077	3,262
North-Western	1,836	1,668	1,416	1,095	845
CENTRAL AND NORTH-WESTERN	**8,137**	**7,490**	**6,614**	**5,172**	**4,107**
Volga	4,306	3,820	3,169	2,468	1,848
Ural	1,358	1,168	999	764	551
Southern	1,501	1,222	874	606	418
Siberian	702	479	277	40	–
North Caucasus	293	252	188	137	96
TOTAL	**16,297**	**14,431**	**12,121**	**9,187**	**7,020**

NOTE: BASED ON FEDERAL DISTRICTS OF THE RUSSIAN FEDERATION

Share of net retail sales in 2019

%, BY FEDERAL DISTRICT



Central	51.1
Volga	18.8
North-Western	14.5
Ural	6.4
Southern	6.0
Siberian	2.2
North Caucasus	1.0

Multi-format presence in seven federal districts

16,297 Total stores

15,354 Pyaterochka proximity stores

852 Perekrestok supermarkets

91 Karusel hypermarkets

Number of stores and DCs

1 Central FD

PYATEROCHKA	5,759
PEREKRESTOK	503
KARUSEL	39
DISTRIBUTION CENTRES	16
DARK STORES	3
PICKUP POINTS / PARCEL LOCKERS	6,757

2 Volga FD

PYATEROCHKA	4,153
PEREKRESTOK	128
KARUSEL	25
DISTRIBUTION CENTRES	8
DARK STORES	–
PICKUP POINTS / PARCEL LOCKERS	1,798

3 North-Western FD

PYATEROCHKA	1,703
PEREKRESTOK	116
KARUSEL	17
DISTRIBUTION CENTRES	6
DARK STORES	1
PICKUP POINTS / PARCEL LOCKERS	1,310

4 Ural FD

PYATEROCHKA	1,306
PEREKRESTOK	48
KARUSEL	4
DISTRIBUTION CENTRES	6
DARK STORES	–
PICKUP POINTS / PARCEL LOCKERS	898

5 Southern FD

PYATEROCHKA	1,447
PEREKRESTOK	49
KARUSEL	5
DISTRIBUTION CENTRES	4
DARK STORES	–
PICKUP POINTS / PARCEL LOCKERS	1,522

6 Siberian FD

PYATEROCHKA	702
PEREKRESTOK	–
KARUSEL	–
DISTRIBUTION CENTRES	2
DARK STORES	–
PICKUP POINTS / PARCEL LOCKERS	193

7 North Caucasus FD

PYATEROCHKA	284
PEREKRESTOK	8
KARUSEL	1
DISTRIBUTION CENTRES	–
DARK STORES	–
PICKUP POINTS / PARCEL LOCKERS	275

Leadership team

Alexander Ilyin
GOVERNMENT RELATIONS DIRECTOR

Elena Konnova
CORPORATE COMMUNICATIONS DIRECTOR

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

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

Ekaterina Lobacheva
GENERAL COUNSEL

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

AS OF 31 DECEMBER 2019

Our top management team is responsible for X5's overall management and is accountable to the Supervisory Board for delivering financial and operating targets, as well as achieving the Company's long-term strategic goals.

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

Anton Mironenkov
DIRECTOR OF BIG DATA, MEMBER OF THE EXECUTIVE BOARD

Anton Valkov
CHIEF INFORMATION OFFICER, MEMBER OF THE EXECUTIVE BOARD

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

Dmitry Agureev
HEAD OF CORPORATE SECURITY

Svetlana Demyashkevich
CHIEF FINANCIAL OFFICER, MEMBER OF THE EXECUTIVE BOARD

Vladimir Salakhutdinov
DIRECTOR OF STRATEGY, MEMBER OF THE EXECUTIVE BOARD

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 AlfaBank, 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 had 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 banner'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, MEMBER OF THE EXECUTIVE BOARD

Vladimir joined X5 in May 2019. From 2014, he served as Deputy CEO for Finance 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 in various positions at the Moscow Exchange for over five years. Vladimir is a graduate of the Moscow Engineering Physics Institute (MEPhI) and the Financial University under the Government of the Russian Federation. He also holds an MBA degree from the Kellogg School of Management at Northwestern University.

Anton Mironenkov

DIRECTOR OF BIG DATA, 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 February 2014, he was 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. He began his business career in 2000 as an auditor at PricewaterhouseCoopers and subsequently spent four years as an investment banker at Troika Dialog before transferring to the Vice President position at Troika Dialog Asset Management in 2005. Anton graduated with honours from Moscow State University in 2000 with a degree in Economics.

Anton Valkov

CHIEF INFORMATION OFFICER, MEMBER OF THE EXECUTIVE BOARD

Anton has extensive experience supervising the launch of digital services, as well as business and change management. Before joining X5, he was involved in developing the Beru marketplace and served as Chief Operating Officer at Yandex.Market, a subsidiary of Russia's largest internet company, Yandex. Prior to that, he held top management positions at Walmart, an American multinational retail corporation, where he was in charge of e-commerce development strategy, big data analysis for logistics, innovation services, and implementation of the express delivery service. Anton also gained substantial management experience at McKinsey, a global consulting firm, and several startups in analytics, financial services and logistics. Anton graduated from the Faculty of Mechanics and Mathematics of Moscow State University. He holds a PhD in Applied Mathematics and an MBA from the Massachusetts Institute of Technology (the MIT Sloan School of Management).

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.

Elena's responsibilities include overseeing X5 Retail Group's external and internal communications activities, as well as the Company's implementation of its sustainability strategy.

Alexander Ilyin
GOVERNMENT RELATIONS DIRECTOR

Alexander joined X5 Retail Group in April 2019. He has vast experience in working with the government, law enforcement services and NGOs. Over the last seven years, he has served as the Deputy General Director for Legal Affairs and Institutional Development at Sheremetyevo International Airport, where, in addition to cooperating with government and law enforcement officials, as well as NGOs, he provided support during audits by governmental and regulatory bodies. Alexander graduated from the Krasnoznamenny Military Institute of the USSR Ministry of Defence with a degree in military law.

Dmitry Agureev
HEAD OF CORPORATE SECURITY

Dmitry has 23 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, 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 Academy of Intelligence Service, as well as a Volvo MBA.

Ekaterina Lobacheva
GENERAL COUNSEL

Ekaterina joined X5 in October 2016 as the Head of the Corporate Law and X5 Corporate Structure Department. She has over 15 years of successful managerial and practical experience in the field of law. 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 business. During her term at Evraz Holding, she held numerous positions, including Director of Corporate and Property Relations; Vice President, Legal, 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.

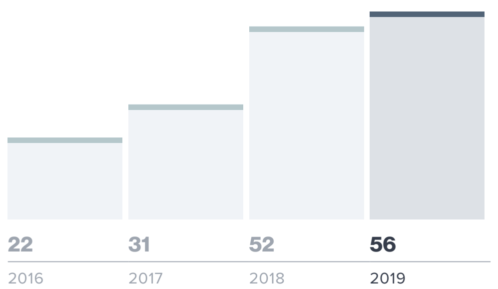
Leadership team

We have worked hard to make X5 a great place for the professional development of talented individuals. In the last two years, we have significantly improved retention rates for CEO-1 positions from 22 months on average in 2016 to 56 months in 2019. We have promoted internal candidates for 71% of the CEO-1 vacancies. At the CEO-2 level, we have achieved similar progress, with an average tenure of 54 months in 2019, compared to 19 months in 2016, and internal promotions accounting for 67% of positions.

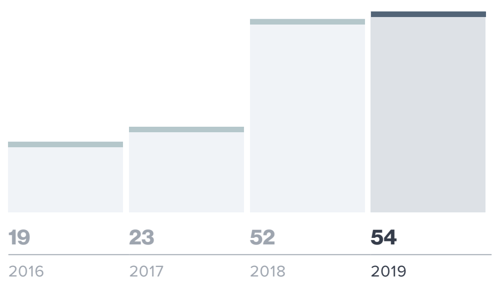
Improved employment duration for management team

Average length of employment of CEO-1

MONTHS



CEO-2



71%

Internal promotions for CEO-1

67%

Internal promotions for CEO-2

One of the important areas of focus for ensuring the sustainable development of X5 Retail Group is providing real and meaningful career opportunities for skilled and knowledgeable employees who share our values and who are already familiar with our strategic priorities. By building an internal talent pool, we are able to further ensure the sustainability of our business.

The creation of an internal talent pool gives employees a clearer understanding of their potential development within X5 Retail Group, and encourages them to further develop their skills and remain loyal to the Company. It has also proven effective as a way to manage change when there is turnover that creates new opportunities. We have been pleased with the results of our efforts to decrease turnover and ensure greater consistency in management, as illustrated by the charts above.

We continue to make investments in our workforce in order to ensure that they have the skills and knowledge needed to contribute to achieving X5's strategic goals in the short and long term. Such initiatives include tailored educational programmes that have been developed for managers of the Company in cooperation with educational institutions like the IMD and Skolkovo business schools. In addition to this, we have developed our own in-house training programmes to enhance employee skills, such as the X5 Digital Academy.

Personnel Development

	IMD	Skolkovo	X5 Digital Academy
WHO	Top management Middle management	Middle management	Top management Middle management
NUMBER OF PERTICIPANTS	~50	~100	~15,000

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

Training and education programmes have also contributed to improving employee loyalty and decreasing turnover, with a variety of programmes aimed at helping our team to develop new skills and ensure that they are prepared for future developments.

These programmes have helped to increase interaction between different business units, especially between our two core retail formats, while also improving management and professional skills. By providing the knowledge and skills needed to achieve X5's digital transformation, we are helping to secure our success, and to share that success with our team.

PYATEROCHKA PROXIMITY STORES

Pyaterochka proximity stores

In line with our strategic priorities, Pyaterochka has succeeded at making further improvements in operating efficiency, with measurable progress in reducing staff turnover, decreasing shrinkage and bringing down inventory turnover days. This progress was possible thanks to the hard work of the format's management team and its commitment to Pyaterochka's success in the years ahead.

One of our top priorities is earning our customers' trust and doing everything we can to change the traditional attitude to food retail in Russia. Our core focus areas to achieve this are amazing convenience, providing fresh goods that our customers can trust, staying in our customers' price comfort zone and being a source of care and inspiration for the community.

We ramped up our efforts to support the communities where we operate during 2019. In addition to recycling of packaging waste generated by our stores and food charity through the Basket of Kindness, we launched a new project with Liza Alert that provides a safe spot for lost people to seek help from our specially trained store staff.

We operate in a constantly changing market, and Pyaterochka has in place a business model that enables us to quickly identify, pilot and roll out innovations that will help to further improve our performance. Key developments on the innovations front include the introduction of self-checkout terminals, which are part of the new store concept approved in 2019, the roll-out of electronic price tags that are wirelessly updated and will eliminate the risk of price discrepancies, as well as several big data–driven projects that will support our operations and CVP.

Looking ahead to 2020, we will be launching the new store concept approved in 2019. The new concept will be used for all new Pyaterochka stores and for planned refurbishments of existing stores. The new concept features a more attractive store design for a cosy and convenient shopping experience, with a greater focus on fresh and ready-to-eat, as well as expanded availability of new in-store technologies and omnichannel services.

Pyaterochka will continue to adhere to a strategy of balanced growth, focusing on further efficiency gains, increasing sales density and LFL performance, while adapting our CVP on an ongoing basis in response to customer demand.

Sergei Goncharov
GENERAL DIRECTOR OF PYATEROCHKA

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 389 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 processes like assortment, pricing and purchasing.

2019 performance highlights

Stores in operation:

+13.5% *2018/19*
15,354
Proximity stores

+12.9% *2018/19*
5,975 THS SQM
Selling space

1,832
New stores added
and 684 thousand square metres of new selling space added

+14.1% *2018/19*
1,367 RUB BLN
Net retail sales

+14.0% *2018/19*
4.5 BLN
Customer visits

Pyaterochka Helps loyalty programme:

>102 MLN
Cards issued
more than 31 million active users

54%
Traffic penetration
and 68% of retail sales attributable to loyalty card holders

2019 sustainability highlights

Up to 100% of recyclable solid waste generated by stores and DCs sent for recycling.

Food that was unsold before its expiry date was sent for processing into animal feed. As part of the pilot, Pyaterochka was able to increase the volume of food sent for recycling to 2.5 kt per month, which is up to 30% of the potential waste from over 5,000 stores.

A healthy lifestyle project was launched in 2019 in order to create specific shelving units for health foods.

Pyaterochka launched the First Division programme aimed at improving managerial skills and business vision of middle management and has engaged around 700 employees.

2019 strategic highlights

Smart expansion

Opened 1,832 net new stores in 2019, compared to 2,297 in 2018.

New CVP development

Increasing focus on freshness and low prices, as well as earning customers' trust through convenience and care for the community.

Optimised organisational structure

Created three macro-regions and decreased the number of direct reports to the General Director from 21 to 12. Three new executive directors supervise operating activities, while the General Director focuses on strategic development.

Loyalty programme

Continued to expand the Pyaterochka Helps (Vyruchai-Karta) loyalty programme with 31 million active users (up 7% year-on-year) and further pilots of personalised offers based on big data analysis.

Launched new store concept

Following pilot testing of new stores, we finalised our new store concept, with rollout started in late 2019.

Focused on fresh

Improved quality of fruit and vegetables supplied to Pyaterochka, established in-store quality standards, improved accuracy and frequency of orders.

Reduced staff turnover

Adjustments to motivation package for in-store staff and further investments in training and education helped to bring staff turnover down by 24 p.p. year-on-year to 49.5% 2019 annual average.

Favourable environment for retail employees

Based on a survey of 21,000 retail employees, we identified key areas for improving working conditions and customer service, built a new role-based model for operations management, and assigned areas of responsibility in two areas. We developed a new standard for store employees, which became part of the new concept.

Reduced shrinkage

Ongoing measures by the management team reduced shrinkage by 62 b.p. year-on-year.

Piloted big data tools

Piloted in-house tools to automate assortment and pricing, as well as ordering of certain common groceries.

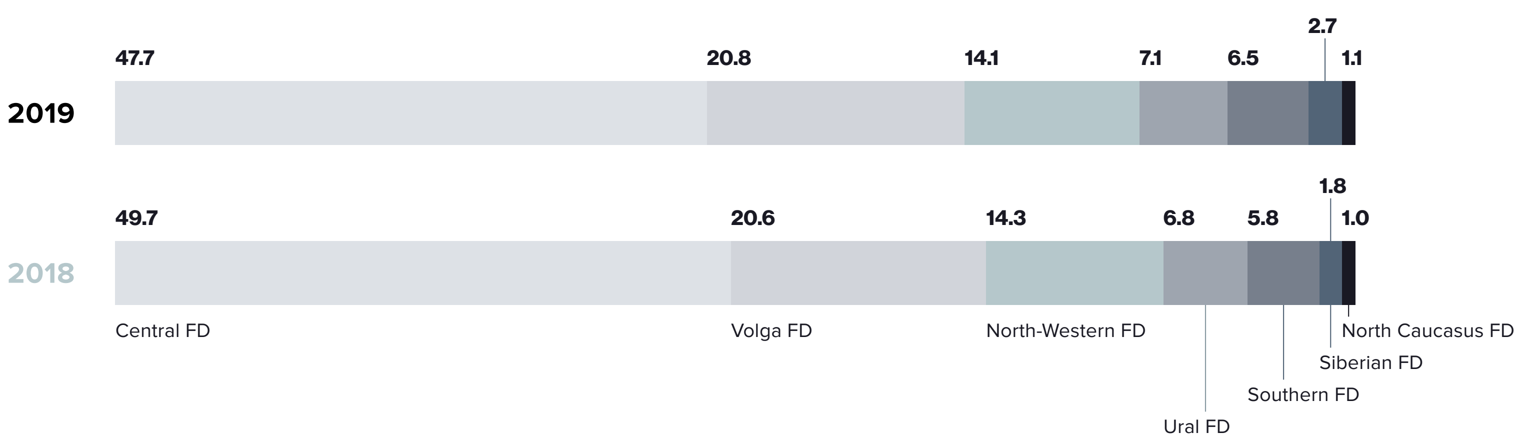
Private-label assortment rose to 1,771 SKUs

At year-end 2019, the share of private-label products in Pyaterochka's 2019 revenue reached 13.9% with a target of 18% by the end of 2020.

Key operating results

	2019	2018	2017	2016	2015
Number of stores, *eop*	15,354	13,522	11,225	8,363	6,265
Selling space, '000 m² *eop*	5,975	5,291	4,427	3,329	2,423
Net retail sales, *RUB bln*	1,367	1,198	1,001	776	585
Customer visits, *mln*	4,460	3,913	3,267	2,543	1,990

Pyaterochka net retail sales by region, %



Strategic priorities

OUR PRIORITIES	WHAT WE ARE DOING
Operational efficiency	• Introduced set of measures to address losses, which helped to reduce shrinkage by 62 b.p. in 2019. • Reduced inventory turnover by 1.2 days on average in 2019 vs. 2018.
Customers	• Sought to combine convenience, reliable fresh quality, community engagement and comfortable pricing to earn customers' trust. • Continued expansion of loyalty programme with 31 million active users, which is already the largest in Russian food retail. • Continued the rollout of personalised promo that helps to increase efficiency for Pyaterochka while providing customers with more targeted offers.
New CVP	• Launched new CVP with a completely redesigned store that has convenient routes for various shopping missions, with 32 stores operating under the new concept as of the end of 2019. • Expanded assortment with new ready-to-eat SKUs to around 200. • Added fresh arena and bakery zones to generate traffic. • Piloted and began introduction of self-checkout terminals, electronic price tags and last-mile services.
Smart expansion	• Prioritised maintaining target ROIC over pace of expansion. • Slowed pace of store openings (down by 20.2% year-on-year for FY 2019) has led to higher quality. • Market share reached 26% in proximity segment. • Focused on LFL performance, with LFL sales, traffic and basket all positive for FY 2019. • Stabilised sales density: 2019 sales density declined by 1.6% year-on-year, compared to a 4.6% year-on-year decline in 2018. • Focused on existing regions: expanded into only one new region in 2019 (Krasnoyarsk).
Service level	• Improved NPS from 0 in Q4 2018 to 1.2 as of Q4 2019. • Innovations in AI video monitoring of queues, shelf availability, in-house developed self-checkouts and fresh areas helped free up staff to focus on servicing customers.
Employees	• Employee turnover declined by 24 p.p. year-on-year in 2019. • Improved working conditions in stores as a part of new store concept. • Benchmarked salaries to market rates. • Adapted motivation system for in-store staff to increase fixed part of compensation and make bonus calculations easier to understand. • Conducted over 2.2 million hours of employee training and development programmes. • Stable management team contributing to successful execution of strategy.
Big data and omnichannel opportunities	• Automated pricing project driven by in-house big data analysis products piloted and being rolled out. • Automated assortment project using in-house big data analysis successfully piloted. • Big data–driven ordering for sugar and other common grocery products implemented.

WHAT WE PLAN TO DO

- Further adaptation and rollout of CVP.
- Leadership in NPS and service level.
- Creation of customer trust and loyalty.
- Further improvement in operational efficiency, including shrinkage.
- Further reduction in personnel turnover.
- Leverage big data tools and omnichannel capabilities.
- Continue to focus on existing regions and open fewer proximity stores than in 2019, with continued focus on improving ROIC.
- 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.

Operational efficiency

Operational efficiency is a constant area of focus at Pyaterochka as well as one of our key advantages for future sustainable performance. During 2019, we were successful in improving key performance indicators like staff turnover, shrinkage and inventory turnover.

Shrinkage

- Introduced shrinkage committees in 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 own DCs

Lean Store

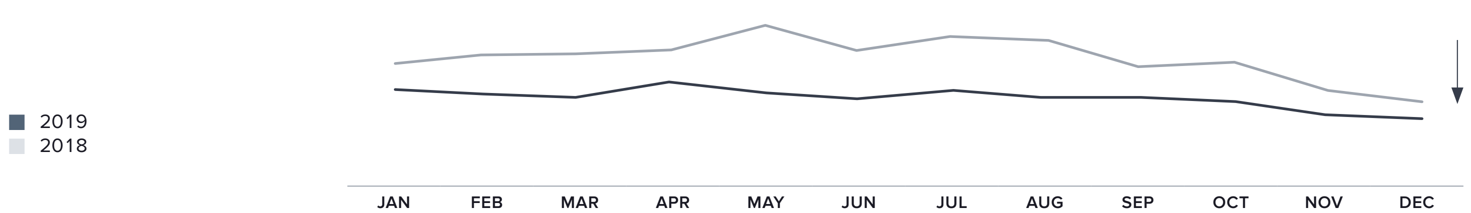
- Audit of store processes to simplify operations
- Decrease in inventory via audit on SKU level and audit of promo
- Optimal staff planning
- Efficient use of capex to open new stores

Rent

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

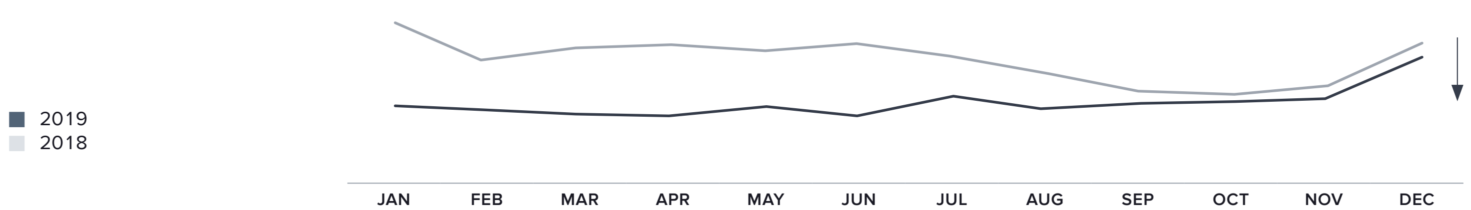
Personnel turnover, *%*

–24 p.p.
2018/19



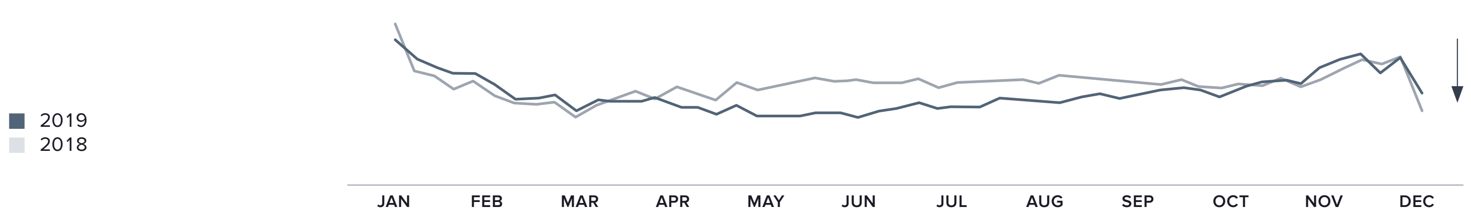
Shrinkage level, *% of sales*

–62 b.p.
2018/19



Inventory turnover, *days*

–1.2 days
2018/19



Smart expansion

In line with our strategy of balanced growth, the Company opened 20.2% fewer stores year-on-year in 2019. This had a positive effect on our ROIC, which is one of our key priorities as we seek to ensure the long-term sustainability of our business. The main principles that we focused on to achieve smart, balanced growth are:

Slower pace of store openings: while Pyaterochka continues to expand organically, we are gradually slowing down the pace of openings in order to focus on the quality and long-term sustainability of each additional store and always account for the potential self-cannibalisation effect on existing stores.

Prioritise ROIC and profitability: our key investment criteria for new stores are the expected return on investment and long-term contribution to X5's profitability.

Prioritise sales densities: we were successful at stabilising sales densities in 2019. We aim to achieve sales density growth in the years ahead.

Focus on existing regions: our expansion has naturally focused on the most attractive regions for growth, and our goal is to further solidify our position in these areas instead of seeking to stretch our network into new regions.

Consolidation of smaller players: roughly 50% of our new openings in 2019 were Pyaterochka stores replacing smaller players. We see this consolidation as one of the key opportunities for growth in the years ahead.

New CVP with focus on trust

At Pyaterochka, our main priority is to improve our customers' shopping experience and to restore trust by providing products of the highest quality at reasonable prices. We aim to be the most caring, smart, fresh convenience store. Using data from customer surveys, we have updated our CVP with a focus on the following areas:

TRUST

Leader in convenience

Pyaterochka has always been a neighbourhood store that is conveniently located nearby for customers to get their daily shopping done. We have developed the Pyaterochka concept based on the understanding that customers come to our store expecting a quick, seamless and efficient shopping experience.

Freshness you can trust

We constantly adopt our assortment to changing customer needs and customise it based on location. We also maintain a continuous focus on improving the quality and freshness of our products. Our ambitious target is to be the best among key competitors and to be on par with local fresh markets in terms of the quality and freshness of the fruit and vegetables we sell.

Care for the community

We are a community store. Our customers expect us to act in a responsible way and to offer sustainable and traceable products. Our social and environmental initiatives include recycling waste generated by our stores, Basket of Kindness food drives and a joint project with Liza Alert to help lost or disoriented persons get help.

Low prices

Low prices remain a key part of our CVP and are especially important given the challenging macro environment in which we function. As we succeed in cutting operating costs with the help of efficiency measures and new technologies, we aim to pass these savings on to our consumers. We believe that building a reputation for quality, care and convenience, combined with low prices, is the key to success.

A convenient, fresh, caring and efficient store for everyday purchases

New concept launched

During 2019 we piloted and approved a new concept for our Pyaterochka stores that will be rolled out across the network and used for all newly opened stores. The updated CVP offers customers greater convenience, with a redesigned store that creates a more comfortable and cosy shopping environment.

Improved design, cosy and convenient store layout

Fresh arena and bakery zones generate more traffic

Self-checkout terminals, electronic price tags and last-mile services in store

Expanded assortment of fresh and ready-to-eat

32

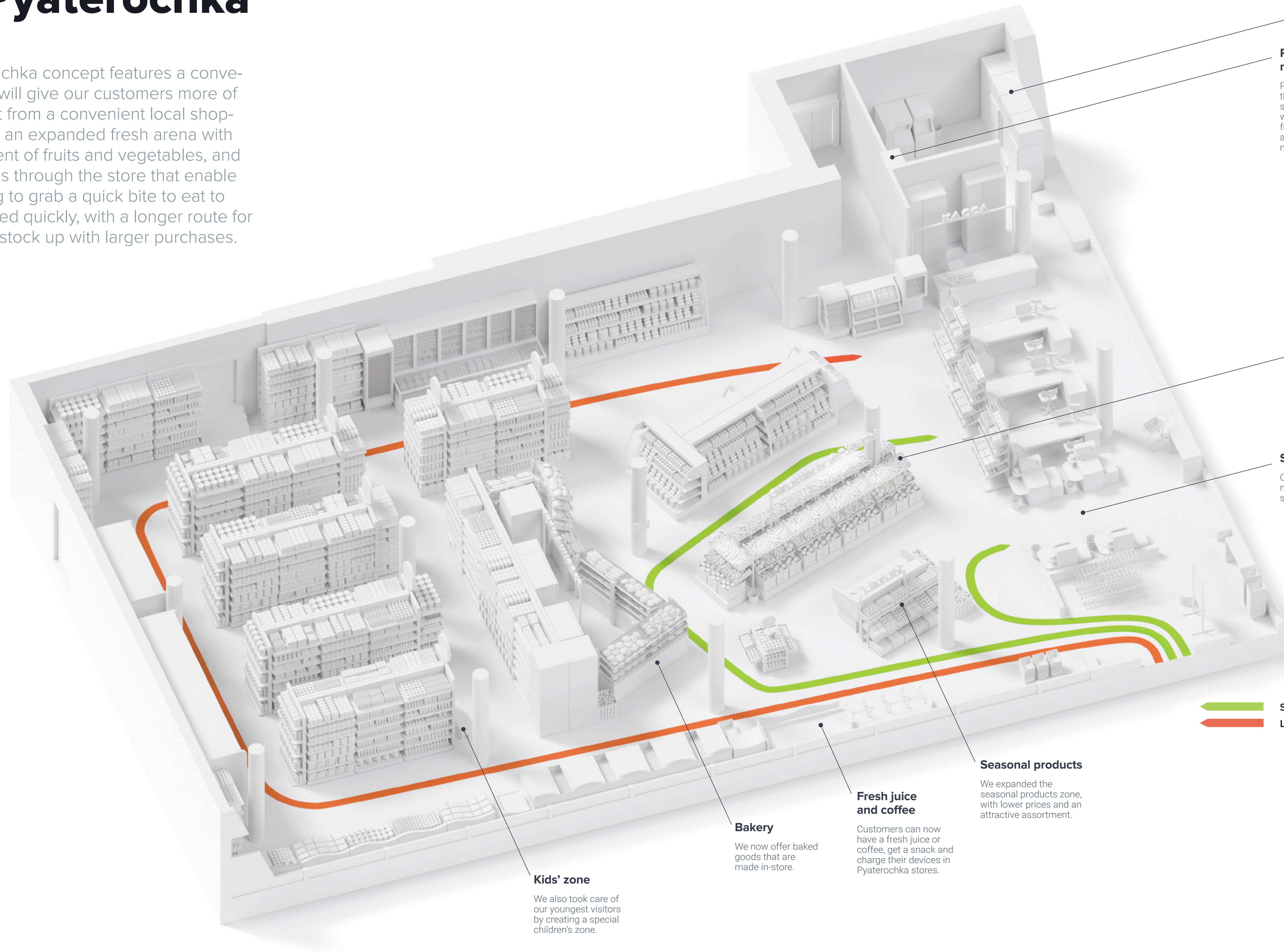
New-concept Pyaterochka stores launched in 2019

We plan to refurbish 1,300 stores in 2020

At the end of 2019, we had 32 Pyaterochka stores operating under the new concept, and we plan to open all new stores and update 1,300 of our existing stores to the new concept in 2020. The first stage of this rollout will focus on Moscow, St Petersburg and the Pyaterochka "Centre" macro-region.

New Pyaterochka

The new Pyaterochka concept features a convenient layout that will give our customers more of what they expect from a convenient local shopping experience: an expanded fresh arena with a larger assortment of fruits and vegetables, and convenient routes through the store that enable shoppers looking to grab a quick bite to eat to get what they need quickly, with a longer route for those looking to stock up with larger purchases.



Loyalty programme

Loyalty card programmes play an important role in our ability to understand our customers, personalise their shopping experience and effectively adapt our CVP to their needs over the long term.

Our Pyaterochka Helps (Vyruchai-Karta) loyalty programme had 102 million issued cards and 31 million active users as of 31 December 2019. Penetration of the loyalty programme in Pyaterochka traffic was 54% during 2019, compared to 48% in 2018.

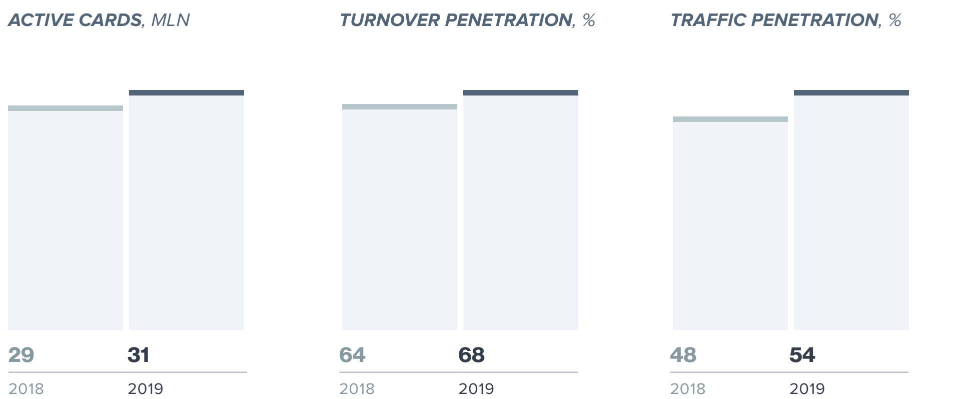
We estimate that half of Russia's population visits Pyaterochka stores, and the number of daily visits in 2019 amounted to over 12 million people. At the same time, our customers spend only about 10% of their total food budgets at Pyaterochka stores. Currently, loyal customers account for approximately 68% of Pyaterochka sales, and our goal is to turn more guests into loyal customers while incentivising loyal customers to increase their spending with us. We think that this can be achieved by further adapting our assortment to client needs and increasing penetration of personalised promotions.

↑6.8% *2018/19*

31
MILLION

Active card users
as of the end of 2019

Loyalty card penetration



Digital transformation and innovation

Other key projects in innovations that we piloted at X5 stores in 2019 included:

- A self-service check-out developed fully in-house.
- Electronic price tags.
- Video monitoring of product availability on shelves.
- Customer loyalty terminals providing personalised offers.
- Remote fruits and vegetables quality control at stores.
- New technological solution aimed at reducing electricity costs.
- Smart scales that can automatically identify the products that are being weighed.

Part of our digital transformation involves automating business processes to improve efficiency and leveraging technology-based solutions to better understand our customers.

We piloted automated pricing in 2019, with more than 3,700 stores in the Moscow and Urals regions using a big data-powered pricing system that was developed in-house (more detail on automated pricing is available on pages 158–159). At the pilot stores, we have seen increases in both revenue and gross margins, and we are confident that automated pricing will deliver positive results as we roll it out to the entire network.

Another area where we are successfully undergoing a digital transformation is in automation of assortment. Using tools developed in-house by X5's big data team, we have piloted automated assortment planning across the entire proximity network for 28 pilot categories (more details on automated assortment is available on pages 158–159). Our aim is to roll this out in the first half of 2020 to include Pyaterochka's remaining 52 product categories.

Human resources and recruitment

↑12% *2018/19*

230+
THOUSAND

Employees
As of 31 December 2019

Staff turnover decreased by more than 24 percentage points year-on-year in 2019 as a result of improved working conditions for in-store personnel, optimisation of business processes and changes in compensation and motivation schemes for our employees. This has reflected positively on the level of service in our stores.

Our new-concept stores feature improved design not only for our customers, but also in employee-only zones, making the work environment more pleasant.

Pyaterochka seeks to be an attractive employer. In 2019, we adjusted remuneration programmes for in-store staff. We increased the fixed portion of salaries, giving employees a higher guaranteed monthly wage, and we simplified the bonus system to make it easier to understand and better reflect the business results of each store.

PEREKRESTOK SUPERMARKETS

Perekrestok supermarkets

We delivered another set of strong results in 2019, with 92 new stores opened during the year and LFL traffic remaining positive for 16 consecutive quarters. Our commitment to customer-centricity continues to pay off as we increase the share of private-label assortment in sales and as Perekrestok's ready-to-eat and ready-to-cook offerings get a boost from the launch of our Smart Kitchen.

As part of our revamped CVP, Perekrestok has piloted a new store concept. The new stores will offer expanded fresh assortment and more convenient shopping routes, as well as more in-store services like cafes, wine and craft beer bars, and other features that will attract traffic. We are also piloting a 'large supermarket' concept as we prepare to integrate 34 hypermarkets from Karusel following the decision to transform that format.

Innovation and digital transformation are key elements to achieving our goals: we continue to automate processes behind the scenes, including assortment planning and pricing, while also introducing customer-facing innovations like loyalty terminals, self-checkout and scan & go options in store. Our omnichannel business is also growing successfully, with Perekrestok.ru increasing its net retail sales by 234% year-on-year in 2019 and new services like click & collect and express delivery being piloted as well.

Our customers' priorities are also our priorities. We are working to engage with our customers on issues that are important to them, like the environment and supporting people in need. In addition to ongoing measures to reduce energy consumption and waste generated by our stores, Perekrestok supermarkets have begun installing recycling machines for bottles and other plastic household packaging at stores, Perekrestok.ru has started collecting bags used during delivery for recycling, and we continue to participate in the Basket of Kindness food bank project along with Pyaterochka.

Looking ahead, we aim to begin the rollout of our new store concept in the first half of 2020 and start a network-wide refurbishment programme, while continuing to grow Perekrestok.ru, which we expect to become the #1 online food retailer by the end of 2020.

Vladislav Kurbatov
GENERAL DIRECTOR OF PEREKRESTOK

Perekrestok is Russia's first modern-format supermarket operator and today is Russia's largest supermarket chain by number of stores and revenue. Perekrestok operated 852 stores as of 31 December 2019, with a focus on Russia's most affluent regions. We have updated our CVP and are piloting new store concepts as we prepare to launch a new stage of refurbishments. Committed to innovation and next-gen retail, Perekrestok has improved efficiency and customer service with the help of new technologies and big data–driven tools. We operate the Perekrestok.ru online supermarket, which was launched just two years ago and is already Russia's second-largest online food retailer by revenue.

Perekrestok supermarkets offer an assortment of 8,000–15,000 SKUs, with an average selling space of 1,056 square metres, while Perekrestok.ru offered 27,000 SKUs as of year-end 2019.

2019 performance highlights

+18.3% *2018/19*
273 RUB BLN
Net retail sales

+12.1% *2018/19*
852
Stores in operation

+15.1% *2018/19*
900 THS SQM
Selling space

+16.7% *2018/19*
589 MLN
Customer visits

32
Stores refurbished

5.0%
LFL traffic growth
the highest growth rate among X5 Retail Group formats for the third year in a row

2019 sustainability highlights

About 72% of the recyclable solid waste Perekrestok generates is recycled.

Perekrestok.ru piloted the collection of plastic delivery bags for recycling.

Rollout of an automated control and monitoring system in stores that will help cut power consumption by 10% on average.

Regular employee net promoter score (eNPS) surveys launched in 2019.

2019 strategic highlights

Fastest pace of expansion
among all X5 formats with LFL sales and traffic growth above competitors and other X5 formats.

Second-largest player in online food retail by market share
with a total of 408 thousand orders fulfilled in 2019 and revenue growth of 234% year-on-year.

Positive response from customers
reflected in NPS level increasing by 3 points year-on-year and positive LFL traffic for 16 consecutive quarters.

Developed new CVP
and opened first stores in new concepts, including large supermarket format (based on conversion of suitable Karusel hypermarkets).

Continuous adaptation of assortment and CVP
with a focus on quality and assortment in ready-to-eat, ready-to-cook, fresh, fruits and vegetables categories.

Focus on efficiency
led to better performance in terms of operational expenses, shrinkage and selling, general and administrative (SG&A) expenses.

Private-label assortment
accounted for 7.9% of revenue in 2019, up from 6.5% in 2018.

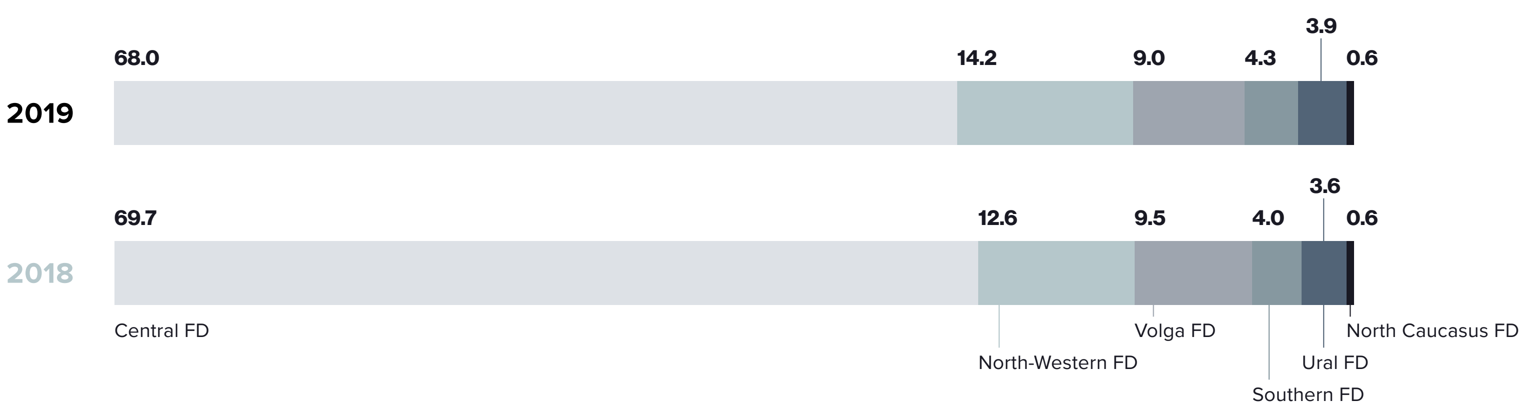
Loyalty programme
continued to grow, with 7.1 million active cards and 59% penetration in traffic in December 2019.

Supported rational consumption
introduced recycling points for household plastics where customers can return plastic bottles and other containers; Perekrestok.ru began offering to recycle bags used during order delivery.

Key operating results

	2019	2018	2017	2016	2015
Number of stores, *eop*	852	760	638	539	478
Selling space, '000 m² *eop*	900	782	637	549	484
Net retail sales, *RUB bln*	273	231	187	155	130
Customer visits, *mln*	589	505	407	350	304

Perekrestok net retail sales by region, %



Strategic priorities

OUR PRIORITIES | WHAT WE ARE DOING | WHAT WE PLAN TO DO

Update and roll out CVP

- Opened first stores under new concept, including large supermarket format.
- Launched Smart Kitchen in Moscow, which expanded our ready-to-eat and ready-to-cook assortments.
- Expanded healthy food assortment.
- Implemented digitalisation and automation projects to increase convenience for our customers and help them shop more efficiently.

Business expansion

- Added 92 new stores in 2019.
- Increased market share in supermarkets segment to 9%.
- Year-on-year expansion of 18.3% was highest rate of growth among all X5 formats.
- LFL sales and traffic growth outperformed competitors and other X5 formats.
- Positive LFL traffic for 16 consecutive quarters.

NPS growth

- Improved service level; NPS improved to 21 in 2019 from 18 in 2018.
- Expanded and optimised key categories like ready-to-eat, ready-to-cook, fresh, fruits and vegetables, healthy food.
- Expanded private-label offering with unique assortment.

Private labels

- Focused on product quality.
- Optimised assortment to improve customer retention.
- Enhanced communication with customers on private-label assortment.

Operational efficiency

- Improved logistics efficiency with reduced cost per box and better shelf availability.
- Introduced innovations to improve efficiency, ranging from AI-powered video monitoring of queues, shelf availability and fresh areas to automation of waste removal.

Customer loyalty

- Expanded loyalty programme to 7.1 million active card holders and 59% penetration in traffic in December 2019.
- Improved mobile app, enhancing omnichannel customer experience.
- Development of targeted marketing using advanced data analytics to better understand customer response to campaigns.

Omnichannel

- Operated three dark stores in Moscow and one in St Petersburg to support online operations at year-end 2019.
- NPS of over 80% reflects high level of customer satisfaction.
- Handled over 8,000 orders per day at peak times in December 2019.
- Further extended assortment to 27,000 SKUs, established partnerships and added partner SKUs to assortment.
- Launched B2B operations through online store.
- Piloting click & collect in 44 stores in Moscow and St Petersburg and express delivery in 11 stores in Moscow.

What we plan to do

- Continue to grow business and market share.
- Rollout of updated CVP.
- Improve customer experience and enhance customer service standards. Further growth of NPS and eNPS.
- Become #1 for customers in fresh, fruit and vegetables, healthy food and ready-to-eat categories.
- Scaling up omnichannel offer.
- Development of personalised promo.
- Focus on sustainable development.

Customer-centric approach

Perekrestok remains one of the fastest-growing supermarket chains in Russia thanks to our constant focus on adapting and expanding our assortment to offer customers high-quality goods at reasonable prices.

We seek to be customer-centric in all our decisions and to provide excellent service in our stores: our success in achieving this is reflected in the 16 consecutive quarters of positive LFL traffic as of the end of 2019. With the rollout of the new Perekrestok store concept starting in 2020, we expect to see further growth as we have further adapted our offering and in-store experience to meet customer needs.

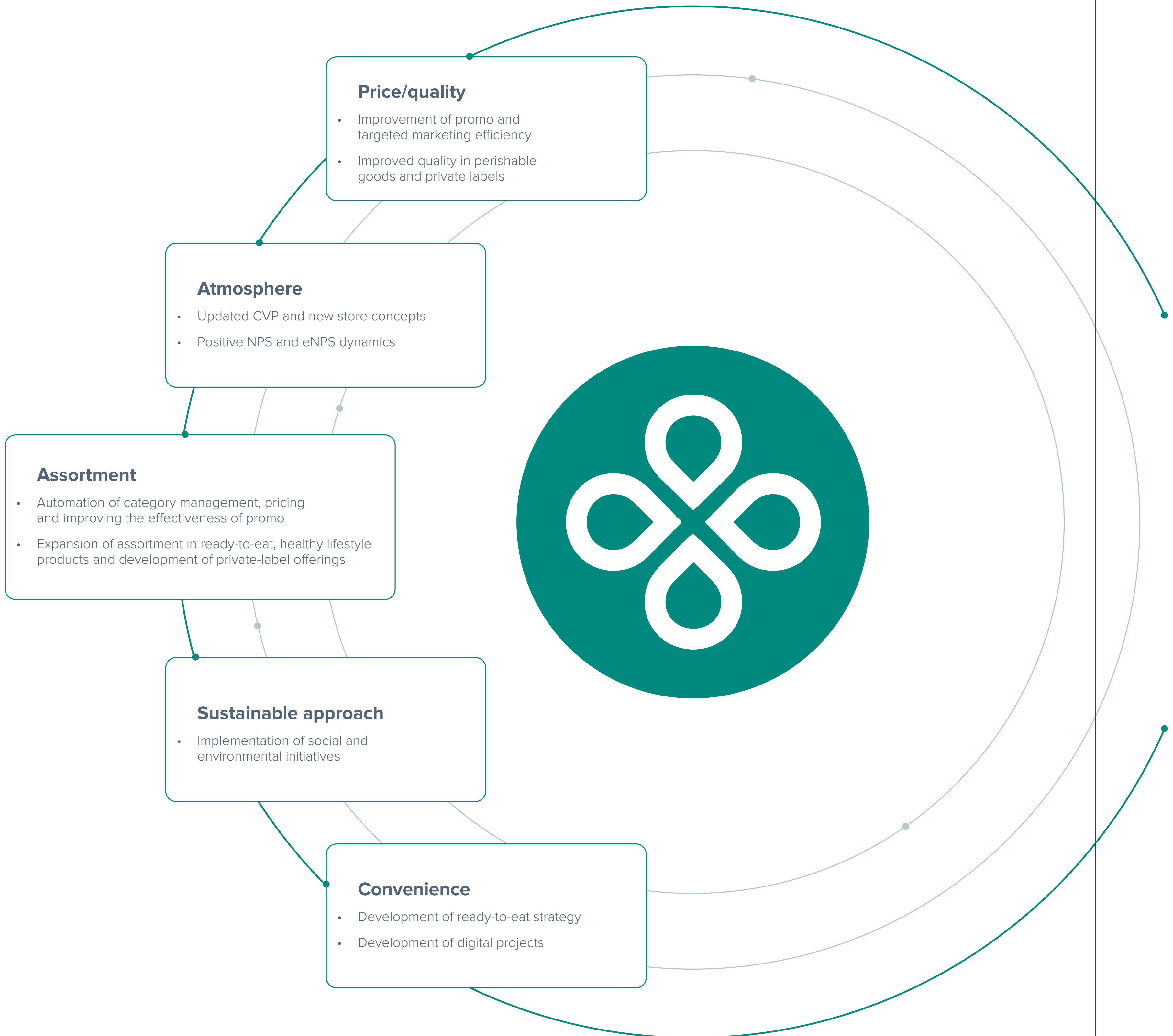
Transforming Karusel hypermarkets into large-format supermarkets

As part of the transformation of Karusel, 34 hypermarkets will be turned into large Perekrestok supermarkets.

This means that nearly a third of the new Perekrestok openings planned for 2020 will be large supermarkets. Pilots of large-format supermarkets have shown good average check performance in the short time since they were reopened. These refurbished stores have also achieved the best NPS among local competitors. Large-format supermarkets have managed to retain the most loyal (and affluent) customers from Karusel, while also attracting new traffic. Some of the key focuses for these new stores will be to increase sales densities and efficiency.

New CVP and store concept

Perekrestok's new CVP reflects changing trends in the food retail market, including increasing attention to healthy lifestyles, more demand for ready-to-eat and ready-to-cook food offerings and the growing importance of engaging in sustainable business practices.



During 2019 and continuing through the beginning of 2020, we have been piloting a new concept for Perekrestok stores that will support the updated CVP. We aim to complete the pilot phase of the new store concept and begin rollout in the first half of 2020.

Deli products: The revamped deli area offers an updated assortment

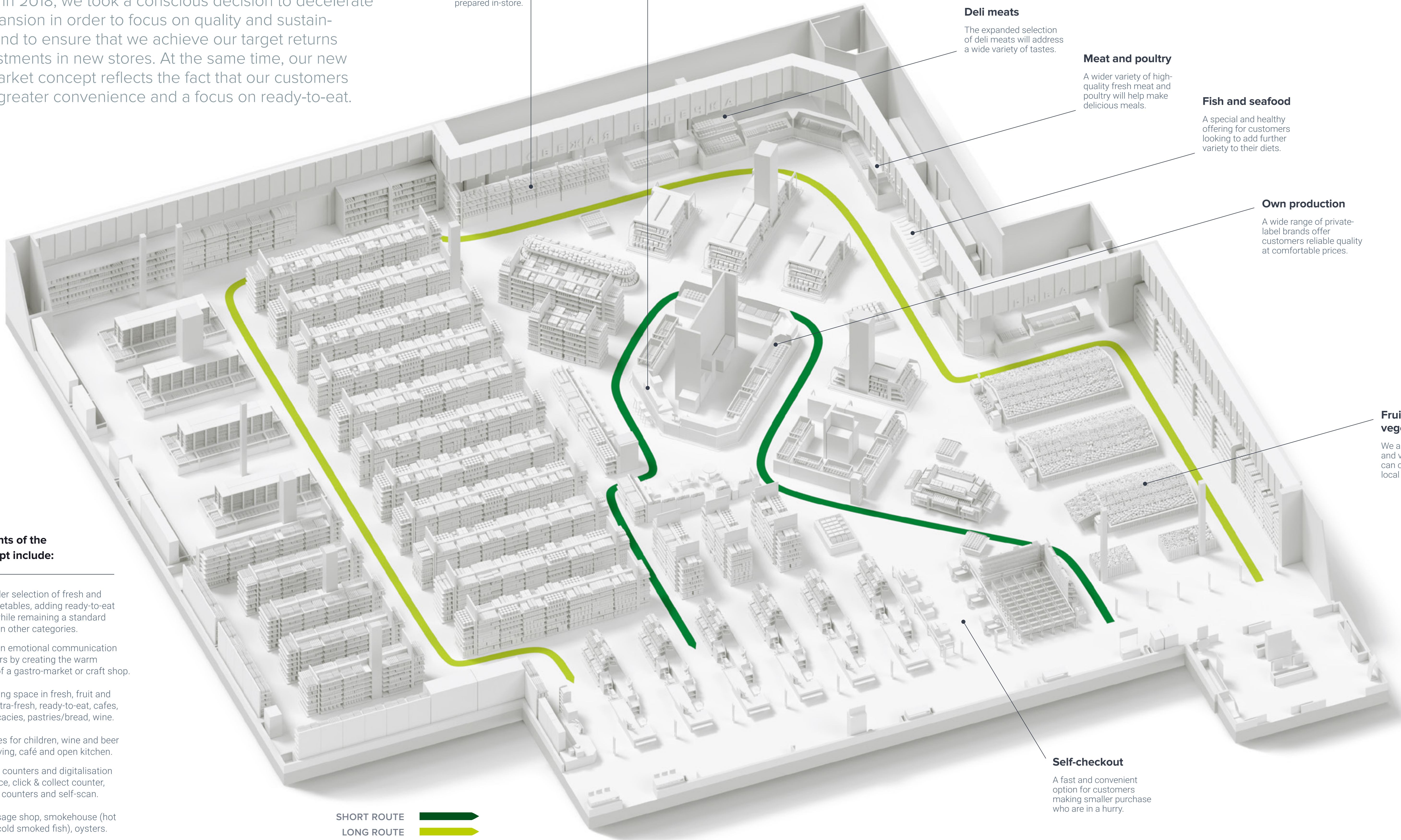
Bakery: In-store bakeries mean customers will have a wider assortment of fresh bread and pastries to choose from

Cafe: In-store cafes offer customers a place to grab a quick cup of coffee or to take a break while stocking up

Fresh arena: The expanded fresh arena will help us to offer the best assortment of fresh produce available

New Perekrestok

Starting in 2018, we took a conscious decision to decelerate our expansion in order to focus on quality and sustainability, and to ensure that we achieve our target returns on investments in new stores. At the same time, our new supermarket concept reflects the fact that our customers expect greater convenience and a focus on ready-to-eat.



Key elements of the new concept include:

- Offering a wider selection of fresh and fruits and vegetables, adding ready-to-eat assortment while remaining a standard supermarket in other categories.
- Engagement in emotional communication with customers by creating the warm atmosphere of a gastro-market or craft shop.
- Extended selling space in fresh, fruit and vegetables, ultra-fresh, ready-to-eat, cafes, cheeses, delicacies, pastries/bread, wine.
- Separate zones for children, wine and beer bar, healthy living, café and open kitchen.
- Self-checkout counters and digitalisation of selling space, click & collect counter, self-checkout counters and self-scan.
- In-house sausage shop, smokehouse (hot smoked and cold smoked fish), oysters.

Increasing customer satisfaction

We work hard to increase customer satisfaction. We highly value feedback, and in 2019 there were 1.4 million interactions with our customers through various communication channels including our mobile app and website.

1.4 MILLION

Interactions with our customers

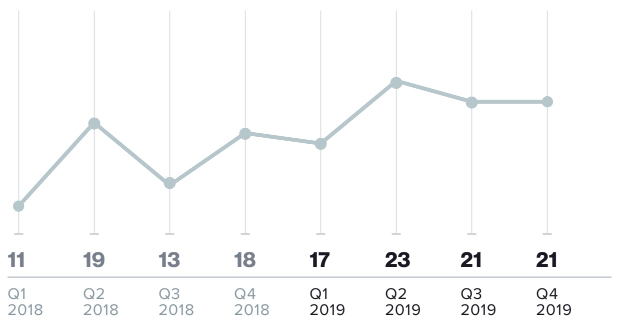
We work hard to increase customer satisfaction. We highly value feedback, and in 2019 there were 1.4 million interactions with our customers through various communication channels including our mobile app and website. In addition to ensuring a reliable supply of high-quality goods on our shelves, we seek to ensure that our staff who interact with customers have the right skills and motivation to perform their jobs well.

In addition to ensuring a reliable supply of high-quality goods on our shelves, we seek to ensure that our staff who interact with customers have the right skills and motivation to perform their jobs well.

This has been supported by the introduction of innovative in-store systems like AI-driven video monitoring of the fruits and vegetables section, of shelf availability and of queues. These systems automatically notify store staff when action is required. Similarly, tablets located throughout stores make it possible to ensure that store managers spend more time out in the store in order to complete checklists on store operations.

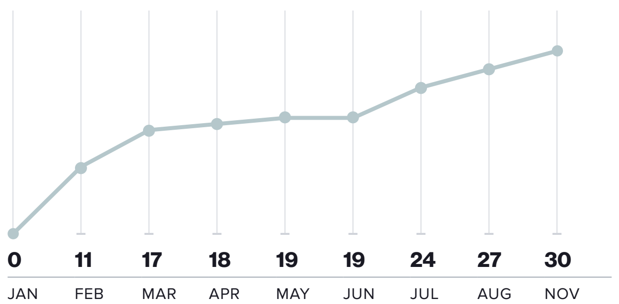
Net promoter score (NPS)

Perekrestok has achieved positive NPS performance, primarily due to continued efforts to adapt the supermarket's CVP, through investments in prices as well as working on our staff engagement. Taking into account new needs and expectations of customers, we are constantly changing our CVP, developing "emotional" stores that meet customers' demand for frequent purchases of fresh and ready-to-eat products.



Employee net promoter score (eNPS)

We believe that it is impossible to provide quality service to our customers without engaged personnel. In 2019, we began measuring eNPS, reflecting the loyalty of our employees. From the beginning of the year, this indicator reached 30 points, while staff turnover in 2019 decreased by 14 percentage points year-on-year to a 40% annual average, and labour productivity increased. In the years ahead, this will remain a focus area for improving customer loyalty.



Private labels

Perekrestok's private-label assortment accounted for 7.9% of revenue in 2019, up from 6.5% in 2018.

↑1.4 p.p.

Share of private-label net sales

2019 compared to 2018

Our private-label goods cover all price segments, from Prosto! at the lower end to exclusive offerings like Verkhovye dairy products and Green Line health foods, which focuses on health foods that are increasingly in demand. Our Green Line assortment was expanded into new categories, including baked goods, drinks, snacks and cured meats. Now offering 160 SKUs, we have expanded the number of stores offering Green Line products to 511.

Our Verkhovye line of dairy products also helps us to differentiate ourselves from competitors by offering an exclusive and high-quality dairy brand that has been very popular with customers. Exclusive private labels like this are an important part of our strategic partnerships with suppliers.

In response to growing demand for ready-to-eat and ready-to-cook foods, Perekrestok has adapted its assortment and expanded its capacity to produce products for these categories. One of the key initiatives was the opening of the Smart Kitchen in 2019, which will have the capacity to produce 120 tonnes of ready-to-eat food per day that will be supplied to Perekrestok supermarkets in and around Moscow.

The new Perekrestok CVP will include an expanding ready-to-eat assortment and also focus on other priority areas like health foods. At the same time, a new core concept was developed to offer convenient services to enhance the shopping experience, such as in-store cafes or coffee stations.

	CROSS-CATEGORY BRANDS	CATEGORY BRANDS
HIGH AND ABOVE AVERAGE PRICE Unique assortment	ЗЕЛЁНАЯ ЛИНИЯ – HEALTHY; MARKET COLLECTION – PREMIUM	Верховье – DAIRY; Кремъ бюро – CONFECTIONARY; ECO story – ECO HOMEWEAR; KOKORO – FOR KIDS 1–3 YEARS OF AGE; YUME – FEMENINE HYGIENE
MEDIUM PRICE Wide assortment of easily accessible quality products	МАРКЕТ Перекресток	САРАФАНОВО – DAIRY; Шеф – READY-TO-EAT & READY-TO-COOK; HOME story – HOMEWEAR; Honey Kid – FOR KIDS 1–3 YEARS OF AGE; Bonté – CONFECTIONARY; Новый океан – FISH; BEAUTY story – BEAUTY; УХТЫШКИ! – FOR KIDS 4–7 YEARS OF AGE
LOW PRICE Opportunity to save on everyday purchases	ПРОСТО!	

Ready-to-eat

In response to growing demand for ready-to-eat and ready-to-cook foods, Perekrestok has adapted its assortment and expanded its capacity to produce products for these categories.

In 2019, we launched our Smart Kitchen, which will have the capacity to produce 120 tonnes of ready-to-eat food per day for Perekrestok supermarkets in and around Moscow. We aim to expand our own ready-to-eat assortment, while continuing to develop the offering to include in-store cafes or coffee stations.

120 TONNES

Of ready-to-eat food per day

For Perekrestok supermarkets in and around Moscow

Operational efficiency

Digitalisation continues to help us to increase convenience and efficiency for our customers, while automation of processes has improved our operating efficiency.

Perekrestok is implementing new automated processes like category management, pricing and targeted marketing, as well as piloting innovative solutions in stores such as video monitoring of shelves, electronic price tags, as well as scan & go. At present, we are piloting and considering the effectiveness of investing in these solutions. We try to approach everything carefully, while not missing new opportunities.

Lean store initiative

The lean store project consists of five main initiatives:

1. Transition to trust acceptance of deliveries from our own DCs in order to minimise the unnecessary workload in stores, while maintaining a focus on shrinkage levels.
2. Transition to storage of goods in roll cages and shelving from roll cages has reduced the amount of time required for employees to track inventory.
3. Tablet-based checklists regarding the condition of store operations are located throughout the store, requiring store managers to walk around the store in order to complete the required checks.
4. A new shelf layout that has improved the display of cheeses and sausages and increased sales from shelves.
5. Changes at checkout desks: card scanners, stickers for problematic bar codes, improved transparency of employee motivation, improved planning of breaks and others have helped to increase checkout speed.

Digital transformation

Perekrestok's digital transformation spans a wide range of our operations, from logistics to marketing. Increasing our use of digital technologies helps us to work better and more efficiently. Some of the highlights of this work are listed on the right:

Marketing	• Automated targeted marketing with machine learning that is enhanced with external data • Digital communication for sales and promos • Digitised mechanism for accumulative promos
Commercial department	• Automated commercial department processes • Category management based on big data analytics • Demand forecasting using big data analytics • Automated pricing • Dynamic pricing
In-store operations	• Video monitoring of shelf availability • Video monitoring of queues • Electronic price tags • Scan & go
Personnel	• Tracking of personnel in-store • Training programmes that utilise virtual reality
Network expansion	• Machine learning introduced to GIS system

Perekrestok.ru

Perekrestok.ru is one of the core elements of our omnichannel strategy. For 2019, Perekrestok.ru reported net sales of RUB 4.3 billion, which represents year-on-year growth of 234% and makes Perekrestok.ru the second-largest e-grocery player in Russia.

↑234% *2018/19*

4.3

RUB BILLION

Net sales

as of the end of 2019

Perekrestok.ru

Key highlights of Perekrestok.ru's 2019 performance include:

- Average ticket of RUB 3,584 is almost seven times higher than in offline Perekrestok supermarkets.
- Average online + offline customers spend 70% more than pure offline customers in our stores.
- Number of orders totalled 1.4 million in 2019, three times more than in 2018, with over 8,000 orders per day during peak times in December.

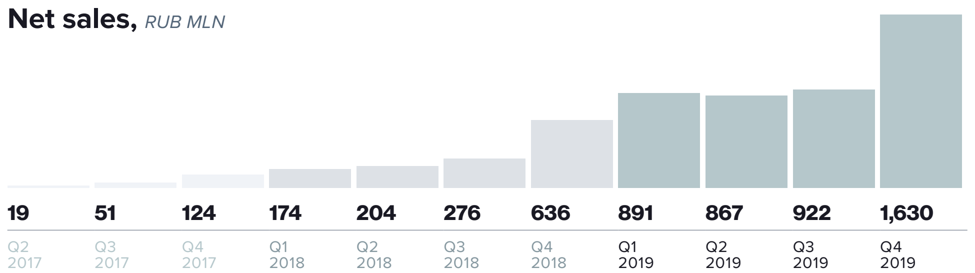
We plan to rapidly grow our online business and have ambitious targets:

- Become #1 in online food retail in Russia by the end of 2020.
- Increase the number of dark stores from 4 to 12 by 2022.
- Increase assortment and develop sales in external marketplaces.

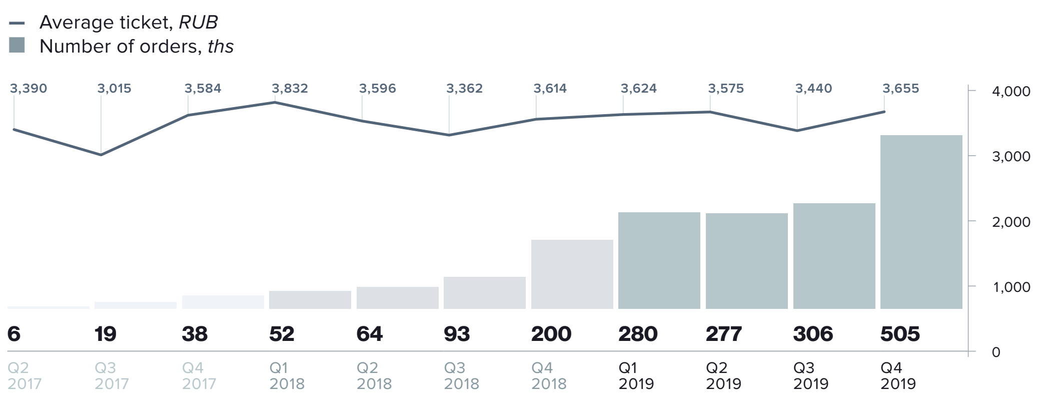
Perekrestok.ru launched testing of a B2B service with cashless payment for offices, small and medium-sized businesses, restaurants, cafes, individual entrepreneurs and other corporate clients. The average ticket for this service is about 50% higher than for individuals. In 2019, all customer transactions were on a prepayment basis.

We are piloting other online, omnichannel businesses, including click & collect and express delivery. Click & collect will offer another convenient option for busy shoppers to save time and add flexibility compared with home delivery by a courier. Express delivery will enable us to establish our own position in the rapidly developing market for ready-to-eat same-day food delivery, as more and more customers want food delivered to their door without having to wait.

Net sales, *RUB MLN*



Number of orders and average ticket



Loyalty programme

Perekrestok's loyalty programme reached 7.1 million cards issued as of the end of 2019, with 59% penetration in traffic and 72% penetration in sales in December 2019. By leveraging big data, the Perekrestok loyalty card enables us to better understand our customers, who are increasingly using the Perekrestok mobile app to manage their loyalty programme. Fifteen per cent of our loyalty card holders predominantly use it via the mobile app.

As we seek to expand user engagement, we have launched additional elements of the Perekrestok Club card, such as the "O, Vino!" wine club and quest games for members. Our mobile app, which saw significant user interface upgrades during 2019, now features stories instead of static banners.

The Perekrestok Club loyalty programme is a core element of our focus on better understanding our customers and their needs. With deep integration into the Perekrestok mobile app and in-store promo tablets, customers get attractive offers and a personalised experience.

↑29.7% *2018/19*

7.1 MILLION

Active card users

as of the end of 2019

In 2020, the Perekrestok app, which is an integral part of the loyalty programme, will be significantly overhauled, as we want to create a "supermarket in your pocket" to:

Collect regular feedback at all stages of interaction (products, supermarkets, support services, offers provided).

- Offer cost–benefit analysis to users.
- Launch automated push notifications (reminders/offers/events).
- Make the entire assortment available via the app.
- Collect user preferences and lifestyle characteristics.
- Personalise offers based on user profiles.
- Give users the ability to preselect their favourite supermarket.
- Add click & collect and express delivery options from a favourite supermarket.

Targeted marketing

We continue to develop personalised promotions, which creates automatic offers for customers based on their preferences and buying patterns.

With the ability to create more precise and targeted offers, we are able to encourage greater customer loyalty, increase turnover from loyal customers by giving them more of what they want while retaining a higher commercial margin compared with general promo campaigns.

Personalised promos are delivered through the Perekrestok loyalty card programme and brought Perekrestok an additional RUB 6.0 billion in retail turnover during 2019. Targeted promos represented 2.7% of turnover from loyal clients for the year. Compared to 2018, the impact of targeted marketing on turnover increased by 32%.

Looking ahead to 2020, the Perekrestok format aims to further increase the share of targeted marketing in overall net retail sales. We aim to develop predictive campaigning models to increase the effectiveness of offers, and to do an even better job of tailoring offers to customers' consumption patterns.

KARUSEL HYPERMARKETS

During 2019, X5 Retail Group management took the decision to transform the Karusel hypermarket format based on an analysis of current market and consumer trends. One of the factors behind this decision was the changing outlook for the food retail market, with little or even negative growth expected for hypermarkets. Another important factor behind this decision was growing pressure from e-commerce players that can meet customers stock-up missions and increasingly attractive offerings from competitively priced proximity stores in particular.

2019 performance highlights

91
Stores in operation

364 THS SQM
Selling space

>2 MLN
Active loyalty card users

87 RUB BLN
Net retail sales

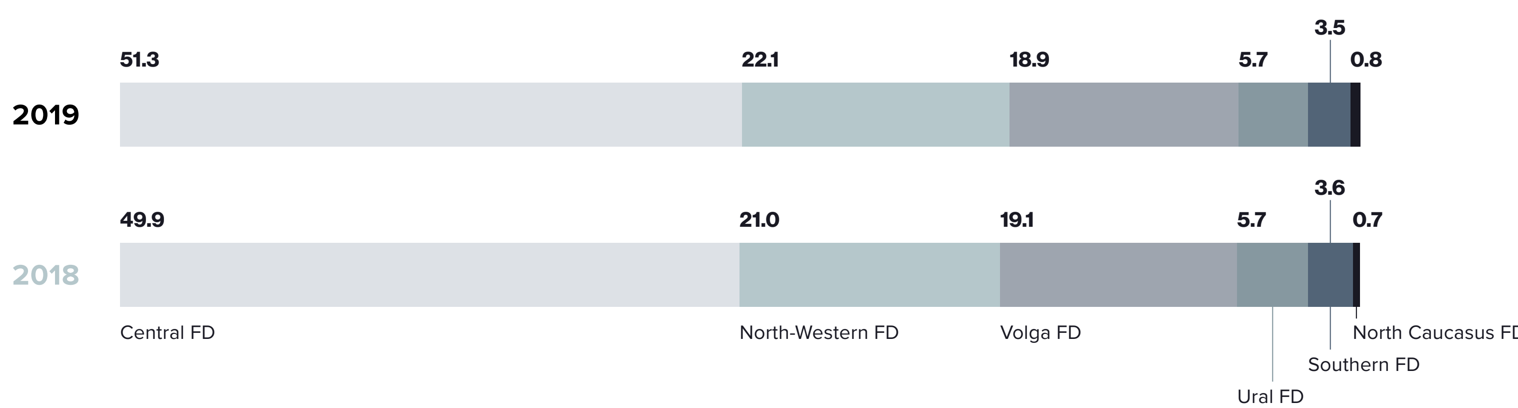
121 MLN
Customer visits

95%
Retail sales attributable to loyalty card holders

Key operating results

	2019	2018	2017	2016	2015
Number of stores, *eop*	91	94	93	91	90
Selling space, '000 m² *eop*	364	382	385	387	390
Net retail sales, *RUB bln*	87	91	89	84	77
Customer visits, *mln*	121	132	135	134	129

Karusel net retail sales by region, %



Karusel transformation plan

In 2019, Karusel worked to prepare for the transformation of the format, while also continuing to develop the stores that will remain in operations as hypermarkets in the immediate future.

Over the course of 2020–2021, the transformation will focus on the following three changes:

34 Karusel stores

Based on pilots, 34 Karusel stores are due to become large supermarkets under the Perekrestok brand.

The conversion of all 34 stores (eight leased, 26 owned) is expected to be completed by early 2021.

As of 18 March, 2020, nine hypermarkets were already transferred to the Perekrestok and one to Perekrestok.ru to be used as a DC.

20 Karusel stores

Will be closed by 2022 (all leased).

As of 18 March, 2020, seven hypermarkets were already closed.

37 Karusel stores

(14 leased, 23 owned), while continuing to operate as Karusel hypermarkets, will be evaluated with a view to their being repurposed, sold or closed, subject to further test pilots and management analysis.

Throughout the transformation of Karusel, X5 will seek ways to employ the hypermarket format's employees in our supermarkets and proximity stores, as well as in other business units.

We are conducting a variety of activities for Karusel employees, including career counselling for office and retail personnel, as well as providing assistance in finding employment outside X5.

When closing hypermarkets and when transferring facilities to Perekrestok, X5 acts in strict accordance with the requirements of Russian legislation.

Efficiency and optimisation

As the format prepared for its transformation, the office headcount was also optimised during 2019.

Centralised commercial departments' processes for promo, pricing and local procurement.

Karusel remains focused on continuously improving efficiency and optimising business processes. During 2019, the hypermarket format continued to benefit from synergies by sharing DC capacities and purchasing part of its assortment with Perekrestok. Additional cost savings were achieved by outsourcing operations to Pyaterochka in some regions where Karusel stores are located.

A number of business processes were automated, in line with X5's strategic priority of digital transformation. In 2019, this included the automation of in-store task checklist management, store analytics and some procurement processes.

Loyalty programme

In line with X5's transformation plans, the Karusel loyalty programme was combined with the Perekrestok loyalty programme in 2019.

Karusel has enjoyed a very high level of loyal customers, with loyalty card penetration in sales at 95.3% and 82.4% penetration in traffic in 2019. As of 31 December 2019, Karusel customers held 2.4 million active loyalty cards.

While the transformation is ongoing, Karusel has continued to maintain and develop the format's mobile app. In December 2019, sales through the app represented 7.5% of the format's total retail sales, and 11.1% of Karusel's active customers used the app during the month.

In line with X5's strategy of using big data analytics to increase the efficiency of promo activities, Karusel also continued to develop targeted marketing during 2019.

Adapting CVP

Karusel sought to adapt its CVP to customer needs while also leveraging best practices from other X5 formats during 2019 by introducing a selection of Perekrestok and Pyaterochka private-label brands during the year.

The overall assortment was optimised, with a number of inefficient items removed from the matrix. In addition, a new pricing solution was introduced in 2019 that should help Karusel be perceived as a price leader in its segment.

Financial review

In 2019, X5 Retail Group delivered consistent performance and achieved the strongest operational and financial results among all listed Russian retailers, despite stagnation in Russian consumer income and continued strong competition from both traditional retailers and sector disruptors. X5 achieved 13.2% year-on-year growth in revenue to RUB 1,734 billion. This was possible thanks to continuous improvement of our customer value proposition in our stores and balanced expansion. Leveraging our leadership position to further improve commercial terms with suppliers and targeting global benchmarks of efficiency allowed X5 to sustain healthy profitability, with an adjusted EBITDA margin under IAS 17 reaching 7.3% for the full year.

The core strategic priority for 2019 has been to strengthen our existing business. Efficiency measures across our operations, including automation of processes ranging from energy usage in stores to data analytics for assortment and pricing, helped to maintain a competitive edge. As part of X5's digital transformation, the financial function has and will continue to automate processes, test new technologies, as well as centralise and optimise routine processes, all of which will enable us to concentrate our resources on developing new digital capabilities, enhancing business partnerships and driving a culture of ownership.

During 2019, we maintained a strong balance sheet and succeeded at reducing our borrowing costs yet further: X5's net debt/EBITDA ratio under IAS 17 at the end of 2019 was 1.71x, and the weighted average effective interest rate on our total debt under IAS 17 decreased to 7.94% for 2019, compared to 8.39% for 2018. In line with the Company's dividend policy, the X5 Supervisory Board recommended a 2019 dividend of RUB 30.0 billion, or RUB 110.47 per GDR, which represents 115.8% of net profit under IAS 17 (153.8% under IFRS 16).

Capital expenditure is a key part of our strategic development. As we see further opportunity for organic growth in the Russian food retail, we continue to invest in the current business — 81% of 2019 capex was allocated to our existing operations. At the same time, we understand that it is critical to invest in IT and digital transformation (16% of 2019 capex), and develop new businesses (3% of 2019 capex). Going forward, the share of investment into strategic projects that focus on digital transformation and new digital businesses that will support our development as a next-gen retailer will increase. The finance function plays an important role in ensuring the right balance between speed of transformation and appropriate controls in order to safeguard the sustainability of returns for our shareholders.

The RUB 16 trillion Russian food retail market remains fundamentally attractive, especially for large players able to leverage economies of scale. With leading positions in two of the largest market segments — proximity and supermarkets — and quickly developing businesses in promising new areas like e-commerce and express delivery, X5 is well positioned to deliver profitable growth in the years ahead.

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 2019 and for the years ended 31 December 2019 and 31 December 2018. The consolidated financial statements and related notes thereto are available on pages 254—334 of this document and were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Key highlights

↑13.2% *2018/19*
1,734 RUB BLN
Revenue

↑43 b.p. *2018/19*
24.6%
Gross profit margin (under IAS 17)
24.9% under IFRS 16

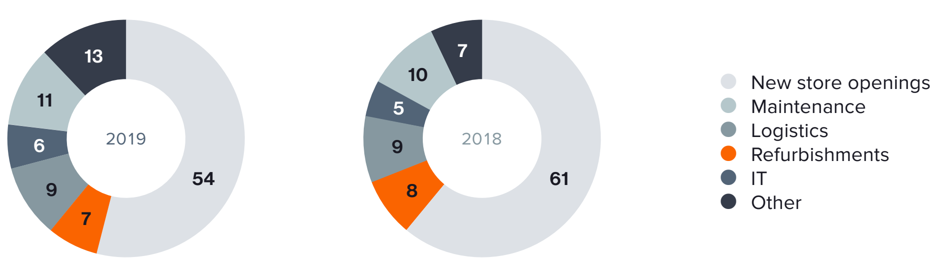
↑18 b.p. *2018/19*
7.3%
Adjusted EBITDA margin (under IAS 17)
12.4% under IFRS 16

↓3.1% *2018/19*
81.1 RUB BLN
Capital expenditure

1.71×
Net debt/EBITDA (under IAS 17)
3.28x under IFRS 16

↑20.0% *2018/19*
30,000 RUB MLN
Dividends
RUB 110.47 per GDR
115.8% of IFRS net profit (under IAS 17)
153.8% of IFRS net profit (under IFRS 16)

Capital expenditure structure, %



81.1 RUB BLN

83.7 RUB BLN

Results of operations

for the year ended 31 December 2019 compared to the year ended 31 December 2018

The following table and discussion provide a summary of our consolidated results of operations for the years ended 31 December 2019 and 31 December 2018.

Profit and loss statement: highlights

	IFRS 16		IAS 17		
RUSSIAN ROUBLES (RUB), MILLIONS[1]	2019	IMPACT ON 2019	2019	2018	% CHANGE, Y-O-Y
Revenue	1,734,347	–	1,734,347	1,532,537	13.2
incl. net retail sales[2]	1,727,714	–	1,727,714	1,525,015	13.3
Pyaterochka	1,366,657	–	1,366,657	1,197,772	14.1
Perekrestok	273,181	–	273,181	230,848	18.3
Karusel	87,397	–	87,397	90,818	(3.8)
Gross profit	432,479	6,681	425,798	369,720	15.2
Gross profit margin, %	24.9	39 b.p.	24.6	24.1	43 b.p.
Adj. SG&A[3]	(230,008)	80,741	(310,749)	(271,641)	14.4
Adj. SG&A, % of revenue	13.3	(466) b.p.	17.9	17.7	19 b.p.
Adj. EBITDA	215,720	88,340	127,380	109,871	15.9
Adj. EBITDA margin, %	12.4	509 b.p.	7.3	7.2	18 b.p.
Operating profit	89,398	29,147	60,251	58,154	3.6
Operating profit margin, %	5.2	168 b.p.	3.5	3.8	(32) b.p.
Adj. net profit[4]	29,668	(6,817)	36,485	28,642	27.4
Adj. net profit margin, %	1.7	(39) b.p.	2.1	1.9	23 b.p.
Net profit	19,507	(6,401)	25,908	28,642	(9.5)
Net profit margin, %	1.1	(37) b.p.	1.5	1.9	(38) b.p.

Revenue and net retail sales

In 2019, X5's revenue increased by 13.2% year-on-year to RUB 1,734 billion. Net retail sales for 2019 grew by 13.3% year-on-year, driven by a 4.0% increase in like-for-like (LFL) sales and a 9.3% sales growth contribution from a 12.0% rise in selling space.

The Company's proximity store format, Pyaterochka, was the main driver of growth in 2019: Pyaterochka's net retail sales rose by 14.1% year-on-year, driven by a 3.7% increase in LFL sales and a 10.4% contribution to sales growth from a 12.9% expansion in selling space.

The Company's supermarket format, Perekrestok, had the highest pace of growth among the Company's formats, thanks to continued successful measures to tailor the CVP to consumer needs: Perekrestok's net retail sales rose by 18.3% year-on-year, driven by a 7.3% increase in LFL sales and an 11.0% contribution to sales growth from a 15.1% expansion in selling space.

Karusel experienced a 3.8% decline in net retail sales, driven by changing consumer behaviour towards making large purchases online and in proximity formats, as well as the beginning of the Karusel transformation, which envisages gradual closure of 20 and transfer of 34 stores to the Perekrestok format.

Gross profit

The Company's gross profit margin under IAS 17 in 2019 increased by 43 basis points year-on-year to 24.6%, supported by a healthy level of food inflation (averaged 5.1% for the year), improvements in commercial terms with suppliers, successful measures to decrease shrinkage levels and better logistics efficiency. The format mix with proportionally more sales at Perekrestok, which has a higher commercial margin than the X5 average, was also a positive factor for gross margin performance.

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

2 Net of VAT and revenue from wholesale operations and revenue from franchise services and other services.

3 Adjusted SG&A is SG&A before depreciation, amortisation and impairment costs as well as costs related to the LTI programme, share-based payments and other one-off remuneration payments and the one-off impact of the Karusel transformation. For more information on alternative performance measures, see pages 132–135.

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

Operational results analysis

Summary of operational results

2019 NET RETAIL SALES RESULTS, *% CHANGE Y-O-Y*	AVERAGE TICKET	NUMBER OF CUSTOMERS	NET RETAIL SALES
Pyaterochka	0.9	14.0	14.1
Perekrestok	2.2	16.7	18.3
Karusel	5.6	(8.0)	(3.8)
X5 Retail Group	**1.0**	**13.1**	**13.3**

SELLING SPACE END-OF-PERIOD, *SQUARE METRES*	31-DEC-19	31-DEC-18	% CHANGE, *Y-O-Y*
Pyaterochka	5,975,147	5,291,421	12.9
Perekrestok	899,893	781,538	15.1
Karusel	364,077	382,024	(4.7)
X5 Retail Group	**7,239,117**	**6,463,735**	**12.0**

2019 LFL RESULTS*, *% GROWTH Y-O-Y*	SALES	TRAFFIC	BASKET
Pyaterochka	3.7	1.9	1.8
Perekrestok	7.3	5.0	2.3
Karusel	(0.3)	(4.5)	4.5
X5 Retail Group	**4.0**	**2.0**	**1.9**

* 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.

The Company demonstrated positive LFL traffic for both core formats, Pyaterochka and Perekrestok, reaching 2.0% at the Group level in 2019.

Total net retail sales increased by 13.3% year-on-year (14.2% year-on-year, including VAT) in roubles (RUB), driven by:

- a 4.0% increase in LFL sales; and
- a 9.3% sales growth contribution from a 12.0% rise in selling space.

Karusel experienced a decline in net retail sales following a 4.7% reduction in selling space as part of the Karusel transformation initiative.

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

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

	IFRS 16		IAS 17		
RUB MLN	2019	IMPACT ON 2019	2019	2018	% CHANGE, Y-O-Y
Staff costs	(141,123)	–	(141,123)	(119,883)	17.7
% of revenue	*8.1*	–	*8.1*	*7.8*	*31 b.p.*
incl. LTI and share-based payments	*(2,838)*	–	*(2,838)*	*(2,243)*	*26.5*
staff costs excl. LTI % of revenue	*8.0*	–	*8.0*	*7.7*	*30 b.p.*
Lease expenses	(7,949)	78,101	(86,050)	(75,392)	14.1
% of revenue	*0.5*	*(450) b.p.*	*5.0*	*4.9*	*4 b.p.*
Utilities	(36,387)	–	(36,387)	(31,942)	13.9
% of revenue	*2.1*	–	*2.1*	*2.1*	*1 b.p.*
Other store costs	(17,932)	927	(18,859)	(17,208)	9.6
% of revenue	*1.0*	*(5) b.p.*	*1.1*	*1.1*	*(4) b.p.*
Third-party services	(13,123)	(350)	(12,773)	(12,463)	2.5
% of revenue	*0.8*	*2 b.p.*	*0.7*	*0.8*	*(8) b.p.*
Other expenses	(16,332)	2,063	(18,395)	(16,996)	8.2
% of revenue	*0.9*	*(12) b.p.*	*1.1*	*1.1*	*(5) b.p.*
SG&A (excl. D&A&I and the impact of the Karusel transformation)	(232,846)	80,741	(313,587)	(273,884)	14.5
% of revenue	*13.4*	*(466) b.p.*	*18.1*	*17.9*	*21 b.p.*
Adj. SG&A (excl. D&A&I, LTI, share-based payments and the impact of the Karusel transformation)	**(230,008)**	**80,741**	**(310,749)**	**(271,641)**	**14.4**
% of revenue	***13.3***	***(466) b.p.***	***17.9***	***17.7***	***19 b.p.***

In 2019, adjusted SG&A expenses under IAS 17 as a percentage of revenue increased year-on-year by 19 basis points to 17.9%, mainly due to increased staff costs and lease expenses.

Staff costs (excluding LTI, share-based payments and impact from the Karusel transformation) in 2019, as a percentage of revenue, increased year-on-year by 30 basis points to 8.0% due to the Company's decision to increase compensation for in-store personnel in line with market benchmarks in 2019.

Lease expenses under IAS 17 as a percentage of revenue in 2019 increased year-on-year by 4 basis points to 5.0%, mainly due to the growing share of leased space in X5's total real estate portfolio, which accounted for 78% as of 31 December 2019, compared to 76% as of 31 December 2018.

Utilities expenses under IAS 17 as a percentage of revenue changed immaterially in 2019 compared to 2018, totalling 2.1%.

In 2019, other store costs under IAS 17 as a percentage of revenue declined year-on-year by 4 basis points to 1.1%, driven by lower materials and maintenance expenses.

In 2019, third-party services under IAS 17 as a percentage of revenue declined year-on-year by 8 basis points to 0.7%, driven by lower marketing and consulting expenses.

Other expenses (excluding the impact of the Karusel transformation) under IAS 17 as a percentage of revenue declined year-on-year by 5 basis points, totalling 1.1%.

Long-term incentive (LTI) programme

Accruals have been made in the consolidated financial statements for the year ended 31 December 2019 related to the old LTI programme in the amount of RUB 327 million, which focused on achieving leadership in revenue terms, and the new LTI programme aimed at maintaining leadership in revenue terms and achieving leadership in terms of enterprise value multiple relative to peers. In total, RUB 2,771 million was accrued in 2019 for both LTI programmes.

The new 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. In comparison to the old LTI programme, it is designed for a wider group of participants within the Company and aims to create a greater balance between short- and long-term compensation for the programme participants.

Targets under the new 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.

As described in the Remuneration Report on pages 243–253, the targets under the second stage of the old LTI programme were achieved in 2017. Therefore, an accrual of RUB 327 million has been made in the consolidated financial statements for the year ended 31 December 2019 related to the old LTI programme.

The Company also accrued a liability of RUB 2,444 million for the probable achievement of the targets to maintain revenue leadership and achieving leadership in terms of enterprise value multiple relative to peers from the new LTI programme. From the start of the new programme through Q4 2019, accruals were made only related to the goal of maintaining leadership in revenue. Starting from Q4 2019, the accrual also includes the goal related to the achievement of leadership in terms of enterprise value multiple. 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	2019	2018	2017	2016	2015
Old programme	327	1,552	2,876	3,053	3,607
New programme	2,444	619	–	–	–
TOTAL LTI	**2,771**	**2,171**	**2,876**	**3,053**	**3,607**

EBITDA and adjusted EBITDA analysis

EBITDA and adjusted EBITDA

	IFRS 16		IAS 17		
RUB MLN	2019	IMPACT ON 2019	2019	2018	% CHANGE, Y-O-Y
Gross profit	432,479	6,681	425,798	369,720	15.2
Gross profit margin, %	24.9	39 b.p.	24.6	24.1	43 b.p.
Adj. SG&A (excl. D&A&I, LTI, share-based payments and the impact of the Karusel transformation)	(230,008)	80,741	(310,749)	(271,641)	14.4
% of revenue	13.3	(466) b.p.	17.9	17.7	19 b.p.
Net impairment losses on financial assets	(215)	–	(215)	(501)	(57.1)
% of revenue	0.0	–	0.0	0.0	(2) b.p.
Lease/sublease and other income (adjusted for the effect of the Karusel transformation)	13,464	918	12,546	12,293	2.1
% of revenue	0.8	5 b.p.	0.7	0.8	(8) b.p.
Adj. EBITDA	**215,720**	88,340	**127,380**	**109,871**	**15.9**
Adj. EBITDA margin, %	**12.4**	509 b.p.	**7.3**	7.2	**18 b.p.**
LTI, share-based payments and other one-off remuneration payments expense and SSC	(2,838)	–	(2,838)	(2,243)	26.5
% of revenue	(0.2)	–	(0.2)	(0.1)	(2) b.p.
Effect of the Karusel transformation	(1,399)	558	(1,957)	–	n/m
% of revenue	(0.1)	3 b.p.	(0.1)	–	n/m
EBITDA	211,483	88,898	122,585	**107,628**	13.9
EBITDA margin, %	**12.2**	513 b.p.	**7.1**	7.0	**5 b.p.**

Lease/sublease and other income

As a percentage of revenue, the Company's income from lease, sublease and other operations under IAS 17 decreased by 8 b.p. year-on-year, totalling 0.7%.

EBITDA analysis

As a result of the factors discussed above, X5's adjusted EBITDA under IAS 17 in 2019 grew year-on-year by 15.9% and totalled RUB 127,380 million, while the adjusted EBITDA margin under IAS 17 increased by 18 b.p. year-on-year to 7.3%. EBITDA under IAS 17 in 2019 grew year-on-year by 13.9% and totalled RUB 122,585 million, while EBITDA margin under IAS 17 increased by 5 b.p. year-on-year to 7.1%.

Analysis by segments

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 under IAS 17.

The accounting policies used for segments are the same as accounting policies applied for the consolidated financial statements, except for the accounting of leases under IAS 17 instead of IFRS 16.

Pyaterochka's EBITDA margin under IAS 17 increased by 13 b.p. year-on-year to 7.9% due to lower shrinkage levels and better logistics efficiency.

Pyaterochka

RUB MLN	2019	2018	% CHANGE, Y-O-Y
Revenue	1,370,414	1,200,457	14.2
EBITDA (under IAS 17)	107,907	92,910	16.1
EBITDA margin (under IAS 17), %	7.9	7.7	13 b.p.

Perekrestok's EBITDA margin, adjusted for the online business, improved in 2019. Due to ongoing development and scaling up, Perekrestok.ru's EBITDA margin was negative, as forecast.

Perekrestok

RUB MLN	2019	2018	% CHANGE, Y-O-Y
Revenue	274,761	232,490	18.2
EBITDA (under IAS 17)	17,981	15,550	15.6
EBITDA margin (under IAS 17), %	6.5	6.7	(14) b.p.

Karusel's EBITDA margin under IAS 17 declined by 230 b.p. year-on-year to 2.5% on the back of the format's transformation.

Karusel

RUB MLN	2019	2018	% CHANGE, Y-O-Y
Revenue	88,459	92,458	(4.3)
EBITDA (under IAS 17)	2,198	4,423	(50.3)
EBITDA margin (under IAS 17), %	2.5	4.8	(230) b.p.

Other segments include Perekrestok Express. In 2017, X5 made the strategic decision to sell this format. In Q1 2019, the Company closed all remaining stores.

Other segments

RUB MLN	2019	2018	% CHANGE, Y-O-Y
Revenue	713	7,132	(90.0)
EBITDA (under IAS 17)	14	(235)	n/m
EBITDA margin (under IAS 17), %	2.0	(3.3)	526 b.p.

Corporate expenses rose by 9.9% year-on-year in 2019, mainly due to the expansion of X5's in-house Big Data Department and the creation of other departments related to X5's digital transformation.

Corporate Centre

RUB MLN	2019	2018	% CHANGE, Y-O-Y
EBITDA (under IAS 17)	(5,515)	(5,020)	9.9

Depreciation, amortisation and impairment costs

Depreciation, amortisation and impairment costs under IAS 17 in 2019 totalled RUB 62,334 million (RUB 49,474 million for 2018), increasing as a percentage of revenue by 37 b.p. year-on-year to 3.6%. This was due to impairment of non-current assets related to the Karusel transformation.

Non-operating gains and losses analysis

Non-operating gains and losses

RUB MLN	IFRS 16 2019	IFRS 16 IMPACT ON 2019	IAS 17 2019	IAS 17 2018	IAS 17 % CHANGE, Y-O-Y
Operating profit	89,398	29,147	60,251	58,154	3.6
Operating profit margin, %	5.2	168 b.p.	3.5	3.8	(32) b.p.
Net finance costs	(56,903)	(38,823)	(18,080)	(18,667)	(3.1)
Net FX result	2,203	1,671	532	(447)	1,298.1
Profit before tax	34,698	(8,005)	42,703	39,040	9.4
Income tax expense	(15,191)	1,604	(16,795)	(10,398)	61.5
Net profit	**19,507**	**(6,401)**	**25,908**	**28,642**	**(9.5)**
Net profit margin, %	**1.1**	**(37) b.p.**	**1.5**	**1.9**	**(38) b.p.**
Effect of the Karusel transformation and tax accruals related to previous periods, including X5's reorganisation	10,161	(416)	10,577	–	–
% of revenue	0.6	(2) b.p.	0.6	–	61 b.p.
Adj. net profit	**29,668**	**(6,817)**	**36,485**	**28,642**	**27.4**
Adj. net profit margin, %	**1.7**	**(39) b.p.**	**2.1**	**1.9**	**23 b.p.**

Net finance costs under IAS 17 in 2019 amounted to RUB 18,080 million, a 3.1% decrease from 2018 driven by the decreased weighted average effective interest rate on X5's total debt under IAS 17 from 8.39% for 2018 to 7.94% for 2019 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.

In 2019, income tax expense and net profit under IAS 17 were mainly affected by the effect of other non-deductible expenses, tax accruals related to previous periods, including X5's reorganisation, as well as by the effect of the Karusel transformation. In 2019, income tax without other non-deductible expenses under IAS 17 grew by 10.2% y-o-y to RUB 10,969 mln.

Net profit in 2019 under IAS 17 included one-off adjustments of RUB 10,577 million related to the Karusel transformation (mainly due to impairment of non-current assets) and tax accruals related to previous periods, including X5's reorganisation.

Cash flow analysis

Consolidated cash flow

RUB MLN	IFRS 16 2019	IFRS 16 IMPACT ON 2019	IAS 17 2019	IAS 17 2018	IAS 17 % CHANGE, Y-O-Y
Net cash from operating activities before changes in working capital	211,650	87,424	124,226	107,827	15.2
Change in working capital	(10,649)	1,375	(12,024)	19,609	n/m
Net interest and income tax paid	(70,538)	(38,739)	(31,799)	(29,402)	8.2
Net cash flows generated from operating activities	130,463	50,060	80,403	98,034	(18.0)
Net cash used in investment activities	(81,151)	(1)	(81,150)	(92,760)	(12.5)
Net cash used in financing activities	(55,139)	(50,059)	(5,080)	(8,436)	(39.8)
Effect of exchange rate changes on cash and cash equivalents	61	–	61	(75)	n/m
Net decrease/(increase) in cash and cash equivalents	(5,766)	–	(5,766)	(3,237)	78.1

In 2019, the Company's net cash from operating activities before changes in working capital under IAS 17 increased by RUB 16,399 million, or 15.2%, year-on-year, totalling RUB 124,226 million and reflecting the overall growth of the business. The negative change in working capital was primarily due to calendarisation of payable days at year-end, growth of inventory in line with the business expansion, which was partially offset by an improvement of 0.9 days in inventory turnover.

Net interest and income tax paid under IAS 17 in 2019 increased year-on-year by RUB 2,397 million, or 8.2%, totalling RUB 31,799 million driven mostly by tax payments related to historical periods. The effect from increased gross debt under IAS 17 as of 31 December 2019 compared to 31 December 2018 was partially offset by the lower weighted average effective interest rate on X5's debt for 2019.

As a result, in 2019 net cash flows generated from operating activities under IAS 17 totalled RUB 80,403 million, compared to RUB 98,034 million for the same period in 2018.

Net cash used in investing activities under IAS 17, which generally consists of payments for property, plants and equipment, totalled RUB 81,150 million in 2019, compared to RUB 92,760 million in 2018, reflecting the slower pace of new openings.

Net cash used in financing activities totalled RUB 5,080 million in 2019, compared to RUB 8,436 million in 2018.

Liquidity analysis

Liquidity update

RUB MLN	31-DEC-19	% IN TOTAL	31-DEC-18	% IN TOTAL	31-DEC-17	% IN TOTAL
Total debt	227,933		207,764		194,296	
Short-term borrowings	74,755	**32.8**	60,435	29.1	58,674	30.2
Long-term borrowings	153,178	**67.2**	147,329	70.9	135,622	69.8
Net debt	209,331		183,396		166,691	
Net debt/EBITDA	1.71×		1.70×		1.73×	
Lease liabilities (IFRS 16)	484,795		–		–	

As of 31 December 2019, the Company's total debt under IAS 17 amounted to RUB 227,933 million, 32.8% of which was short-term debt and 67.2% was long-term debt. The Company's debt under IAS 17 is 100% denominated in Russian roubles. As of 31 December 2019, the majority of X5's debt had fixed interest rates. The net debt/EBITDA ratio under IAS 17 was 1.71× (3.28x under IFRS 16) as of 31 December 2019.

As of 31 December 2019, the Company had access to RUB 415,592 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. When considering a dividend recommendation to the General Meeting of Shareholders, the Supervisory Board is guided by a target consolidated net debt/EBITDA ratio of below 2.0x under IAS 17, in line with the Company's financing strategy.

Based on the Company's 2019 financial results, the Company's Supervisory Board has made a recommendation to pay dividends for 2019 in the amount of RUB 30,000 million/RUB 110.47 per GDR (RUB 25,000 mln/RUB 92.06 per GDR in 2018), which represents 115.8% of X5 Retail Group's 2019 net profit under IAS 17 (153.8% under IFRS 16) compared to 87.3% in 2018. This proposal will be considered by the AGM, which will be held on 12 May 2020.

Effect of IFRS 16 on X5 Retail Group's financial statements

Effect on gross profit

Gross profit and gross margin are higher by RUB 6,681 million and 39 b.p., respectively, under IFRS 16 compared to IAS 17 in 2019 due to the lease for distribution centres, which was previously part of cost of sales, but has been excluded from the gross profit calculation in order to align the presentation of depreciation of right-of-use assets and other assets.

Effect on EBITDA, operating profit and finance costs

Lease expenses, other store costs, third-party services and other expenses in the total amount of RUB 80,741 million were excluded from SG&A expenses in 2019 under the new standard. Additional depreciation of RUB 59,751 million related to leased assets was added to SG&A costs in 2019 under IFRS 16.

Financial costs increased by RUB 38,823 million under the new standard compared to IAS 17 due to the interest expense on lease liabilities in 2019.

The implementation of IFRS 16 increases the Company's EBITDA significantly, as lease expenditure previously recognised in the income statement is excluded. Adjusted EBITDA margin is 509 b.p. higher under the new standard compared to IAS 17 in 2019. Interest expense on liabilities is recognised in finance costs, below the EBITDA level.

Effect on net profit

The positive net FX result is RUB 1,671 million higher under IFRS 16 compared to IAS 17 in 2019 due to revaluation of foreign currency liabilities resulting from lease contracts denominated in foreign currencies.

IFRS 16 resulted in lower income tax expense due to lower profit before tax. The effective tax rate under the new standard was 43.8% in 2019.

Net profit and net profit margin are impacted by the IFRS 16 standard as a result of additional depreciation and interest, and are lower by RUB 6,401 million and 37 b.p. under the new standard compared to IAS 17 in 2019.

Effect on cash flow statement

The implementation of the new standard affects cash flow statement presentation but not the net change in cash result, as principal payments on leases will be classified as financing activities, prepayments are classified as investing activities, and interest payments are considered interest paid in operating activities.

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		IAS 17	
RUB MLN	2019	IMPACT ON 2019	2019	2018
Operating profit	89,398	29,147	60,251	58,154
Depreciation, amortisation and impairment	122,085	59,751	62,334	49,474
EBITDA	**211,483**	**88,898**	**122,585**	**107,628**

	IFRS 16		IAS 17	
RUB MLN	2019	IMPACT ON 2019	2019	2018
Revenue	1,734,347	–	1,734,347	1,532,537
EBITDA	211,483	88,898	122,585	107,628
EBITDA margin, %	**12.2**	**513 b.p.**	**7.1**	**7.0**

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 effect 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 ongoing performance.

	IFRS 16		IAS 17	
RUB MLN	2019	IMPACT ON 2019	2019	2018
EBITDA	**211,483**	**88,898**	**122,585**	**107,628**
Adjustments:				
LTI, share-based payments and other one-off remuneration payments expense and SSC	2,838	–	2,838	2,243
Effect of the Karusel transformation	1,399	(558)	1,957	–
Adj. EBITDA	**215,720**	**88,340**	**127,380**	**109,871**

	IFRS 16		IAS 17	
RUB MLN	2019	IMPACT ON 2019	2019	2018
Revenue	1,734,347	–	1,734,347	1,532,537
Adj. EBITDA	**215,720**	**88,340**	**127,380**	**109,871**
Adj. EBITDA margin, %	**12.4**	**509 b.p.**	**7.3**	**7.2**

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 tax accruals related to previous periods, including X5's reorganisation, 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 ongoing performance.

	IFRS 16		IAS 17	
RUB MLN	2019	IMPACT ON 2019	2019	2018
Net profit	**19,507**	**(6,401)**	**25,908**	**28,642**
Adjustments:				
Effect of the Karusel transformation and tax accruals related to previous periods, including X5's reorganisation	10,161	(416)	10,577	–
Adj. net profit	**29,668**	**(6,817)**	**36,485**	**28,642**

	IFRS 16		IAS 17	
RUB MLN	2019	IMPACT ON 2019	2019	2018
Revenue	1,734,347	–	1,734,347	1,532,537
Adj. net profit	**29,668**	**(6,817)**	**36,485**	**28,642**
Adj. net profit margin, %	**1.7**	**(39) b.p.**	**2.1**	**1.9**

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 effect 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		IAS 17	
RUB MLN	2019	IMPACT ON 2019	2019	2018
SG&A	**356,890**	**(20,988)**	**377,878**	**323,358**
Adjustments:				
LTI, share-based payments and other one-off remuneration payments expense and SSC	(2,838)	–	(2,838)	(2,243)
Effect of the Karusel transformation	(1,959)	(2)	(1,957)	–
Depreciation, amortisation and impairment	(122,085)	(59,751)	(62,334)	(49,475)
Adjusted SG&A	**230,008**	**(80,741)**	**310,749**	**271,641**

	IFRS 16		IAS 17	
RUB MLN	2019	IMPACT ON 2019	2019	2018
Revenue	1,734,347	–	1,734,347	1,532,537
Adjusted SG&A	230,008	(80,741)	310,749	271,641
Adjusted SG&A expenses as % of revenue	**13.3**	**(466) b.p.**	**17.9**	**17.7**

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		IAS 17	
RUB MLN	31-DEC-19	IMPACT	31-DEC-19	31-DEC-18
Total debt, incl.:	227,933	–	227,933	207,764
Short-term borrowings	74,755	–	74,755	60,435
Long-term borrowings	153,178	–	153,178	147,329
Lease liabilities	484,795	484,795	–	–
Cash and cash equivalents	18,602	–	18,602	24,368
Net debt	**694,126**	**484,795**	**209,331**	**183,396**
EBITDA	211,483	**88,898**	122,585	107,629
Net debt/EBITDA	**3.28×**	**1.57×**	**1.71×**	**1.70×**

Net retail sales

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	2019	2018
Revenue	**1,734,347**	1,532,537
Adjustments:		
Revenue from wholesale operations and other services	(6,630)	(7,480)
Revenue from franchise services	(3)	(42)
Net retail sales	**1,727,714**	1,525,015

Like-for-like (LFL)

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

%	2019	2018
Net retail sales growth	13.3	18.5
Less contribution from an increase in selling space	9.3	17.0
LFL	**4.0**	1.5

Retail infrastructure

The retail infrastructure that supports our operations plays an essential role in achieving our strategic goals. We seek to ensure that our logistics, transport and IT systems properly serve our business needs today and are ready to support X5's development as it grows and adapts to a changing market.

Our retail infrastructure also plays an important role in our sustainability strategy, as we seek to contribute to rational consumption of resources by reducing the environmental impact of our operations, support health and well-being by ensuring the quality and freshness of the food we sell and provide a safe and fair workplace for employees of our retail infrastructure operations.

Logistics

Our logistics infrastructure spans from direct import hubs to distribution centres, satellite DCs and cross-docking stations. With our comprehensive transport management and automated warehouse management systems, we are able to ensure smooth operations and reliable supplies from international, federal and regional suppliers to customers of Pyaterochka, Perekrestok and Perekrestok.ru.

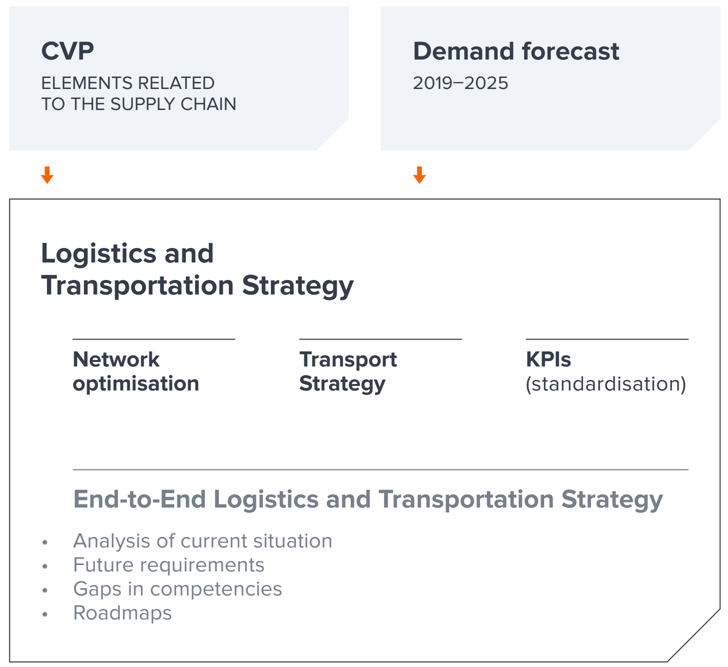
We operated 42 DCs with a total floor space of 1,202 thousand square metres as of 31 December 2019, and we have maintained excess capacity to support the ongoing growth of our store network.

In line with our focus on efficiency and quality of service, X5 Retail Group's company-wide service level target (SLT) level (order processing based on timely deliveries) was 90%, and centralisation was at 95% in 2019.

How we manage logistics

Logistics are managed from the Business Support unit in the X5 Corporate Centre. The role of centralised management is to set standards and monitor the performance of our DC operations. This also supports the sharing of best practices and technologies between formats, as well as the centralised analysis and planning for logistics infrastructure expansion. X5 Retail Group DCs all utilise an automated warehouse management system (WMS) that includes features like voice picking and weighing technology.

General approach to Logistics and Transportation Strategy development



Logistics and Transportation Strategy

X5 Retail Group has adopted a Logistics and Transportation Strategy to 2025 that focuses on efficiency, delivery times and ensuring the availability of a wide assortment of goods on our stores' shelves. This strategy aims to:

- Support the CVP of each of our formats.
- Respond to forecast demand through 2025 for each specific location.
- Enable the 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.

Pyaterochka

Pyaterochka's logistics operations supported the activities of 15,354 stores in 65 Russian regions as of 31 December 2019 via 31 DCs, enabling the format to ensure the reliable supply of goods for our customers. While expanding DC space by 66 thousand square metres year-on-year in 2019, we also focused on efficiency and automation in our Pyaterochka logistics operations.

2019 highlights

- Processed 3.5 million boxes for X5's large formats, an increase of 66% year-on-year.
- Launched 5Post operations, with 5.3 million packages processed during the year.
- Piloted in-house packaging of fruits and vegetables.
- Rostov DC reached productivity level of 10.7 boxes per square metre, up by 5.7% from the previous record.
- Improved operational efficiency, with cost per box declining by 2% year-on-year and an OWR of 111 boxes per hour achieved at the Vidnoe DC.

Digital transformation

- Our DCs continued to undergo a digital transformation in 2019, with a new Manhattan WMS launched at the Saratov DC.
- The Manhattan WMS is currently being adapted to meet specific Russian regulations (EGAIS, Mercury, brand-based record-keeping).
- Adapting our DC management system to work with self-driving carts.
- Developed a mobile application for warehouse management, with three modules launched and convenient dashboards that greatly increase the speed of working with personnel changes.

Personnel development

- We have developed a training programme for the DC management system that takes into account quality, food safety and good manufacturing practices as required by the British Retail Consortium Global Standard Storage & Distribution.
- In 2019, 2,200 warehouse staff were trained through workshops and online modules. External auditors have verified that this programme meets BRC requirements.

Improving processes

- We are constantly working on ways to automate and improve the efficiency of our transport operations.
- In 2019, a full 73% of route planning was automated, up from 50% in 2018. This helped to increase the vehicle activity rate from 73% in 2018 to 77% in 2019.
- The introduction of "contactless" night-time acceptance of goods at 900 stores, which saved RUB 182 million.
- A new model for managing tariffs for Pyaterochka's own fleet resulted in RUB 188 million in savings.

Plans for 2020 and beyond

- Full-scale rollout of Manhattan to Pyaterochka DCs is planned for Q2 2020.
- Introduction of self-driving carts at our large regional DCs in the second half of 2020.
- Development of an automated tool for calculating the standard fruit and vegetable inventory at DCs that takes into account shelf life, supplier discipline, and forecasting accuracy.
- Development of an automated tool for calculating fruit and vegetable orders that reduces the impact of the human element during the collection of data and involves a streamlined calculation logic for all regions.
- Together with the Corporate Centre team, pilots are being launched to automate the placement of orders with suppliers in order to restock DCs.

Perekrestok and Karusel

Perekrestok and Karusel operated 11 DCs at the end of 2019, supporting the operations of 852 supermarkets and 91 hypermarkets in 45 regions. With a focus on the reliable and efficient supply of high-quality goods across our network, we are also making progress on digital transformation and personnel development.

2019 highlights

- Increased productivity by 24% (62 boxes/hour in 2019 compared to 50 boxes/hour the previous year) and increased service levels to 93% (+2.7 p.p. year-on-year).
- Opened one new DC in Tatarstan, increasing total warehouse space by 3%.
- Expanded to new geographies by sharing space with Pyaterochka in Orenburg and Ufa.
- Renovated freezer storage in Ekaterinburg and St Petersburg to improve efficiency and reduce energy consumption.
- Focused on increasing share of regional suppliers in order to reduce inter-regional deliveries to optimise costs and increase inventory turnover.

Digital transformation

- Started a pilot project based on CPFR (collaborative planning, forecasting, and replenishment model) aimed at improving the accuracy of forecasts.
- Completed the implementation of the JDA system for the entire assortment range.
- Launched a project with the Big Data Department to forecast required inventory levels and improve accuracy of forecasts. Launched in June 2019, we plan to complete the project in Q1 2020.
- Introduction of Transportation Management System and standardisation of transport management processes has enabled us to increase inventory turnover, reduce logistics costs and reduce CO2 emissions by optimising transport routes.
- Began implementation of a new WMS with testing of the conceptual design.
- Launched a general registry of suppliers (Supplier Portal) that standardises communications.

Personnel development

- Decreased staff turnover in 2019 by 42 percentage points, accompanied by eNPS growth.
- Continued to run Logistics Academy “Supply Chain Leaders. Development without borders!”, organised jointly with Coca-Cola Russia, METRO Cash & Carry, Danone, Unilever and FM Logistic. The Academy aims to develop participants’ functional skills as well as leadership capabilities and includes training on effective communication, project management and other topics.

Improving processes

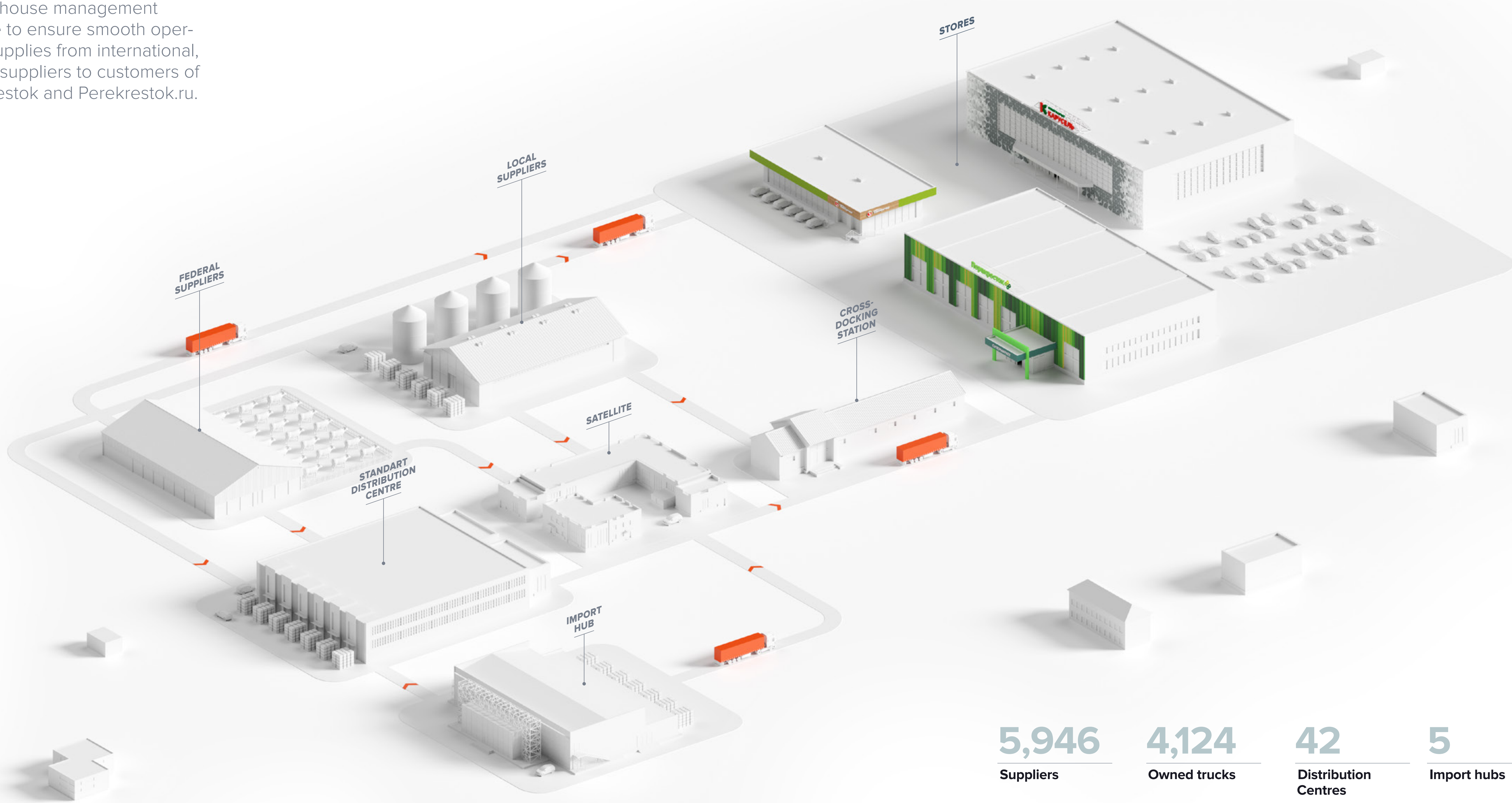
- Automated lead time calculation from the supplier to the DC and from the DC to the store. Overall, lead time for orders was reduced by 0.3 days and averaged 4.8 days nationwide.
- Continued development of direct imports.
- Managed capacity uniformity at DCs, reaching the threshold value for intra-week volume fluctuations of not more than 10%.
- Increased availability of goods from the top 30 contributors to turnover by 1.2% year-on-year.
- With a focus on the availability of goods, we achieved the target level of availability of promo goods.
- Reduced overall level of inventories in stores by 4.8%, or 1.1 days.

Plans for 2020 and beyond

- Focus on improving the efficiency of the end-to-end supply chain together with suppliers.
- Complete implementation of the WMS.
- Launch new Laishevo DC in Kazan.
- Further development of the JDA system as part of product planning.

Supply chain infrastructure

Our supply chain infrastructure spans from direct import hubs to distribution centres, satellite DCs and cross-docking stations. With our comprehensive transport management and automated warehouse management systems, we are able to ensure smooth operations and reliable supplies from international, federal and regional suppliers to customers of Pyaterochka, Perekrestok and Perekrestok.ru.



5,946 Suppliers

4,124 Owned trucks

42 Distribution Centres

5 Import hubs

Transport

Our own transport operations help us to maintain our pace of growth and operate smoothly across five time zones in Russia, ensuring the efficient and reliable supply of goods to our growing network of stores. X5's transport fleet consisted of 4,124 trucks as of 31 December 2019, and we were capable of handling 77% of our transportation needs during the year.

Innovations play a growing role in our transport operations, as we implement and pilot innovations to achieve greater efficiency and improve safety. Our sustainability goals are being integrated into our transport operations, as we seek to rationalise our resource consumption, decrease emissions and prevent pollution caused by maintenance operations.

Progress in our strategy

We approved a Logistics and Transportation Strategy in 2017. This strategy focuses on contributing to the sustainable growth of our food retail business, with the following **key goals:**

Focus on service quality:
Our goal is to achieve a 98% success rate in meeting delivery windows and temperature requirements for deliveries, and we have established business processes that enable us to respond quickly to the changing requirements of X5's retail formats.

The best offering in a competitive market:
we have invested in equipment, technology and people to help ensure that our own transportation services are at the forefront of what the market has to offer.

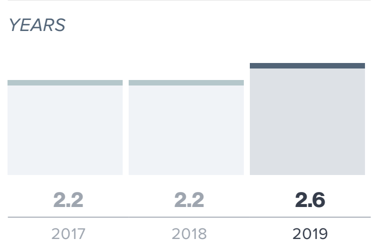
Supporting new businesses:
Our transport infrastructure is also being used for the 5Post parcel delivery service, which provides data-enabled delivery services for e-commerce providers, utilising our network of in-store parcel lockers.

Establish 4PL operations in remote regions:
We are successfully developing our own integrated multimodal logistics operations in order to support our regional expansion, including in remote regions of Russia that are not accessible by road.

Technology-driven:
We are using technology for a variety of applications, from improved route planning to delivery services and the ability to source trucks, drivers and trailers separately in order to increase efficiency and reduce idle or excess capacity.

How we manage transport

Average age of truck fleet



The director for transport operates from X5's Corporate Centre as part of the Business Support unit. The director is responsible for implementing and monitoring performance targets, as well as implementing the strategic goals that have been set for X5's transport operations.

The Transport Department is divided into six macro-regions that are aligned with X5's organisational structure in order to synchronise operations with the format's retail operations.

X5's centralised management systems give us a real-time view of the location, condition and storage temperatures of our entire fleet. We use automated route planning to increase efficiency with the help of GPS/GLONASS systems, which also enable us to monitor the movement of shipments from DCs, help stores plan for arrivals and be alerted to delays.

2019 highlights

- In 2019, 468 new trucks were purchased.
- More than 180 trucks had gas–diesel engines installed, and we are prioritising dual-fuel trucks for new purchases.
- Updated our fleet of tandem trailer trucks (more than 300) to address the needs of our retail chains, with 21- and 41-pallet trailers purchased, increasing the efficiency of long-distance transport. Piloted use of liquefied natural gas (LNG), confirming its effectiveness in enabling trucks to drive longer distances without refuelling. Further development of LNG refuelling in Russia will make it possible to switch to liquefied gas.
- Developed regional network, with cross-docking centres in Krasnoyarsk, Velikiye Luki, and Tver region. Launched the transfer of business processes (including Go-Cargo) to a unified digital platform and a paperless workflow called X5.Transport.
- The development of self-delivery by suppliers directly to stores, with volumes doubling in 2019.
- Automated truck monitoring, which enables us to remotely track a full range of technical characteristics, such as fuel levels, mileage, time that cooling or heating elements have been working, etc.
- Launched joint pilot project with Kamaz to start predictive analysis of maintenance needs. In December 2019, 10 trucks were equipped with the necessary hardware and software, which is being used to gather data for the AI-driven solution.
- Tested various driver assistance technologies to improve safety and efficiency, such as video cameras, smart sensors and systems that utilise big data.

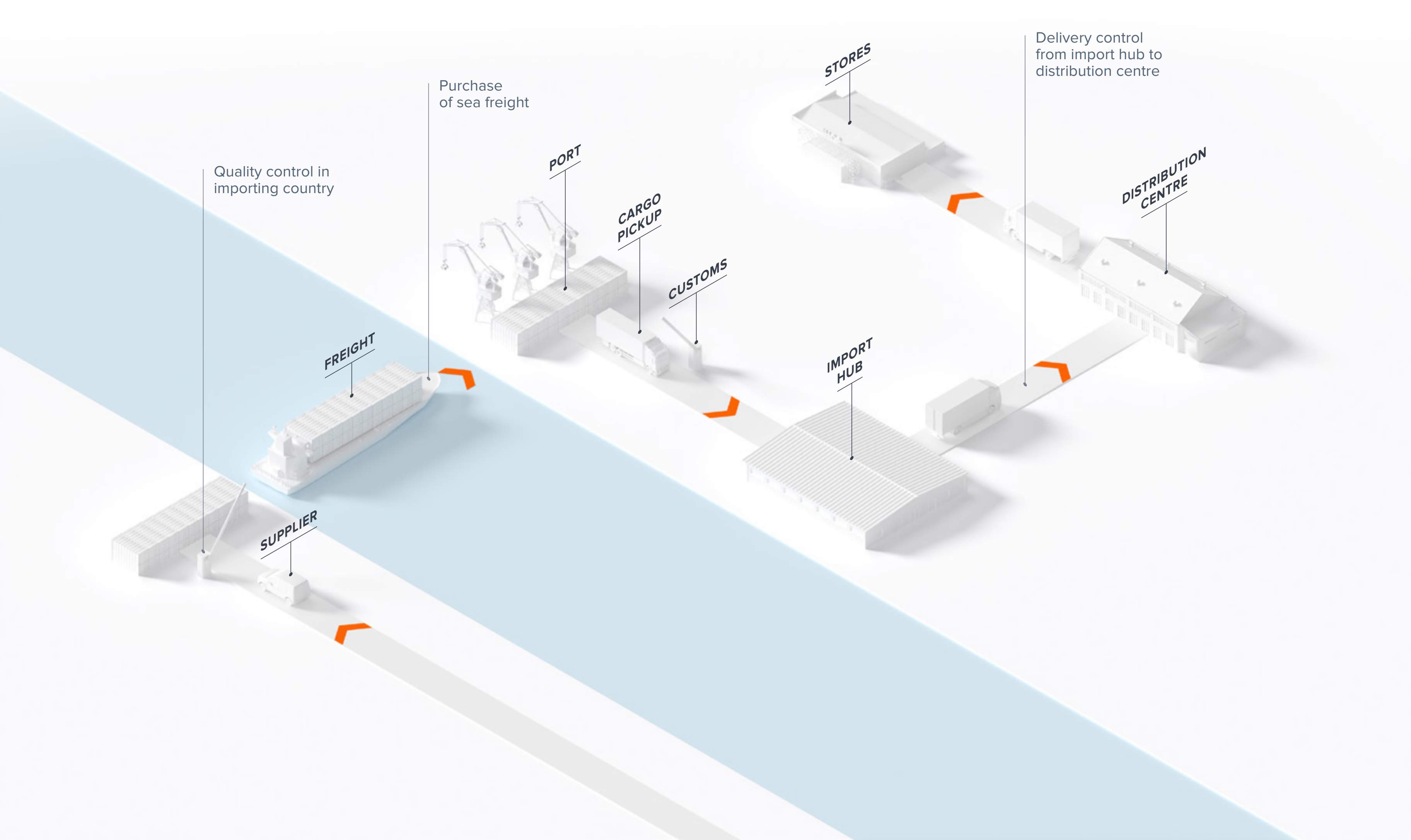
Plans for 2020

- Continue to convert our transport fleet to more efficient and environmentally friendly gas–diesel equipment.
- Further development and implementation of the X5.Transport platform, which makes it possible to increase efficiency and reduce transportation costs
- Expansion of geography — access to a new cluster in Kaliningrad.
- Testing of various driver-assistance technologies aimed at improving efficiency and safety, such as video cameras, smart sensors and big data–driven systems.
- Based on the results of pilots, we plan to introduce predictive analytics for repairs, which is expected to reduce downtime due to breakdowns and reduce repair costs.
- Further development of our LTL (less than load) service and pickup for suppliers and manufacturers.

Direct imports

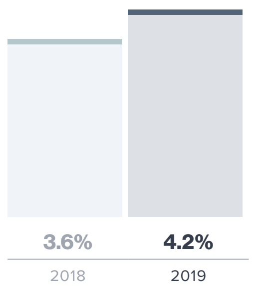
As X5's formats continue to evolve their value propositions, our direct import operations have become increasingly important. Direct import also plays an important role in achieving our overall business strategy, including sustainability goals. With the ability to monitor our import operations across the entire supply chain, we are able to optimise costs at all stages of transportation and ensure the high quality of the products we sell.

Our direct import supply chain

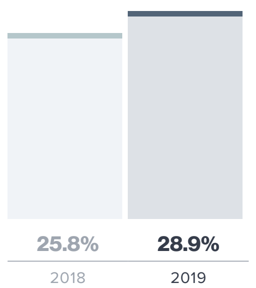


Share of direct import

TOTAL



FRUITS AND VEGETABLES



Direct import operations are part of the Business Support unit. After establishing a separate direct import business unit in 2018, we achieved the following results:

- The share of direct imports in X5's total sales increased at twice the rate of overall business growth in 2019.
- Initiated projects to develop infrastructure and import hubs.
- Expanded assortment in categories like fruits and vegetables, ultra-fresh, grocery and non-food products.
- New assortment added: fresh frozen seafood, canned fruits, coffee, etc.
- Improved quality of imported products, which enabled us to reduce the number of returns.

Our key strategic goals for direct imports are:

- Develop infrastructure: to open key hubs (South, Centre) to support development of imports in the alcohol and groceries categories, as well as expanding coverage of remote regions.
- Improve efficiency: to optimise structure and create a basis for the digital transformation process by identifying processes in our direct import operations that can be automated.
- Develop sourcing and new categories.
- Build long-term strategic partnerships with import producers.

For 2020, our direct import operations will focus on the following geographies: CIS countries, South and Latin America, China.

Information technologies

X5's IT infrastructure plays a critical role in supporting and strengthening our existing operations, while also contributing to the digital transformation of our business. This includes backbone infrastructure to big data analytics and automation. The Information Technologies Department is managed from X5's Corporate Centre. The head of the IT Department has responsibility for both the reliability and integrity of existing infrastructure, as well as the scalability and flexibility to meet business needs in the years ahead and works closely with the heads of our core business units.

2019 highlights

Reliability and sustainability:
In 2019, we ensured 100% uninterrupted operation of our critical business systems and 99.84% uptime for all IT services.

Growth potential:
Together with X5's business units, we developed and approved strategies to develop IT systems that will enable us to develop our IT infrastructure in a way that takes into account the growth plans for our current core business and supports the development of new businesses.

A number of strategically important projects for the Company's growth were successfully completed, such as the automation of our Smart Kitchen and 5Post, and a number of major projects are ongoing, such as the transition of all formats to a single store management system.

Legal compliance and reporting:
With the introduction of new platforms for veterinary and alcohol-related record-keeping that provide support for alternative types of records required by state systems to ensure traceability, we were able to provide a high level of service for veterinary and alcohol-related record-keeping.

X5 became one of the first retail companies in Russia to sign a binding commitment with the Federal Tax Service as part of a state programme on digitalisation and electronic document management.

Finally, in 2019 we created our own fiscal data operator that will enable us to maintain control over X5 data.

Efficiency and innovation:
To optimise and improve the efficiency of processes aimed at stabilisation, acceleration, robotisation and automation, the IT Department created new competence centres in 2019 for DevOps, testing, microservice architecture and development management. New IT services and systems were introduced that improve the efficiency and speed of IT-related operations.

An X5 development centre was opened at Innopolis, which helped to reduce the cost of development-related resources. It also helped reduce the amount of development work that is outsourced. Our focus on in-house development aims to ensure the growth of internal expertise and competencies.

A unique proprietary business monitoring system (BMS) was also developed and implemented (a patent for the invention was obtained), which helped reduce losses by RUB 1.7 billion in 2019.

Plans for 2020

In 2020, the key focus will be on accelerating and improving IT efficiency, supporting the Company's digital transformation projects, developing internal competence centres and implementing a new IT platform to support digital initiatives.

Acceleration and improvement of IT efficiency:
The acceleration, robotisation and automation of IT processes remain priority areas of focus for the IT Department in 2020. We are going to continue working on both new and ongoing projects to accelerate production processes, create self-service functionality, automate and roboticise IT processes, develop business monitoring and analysis systems for IT processes, reduce the amount of outsourcing and develop internal competencies, etc.

Digital transformation projects:
The implementation of digital transformation projects will substantially improve the Company's digital maturity. The IT Department pays a great deal of attention to supporting digital transformation projects by creating dedicated teams for key digital transformation projects, launching Agile product teams in conjunction with business operations, and developing new technical competencies and approaches to IT-related work.

New IT platform:
Within the framework of the Company's new IT platform, solutions are being developed for self-service functionality when working with infrastructure and for dynamic infrastructure management; the refactoring of existing monolithic IT systems and a transition to microservice architecture are being carried out. Some key projects under development that will utilise this new platform include a new loyalty management platform, solutions for managing the infrastructure of stores and for network automation, as well as an access management platform.

Innovations

Innovation remains at the core of our long-term development strategy. In 2019, we focused on finding, piloting and implementing solutions aimed at optimising our business processes and reducing costs, as well as solutions that would increase customer satisfaction and store capacity, such as self-service systems and personalised offers.

How we manage innovations

The X5 Lab project office implements dozens of innovative pilot projects for the X5 retail formats and various departments of the Corporate Centre for the purposes of testing business cases and bringing projects to the rollout stage. The main focus is the delivery of ready-made and tested cases with a proven business impact so that the formats can concentrate on rollout.

Scouting and implementation of innovative technologies

	STAGE 1 SCOPING	STAGE 2 BUSINESS CASE	STAGE 3 PILOTS	STAGE 4 ROLLOUT
DECEMBER 2019	1133 STARTUPS	565 STARTUPS	134 STARTUPS	19 STARTUPS
ADDED IN 2019	+574	+278	+64	+10
APR 2017–DEC 2018	559 STARTUPS	287 STARTUPS	70 STARTUPS	9 STARTUPS

Geographical expansion

In 2019, X5 expanded the geography of its scouting for technological solutions, going beyond the borders of the Russian Federation to Israel, China, and Europe. At the end of the year, an agreement was signed with Plug & Play, the world's leading accelerator, on X5's participation as an anchor partner at its Retail Hub in Paris. In 2020, this will give X5 access to global best practices and opportunities to exchange experiences with leading retailers from around the world on the application of technologies, as well as access to startups in more than 10 countries, including the United States, European countries, Singapore, China, Japan and others.

Proprietary solutions

In 2019, the Innovation Department significantly accelerated the launch of innovative pilot projects, as well as the launch of internal R&D. The X5 Lab products last year included proprietary self-checkout machines, the design and price of which make it possible to scale the solution in most X5 stores, as well as loyalty terminals and loyalty tablets that make it possible to increase the conversion of coupons and boost retail sales. We aim to patent proprietary products as industrial designs.

2019 highlights

In 2019, the innovation team reviewed several thousand technological solutions from startups, more than 500 of which were added to the X5 Lab knowledge base as relevant to X5's business; more than 270 solutions advanced to the stage of in-depth evaluation with the involvement of business units from the retail formats and the Corporate Centre. Of these, 64 were advanced further to pilot projects, while 10 projects moved on to the rollout/implementation stage.

Pilots across the X5 value chain

	FOR CUSTOMERS	STORE	SUPPLY CHAIN	BACK OFFICE
NUMBER OF PILOTS	20	20	13	11

64
Pilot projects
launched in 2019

Plans for 2020

In 2020, we plan to maintain the pace of searching for, piloting and implementing of innovations at X5. We will continue the scouting programme and will drill down into the new directions discovered in 2019. In addition to Russia, we will focus on such countries as France, Germany, Israel, China, and the United States. We will also continue to implement pilot projects and develop our own products, such as self-scanning, mobile scanning and a loyalty tablet for more convenient shopping and improving the quality of customer service, smart scales to increase the speed of customer service, innovative solutions for transport to reduce fuel consumption and environmental emissions, as well as to improve road safety, smart trash cans to improve the environmental friendliness of our stores, automation of DCs to increase the efficiency and speed of logistics processes and others.

Examples of the innovations we are currently rolling out

Robotic process automation (RPA)

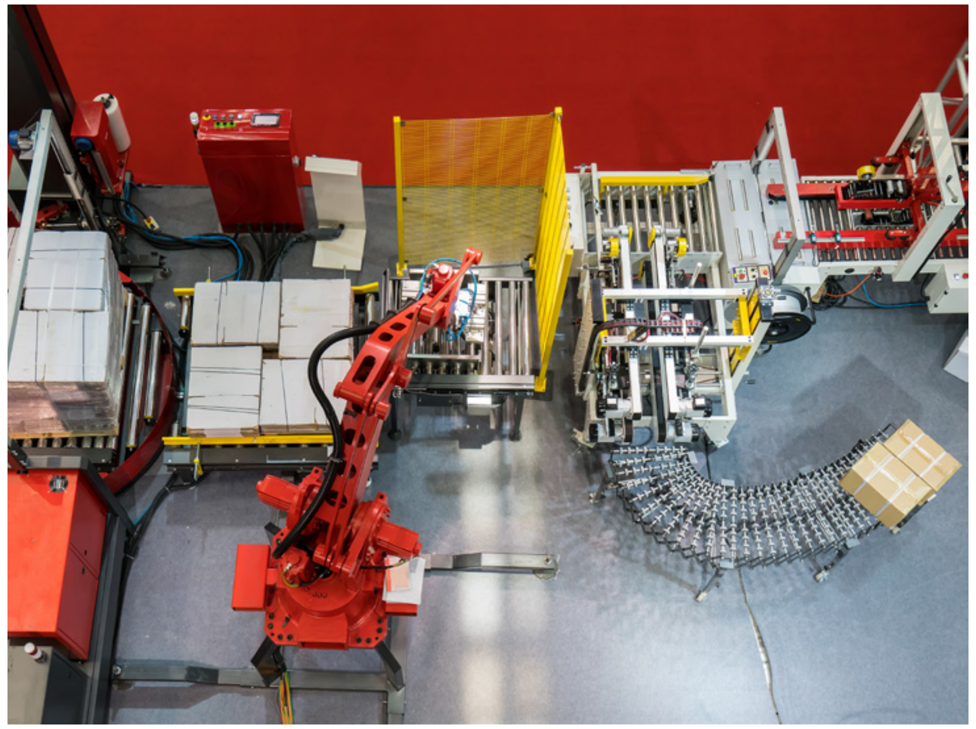
In 2019, we launched our own robotic process automation laboratory. The RPA helps to improve productivity, speed up processes and reduce errors. In 2019, 20 processes were automated, equalling over 40 full-time employees. In 2020, we plan to automate over 60 processes that require at least 120 full-time employees.

+60 *in 2020*

20

Processes were automated

as of the end of 2019



Electronic price tags

Some 136 thousand electronic price tags have already been installed in X5 stores, with more than 1 million to be installed in 2020. Electronic price tags can free up staff to improve the quality of customer service and to reconcile price inconsistencies, which often result in lower NPS for stores.

+1 mln *in 2020*

136 THOUSAND

Electronic price tags installed

as of the end of 2019

Loyalty terminals and tablets

Loyalty terminals were developed in-house as a way to improve conversion for personalised promos in-store. Loyalty card holders can get personalised offers, and one terminal can generate more than RUB 1 million in incremental sales per year. Thirty-one terminals were already installed in Perekrestok stores in 2019, with 600 to be installed in 2020. In around 50 Pyaterochka stores, we have installed tablets that serve multiple purposes. Store employees can log in when they arrive at work or access information related to training and assignments. For customers, the tablets provide richer communications, including personalised offers, promotions and feedback.

Cashierless store

X5 introduced the first working prototype of a cashierless store in Russia. Currently available to all employees (more than a thousand) on the grounds of the Perekrestok Smart Kitchen.

Self-checkout

X5 Lab's proprietary self-checkout machines cost several times less than similar third-party solutions. This supported an increase in retail sales in the pilot area due to a 3% increase in traffic. These self-checkout machines have been included in the Pyaterochka standard. More than 250 self-checkout machines are already in operation. Some 12,000 self-checkout machines are scheduled for installation in 2020 across X5's network.

12,000

Self-checkout machines to be installed in 2020

250+ are already in operation

Big data

The use of advanced data analytics enables us to be more customer-centric and to improve efficiency by making better and more precise decisions. With over 7 million data points collected per day through our loyalty programmes, we are using our in-house capabilities to develop analytics products and services that help to differentiate X5 from its peers.

Our Big Data Department, which is part of the Corporate Centre, employed 340 professionals as of 31 December 2019.

7 MILLION

Data points collected per day

through our loyalty programmes

Data-driven culture

Data quality and availability is one of the key factors in our success, and X5 pays significant attention to the organisation and culture of data management. The Big Data Department implements a data-driven management culture and data governance processes in which all of the business units and functions are involved.

A unified corporate policy for working with Company data was approved in 2016. In order to create a data-driven management culture, a data democratisation policy has been implemented: a single data catalogue has been created providing a single version of the data and showing its origin; self-service analytics tools are being introduced.

Thanks to ongoing changes like this, obtaining, clearing and structuring data now takes significantly less time.

From experiments to rollout

Correctly utilising big data to support our business strategy requires constant experimentation, prototyping and searching for insights in our data. A number of our big data products have already completed this stage of development and are now being used systematically in our business.

Assortment
We have succeeded in making the assortment review process more customer-centric through automated assortment and category analysis capabilities. Our automated assortment product helps to manage our assortment across 28 categories of goods that account for over 60% of net retail sales. New assortment matrixes are developed based on our understanding of client demand, the roles of each category and their contribution to net retail sales.

Pricing
Our automated pricing system has enabled X5 to make more accurate and timely decisions regarding prices. This has helped us to improve pricing perception and our price positioning. Using algorithms and regular price monitoring of our peers, we are able to automate our own pricing decisions.

Promo
We are enhancing our promo process with advanced analytics based on big data tools and analysis of historical performance to drive more precise and efficient decision-making. This system has helped to optimise regular promo activities during piloting in the North-West region, and will be soon rolled out.

Customer value management

Customer value management (CVM) is currently being piloted at Perekrestok as a means of forecasting turnover in promo campaigns and will develop into forecasting of regular demand using predictive models that will enable us to improve logistics efficiency by increasing the timeliness and precision of deliveries.

The CVM system aims to further increase value for loyal customers of X5 stores, while also maximising the value of each loyal customer for the Company. Effective customer value management enables X5 not only to better meet customer needs, but to shape them.

EXAMPLES OF CVM USAGE:

- **CROSS-SELLING**
  SELLING ADDITIONAL PRODUCTS
- **UPSELL**
  SELLING MORE EXPENSIVE PRODUCTS
- **Increasing the likelihood that a customer will return to a store**
- **Increasing the frequency of purchases**

5Post

5Post is a new business unit established in 2019 within X5 Retail Group that is developing a service to deliver parcels from e-commerce retailers and online marketplaces to parcel lockers and pickup points at Pyaterochka proximity stores and Perekrestok supermarkets.

5Post leverages X5 Retail Group's own logistics capacity and is designed to piggyback on existing routes and schedules of our own fleet. This means that parcels are delivered to a store together with standard inventory. We expect that our parcel delivery service will help to reduce emissions and make more efficient use of resources by better utilising existing transport capacity.

Key highlights

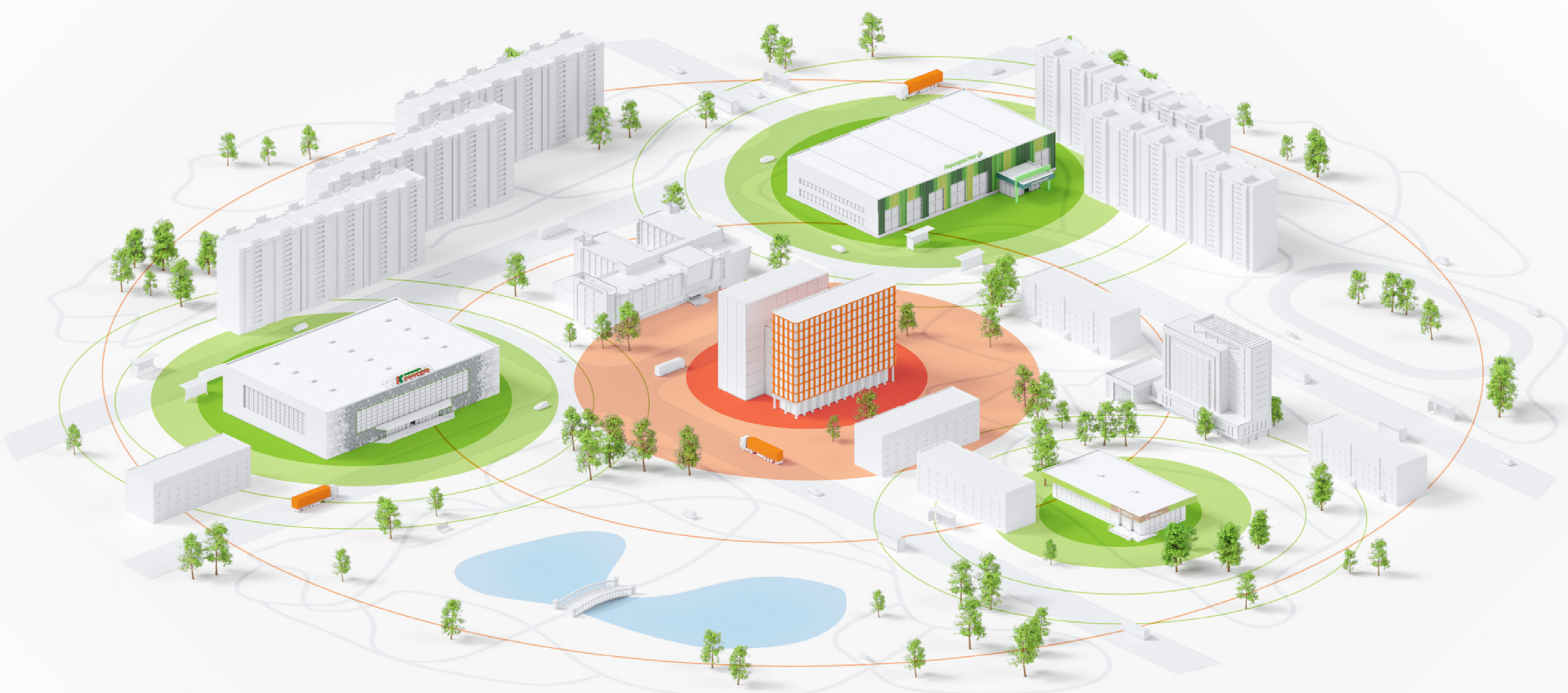
>5 MLN	63	7	CA. 10,000	12
Parcels delivered	**Regions covered**	**Strategic partners**	**Stores are serviced by 5Post**	**Sorting centres**
with more than 350,000 via X5's own logistics	*by the X5 store network*	*Ozon, Lamoda, Beru!, Cianiao, IML, Unitrade, Sovcombank*		*were established at Pyaterochka DCs*

Strategic goals for 2020

- Increase number of pickup points to 12,000 and number of sorting centres to 15.
- Develop mobile app for end consumers and expand functionality of fivepost.ru website.
- Automate and optimise delivery process.
- Add ability to pay for goods at checkout desks.
- Further development of IT systems to support 5Post's development and efficiency.
- Connect and integrate new partners into the 5Post IT infrastructure.
- Significantly increase number of parcels delivered.
- Upgrade sorting equipment at all existing 5Post sorting centres.

Sustainable development

Sustainable development at X5 includes a wide range of activities, from supporting the health and well-being of our customers to providing a safe, fair and comfortable workplace, as well as contributing to the communities where we operate and doing our part to minimise our environmental footprint.



Our sustainability goals

Since adopting our new sustainability strategy in December 2019, we have been working to establish specific targets and to integrate our sustainability goals into our overall business strategy. The following section of this report reflects X5's key sustainable development goals, which were approved by the Supervisory Board in December 2019. We have also created a separate section on our corporate website dedicated to our sustainable development strategy in order to publicly demonstrate our commitment to [these goals].

■ Primary Goals
□ Secondary Goals

We are currently in the process of determining the indicators that we will employ to set targets and measure progress in achieving our sustainability goals.

UN SDGs	Key goals for X5	Next steps
	• Support local communities by expanding social investments and charity programmes.	
	• 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.	During 2020, we will develop programmes that will be underpinned by performance metrics and KPIs in each of these priority areas, as well as policies and performance standards that will be further integrated into X5's business processes. Further details will be shared with all relevant stakeholders over the course of 2020, and presented in the annual report for 2020.
	• 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.	
	• 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 them will enable 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.

STAKEHOLDERS	Customers	Employees	Shareholders / investors	Suppliers	Society and local communities	Government / regulators
WHY WE INTERACT	• To raise customer awareness of the value propositions of our retail formats • To demonstrate how we are different from other grocery retailers • To encourage loyalty to X5 brands and increase the share of wallet by offering a greater selection of what customers need and improving their in-store experience • To encourage customer feedback that may help us improve the business • To engage directly with customers to answer their questions • To understand how demand is changing and what new trends are emerging in order to adapt our business • To promote responsible consumption through education of customers about healthy lifestyles and ways to be more environmentally friendly • To provide tools and infrastructure to promote more sustainable shopping practices, such as reusable and recycled bags, plastic bag collection and reverse vending machines for recycling	• To support professional growth and well-being of employees • To ensure that employees share our corporate culture and help us achieve our strategic goals • To support our efforts to further improve occupational health and safety • To encourage employee engagement in our sustainability initiatives • To encourage employees to contribute ideas that will further improve our operations • To retain and develop a workforce of skilled and motivated employees • To uphold our reputation as an attractive employer for current and potential employees • To educate employees about the principles of sustainable development and specifically about X5's sustainable development strategy and our plans for integrating sustainable development into our day-to-day business	• To inform the investment community about X5, our strategy, financial and operating performance, sustainability practices and other significant events • To explain the growing, sustainable value of the enterprise • To listen to feedback that may help us further improve the business • To secure investors' support for X5's capital markets activities • To support growth in market capitalisation over the long term	• To ensure the reliable and on-time supply of high-quality goods • To enable local producers to sell goods at X5 stores across the regions where we operate • To provide customers with the assortment they want, when they want it • To ensure the health and safety of the products we sell • To reduce our environmental footprint by exploring sustainable packaging options and collaborating with responsible brands • To maximise the efficiency of our supply chain	• To contribute to the development and well-being of local communities, where we are both employers and providers of essential retail services • To establish mutual understanding of local communities' priorities and concerns • To support the health and well-being of communities where we are present • To maintain the strong reputation of our stores and brands • To inform media at all levels about our achievements and performance • To maintain constructive relationships with local authorities • To stay informed about local policies or regulatory changes that could impact our business	• To maintain a constructive dialogue regarding regulations and legislation that may impact our business • To ensure that company and industry priorities are known and understood • To explain the ways in which X5 is contributing to Russia's social and economic development and building value for stakeholders • To stay informed about current and upcoming regulatory or legislative initiatives that may impact our business
HOW WE INTERACT	• Through a customer hotline • Via social media and messenger platforms • By using big data analytics of customer behaviour to understand how we can meet our customers' needs in the most efficient and reliable way • By measuring customer satisfaction by conducting a country-wide net promoter score (NPS) assessment	• By offering competitive, fair and transparent salaries and motivation schemes, as well as meaningful career opportunities, to X5 Retail Group employees • By ensuring that human rights are fully respected and that employees are provided with all the freedoms they are entitled to • By implementing strict occupational health and safety policies and keeping employees informed and educated about workplace health and safety requirements • By providing in-house and external training and development programmes • By supporting employees in need due to long-term illness or accidents, bereavement or loss of property • By recognising significant contributions to the Company's performance • By creating opportunities to engage with our corporate social responsibility agenda and to make a positive social impact	• By providing information about our strategic performance and how we are adapting to address current and expected market trends • By implementing transparency and disclosure, as well as corporate governance systems that are in line with global best practice • By ensuring access to information about the Company via our investor website in the form of annual reports, financial statements, press releases and presentations • Via roadshows • Via investor conferences • Via conference calls • Via group meetings with analysts and investors	• By developing partnerships for promotional and other sales activities • By upholding transparent relationships based on trust and respect • By facilitating the work of local producers with X5 in order to maintain an assortment of locally produced goods across our formats • By holding training events to help suppliers work efficiently with X5's logistics infrastructure • By using our extensive transport and logistics infrastructure to support both large federal and smaller local suppliers • By conducting annual X5 Dialogue breakfasts with top-30 and top-100 suppliers to discuss current trends, share X5's vision and strategy as well as programmes and instruments to develop collaborative relationships with suppliers • By analysing suppliers' feedback based on an annual supplier survey conducted by Advantage in order to improve collaboration with suppliers	• By developing and supporting charity and social initiatives such as the Basket of Kindness food bank and Liza Alert search-and-rescue operations • By supporting priority initiatives for local communities, ranging from working with local suppliers to supporting events like tree plantings, community green-up days, Victory Day celebrations and others • By adhering to environmental regulations and reporting about our environmental performance, including measures to reduce emissions, consumption and waste generated by our activities • By maintaining regular dialogues with local authorities and community leaders • By supporting an electronic social cards programme, which enables low-income households to get financial aid from the Moscow City Government using electronic cards, which can be used for purchases at Pyaterochka, Perekrestok and Karusel stores	• By participating in industry associations that represent the view of retailers with regard to regulation and legislation • By inviting relevant government officials to key events such as DC openings that illustrate how X5 is creating jobs and supporting local suppliers • By participating in working groups on issues relevant to X5 Retail Group at the federal and regional levels • By piloting and testing planned changes to government-ordered innovative technologies (labelling for various categories of goods, electronic document exchange, electronic signatures) • By maintaining an open dialogue with the AKORT industry association and providing X5's position on matters of importance to retailers, such as environmental and sanitary legislation, charity, etc.
2019 PERFORMANCE HIGHLIGHTS	• Over 5 billion customer visits in 2019 • Pyaterochka and Perekrestok NPS scores improved year-on-year to 1.2 and 21, respectively, based on responses from around 112,000 customers in 48 cities • Expanded omnichannel initiatives like Perekrestok.ru and in-store parcel lockers for customers to collect online purchases, making it more convenient for customers to shop with X5 • Enhanced loyalty programmes with personalised offers that leverage big data analytics • Ongoing adaptation of store concepts and format CVPs to meet customer demand • Introduced new big data analytics products to automate assortment and pricing, enabling us to meet demand more accurately and efficiently, and share the benefits with our customers	• Invested around RUB 200 million in professional training and development • Conducted over 60 employee engagement events, including sports, informational events and entertainment, with total participation exceeding 669,000 • Occupational health and safety policies and rules remained a core area of focus • Implemented diversity and human rights policies • Improved design and comfort of break areas for in-store staff as part of updated store concepts for Pyaterochka and Perekrestok • Ongoing digital transformation of our business includes a state-of-the-art corporate intranet portal and Personal Account mobile app for employees to make it easier to access key employment information and documents	• Adhered to dividend policy adopted in 2017 • Implemented award-winning investor relations practice • Conducted 536 meetings with investors and analysts, including 224 in 1-on-1 format • Held six roadshows (including two with management) and participated in no fewer than 15 investor conferences • Held Capital Markets Day in London • Published 39 press releases via a regulatory information service • Significantly enhanced direct communications with investors following the introduction of MIFID II; held our first virtual roadshow	• Added 1,245 new suppliers in 71 regions • Developed and expanded exclusive private-label lines with selected suppliers • Conducted 45 events in 36 regions for more than 1,500 local suppliers • Maintained a top-three ranking among retailers according to an annual survey of suppliers regarding their interactions with retailers, conducted by Advantage	• Created 29,046 new jobs in 65 Russian regions through store openings • Paid over RUB 72.1 billion in local, regional and federal taxes • Provided convenient, modern and reliable food retail services to people in over 3,100 cities and towns in Russia (over 5.1 billion checks) • Donations to initiatives to help those in need: RUB 70 million in 2019 • Number of people receiving support through X5 social initiatives: 59,000 people in 2019 • Pensioners who shopped at Pyaterochka, Perekrestok and Karusel stores during non-peak hours saved over RUB 12 billion during 2019 • X5 Retail Group supports shoppers with children and parents-to-be by offering special discounts and additional points for purchases. In 2019, programmes for families with children helped customers save almost RUB 600 million	• X5 proposals were taken into account in new regulations and legislation concerning trade, veterinary and sanitary requirements, and digital innovations • Reasonable timelines for the introduction of mandatory labelling of tobacco products, footwear and certain other goods. Pilots for the labelling of dairy products and drinking water were extended • X5 proposals were taken into account in new regulatory acts concerning the sale of excisable goods and real estate
		Please see more information on employee matters in the "People review" section on pages 190–203	Please see more information on shareholder matters in the "Corporate governance" section on pages 210–253	Please see more information on supplier-related matters in the "Compliance and ethics" section on pages 168–171, in the "Product safety and quality" section on pages 172–179	Please see more information on social matters in the "Local communities" section on pages 204–209	

Compliance and ethics

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.

Key policies

Code of Business Conduct and Ethics

Code of Interaction with Business Partners

Policy on Countering Miscounduct, Including Fraud and Corruption

Declaration on Human Rights Protection

Compliance Policy

Policy on Processing Personal Data

Inside Information and Dealing Code

Applying our values and ethical principles enables our employees to make good choices and protect our relationship with colleagues, customers and communities. 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 it relates to our business. All policies are posted on our website and/or intranet, enabling all 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.

Policy highlights

Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics and its underlying policies describe the standards of conduct that support our commitment to integrity, and how our employees are expected to treat each other, our suppliers and our customers, outlining 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 a whistleblower policy describing the process 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.

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

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 labour protection. This policy also covers prevention of discrimination, transparency in interaction with business partners, communication standards, information protection, prevention of conflicts of interest, etc. Employees and business partners are encouraged to adhere to these provisions in their work for and with X5. Violations of the Code of Interaction with Business Partners are handled by X5's dedicated Conciliation Commission (see below).

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.

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. These principles and rules are based on the recognition of every human being's dignity, and the freedom and equality of all humans, including:

- 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 and business partners.

Policy on Processing Personal Data

In accordance with legal requirements of the Russian Federation on personal data, we have a Policy on Processing Personal Data in place that applies to all processes involving the collection, storage, retrieval and transfer of personal data within the Company.

Inside Information and Dealing Code

The Inside Information and Dealing Code reflects the provisions of the EU Market Abuse Regulation, which entered into force in 2016. Its purpose is 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 Policy

In order to ensure compliance with the requirements of regulators, stakeholders, established business practices, voluntarily adopted standards and rules of business conduct and ethics, X5 has adopted a Compliance Policy in accordance with ISO 19600:2014 (Compliance Management Systems). Compliance risks are assessed and reassessed on an ongoing basis.

Compliance and ethics systems

Ethics Committee

The Ethics Committee is chaired by the CEO and includes the General Counsel, the Head of Corporate Security, the Director for Business Support and the Director of HR and Organisational Development. The Ethics Committee is responsible for:

- Objective review of (alleged) violations of the Code of Business Conduct and Ethics, the Declaration on Human Rights and the Anti-Corruption Policy;
- Resolving conflicts of interest;
- Approving anti-fraud and corruption measures;
- Adopting further rules and policies in the areas of business conduct and ethics.

While the responsibility for investigating (alleged) violations of the Code of Business Conduct and Ethics is generally assigned to the Security Division, the specific responsibility for handling (alleged) violations in the areas of human rights, labour rights and occupational health and safety is assigned to the Directorate of Human Resources and Organisational Development.

Reporting violations and whistle-blowing policy

Employees are encouraged and obliged to report any actual or suspected violations of the Code of Business Conduct and Ethics and the Declaration on Human Rights Protection. 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. The Compliance Department is responsible for review and follow-up of such reports in accordance with the internal procedure for considering complaints. Reports via the ethics hotline can be made anonymously and without fear of retaliation, even in cases when it cannot be confirmed that a violation has taken place. The Company guarantees confidentiality of any report made.

All reports of corruption or human rights violations are subject to an internal investigation. When conducting internal reviews, all collected information is treated equally and analysed. If necessary, following a thorough investigation, the Company may take disciplinary and other measures against the responsible employees, ultimately leading to termination of employment. In accordance with X5's remuneration policies, the application of disciplinary measures may affect the employee's variable remuneration components, which increases the effectiveness of the Code at all levels of operation within X5.

In 2019, our whistle-blowing lines received 7,124 reports, over 65% of which were related to routine HR issues. Approximately 7% of the reports were made anonymously. In 2019, the Company automated the ethics hotline, which enabled us to respond more quickly to reports regarding potential violations. On average, reports were investigated and resolved within 20 days. In 2019, 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 also 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. The Commission is established in accordance with the Code of Good Practice, which regulates interaction between retailers and suppliers. The Conciliation Commission's tasks furthermore include improving the efficiency of contractual work done for the Company, creating a platform for direct dialogue with suppliers and other business partners, and identifying and preventing violations in working with contractors. Violations can be reported via the feedback form posted on X5's website.

Conflicts of interest

Our internal procedure for declaring, monitoring and resolving conflicts of interest enables managers and employees to disclose situations involving any potential conflict of interest, and establishes procedures for the purpose of resolving conflicts of interest. The Compliance Department is responsible for the proper functioning of the reporting procedure and for dealing with reported conflicts of interest.

During 2019, employees were required to redeclare conflicts of interest through a renewed digital reporting channel.

Training

As stated above, new employees are required to familiarise themselves with the Code of Business Conduct and Ethics. The main provisions of the Code can be found on the Company's intranet site as part of a distance learning programme. In 2019, more than three thousand employees throughout the Company took part in this training, the majority of whom are employed in X5's retail chains.

Employees who interact directly with business partners also receive training on interaction with business partners. In 2019, about 3,000 employees took part in this training.

In 2019, a distance learning course on anti-corruption rules and behaviour, called "X5 Ethical Principles: Business without Corruption", was developed and launched. All staff, with the exception of store employees, were required to take part in this training course, more than 10 thousand employees completed this training. We plan to develop a separate course for store employees in 2020 that takes into account the specifics of their work and focuses on typical situations that might arise in any of our retail formats.

Training on human rights and the application of the Declaration on Human Rights Protection is an integral part of the training on the Code and in the "X5 Ethical Principles: Business without Corruption" training course.

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.

Health and safety

Product safety and quality

One of the keys to maintaining the sustainability of our business is upholding consistently high standards of product safety and quality. Our goal is to ensure that every store we operate offers customers fresh and high-quality goods that are safe for consumption.

We continuously refine and develop our systems and policies in this area, and our work on product safety and quality will be an important part of X5's new sustainability strategy. This is aligned with UN SDG 3 (Good Health and Well-being), which is one of the priority goals where X5 Retail Group can have the most impact through its activities.

Our aim is to implement a system that enables us to track goods "from farm to fork" in order to understand the social and environmental impact of their production, as well as to ensure that the means of production, transportation and storage comply with relevant legislation and our own quality and safety standards.

Product quality system

Pyaterochka

Pyaterochka upholds robust product safety and quality standards throughout the supply chain with the goal of providing customers with fresh, safe and high-quality products. To this end, we have developed a set of rules and regulations that encompass the entire supply chain from production to consumption. Pyaterochka's quality control practices are governed by internal bylaws.

In order to ensure that products are safe for human consumption and for the environment, and also that they comply with retail standards and customer needs, we take an approach based on the principles of hazard analysis and critical control points (HACCP). In addition to HACCP principles, ensuring product quality also involves the following:

- lab testing and analysis at recognised research centres and accredited research laboratories;
- regular staff training on requirements for the Customs Union, the Federal Law on Standardisation, food labelling requirements, food safety management requirements and other rules and regulations regarding quality control;
- safe storage and transport of products;
- use of state-of-the-art monitoring methods and innovative technologies;
- supplier audits.

As part of our multi-format operating model, each retail format has its own Quality Department that, together with the Commercial Department and the Category Management Department, oversees all stages of the product life cycle. Pyaterochka's head office has a Quality Department that is responsible for, among other things, ensuring that quality-related legislative requirements are taken into account in internal regulations. The Quality Department also provides expert assessments of draft laws in order to facilitate our constructive participation in the legislative process and, together with the Government Relations Department, interacts with oversight and supervisory bodies in order to ensure we properly understand requirements and can have a say in the consideration of new standards, as well as industry associations and producers' unions, including the Consumer Market Participants Union, the Russian Union of Industrialists and Entrepreneurs, the All-Russian Association of SMEs (Opora), the Civic Chamber of the Russian Federation, the National Dairy Producers Union, the RusBrand Association of Branded Goods Manufacturers, the Seafood Processors Union and the RusProdSoyuz Association of Food Manufacturers and Suppliers.

Ensuring that our products are of high quality is one of the most important tasks of all our commercial departments. Suppliers are regularly audited by independent, accredited international organisations. We continue to work on the preparation of quality specifications for food products, our private labels, and packaging materials as well.

Number of awards received by private-label products

	2017	2018	2019
Pyaterochka	0	11	21
Perekrestok	1	1	1

Perekrestok

Perekrestok has its own Quality Department that, together with the Commercial Department and the Category Management Department, oversees all stages of the product life cycle. Quality control at Perekrestok is governed by internal bylaws.

The Perekrestok Quality Department undertakes comprehensive efforts in its work with suppliers, distribution centres, the Logistics Department, stores and consumers in order to prevent risks related to the quality and safety of goods.

All stages of product movement (from supplier to consumer), which are overseen by managers, are defined and have clear criteria for evaluating critical indicators.

Group-wide initiatives

In 2019, we were part of a wide-scale legal review process initiated by the Russian federal government to review and abolish obsolete regulations applied to business. As part of this process, we worked actively with various authorities, including Rospotrebnadzor (Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing), the Ministry of Industry and Trade, and the Ministry of Justice. The review included the framework for sanitary and epidemiological legislation. We believe that this work will help to improve the regulatory environment for retailers like X5.

X5 participated in pilot experiments on the implementation of labelling and traceability (shoes, light industry, milk, tobacco) organised by the Ministry of Industry and Trade. The system that has been implemented makes it possible to track the path of each individual unit of goods from the manufacturer to retail sale. This approach is intended to help reduce the share of counterfeit goods, primarily in traditional retail trade. By participating in these experiments, we helped to establish reasonable rules for labelling in various product categories.

Quality control at all stages of the product life cycle

Introducing goods into our product range

Prior to signing a contract, our suppliers must provide product samples and documents confirming the quality, safety and origin of the goods to authorised specialists (quality experts) to confirm their compliance with legal requirements and the Company's internal regulations.

In 2019, we increased the number of quality control personnel responsible for introducing private-label goods into the product range, including outside Moscow and St Petersburg. This enabled us to reduce the time needed for approval of requests to add or introduce changes to private-label goods.

In 2019, some 10,948 items were checked and added to our assortment at Pyaterochka and some 10,144 products at Perekrestok. This represents the number of goods that were checked before being added to our assortment matrix.

Number of PLUs from verified suppliers

	2017	2018	2019
Pyaterochka	10,100	12,554	10,948
Perekrestok	14,625 (including 386 private-label goods)	8,841 (including 354 private-label goods)	10,144 (including 383 private-label goods)

A product benchmark is a document that describes in detail the manufacturing process for a private-label product, including what is on the packaging, as well as defining organoleptic, physical, chemical, microbiological and product safety indicators. The product benchmark is an integral part of the supply contract.

Number of product benchmarks established

	2017	2018	2019
Pyaterochka	–*	128	232
Perekrestok	386	354	383

* In 2017, Pyaterochka did not track the number of product benchmarks established.

Acceptance at distribution centres

Upon arrival at a distribution centre, all incoming food products undergo mandatory organoleptic testing in terms of their appearance, consistency, taste and smell, as well as testing for compliance with the standards of the Customs Union and other applicable federal standards. Fruits and vegetables are also tested to measure their nitrate levels and sugar content. X5's quality control of fruits, vegetables and exotic fruits meets Russian national standards, European standards (UNECE), as well as Pyaterochka's own quality certificates and acceptance criteria, including in respect of their calibre, size and ripeness.

In 2019, we began installing equipment for remote acceptance from suppliers. This equipment is currently installed at the site of a major apple producer, and it will be installed at the sites of five more fruit and vegetable producers in the near future. This remote acceptance equipment enables our employees to conduct quality control remotely, and only goods that pass a quality control check are sent to a distribution centre. This initiative has enabled us to improve the efficiency of acceptance while also decreasing shrinkage.

Quality control in stores

In 2019, Pyaterochka launched the Freshness project, which is a strategic project for the format that aims to transform the entire quality control and freshness monitoring process. Changes include the introduction of a new stage of control over the freshness of products when they are dispatched from DCs to stores, store employees are responsible for removing damaged or spoiled products every hour and sorting fruits and vegetables three times a day. Furthermore, goods are now removed from the shelf before the end of the day of their expiry date. This pilot has been successful, with more than a quarter of shoppers noting improvements in fruits, vegetables and fresh products.

In addition, the Quality Department regularly audits stores for compliance with quality and safety standards, which allows us not only to address quality issues quickly but also to improve the quality of the service we offer our customers. This enables us to create an environment of continuous training for store employees, who, based on practical examples, can learn about innovations and adopt best practices.

In 2019, the number of store audits conducted at Pyaterochka and Perekrestok declined year-on-year, partly due to the sharp increase in private-label suppliers and a decision by the Quality Department to focus on fruit and vegetable supplier audits. At Pyaterochka, the significant decline in the number of quality audits by the Quality Department was largely due to the internal reallocation of responsibility for regular store audits to the Security Department, while the Quality Department focused only on audits of "problem stores". Store inspections are conducted on a regular basis by territorial security managers, whose checklists include questions about product quality and storage conditions, as well as expiry dates. Items that do not meet the required conditions are disposed of.

Number of internal quality audits conducted in stores

	2017	2018	2019
Pyaterochka	2,268	1,240	516
Perekrestok	907	880	854

Interaction with customers

Pyaterochka has an efficient, streamlined process in place for dealing with consumer claims and complaints. All claims and complaints received through a variety of communication channels, including email, social networks, the customer hotline, online and from store directors are carefully reviewed. In case of suspicions about a potentially unsafe product, product samples are taken for testing to verify the validity of the claim. If a product of insufficient quality is discovered, it is immediately removed from store shelves and returned to the supplier.

In addition, a system was launched to collect and process complaints from buyers of private-label goods; statistics are maintained, and producers whose goods receive regular complaints are barred and replaced. Unscheduled audits and lab inspections are also initiated in response to complaints. All customers are given feedback on their complaints.

Social networks, online forums and blogs, and periodicals are monitored on a regular basis for information on product quality.

Number of quality-related customer complaints reviewed

	2017	2018	2019
Pyaterochka	1,360	587	2,438
Perekrestok	446	470	418

Complaints included claims regarding the quality and safety of products. For example, organoleptic indicators (taste, colour, smell, etc.), the presence of parasites, foreign matter, etc. Complaints regarding selling space, quality of service, etc. were not considered. Complaints of this kind are transmitted to other functions.

The year-on-year increase in the number of complaints was due to several factors, including changes in the methodology for handling complaints in 2018 and in 2019, as well as continued growth in the number of stores and new communication channels. The change was also driven by the launch of the Best Private Label project, which led to more attention being paid to customer requests.

Supplier audits

As part of the selection and rating of suppliers, a supplier audit is required. The Supplier Audit Programme is available on the supplier portal along with a requirements checklist. All new suppliers must undergo a mandatory audit to confirm that their production facilities are compliant with regulatory quality and food safety requirements, as well as cleanliness and hygiene guidelines in production and storage areas upheld by X5 Retail Group. Suppliers whose facilities did not meet the Company's standards and whose products were considered potentially unsafe and a threat to consumers were barred from selling their goods to stores.

In 2019, 1,890 supplier audits were conducted at Pyaterochka and Perekrestok, including 404 audits of facilities producing private-label goods.

As a result of supplier audits conducted in 2019, 139 suppliers to Pyaterochka and eight suppliers to Perekrestok whose facilities did not meet the Company's standards and whose products were considered potentially unsafe and a threat to consumers were barred from selling their goods to X5.

Number of supplier audits
(including audits of private-label goods)

	2017	2018	2019
Pyaterochka	977	1,085	**1,696**
Perekrestok	174	225	**194**

Number of suppliers barred as a result of an audit

	2017	2018	2019
Pyaterochka	35	190	**139**
Perekrestok	2 (both private-label suppliers)	2 (including 1 private-label supplier)	**8 (including 7 private-label suppliers)**

Number of cases where products were not permitted to be added to the product range as a result of an audit

	2017	2018	2019
Pyaterochka	–*	412	**592**
Perekrestok	20	20	**20**

* In 2017, Pyaterochka did not track cases where products were not permitted to be added to the product range as a result of an audit.

In addition, the following actions were taken in 2019:

- The provision on supplier audits was updated.
- All Pyaterochka quality specialists and production managers were trained and approved to conduct audits, which made it possible to significantly increase the frequency of audits conducted by employing more personnel in the Quality Department.
- Pyaterochka, Perekrestok and Karusel signed an agreement on quality audits of private-label goods.
- A project to automate all stages of the supplier audit process was launched: audit requests, audit planning and scheduling, completion of checklists, consolidated reporting and dashboards, and automatic barring of category D suppliers, who are considered to be potentially unreliable or unsafe. A process of submitting and processing audit requests is to be implemented in 2020. The automation project is expected to be completed in Q3 2020.

Continuous product quality testing

In 2019, 6,045 quality tests were conducted, with non-conformities identified in 168 samples. This analysis was aimed at verifying products' organoleptic, physical, chemical and microbiological properties and, in some cases, the declared ingredients, specifically to identify any that had been replaced with cheaper alternatives, as well as any use of food additives, artificial colourants, sweeteners or preserving agents not indicated on the label.

A procedure for management of non-conforming products was developed, which made the decision-making process in response to non-conformities much faster. This decision-making algorithm involves the resampling of products for laboratory research; fines are set for suppliers in the framework of private-label contracts, suppliers are blocked, products are returned to the supplier, etc.

Number of samples of own production goods undergoing quality testing

	2017	2018	2019
Pyaterochka	2,596	2,980	**4,246**
Perekrestok	10,634	10,409	**11,339**

The number of quality tests at Pyaterochka increased due to tighter controls on cheese products.

Number of product samples from suppliers that underwent quality testing

	2017	2018	2019
Pyaterochka	2,797	1,623	**1,799**
Perekrestok	1,031 (all private-label goods)*	2,285 (including 1,068 private-label goods)	**2,940 (including 1,116 private-label goods)**

* In 2017, Perekrestok did not track the number of samples of non-private-label goods.

Number of product samples in which non-conformities were found as a result of analysis

	2017	2018	2019
Pyaterochka	533	250	**168**
Perekrestok	266 (private-label goods)*	337 (including 241 private-label goods)	**291 (including 190 private-label goods)**

* In 2017, Perekrestok did not track the number of samples of non-private-label goods.

Tasting is an assessment of the organoleptic properties (appearance, aroma, taste) of products that are planned for private-label production and are an integral part of any tender. Tasting is carried out in order to determine the leader for the subsequent selection of a private-label supplier.

Number of tastings of private-label goods

	2017	2018	2019
Pyaterochka	–*	214	**649**
Perekrestok	121	127	**236**

* In 2017, Pyaterochka did not track the number of tastings of private-label goods.

Number of inspections by Rospotrebnadzor

	2017	2018	2019
Pyaterochka	–*	–*	**424**
Perekrestok	314	246	**750**

* In 2017, and 2018 Pyaterochka did not track the number of inspections by Rospotrebnadzor.

Work with suppliers

When introducing products into our product range, samples undergo comprehensive testing for compliance with our internal requirements and the laws and regulations of the Russian Federation:

- We verify a range of documents that certify the quality and safety of products, as well as the protection of consumer rights.
- A tasting commission conducts a blind organoleptic evaluation of products and raw materials and assigns a score to each item.
- Accredited laboratories check compliance with the established requirements (microbiology, physical and chemical indicators), determine whether or not products are genuine, and issue test reports. Tests are carried out both for new products and during the process of monitoring goods that have already been supplied.
- Production status and a producer's ability to deliver the required amount of a given product while meeting quality and safety standards is assessed (audited) by certified, independent experts together with Quality Department staff. Based on the results of an audit, a checklist with a comprehensive assessment is completed. Audits are divided into primary audits (pre-contract) and inspections (during the supply process).

Based on the results, the Quality Department decides whether or not to introduce a product into the Perekrestok assortment.

The Quality Department pays particular attention to the quality of private-label goods: for these goods to be introduced into the product range, a separate checklist is completed, and a different procedure is followed that involves more in-depth and stricter testing of suppliers.

Perekrestok has harmonised its approach to supplier evaluations (a single checklist and common evaluation criteria) with the Karusel and Pyaterochka Quality Departments, and the three formats share a database of supplier audits and product samples. A tripartite agreement on the mutual recognition of supplier audits and product testing has been developed and implemented.

2019 highlights

- To check the quality and safety of products in the overall product range, the Quality Department revised and launched for testing (for six months) a regulation on adding products to the assortment in order to optimise the process.
- DCs are monitored on a daily basis to check sanitary conditions and compliance with product storage regulations (checklist).
- In order to improve quality control and analysis of product acceptance at DCs, a product acceptance procedure using a tablet was developed and implemented in cooperation with the Logistics Department.
- Thirteen specifications for tenders were developed for conducting incoming quality control of products at DCs.
- The Quality Department monitors stores' compliance with established public health regulations regarding the storage, production and sale of products.
- The Quality Department introduced a procedure for auditing the Company's commercial facilities, including a follow-up assessment of their condition.
- Some 418 private-label goods received declarations of conformity, and the technical specifications for the production of three new products were developed, while the specifications for 14 others were updated.

The Quality Department is constantly updating its working and methodological instructions for the production and sale of products. Store personnel and store managers receive training on sanitation and hygiene through a programme in preparation of regulatory inspections as part of the Mercury product verification system.

Promoting healthy lifestyles

In line with our Sustainability Strategy and UN SDG 3 (Good Health and Well-being), as well as in response to growing consumer demand for foods that support a healthier lifestyle, we defined and introduced new healthy lifestyle categories for our retail formats. These include:

- Gluten-free
- Organic
- Vegan
- Natural / Wholesome ingredients
- Fresh from the farm
- High-protein
- Low-calorie
- No added sugar
- Other healthy lifestyles

Pyaterochka

Healthy lifestyle project launched in 2019

The Pyaterochka healthy lifestyle project was launched in October 2019 and involved creating specific shelving units for healthy foods. We used special signage to inform customers about the location of health foods in stores.

This project was designed to better inform people looking for healthy foods about the assortment available at Pyaterochka, and to help customers to find the full selection of goods that Pyaterochka offers.

Perekrestok

Our Perekrestok supermarkets launched a pilot project to set up special zones featuring products for healthy lifestyles and good nutrition in 2019. We aim for Perekrestok to become recognised as a supermarket for customers with healthy habits.

The project included piloting of special zones for healthy and environmentally friendly products as one of the first steps in the format's implementation of its new healthy lifestyle strategy.

In order to develop Perekrestok's health food offering, a Health Working Group has been set up. This includes a private-label manager and employees in the Health business area, such as a brand manager, commercial manager, independent consultant and a project manager.

As part of the pilots for Perekrestok's health lifestyle strategy, the Company launched "healthy lifestyle corners" in 20 stores and expanded its Green Line private label across categories and regions.

Rational consumption of resources

Our business strategy has for many years included targets to reduce costs related to solid waste disposal and energy consumption. We have also encouraged our customers to participate in various initiatives to recycle or reduce the use of non-reusable packaging for some time. Under the new Sustainable development strategy approved in December 2019, we are continuing to implement current practices aimed at supporting UN SDG 12 (Responsible Consumption and Production), which we have identified as a priority for X5, as well as secondary UN SDGs listed on pages 164–165 of this report. In order to continue to improve our performance in these areas, 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.

Based on surveys of consumer priorities among our target groups in Russia, we believe that our priorities in this area are fully aligned with those of our customers, who increasingly want to see the companies they do business with acting in a responsible way in terms of environmental footprint.

Waste management

Solid waste and recycling

Our approach to solid waste aims to minimise the volume of solid waste that is sent to landfills by reducing the overall volume of waste we generate and maximising recycling volumes. This is achieved through, among other things, more accurate inventory planning, which includes big data–driven demand modelling along with more frequent product deliveries, better adaptation of the product mix to customer needs and smaller minimum order quantities (MOQs) negotiated with suppliers as well as meeting all temperature requirements during transportation.

Pyaterochka

Pyaterochka stores sort the solid waste they generate, with plastics, paper and cardboard, and plastic film compacted separately. Recyclable materials are shipped from stores back to our DCs, where they are sent for recycling.

During the course of 2019, Pyaterochka worked with government-approved regional operators for waste disposal. All non-recyclable solid waste is handled by these approved operators.

Perekrestok

Perekrestok continues to recycle all useful types of waste, including packing cardboard and polyethylene, plastic boxes for fruits and mushrooms, polystyrene for chilled fish, banana boxes, used shopping carts, waste vegetable oils and wooden containers. About 72% of the waste Perekrestok generates is recycled. For the remaining 28%, Perekrestok is actively looking for ways to start recycling. As a pilot project, we began recycling wooden pallets last year from the stores in our Central divisions, which reduced the amount of trash sent to landfills.

With the introduction of a record-keeping and monitoring system for recyclables, Perekrestok's income from the sale of recyclables increased by 18% both in monetary and volume terms.

Perekrestok also continues to implement a project aimed at the return of reusable containers from stores to DCs, including pallets, plastic boxes and more.

Central office

After installing a container for used batteries, we collected about 100 kg of used alkaline batteries and handed them over for recycling.

Giving paper a new life

The format's offices launched a project for the collection of waste paper. The Operations Department installed 10 special boxes for collecting paper, and we are now receiving around 200 kg of paper every month for recycling.

Amount of recyclable waste sold from stores, *ths tonnes**

	2017	2018	2019**
Cardboard	256	280	301
Pallet scrap	124	189	220
Shrink wrap	16	19	39
Banana boxes	16	12	21
Plastic	7	7	9
TOTAL	**419**	**507**	**590**

* Restatements of previous periods are due to the refinement of the methodology.
**Excluding Karusel.

Income from the sale of recyclable waste from stores, *RUB mln*

	2017	2018	2019
Pyaterochka	1,386	1,817	2,107
Perekrestok	172	314	386
TOTAL	**1,558**	**2,131**	**2,493**

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.

Pyaterochka launched an initiative at its proximity stores to transfer unsold food and merchandise that becomes unsaleable before its expiry date for recycling into animal feed. The chain plans to roll out this initiative across all its stores by April 2020, with ca. 70% of such items to be sent for processing. The decision was made following a 10-month pilot project covering nearly all the regions where Pyaterochka operates. As part of the pilot, the chain was able to increase the volume of food sent for recycling to 2.5 kt a month, which is up to 30% of the potential waste from over 5,000 pilot stores. For this purpose, Pyaterochka launched a new business process for sorting, packing and sending a portion of unsold stocks to the project partners on a daily basis. The partners are 10 companies from across Russia that collect fruit, vegetables, pastry and groceries that have become deformed and unsaleable before their expiry date in order to turn them into animal feed. In 2019, Pyaterochka sold 13.2 thousand tonnes of unsold stock.

Perekrestok arranges centralised monthly removal of food waste for recycling. Previously, every store was equipped with special refrigerators for the temporary storage of food and biological waste, which made it possible to introduce a procedure for the collection, storage and removal of biological waste in accordance with Russian regulations. Some regions have begun selling some unsold food for animal feed, which greatly reduced the cost of disposal. As a cost-saving measure, the Company has stopped the storage and handover of biological waste at stores. Instead, a procedure was introduced for the thermal processing of animal waste. Thermal-processing equipment was acquired, and instructions for handling waste and the aforementioned equipment at Perekrestok stores were prepared and circulated.

Packaging

We are working on various initiatives to reduce the amount of consumer packaging we use, ranging from the development of a new category of products without packaging to the use of reusable and/or recycled packaging. Some of the practices we already have in place to reduce packaging include the following:

- X5 does not give out free plastic bags at checkout counters in its stores, which reduces consumption of disposable packaging.
- X5 offers customers reusable bags as an alternative to disposable ones.
- In some regional stores, we offer paper bags as an alternative to plastic ones.
- In order to minimise plastic waste, the online supermarket Perekrestok.ru piloted the collection of plastic delivery bags for recycling. Customers can return plastic bags used during delivery to the courier.
- Pyaterochka successfully piloted and is rolling out the use of reusable bags for weighing fruits and vegetables.
- Perekrestok started preparing a pilot programme to use plastic bags that are made from 35% recycled plastic.

X5 constantly reviews proposals from innovative vendors who offer production and supply of environmentally friendly packaging for stores. X5 has also teamed up with R&D centres and manufacturers of eco-friendly packaging to explore new ways to reduce packaging waste.

Facilitating recycling of consumer packaging

As part of a pilot project to collect used plastic and aluminium beverage containers of any size and colour for recycling, reverse vending machines were installed at 10 Pyaterochka stores in Moscow. The project is being implemented in partnership with the Coca-Cola system in Russia. For each bottle and/or can returned, the machine issues a coupon for 15% off a range of Coca-Cola drinks.

Ten reverse vending machines were also installed in seven Perekrestok supermarkets and three Karusel hypermarkets in Moscow as part of a pilot project to collect used plastics for recycling. The project is being implemented in partnership with Unilever. In order to encourage consumers to sort their waste, a coupon is issued for each item of packaging that is returned, offering 10% off a selection of Unilever products at Perekrestok and Karusel stores.

Energy consumption

Electricity consumption accounts for about 80% of X5's total utility costs, which makes it a priority. We regularly pilot and introduce new energy-efficient technologies that enable us to reduce energy consumption. As part of our energy-efficiency programme, X5 is gradually reducing electricity consumption per square metre of retail space. We do this with the help of automated monitoring systems that record electric energy consumption, as well as a monitoring and control centre for these systems. Some of our key initiatives to optimise energy use include:

- setting up an automatic data collection system across Pyaterochka stores to reduce electricity consumption, analyse the data flow and calculate optimal tariffs. As of 31 December 2019, 97% of Pyaterochka stores were providing real-time data on electricity consumption through this system. All new stores have smart meters in place. We are expecting annual savings of at least RUB 150 million as a result;
- rolling out the extended Smart Store pilot in the Pyaterochka retail chain to cut energy consumption at retail outlets by 5%. From 2020, all newly opened and refurbished Pyaterochka stores will be equipped with this technology;
- using remotely controlled refrigeration systems in all Pyaterochka stores;
- rolling out a comprehensive system in Perekrestok stores that helps to improve the energy efficiency of supermarkets. The automated control and monitoring system will help cut power consumption in stores by an average of 10%. The energy-efficiency system regulates equipment and lighting loads based on the operating mode of the retail facility, current temperature indoors and outdoors, and CO_2 content in the air. The new technology has already been piloted and is now being integrated into every new store;
- launching the Improving the Energy Efficiency of Automated Electricity Fiscal Metering project across Perekrestok stores to enable checking of electricity meters at the point of metering and to enter into direct power supply contracts based on multiple tariffs;
- Perekrestok took the decision to extend its "Energy-Efficiency Upgrade of the Automated Commercial Energy Metering System" (ACEMS) project into 2020. The ACEMS project provides us with reliable information on electricity consumption, enables us to check meters on the spot and to conclude direct contracts for energy supply on the basis of multi-tariff payments. All new and refurbished stores are equipped with ACEMS and all new lease agreements have an option to switch to direct electricity contracts;
- installing LED lighting in all Perekrestok and Pyaterochka stores.

Pyaterochka and Perekrestok have completely switched to LED lighting in their stores. We have stopped using all mercury-containing fluorescent bulbs. As a result, in addition to consuming less energy, we no longer generate class 1 waste (such as used fluorescent bulbs), which is extremely hazardous for the environment. Consequently, there are no costs for their disposal and removal. LED lamps are classified as low-hazard waste in terms of their environmental impact, and they do not require special processing.

Savings from remote refrigeration monitoring system at Pyaterochka, *MW·h/year*

	2017	2018	2019
Reduction in electricity consumption	9,444	11,430	11,984

Consumption at Pyaterochka, *MW·h/year*

	2017	2018	2019
Consumption	1,888,858	2,285,948	2,396,869

Energy intensity at Pyaterochka, *kW·h/100 m²*

	2017	2018	2019
Energy intensity	24.80	24.48	22.73

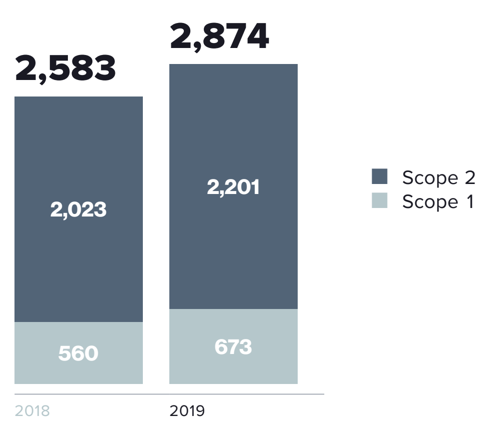
X5 Retail Group's greenhouse gas emissions

The largest part of our greenhouse gas (GHG) footprint comes from the electricity and central heating energy that we purchase to supply our stores, offices and distribution centres. We are continuously seeking ways to reduce or optimise our energy consumption, while also taking measures to improve the GHG footprint of our own operations, including from refrigerants and transport fuels.

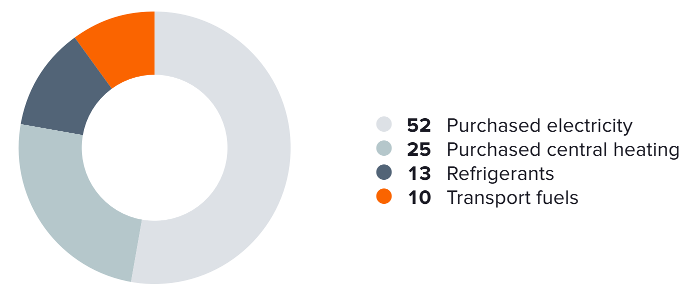
X5 Retail Group closely monitors its impact on the climate. In 2019, we launched a Group-wide greenhouse gas emissions assessment in line with the GHG Protocol Corporate Accounting and Reporting Standard (Revised Edition), with a base year of 2018.

We have developed a GHG inventory for our key business units, i.e. Pyaterochka proximity stores, Perekrestok supermarkets and Karusel hypermarkets, as well as associated distribution centres, logistics hubs (RVI), the Smart Kitchen (Fabrika-Kukhnya), Company-owned trucks (Agro-Avto) and the administrative department (Corporate Centre).

Gross GHG emissions, *kt of CO_2e*



GHG emissions structure in 2019, *%*



GHG emissions dynamics

Compared with the 2018 base year, Scope 1+2 (2,645 kilotonnes of CO_2e), GHG emissions increased by 8.7% year-on-year in 2019. This growth is associated primarily with extensive growth in the number of stores and total selling space. We aim to reduce greenhouse gas emissions by increasing energy efficiency and replacing refrigerants with high global warming potential with more climate-acceptable alternatives.

Optimising logistics performance

In line with UN SDG 12 (Responsible Consumption and Production), which is part of our Sustainability Strategy, we undertake to optimise our logistics operations by reducing consumption of energy and materials and waste generation. Key elements of our work in this area are described below, in line with the separate logistics functions run by Pyaterochka and Perekrestok.

Distribution centres

Pyaterochka

In its DC operations, Pyaterochka seeks to reduce the consumption of energy and materials, while also improving the quality of buildings and reducing operating costs. As a result of the following initiatives, we expect to reduce the impact of the construction of distribution centres on the environment.

Pyaterochka DCs and stores recycle wastepaper, plastics and polyethylene for processing. In 2019, we processed 158 thousand tonnes of recyclable waste. In addition to recycling, we are taking measures to reduce waste generation, such as recycling reusable boxes that are used for deliveries of smaller shipments to stores. We are also testing pooling of boxes for fruit and vegetable suppliers, and we aim to start testing the pooling of pallets in March 2020.

Energy consumption is another area of continued focus in our logistics operations. During 2019, we took a number of measures to further decrease energy consumption:

- Energy-saving lighting and motion sensors were installed at all DCs.
- Refrigeration units were upgraded at three distribution centres (Forpost DC, Lobnya DC and ZTL DC) to enable them to use free cooling technology, which uses outside air to maintain temperature ranges across the various zones in DCs during the winter period.
- Electricity was purchased in the wholesale market for four distribution centres (Podolsk DC, Bogorodsk DC, Samara DC and Lobnya DC).
- A solar collector was installed at the Rostov DC.
- A telemetry project was launched in 2019 in order to increase transparency in accounting and improve the manageability of energy costs at the Company's DCs; the system was deployed at nine DCs in 2019.
- In order to reduce the amount of loading and unloading equipment used, a monitoring and access control system for loading equipment was introduced at Pyaterochka DCs.

In 2019, external environmental regulations applicable to Pyaterochka DCs were identified, and compliance with these requirements is monitored on an ongoing basis using audit checklists.

In addition to further measures aimed at recycling and reducing waste generation, as well as energy conservation, we will begin introducing elements of ISO 14001 (environmental management) at DCs in 2020.

Perekrestok

Perekrestok plans to introduce a system that enables us to track products "from farm to fork" in order to improve freshness, increase productivity and efficiency, as well as enable us to ensure the use of efficient, safe and healthy production and transportation throughout the supply chain.

Some highlights of Perekrestok's supply chain environmental protection activities include the following:

- Perekrestok sorts solid waste at all stores and DCs, and sent over 1,700 tonnes of waste for recycling in 2019.
- Some 125 batteries for DC loading equipment were sent for processing and further disposal.
- Perekrestok's fleet of diesel loaders was upgraded to more energy-efficient ones, which enabled the format to reduce fuel consumption and CO_2 emissions by up to 10% without a decrease in performance.
- All DCs use energy-saving LED lighting: the final refitting of LED lighting at a DC was completed in February 2020.
- To increase the efficiency and productivity of loading and unloading equipment, a system for monitoring and access to loading equipment has been introduced at the Sofino and St Petersburg DCs.
- The Smart Circuit Board project has been introduced at the Sofino DC for effective heat supply management in order to reduce heat losses and energy costs.

Optimising logistics performance

Transport

Since our most significant environmental impact comes from our transport unit, we use a variety of approaches to minimise the footprint of transporting goods from our DCs to stores. Our fleet covered 77% of our transport needs in 2019, and it is newer than the fleets of most of our external contractors, making it possible to decrease emissions and prevent pollution caused by maintenance operations. Contractors are responsible for compliance with environmental requirements, and our transport service agreements stipulate that trucks must meet all legislative requirements, including environmental requirements.

We use certified service stations to provide regular maintenance for our trucks in line with legislation and the norms established by truck manufacturers based on either the number of kilometres on the odometer or the vehicle's working life. Daily monitoring of the condition of our vehicles, including their exhaust systems, is part of our mechanics' and drivers' responsibilities. If serious failures are detected in a vehicle, it is withdrawn from service and sent for repair.

In addition, we do not purchase used or outdated vehicles, nor do we use vehicles that have reached the end of their service life in accordance with the manufacturer's recommendations. As of the end of 2019, the average age of vehicles in the Company's fleet was 2.6 years. Ninety-three per cent of X5's vehicles comply with Euro 5 and Euro 4 standards, and 7% are Euro 3–rated. Since 2018, we have been purchasing only Euro 5–rated or higher-class vehicles, and we have been using only high-quality fuel from leading producers.

Our main areas of focus and goals for 2020 are the following:

- reducing empty run mileage;
- reducing emissions and switching to petrol–diesel engines;
- using mobile electronic bills of lading to reduce paper workflow;
- piloting predictive analytics aimed at reducing emissions and expenditures on spare parts, as well as improving driving safety;
- selling 100% of batteries and tyres for recycling and reuse.

	UNIT	2017	2018	2019
Share of transportation needs provided by its own fleet *	%	71%	74%	77%
Share of own fleet vehicles that meet Euro 5 and Euro 4 standards	%	75%	88%	93%
Number of vehicles with a hybrid (petrol–diesel) engine purchased per year	Units	100	150	219
Number of vehicles with a hybrid engine (petrol–diesel) as of the end of the year *	Units	100	250	469
Number of Euro 5–rated trucks as of the end of the reporting period	Units	1,122	2,012	2,468
Number of Euro 5–rated trucks purchased per year	Units	597	910	468
Number of old, Euro 3–rated vehicles written off during the year	Units	194	361	192
Total mileage	mln km	345	444	507
Empty run mileage (of total mileage) *	%	44%	41%	40%
Number of tyres sold for recycling and reuse	Units	3,136	3,976	8,082
Batteries sold for recycling and reuse	kg	48,756	64,227	68,426

* Restatements of previous periods are due to the refinement of the methodology

Air emissions

	UNIT	2017	2018	2019
CO	tonnes/year	4,741	5,570	6,109
Nox	tonnes/year	10,058	10,734	10,695
HC	tonnes/year	1,471	1,717	1,878
PM	tonnes/year	140	116	102
TOTAL	**tonnes/year**	**16,410**	**18,137**	**18,784**

During 2020, we aim to maintain the share of empty run mileage at 2019 levels while increasing the percentage of transport between branches. We also plan to achieve 100% sales of recyclable materials and 100% sales of batteries and tyres for recycling and reuse.

People review

Decent working conditions and equal opportunities for all employees

+29,045 *2018/19*

307,444

Headcount

One of our primary goals under our new Sustainable development strategy is to support UN SDG 8 (Decent Work and Economic Growth). The main ways that we can do this is by employing people from the communities where we operate and by offering our employees safe, productive and fulfilling jobs.

We also aim to support UN SDG 5 (Gender Equality) and UN SDG 10 (Reduced Inequalities) by implementing a human rights policy that bars any form of discrimination in the workplace and provides mechanisms to ensure that these principles are upheld.

In determining the priorities of our human resources strategy, we are guided by staffing requirements that will enable us to implement our strategy and by feedback we receive from employee surveys and other channels, which are described in more detail below.

Key highlights

	Headcount	Number of training participants	Investments in training, *RUB mln*	Male / Female, %
2019 →	307,444	703,961	199.8	26 / 74
2018 →	278,399	422,846	150.7	27 / 73
2017 →	250,874	234,899	139.3	26 / 74

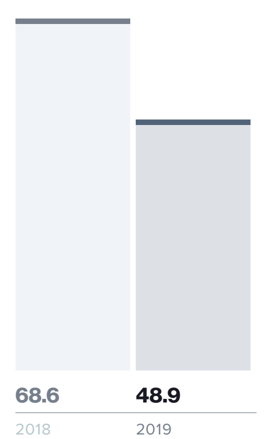
Percentage of women and men in management positions

MANAGEMENT LEVEL	% OF WOMEN
Management Board / CEO-1	36%
Senior management / CEO-2, 3	40%
Middle management / CEO-4	42%

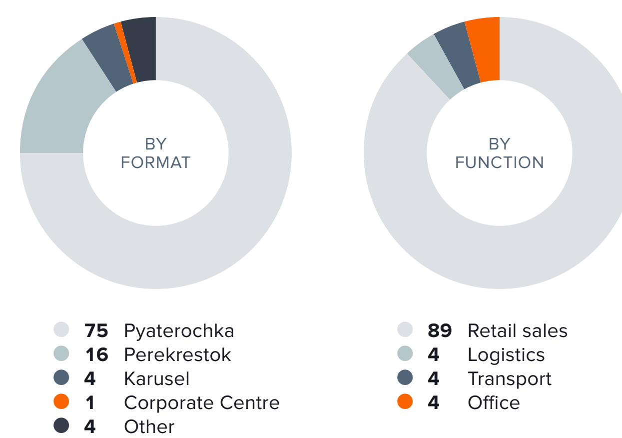
Full-time equivalent

	2018	2019
Pyaterochka	181,176	201,135
Perekrestok	40,642	42,854
Karusel	14,806	13,769
Corporate centre	2,607	3,016
Other business units	7,594	8,526
TOTAL	246,825	**269,300**

Staff turnover, %



Personnel structure in 2019, %



Our HR strategy

In 2019, X5 Retail Group focused on achieving its strategic goals, including in the area of human resources (HR). Our goal is to become a best-in-class employer for both current and future employees in the context of ongoing changes within the Company, in the market and among customers. To achieve this, our HR strategy is aimed at enhancing employee engagement, digitising key HR processes and services for employees and working with HR data, while also increasing the Company's flexibility in terms of organisational development and approaches to working with personnel.

Thanks to the successful implementation of our HR strategy, we achieved a decrease in retail staff turnover of 21.6 p.p. year-on-year in 2019.

Highlights of X5's HR strategy:

- **Engaged employees = satisfied customers:** improving customer service by meeting the needs of staff;
- **Systematic work on the competencies of employees and managers;**
- **Productivity growth** (innovative technologies, HR metrics and services);
- **Digital transformation:** maintaining and supporting the implementation of digital initiatives.

Engaged employees = satisfied customers

Based on the results of the "Your Voice" employee survey conducted in 2018 (please see the 2018 Annual Report, page 161), we took a number of steps to enhance the engagement of office and retail personnel, such as improving working conditions, updating our motivation system and getting regular feedback from employees.

Feedback from employees

We introduced new technologies and changed our internal processes in order to expand the channels available to employees for providing feedback, which is the basis for decision-making, including with regard to staff.

- Pyaterochka integrated an instant-feedback module into its Personal Account mobile application, which is available to all retail personnel. In conjunction with the Big Data Department, a polling platform was introduced that enables us to get responses from the largest number of Pyaterochka employees possible, and at all levels. We are planning to scale up the platform to cover other X5 business units in 2020.
- Regular employee NPS surveys were launched at Perekrestok and in the Transport business unit.
- We are developing projects to collect and review staff initiatives: Pyaterochka has a system in place for collecting ideas and efficiency proposals (over 2,000 ideas were submitted for consideration in 2019: approximately 1,200 have already been implemented, and 400 are in the process of implementation); the Transport business unit has developed a process for gathering expert advice within the framework of its Idea Factory (195 ideas were submitted for consideration in 2019, 17 of which were implemented, and 26 are in the process of implementation).
- X5 conducted its first-ever internal customer satisfaction index, in which staff were able to assess the work of other departments and functions.

Effective motivation and fair remuneration

In line with market practice, X5's processes are designed to uphold a fair, consistent and transparent remuneration and motivation system related to individual performance and team results.

Personnel assessments with 100% coverage include:

- monthly, quarterly and semi-annual performance evaluations;
- employee ratings at X5 stores;
- annual evaluations of KPIs for all administrative staff, as well as for certain categories of retail and logistics personnel;
- performance assessment for project teams based on the results of project stages.

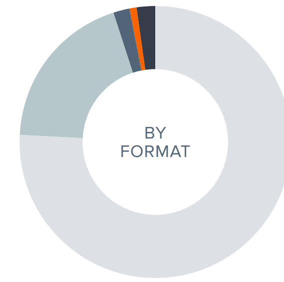
Key achievements in 2019:

- Remuneration systems were revised for personnel at Pyaterochka and Perekrestok, as well as for X5 drivers. Motivation systems focused on productivity growth were simplified and made easier for staff to understand.
- A new approach to KPIs was developed for 2020 that will enable us to increase the involvement of employees in achieving corporate targets and to share in the success of implementing them.
- In 2019, we continued our transition to a cross-format grading system, and we attached to it a percentage of annual bonuses, voluntary health insurance and life insurance programmes, business trips, corporate mobile communications, etc. Bonus programmes were developed for new digital business units.
- A successful pilot was conducted involving two elements: remote work by office staff and using unassigned workplaces in the office. Scaling of this project will begin in 2020.
- The PrimeZone corporate privilege programme, which is used by 90% of X5 office employees throughout Russia, was expanded to include Perekrestok store managers.
- Some 11,878 employees took parental leave in 2019.
- As part of a conceptual update for Pyaterochka and Perekrestok stores, we changed the way we arrange and design staff break areas. We have started designing our staff rooms in the same comfortable and attractive manner as our shopping areas.

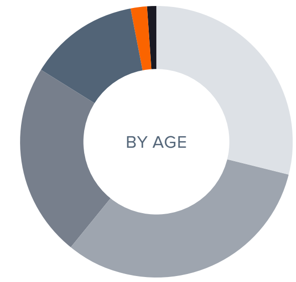
Recruitment and adaptation

- Pyaterochka conducted a successful pilot of the Skillaz cloud-based system for large-scale recruitment and launched a minimum viable product (MVP) for monitoring the salary market in all regions where the Company operates. The recruitment time for one member of line personnel was reduced from 10 to 5.5 days.
- Perekrestok uses an algorithm to create a stream of applicants for priority locations, as well as an adaptive chatbot. The processes of calculating staffing needs, placing vacancy notices, collecting applicant responses and contact details, and planning and requesting temporary staff have all been automated.
- A special focus in 2019 was on bolstering the position of X5's HR brands for applicants at all levels. Processes for developing value propositions for Pyaterochka as an employer and for X5 Retail Group began, with emphasis on the technological potential of X5 as a company that is developing the future of retail.

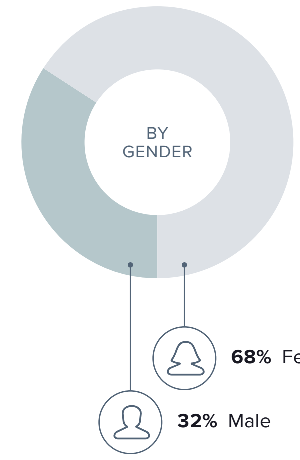
New hires structure in 2019



- 76% Pyaterochka
- 19% Perekrestok
- 2% Karusel
- 1% Corporate Centre
- 2% Other



- 29% 18–24
- 32% 25–34
- 23% 35–44
- 13% 45–54
- 2% 55–60
- 1% 61 or older



Corporate culture and values

Continuous, rapid change is part of our cultural DNA. This is what makes us flexible and allows us to maintain our leadership in an aggressive, competitive environment. It enables us to launch products and solutions demanded by customers faster than our peers, and it allows us to be exactly where shoppers want to see us — both online and offline. Uniform values, shared traditions, an open information environment and excellent opportunities for development help us to remain unified and to maintain X5's consistency of operations.

In 2019, we continued implementing shared corporate values. These values have already been integrated into the majority of the HR processes in our business units, from assessing the suitability of external candidates to practices involved in evaluating the quality of teams and the formation of a staff reserve. In 2019, the winners of X5's cross-format Most Valuable Employee award from all retail formats and business units were, for the first time, nominated and selected by employees through an open vote.

X5's HR Department was one of the first corporate functions to launch a product approach. Since September, the product team has been developing a product called the "Unified Information Environment", which is creating a fast and user-friendly state-of-the-art corporate portal. The MVP was tested at the end of 2019, and we plan to launch a new version of the portal for all office employees in Q1 2020.

In line with the product approach, a single mobile platform (application) is being developed for Perekrestok staff, the MVP for which was also introduced at the end of 2019. The X5 Transport app was launched for drivers in 2019, and Pyaterochka employees gained access to the Personal Account mobile application for Android and iOS.

Events for employees

X5 supports traditional corporate events, while also developing new ones. In 2019, the entire Company was united by happy.x5, a virtual platform for holidays. During the year, more than 90,000 people visited the platform.

In total, 64 events were organised in 2019, which were attended by nearly 670,000 people. At Pyaterochka, this included a Transformation roadshow, which was held for the first time with the participation of top management. The roadshow visited seven cities and involved 2,400 participants. Throughout the entire year, emphasis was placed on a culture of trust and teamwork. Based on feedback from employees, Pyaterochka revised the format of its sports competition, which involved 23 events for 28,000 employees from 211 cities. Perekrestok held a corporate volleyball tournament in all regions where it operates and arranged a presentation for the employees of the new Smart Kitchen division timed to coincide with X5's anniversary.

Professional recognition and non-financial motivation

One of our main goals for 2019 included non-financial motivation for staff and improving the attractiveness of the HR brands of our retail formats and of X5 as a whole. More than 160,000 employees from 14,500 stores and 32 Pyaterochka distribution centres took part in the "Pyaterochka Masters" contest. Perekrestok again held its "Logistics Superman" competitions, as well as "Victory at the Till" and "Culinary Duel" competitions for cashiers and cooks, respectively. Transport launched a comprehensive long-term programme called "Champions League Drive X5", with internal ratings and awards for the top drivers; a professional skills competition called "League of Professional Drivers"; and contests for drivers and their families.

Professional development

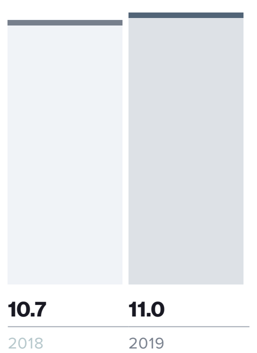
In order to achieve the ambitious goals laid out in our business strategy, we need a strong team in which everyone is capable of rising above their own interests and seeing the potential of teamwork. Our goal is to enhance career ladders, provide various tools for impactful work and development, and create an open, innovative environment that supports the path to a digital business transformation.

Training and development

- Various training and development programmes are available to X5 employees at all levels, from cashiers to top managers. Each programme is based on our business needs, on the one hand, and plans for employee development, on the other. We use state-of-the-art training formats and support the development of lifelong learning.
- The range of training programmes varies depending on job duties and assessments of work quality and goals. We constantly strengthen our team by hiring talented new employees with great potential, and we offer staff a variety of opportunities for professional growth and development.
- In 2019, our efforts were focused on developing strong leaders who can work collectively in the interests of X5 and who are capable of building a next-generation retailer together. To this end, about 100 X5 executives were trained as part of the cross-format "X5 Leaders" programmes at IMD and Skolkovo. The programmes will continue in 2020.
- Comprehensive work aimed at improving managerial skills and the business vision of middle management helped in greatly reducing turnover. Pyaterochka launched a programme called "First Division" for operations managers, supervisors, shift supervisors and distribution centre managers (673 people). In addition to existing programmes,

Pyaterochka also launched a Logistics Academy and an HR Academy, while Perekrestok used a gaming format to train managers in its "Management Cycle" course.
- Perekrestok launched an annual programme for the development of retail personnel. It includes blocks such as "Engagement", "Effective Management", "Team Development" and "Coaching".
- In April–May 2019, an employee engagement event was held at Perekrestok that included the following topics: a tool selection algorithm, corporate values, situational leadership, group influence techniques, feedback principles and interviews on values. Some 675 store managers were trained.
- A training concept for retail personnel was developed at Pyaterochka. Several training courses were carried out, including "Service Navigator", "PROservice", and "Service Expert". A project was implemented to develop our internal trainers.

Hours of training per employee



Internal growth

At X5, talented employees with a great deal of potential have a wide range of opportunities for professional and career growth. The rapid development of new business areas within the Company, including digital businesses, the start of a digital transformation and the introduction of a unified system of grades/bands reinforced the trend towards horizontal and vertical movements at X5.

A staff reserve programme is being developed that now covers retail personnel as well. For example, Perekrestok's staff reserve increased by 8% during the year. At X5's Corporate Centre, we began holding personnel committee meetings in all departments to discuss prospects for the development of line managers and to determine the staff reserve for more senior positions. As of the end of 2019, 60% of vacant positions within X5 at the level of CEO-1 and CEO-2 were filled by internal candidates. In 2019, 77% of managerial vacancies within the Company as a whole were filled by internal candidates.

Improving efficiency and productivity

One of our goals is to increasingly digitise X5's HR function, including the standardisation and automation of HR processes and of processes involved in analysing personnel data to make proper, informed decisions, while also improving the quantity and quality of HR services for staff.

In 2019, we switched to an automated, centralised system of HR metrics. With the system's help, 38 personnel and business indicators are calculated on a daily basis, which enables us to quickly receive information with a detailed breakdown by individual stores and departments, and also to develop analytical models for making personnel-related decisions.

The Personal Account application, which provides electronic HR services for staff, was greatly expanded during 2019. In addition to requests for a variety of personnel documents, the system also gives personnel access to other functions, such as vacation planning, digital signatures, access to Company bylaws and much more. Mobile applications available to all employees, including store staff, are being improved.

Perekrestok ran a pilot project during 2019 to replace the system used to track the working hours of line personnel, which used to use fingerprint access, with a video recording system that monitors employees at work in different areas of stores. The retail format also uses flexible scheduling, i.e., a system of automated staff scheduling that takes into account stores' needs on any given day and throughout the week.

One of the Company's key HR projects in 2020 will be the launch of a common Human Resource Management service centre located at X5's service centre in Nizhny Novgorod. Sixty-five personnel-related business processes and services for more than 43,000 staff members have already been transferred to the HR service centre, and a plan for transferring Pyaterochka's transactional personnel processes in 2020 has been prepared.

Digital transformation

Digital transformation, which is one of the core goals of our business strategy, played an important role in all of our HR activities in 2019, from organisational structure to training and recruitment. This included the creation of an institution for HR business partners to support newly created digital businesses and new areas for the Company's development.

We also began to use a product approach methodology for the creation and scaling of agile internal development. This is being used for the establishment and work of all X5 product teams.

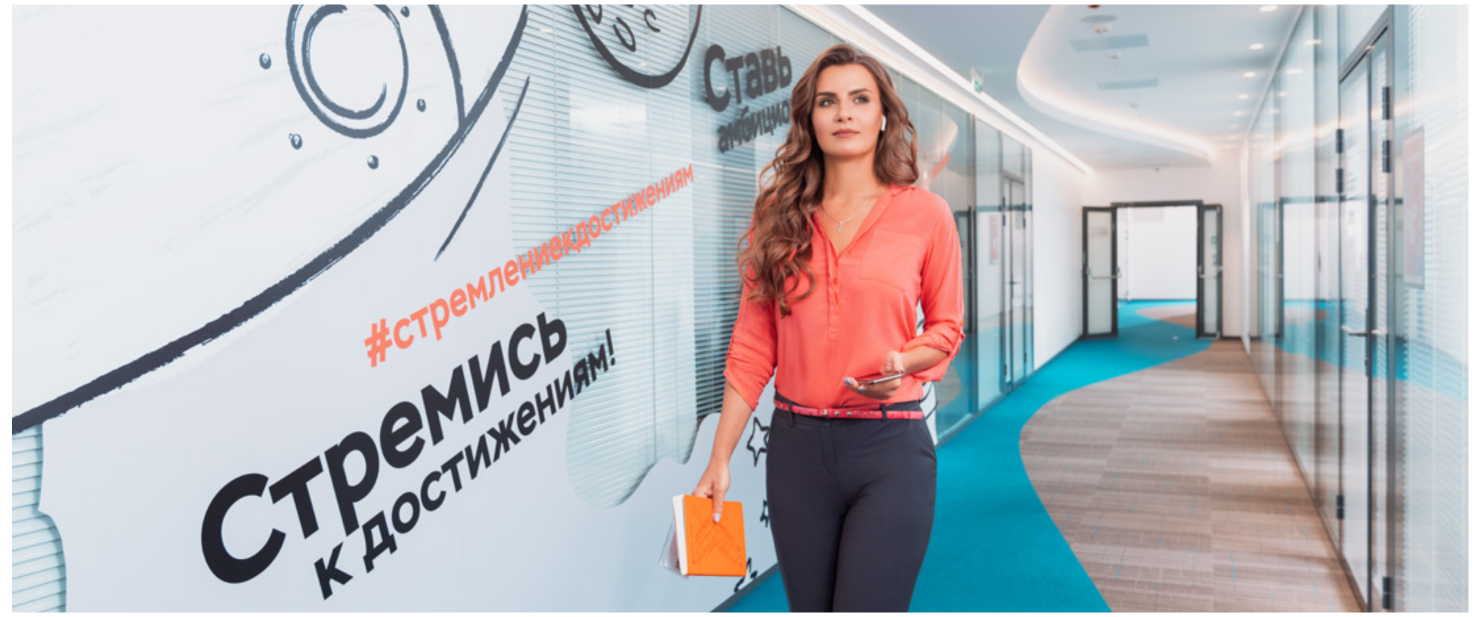
The first modules of X5's Digital Academy were also launched. These are platforms for online and offline staff development, knowledge and skills training necessary for the implementation of digital initiatives, and for X5's transformation and growth. A school for product owners is in place, with schools for scrum masters, Python and data analysts next in line. Employees will have access to courses on digital transformation, the basics of the X5's product approach, digital technologies, data management and others.

Human rights

We support the four fundamental principles outlined in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. We prohibit the use of forced and child labour. In addition, we do not tolerate discrimination on the basis of gender, skin colour, ethnicity, religion, sexual orientation or disability in our operations or our supply chain.

Our Declaration on Human Rights is updated as necessary, in line with changes in the legislation, strategy and values of the Company.

In the framework of regulatory risk management, all risks associated with violations of labour



legislation* are allocated to a separate group of risks, which are assessed on an annual basis. The result of the assessment affects the priority of the organisation of compliance activities (the complexity and number of such activities depend on the level of risk). Information on critical risks, as well as the most significant risks with a high impact (according to the approved risk assessment methodology) and a plan of compliance measures aimed at mitigating these risks, is reported to the CEO and the Audit and Risk Committee of the Supervisory Board twice a year.

Information about X5's activities that protect fundamental human rights is available in the relevant sections of this Report.

On ensuring equal rights and freedoms regardless of gender, race, nationality, language, origin, property and official position, place of residence, religion, beliefs, membership of public associations (Article 19 of the Constitution of the Russian Federation), see the "People review" section (pages 190–203).

The following were the key initiatives in the reporting period:
- Various training and development programmes were available to X5 employees at all levels, from cashiers to top managers.
- A wide range of opportunities were provided for professional and career growth for talented employees.

On securing the right to work in conditions that meet the requirements of safety and hygiene (Article 37 of the Constitution of the Russian Federation), the right to protection of one's health and medical care (Article 41 of the Constitution of the Russian Federation), see the "Occupational health and safety" section (pages 198–203).

The following were the key initiatives in the reporting period:
- Our OHS management system was regularly updated in response to changes in Russian regulatory requirements.
- Implementation of OHS measures was constantly monitored, and impact assessments were carried out on a regular basis.
- The OHS-related qualifications of personnel have improved thanks to ongoing training courses and seminars.

On ensuring the right to remuneration for work without any discrimination and at a level that is not lower than the minimum wage established by federal law, the right to rest (Article 37 of the Constitution of the Russian Federation), and also on voluntary social security (Article 39 of the Constitution of the Russian Federation), see the "People review" section (pages 190–203).

The following were the key initiatives in the reporting period:
- Remuneration systems were revised for personnel at Pyaterochka and Perekrestok, as well as for X5 drivers. Motivation systems focused on productivity growth were simplified and made easier for staff to understand.
- A new approach to KPIs was developed for 2020 that will enable us to increase the involvement of employees in achieving corporate targets and to share in the success of implementing them.

On the prevention of economic activity aimed at monopolisation and unfair competition (Article 34 of the Constitution of the Russian Federation), see the "Compliance and ethics" section (pages 168–171).

The following were the key initiatives in the reporting period:
- Training of employees whose responsibility includes the management of anti-corruption activities and ensuring compliance with anti-corruption principles;
- Automation of the ethics hotline, which enabled us to respond more quickly to information about potential violations.

On securing the right to a favourable environment (Article 42 of the Constitution of the Russian Federation), see the "Rational consumption of resources" section (pages 180–189).

The following was the key initiative in the reporting period:
- Piloting and introducing new and innovative ways to optimise our own resource consumption and to further encourage our customers to reduce, reuse and recycle.

On charitable activities recognized as a form of voluntary social security (Article 39 of the Constitution of the Russian Federation), see the "Local communities" section (pages 204–209).

The following were the key initiatives in the reporting period:
- Donations and volunteer activities including city-wide food marathons.
- The launch of a joint project by Pyaterochka retail chain, the Centre to Search for Missing People (CSMP) and the Liza Alert search-and-rescue team. The project will set up "safety zones" in retail stores across Moscow and the Moscow region to help lost elderly people and children find their way home as soon as possible.

Regulatory requirements

We fully align all of our personnel policies with Russian labour law, and we provide the appropriate rights, benefits and compensation to all employees.

* A significant part of the risks related to human rights within the Company are associated with violations of labour law.

SpartaSport

One of our key employee engagement activities is our annual SpartaSport competition. With the aim of supporting healthy lifestyles and promoting a culture of teamwork, we organise a series of events for our employees across Russia.

100

Days of sports festivals

were held all over the country from 15 June to 1 October where Pyaterochka stores operate

Key highlights

288,000 FROM **211**

Employees *participated in TURBOSTARTs*

Cities

5,084 IN **5**

Athletes

Sports

Indoor football, volleyball, CrossFit, athletics and table tennis

23

Sporting events

were held as part of the TURBOSTART competitions

55,000

Viewers

of the online broadcast of the finals. And as many as 2,200 employees attended stadium events.

736

Referees

were involved in all the cities hosting TURBOSTARTs

Occupational health and safety

Our Occupational Health and Safety (OHS) management system is designed to enable management at every level to implement our OHS policy, including the identification of potentially dangerous incidents in a timely manner, taking corrective measures to ensure safe working conditions and making informed management decisions. Our Company-wide corporate safety standards, as well as training, medical examinations and professional risk assessments, are compliant with Russian Federation regulations and our own OHS Policy.

We have also implemented an internal audit system to ensure that our activities comply with applicable OHS legislation and other regulations. Internal OHS audits are a means of preventing violations of employees' labour rights. Obligatory internal oversight is carried out by the Corporate Centre's Occupational Health and Safety Department and by the OHS service in each of the retail formats.

Over the last three years, X5's lost time injury frequency rate (LTIFR) decreased from 0.611 to 0.357, which reflects the impact of our OHS system and a decrease in workplace injuries during the reporting period.

LTIFR among employees

2017	2018	2019
0.611	0.598	0.357

Occupational health and safety strategy

Our main strategic goals in the area of occupational health and safety are to protect the health and safety of employees in the workplace, reduce injuries and eliminate accidents, and prevent occupational diseases.

The main objectives of our OHS strategy are:
- to minimise risks to human life and health at X5 Retail Group and at third-party suppliers of goods and services;
- to develop our leadership in OHS matters and a sustainable culture of safety among management and personnel;
- to improve working conditions and equipment safety;
- to constantly seek ways to further improve OHS management systems and to further reduce the number of accidents and injuries;
- to provide training and monitor the knowledge and skills of employees on OHS matters;
- to incentivise employees to adhere to the principles of a sustainable culture of safety and to comply with safety regulations;
- to develop a knowledge-based environment and an OHS best practices platform.

OHS policy highlights

X5 has adopted an OHS Policy that sets out our main priorities, which include the life, health, safety and working capacity of our personnel. The Policy declares the following priorities and social commitments:
- We comply with the laws of the Russian Federation and other regulatory acts concerning occupational health and safety. We also monitor compliance with OHS legislation and other regulatory acts. Monitoring is carried out for the purpose of establishing safe and healthy working conditions for employees and preventing workplace accidents and occupational diseases.
- We inform every employee about any identified hazards and risks to their health and safety in the workplace. We ensure that every employee is engaged and has access to reliable information regardless of their position.
- We are constantly improving our OHS management system to ensure that it meets the Company's needs.

Company management is responsible for implementation of the Policy by establishing targets and objectives, as well as planning and ensuring adequate financial resources are available to achieve them.

We have put in place KPIs for the heads of business units and the OHS service based on the following set of goals related to our OHS system:
- successful implementation of the key areas of our OHS policy and development of proposals for its improvement
- development and implementation of programmes to improve working conditions and workplace safety
- ensuring compliance with OHS legislation, including ensuring the safe operation of buildings and structures, equipment, instruments and technical equipment
- ensuring safe working conditions
- monitoring compliance with OHS requirements
- training and testing of knowledge on OHS policies and regulations
- accident prevention
- protection and promotion of employee health

Our OHS service is responsible for ensuring that the targets and objectives of the OHS Policy are met. OHS management and coordination of OHS-related activities are the purview of the Corporate Centre's Occupational Health and Safety Department in conjunction with key OHS managers in our retail formats. Each retail format has its own OHS service comprising up to fifty people, depending on the number of personnel employed by the format. All OHS service employees regularly attend seminars and training courses, and they have certificates of advanced training in the area of occupational health and safety.

OHS organisational chart

CORPORATE CENTRE
HEAD OF HEALTH AND SAFETY

PYATEROCHKA
HEALTH AND SAFETY MANAGER

PEREKRESTOK
HEALTH AND SAFETY OFFICER

KARUSEL
SENIOR HEALTH AND SAFETY ENGINEER

AGRO-AVTO
(TRANSPORTATION) SENIOR HEALTH AND SAFETY ENGINEER

OTHER BUSINESS UNITS

MACRO REGION
HEALTH AND SAFETY ENGINEER

DIVISION
HEALTH AND SAFETY ENGINEER

REGION
HEALTH AND SAFETY ENGINEER

FLEET OPERATORS
HEALTH AND SAFETY ENGINEER

HEADS OF BUSINESS UNITS

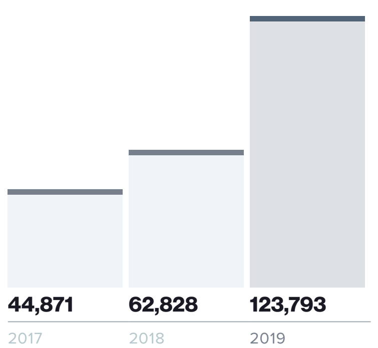
OHS activity highlights

Training

All X5 Retail Group personnel must undergo required OHS training in a timely manner. We carry out employee training on an ongoing basis, including OHS briefings and training on general OHS issues, as well as processes and procedures related to the OHS management system. All managers, specialists and staff responsible for OHS issues at the departmental level also take part in external professional development training through accredited organisations.

All specialists and line employees take part in in-house training through corporate distance-learning courses that supplement legally required training on OHS issues. Training aims to improve the qualifications of personnel in accordance with internal standards and OHS best practices. Employees responsible for building maintenance are required to participate in training on topics relevant to building use, including gas and electric safety (maintenance service employees represent 2–3% of total employees). Other employees are provided workplace safety training in line with their job responsibilities (cooks, bakers, cashiers, etc.), as well as first-aid training.

Number of employees taking part in OHS training (excluding compulsory briefings)



Managing occupational risks and preventing injuries

Our occupational risk management system consists of three main aspects: ongoing hazard identification, risk assessment and choosing the necessary means of oversight. A methodology for identifying risks was developed, and all risks have been evaluated. Registers of occupational risks have been created for every workplace, and assessments are conducted on an annual basis. Corrective measures have been developed for identified hazards that will help reduce the risk (and practically eliminate the risk in the case of certain hazards) of work-related injuries or occupational diseases.

Our workplace risk assessment procedures have helped reduce unplanned expenses for sick leave, as well as repairs to damaged equipment as a result of accidents that would require the purchase of new equipment.

Our main objective in preventing workplace injuries is to transition from reacting to violations or incidents to preventing them. The main measures that we implement to prevent workplaces injuries are:
- conducting an objective evaluation of working conditions and a risk assessment
- providing workers employed in hazardous areas with personal protective equipment, as well as special footwear and clothing
- conducting periodic medical examinations
- conducting a workplace audit for compliance with OHS requirements and process safety
- conducting work safety briefings in accordance with legal requirements and Company regulations
- purchasing safe, state-of-the-art production equipment, as well as safety equipment
- improving professional qualifications in the area of occupational health and safety, etc.

Protecting the health of employees and customers

Our OHS management system involves carrying out preventive measures to protect the health of our employees and customers, such as the following:
- All employees who come into contact with food products in the workplace must undergo mandatory medical examinations both upon being hired and on an annual basis thereafter.
- Drivers must undergo medical examinations before operating transport and industrial vehicles.

The main purpose of medical examinations is to determine whether an employee's state of health is adequate for the work assigned to him or her, and also to identify and prevent occupational or infectious diseases in a timely manner. During medical examinations, specialists give employees recommendations concerning a variety of health issues, as well as advice about timely preventive and rehabilitative measures aimed at maintaining workers' health or rehabilitation. Vaccination campaigns are carried out during peak flu season.

Percentage of employees undergoing a medical exam

	2019
Corporate Centre	n/a
Pyaterochka	95%
Perekrestok	95%
Karusel	96%
Transport	94%
Direct import	n/a
Smart Kitchen	100%
Service centre	n/a
5Post	n/a
TOTAL	**95%** (excluding women on maternity leave and office employees)

Safety management for external contractors

We uphold a corporate standard that ensures a common approach to relations with our external contractors. This standard determines suppliers' responsibility for occupational health and safety. Agreements concluded for the performance of contract work must, without fail, include a declaration of issues related to the safety of the contract work to be performed, as well as requirements concerning workers' qualifications, the provision of protective equipment and other issues related to ensuring safety during contract work. All employees of contractors working at X5 Retail Group property must undergo a mandatory briefing on occupational health and safety for third-party organisations.

Investigating incidents and accidents

Our procedures for investigating and responding to workplace accidents are compliant with applicable labour laws. Major incidents resulting in serious injury or fatality or injuries to several people are reported to the state prosecutor's office and labour inspectorate. In response to every incident, the causes of injuries are ascertained and corrective measures taken.

In terms of compensation for personnel who have suffered injuries due to adverse working conditions, the following measures are taken:
- Employees, including injured persons, are insured against workplace accidents and occupational diseases through the Social Insurance Fund.
- An insurance indemnity is paid out to injured employees in case of serious accidents or to their family members in the event of a fatal accident.
- Employees injured in workplace accidents are provided with rehabilitation and/or treatment.
- We provide financial assistance in case of serious or fatal accidents.

Monitoring compliance

Constant monitoring for OHS compliance is one of the main management functions for ensuring occupational health and safety and an effective means of preventing workplace injuries and occupational diseases. OHS compliance is systematically monitored, as is the degree to which the Company's OHS targets are being fulfilled; data and the results of monitoring and investigations are kept in order to facilitate the subsequent analysis of corrective and preventive actions.

In 2018, the Russian Federation Ministry of Labour introduced control questions for inspections carried out by the State Labour Inspectorate. Based on control questions, we developed checklists for our WRS-3 system. Conducting internal checks using the checklists in the WRS-3 system enabled the Perekrestok OHS service to conduct more checks (2019: 926; 2018: 738). At the same time, the number of inspections at Pyaterochka decreased (2019: 3,078; 2018: 6,227) due to the reorganisation of the format's OHS service in retail operations (2019: 18 people; 2018: 22 people). At Karusel, the OHS service was reduced in size from three people in 2018 to two people in 2019.

The severity of violations decreased because serious technical violations were eliminated in the first year of the launch of the audit project. The remaining violations were mainly organisational in nature.

Number of inspections (external and internal)

	2017	2018	2019
Corporate Centre	n/a	n/a	10
Pyaterochka	4,122	6,227	3,078
Perekrestok	838	741	936
Karusel	94	77	90
Transport	186	343	193
Direct import	n/a	n/a	7
Smart Kitchen	n/a	n/a	21
Service centre	n/a	n/a	2
5Post	n/a	n/a	0
TOTAL	**5,240**	**7,388**	**4,337**
Incl. internal inspections	64	38	67
Pyaterochka	56	31	49
Perekrestok	5	3	7
Karusel	1	2	4
Transport	2	2	7

Number of identified violations

	2017	2018	2019
Corporate Centre	n/a	n/a	0
Pyaterochka	8,938	11,334	7,178
Perekrestok	5,527	6,346	8,274
Karusel	134	35	540
Transport	536	1,576	202
Direct import	n/a	n/a	26
Smart Kitchen	n/a	n/a	169
Service centre	n/a	n/a	5
5Post	n/a	n/a	0
TOTAL	**15,135**	**19,291**	**16,394**

Share of violations resolved within 5 days

	2017	2018	2019
Corporate Centre	n/a	n/a	n/a
Pyaterochka	88%	76%	87%
Perekrestok	61%	58%	93%
Karusel	90%	71%	87%
Transport	67%	59%	89%
Direct import	n/a	n/a	85%
Smart Kitchen	n/a	n/a	100%
Service centre	n/a	n/a	100%
5Post	n/a	n/a	n/a
TOTAL	**77%**	**68%**	**90%**

2019 OHS highlights:

- Our OHS management system was regularly updated in response to changes in Russian regulatory requirements.
- Implementation of OHS measures was constantly monitored, and impact assessments were carried out on a regular basis.
- The OHS-related qualifications of personnel improved thanks to ongoing training courses and seminars.
- Thanks to our participation in a state programme that provides financial support for preventive measures to reduce workplace injuries, medical examinations carried out in 2019 that were financed by the Social Insurance Fund of the Russian Federation enabled us to save about RUB 20 million.
- Internal OHS audits using 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 issues.
- Our compliance with OHS and sanitation standards meant that we reported zero occupational diseases in 2019.
- Work-related injuries, health impairments, illnesses and incidents were investigated in a timely manner, as was their impact on OHS-related activities.
- A public awareness campaign is being carried out at our retail formats with the aim of developing and supporting values of safety and health maintenance throughout employees' working life.
- GLONASS/GPS systems have been installed on all Company vehicles. All vehicles are equipped with tachographs, which makes it possible to monitor drivers' compliance with requirements on work and rest periods.
- A decrease in work-related injuries was achieved thanks to improved working conditions; at the same time, stricter disciplinary measures were imposed for violations that posed a direct threat to the life or health of employees. This was also made possible thanks to equipment upgrades, the introduction of new technologies and the addition of state-of-the-art production facilities.
- A project was developed to automate the process of documenting OHS training through employees' personal accounts; implementation of the project is planned for 2020.
- Working conditions for retail and logistics employees have improved as a result of the renovation of stores.

* WRS-3 is our automated OHS monitoring system that helps us to monitor workplace safety across our operations on an ongoing basis.

At Perekrestok, OHS service representatives use a tablet computer to complete OHS checklists (about 50 questions). These are uploaded to the WRS-3 system. The checklist includes issues such as training and briefings, the existence of internal rules and regulations, instructions on workplace safety, the technical condition of premises and store equipment. During an on-site inspection of a store, the OHS service representatives fill in the checklist using the WRS-3 mobile app.

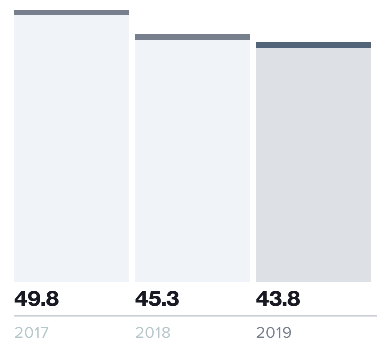
For all identified violations found based on the checklist, corrective actions are automatically generated and assigned to the Store Director. The WRS-3 system allows us to track corrections of violations and, if necessary, return them for revision. The WRS-3 system can be accessed by either the head of the OHS service or by operational, regional and other levels of management in order to track performance.

Our OHS performance

We undertake a comprehensive quantitative and qualitative analysis of workplace injuries (identifying the causes of workplace accidents). Administrative and technical measures taken to minimise risks and prevent accidents have had positive results: despite an increase in the number of properties we own and in the number of employees in 2019, injury rates decreased.

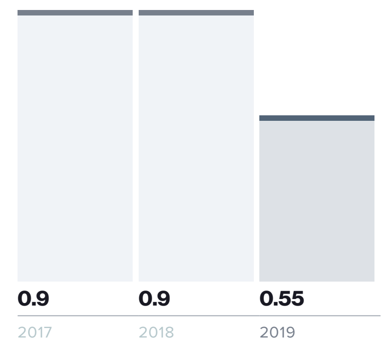
To measure the injury situation, we use the main indicators adopted in Russian legislation: the accident severity rate and the accident frequency rate. A comparative analysis of injuries showed that both rates per 1,000 employees decreased during the period from 2017 to 2019.

Accident severity rate*



* **Accident severity rate:** days not worked / number of accidents

Accident frequency rate**



** **Accident frequency rate:** number of accidents x 1,000/number of employees

-1.5 *2018/19*

43.8

Accident severity rate

45.3 in 2018

X5 injury statistics, *number of accidents*

	FATAL			SEVERE			MINOR			TOTAL		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Corporate Centre	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a	**0**
Pyaterochka	0	0	2	9	13	9	107	127	100	116	140	**111**
Perekrestok	0	0	0	2	1	0	11	24	23	13	25	**23**
Karusel	0	0	0	3	1	1	35	12	16	38	13	**17**
Transport	0	1	0	4	2	10	17	18	37	21	21	**47**
Direct import	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a	**0**
Smart Kitchen	n/a	n/a	0	n/a	n/a	0	n/a	n/a	1	n/a	n/a	**1**
Service centre	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a	**0**
5Post	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a	**0**
TOTAL	0	1	**2**	18	17	**20**	170	181	**177**	188	199	**199**

Both fatalities in 2019 were due to accidents involving vehicles. In response to all accidents, we conduct a team investigation, followed by special workplace safety training. We are also developing guidelines for safe driving and conducting driver safety training.

Local communities

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 Sustainable development strategy, in line with the UN SDG 2 (Zero Hunger) and 3 (Good Health and Wellbeing). 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.

Our Charity Policy defines the general principles and rules of our charity activities and describes the priority areas for our charitable giving, as well as the roles and responsibilities of employees involved in our charity programmes. This policy applies to all divisions of X5 Retail Group.

Our goal is to contribute to the implementation of national programmes for socio-economic development, poverty reduction and support for socially vulnerable groups of the population. We are aware of the impact of our activities on society and voluntarily provide assistance to the population in the areas where X5 Retail Group operates.

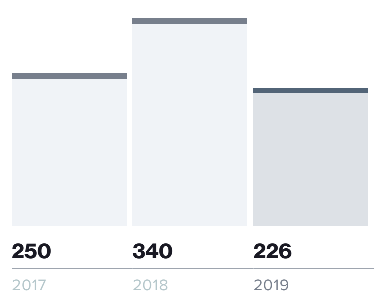
We have identified the following priority areas in the field of charity:
- food assistance;
- care for children;
- support for people with disabilities.

We have engaged the following partners, with whom we implement our charitable programmes:
- Foodbank Rus for providing food assistance;
- The Life Line Foundation to assist with providing care for children;
- the Unity deaf–blind support foundation to provide support for people with disabilities.

We do not donate money and do not provide other forms of assistance to organisations that are not charities (including commercial organisations, political parties, movements and associations) or for events organised by non-charitable organisations. We also do not provide direct financial assistance to individuals.

We aim to provide transparent access to information about our charitable activities and to inform citizens about how our expectations and applicable legal requirements are integrated into our charitable activities. We aim to adhere to the following rules:
- to publish information on our charitable activities as part of the sustainability section of our annual report;
- to monitor the use of funds on a regular basis;
- to monitor and analyse the requests of NGOs and beneficiaries on a regular basis;
- to conduct outreach campaigns through the media.

Number of employees taking part in social projects (volunteer activities)



The fluctuation in employee participation in social projects was due to the fact that the majority of participants are employees who run in a marathon, which is a paid event that has strict medical requirements.

Number of people receiving support through X5 social initiatives

	2017	2018	2019
Basket of Kindness *	ca. 24 ths	ca. 40 ths	ca. 57 ths
Life Line Foundation	107	34	62
Unity Deaf–Blind Support Foundation	1,648	1,849	2,023
Liza Alert	–	–	271

* Direct beneficiaries including donations in cooperation with X5 suppliers.

Donations to initiatives to help those in need, *RUB million*

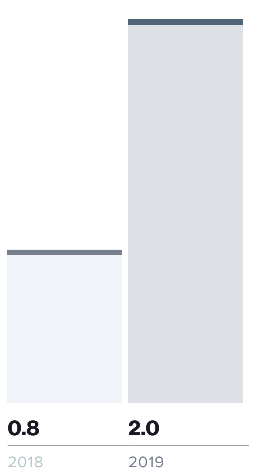
	2017	2018	2019
Total donations	37.9	63.5	70.0
incl. in-kind donations	–	0.8	2.0

Community investments account for 98% of donations. These are long-term strategic partnerships with community organisations and charity funds that aim to address pressing social issues.

Food assistance

Value of grocery products donated through charitable programmes

RUB MILLION



Charity fairs for employees

Every year, Company employees take part in charity fairs that X5 arranges in conjunction with its partners. In 2019, more than RUB 140 thousand was collected at the fairs and donated to Foodbank Rus.

Food banks

In August 2015, X5 and Foodbank Rus, a nationwide charity organisation and Russia's first food bank, which provides food and non-food aid to socially vulnerable groups, launched the Basket of Kindness project to collect and donate food aid to those in need. Some 1,560 stores participated in the project in 2019, and a total of 173 tonnes of food was collected and given to the elderly, large families and the disabled. More than 1,500 volunteers took part in the project, and more than 57,000 people in need received assistance in 2019.

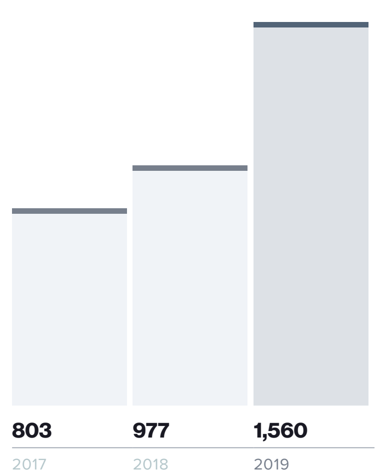
Citywide food marathons

In 2019, as part of the Basket of Kindness programme, X5 and Foodbank Rus held city-wide food marathons in four metropolitan areas: Rostov-on-Don, Moscow (twice), Novosibirsk and Samara (online).

The first event, held on 2 March in Rostov-on-Don, collected more than 5 tonnes of groceries. On 18 May, Moscow took over the "baton of kindness", with residents donating around 20 tonnes of food at Perekrestok stores. On 19 October, a food marathon was held in Novosibirsk, where more than 3 tonnes of food was collected. On 29 November, an event timed to coincide with New Year's and Christmas celebrations at Pyaterochka stores in Moscow brought in about 43 tonnes of food aid. In Samara, the marathon was organised online on the official website of the Basket of Kindness project, корзинадоброты.рф. As a result of the event, which ran from 1 August to 1 October, pensioners in need of assistance received 1,500 grocery packages (9.2 tonnes of food).

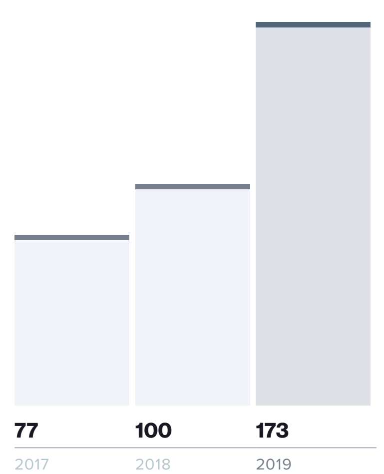
Basket of Kindness results

Number of participating stores



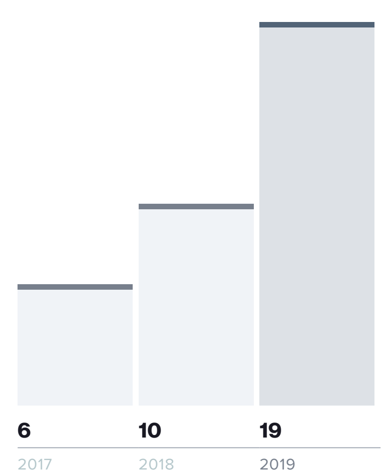
Amount of collected groceries

TONNES



Number of families who received support

THS



Supporting overall well-being

Life Line Foundation

As long-standing partners of the Life Line Foundation, which runs initiatives to support children in need throughout Russia, is aimed at expanding outreach and encouraging engagement of both our employees and customers.

Donation boxes

Special boxes are placed in our stores for donations to the Life Line Foundation to help children with serious illnesses. In 2019, this initiative collected RUB 14.6 million at our stores, which enabled 43 children to receive the treatment they needed.

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 2019, the initiative raised more than RUB 8.9 million for the treatment of 11 seriously ill children and for the purchase of equipment for the Krasnoyarsk Children's Clinical Hospital No 1.

Run for Life charity marathon

Every year, X5 employees take part in the Run for Life charity marathon, which is organised by the Life Line Foundation for the treatment of seriously ill children. In 2019, 226 Company employees, along with their children, took part in the marathon. The RUB 2.7 million raised was donated to the Life Line Foundation for charitable purposes.

Points for Children programme

For three years now, participants in the Perekrestok Club loyalty programme have been helping seriously ill children by donating points accumulated on their bonus cards to be used for charitable purposes. Perekrestok converts the donated points into cash at a rate of 1 RUB for every 10 points and then doubles the total amount. In 2019, RUB 1.2 million was donated to the Life Line Foundation through this initiative, which allowed three children to receive highly specialised medical care.

Good Waffles initiative

Since 2016, a charity initiative called Good Waffles has been carried out at all Perekrestok supermarkets, with RUB 1 from the sale of every package of Bonté waffles donated to the Life Line Foundation. In 2019, this initiative raised around RUB 1 million, which covered the costs of operations for five children.

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. Products are provided to three institutions near Pyaterochka stores in Troitsk and in Lyubertsy. In 2019, nearly RUB 2 million worth of groceries was provided.

The Centre for Missing Persons (CMP) and the Liza Alert search-and-rescue team

Safe spaces

Every Pyaterochka store has a safe space 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 store and make contact with a store employee or wait until help is offered. Then, the store manager calls the CMP hotline, where an operator will, depending on the situation, either call an ambulance or the police or send a Liza Alert representative to the proximity store. This joint initiative was launched in March 2019; in nine months, 271 people from 77 communities were given assistance returning home, more than 20 of whom were in a life-threatening situation. For Rescue Worker Day on 27 December, X5 Retail Group donated 400 uniforms for search-and-rescue workers, as well as 27 Pyaterochka cards with points already accumulated. The cards will help provide food for rescue teams.

World Wildlife Fund Russia (WWF)

"Buy a toy animal, help a real one"

This initiative collected RUB 1.5 million for implementation of the project "Let's Create and Preserve a Russian National Forest Together", which aims to designate the first protected forest zone in the north-western part of Russia. As part of a donation drive, RUB 5 from each stuffed toy purchased at Karusel hypermarkets from 24 June to 27 October was donated to the WWF. As a result of the WWF project we supported, a precious forest area covering more than 100,000 hectares in the Leshukonsky district of the Arkhangelsk region will be designated as a national forest by the end of 2020. Northern taiga forests in the north-western part of Russia are of great importance for regulating the climate, maintaining water conditions over large areas, and also for preserving rare animal species and biological diversity in general.

X5

2

CORPORATE GOVERNANCE

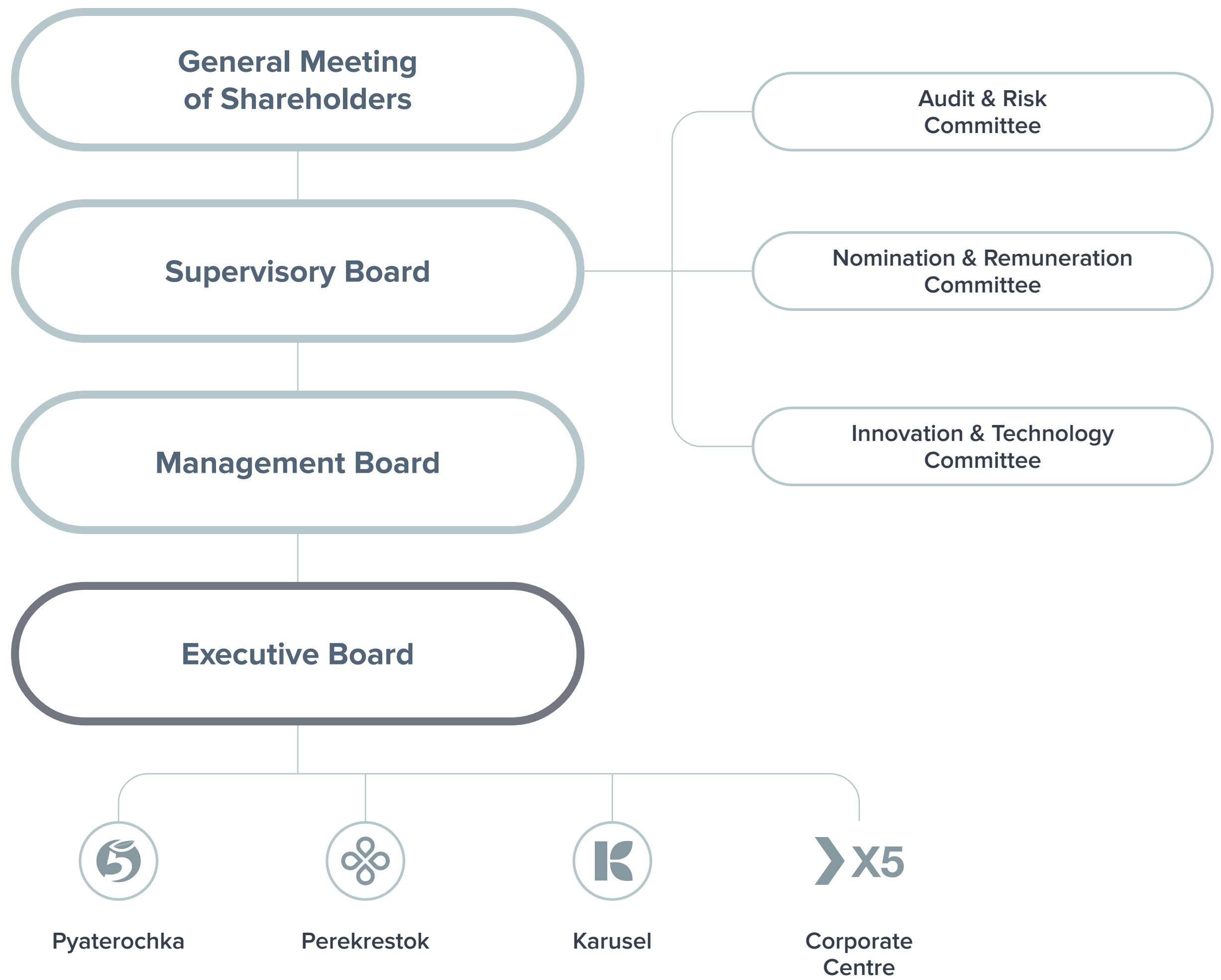
X5 Retail Group N.V. is a public limited-liability company incorporated under the laws of the Netherlands, with global depositary receipts listed on the London Stock Exchange. The Company is required to comply with, among other regulations, the Dutch Corporate Governance Code (the "Code").

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.

Governance structure

The Company has a two-tier board structure, comprising a Management Board and a Supervisory Board. The Management Board and the Supervisory Board are independent of one another and 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 legislation 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 64–69 and pages 232–233. In order to strengthen the Dutch-based operational requirements of the statutory Management Board, Mr. Quinten Peer was appointed as Chief Operating Officer at the level of the Dutch parent company by the 2019 Annual General Meeting of Shareholders.

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.

The Supervisory Board determines the number of its members. The nine current members, including their biographies, are presented on pages 232–233.

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. In 2019, the Supervisory Board continued to strengthen its expertise in the area of technical and commercial innovation through the nomination of Alexander Torbakhov, who was appointed as an independent member of the Supervisory Board by the 2019 Annual General Meeting of Shareholders. For further details, please refer to the Supervisory Board report on pages 234–242.

Supervisory Board members are appointed for a period of up to four years and may be re-elected, whereby the total term of office may not exceed 12 years. The Supervisory Board has prepared a retirement and reappointment schedule to, as far as possible, prevent simultaneous reappointments. The Supervisory Board's profile and rotation plan can be viewed on the Company's website.

Composition and reappointment schedule of the Supervisory Board

NAME	YEAR OF BIRTH	YEAR OF FIRST APPOINTMENT	YEAR OF POSSIBLE REAPPOINTMENT
Stephan DuCharme (Chairman) [1]	1964	2015	2021
Mikhail Fridman [2]	1964	2006	2021
Geoff King	1965	2015	2023
Peter Demchenkov	1973	2015	2023
Mikhail Kuchment	1973	2015	2022
Andrei Elinson	1979	2016	2020
Karl-Heinz Holland	1967	2018	2022
Nadia Shouraboura	1970	2018	2022
Alexander Torbakhov [3]	1971	2019	2023

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 Alexander Torbakhov was appointed on 10 May 2019.

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. The Innovation and Technology Committee was established in January 2019 to strengthen the focus of the Supervisory Board on technical and commercial innovation. The Related-Party Committee was dissolved as of 1 January 2020; its responsibilities were integrated into the overall remit of the Audit and Risk Committee.

Composition of the Supervisory Board Committees

NAME	AUDIT AND RISK COMMITTEE	NOMINATION AND REMUNERATION COMMITTEE	INNOVATION AND TECHNOLOGY COMMITTEE
Stephan DuCharme		Member	
Mikhail Fridman			
Geoff King	Chairman	Member	
Peter Demchenkov	Member	Chairman	
Mikhail Kuchment			Member
Andrei Elinson	Member	Member	
Karl-Heinz Holland			
Nadia Shouraboura			Member
Alexander Torbakhov	Member		Chairman

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 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.

Innovation and Technology Committee

The Innovation and Technology Committee is responsible for reviewing and making recommendations to the Supervisory Board on issues relating to the Company's digital strategy, innovation and technology, which are among X5's key strategic priorities.

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 2019 evaluation of the Supervisory Board and the Management Board is described in the Supervisory Board Report on pages 234–242. In 2019, following the evaluation of the Supervisory Board in the preceding year, Alexander Torbakhov was appointed as a Supervisory Board member to strengthen the Board's expertise in the area of technical and commercial innovation.

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 and Supervisory Board from a binding nomination 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 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. 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 also elected for a period of four years. Neither the Articles of Association nor the Code limits the total term of office for Management Board members.

Each member of the Supervisory Board and 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

An amendment of the current Remuneration Policy for the Management Board and Supervisory Board is submitted for approval at the 2020 Annual General Meeting of Shareholders. The main purpose of the amendment is to align the Remuneration Policies with the Dutch Act implementing the revised EU Shareholders Rights Directive, as well as other corporate legal updates and current best practices.

In line with the proposed remuneration policy as well as the current remuneration policy, the remuneration of the individual members of the Management Board will be decided by the Supervisory Board upon the recommendation of its Nomination and Remuneration Committee. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders. The proposed 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 1% of the issued share capital, or the shares or GDRs that they hold represent a market value of at least EUR 50 million. 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, upon 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.

In accordance with the Company's dividend policy approved in 2017, the Company intends to pay an annual dividend that will be stable or will grow over time, with a target payout ratio of at least 25% of the IFRS full-year consolidated net profit, provided that the Company's net debt/EBITDA ratio is below 2.0x. Dividends and other distributions that have not been claimed within five years after the date on which they became due and payable revert to the Company.

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

Significant ownership of voting shares

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

The following table lists the shareholders on record on 29 February 2019 in the AFM's public register that hold an interest of 3% or more in the share capital of the Company:

SHAREHOLDER	DATE OF DISCLOSURE	CAPITAL INTEREST[1]	VOTING RIGHTS[1]
CTF Holdings Ltd.	2 August 2007	48.41%	48.41%
Axon Trust	22 December 2009	11.43%	11.43%

1 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.

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.

Repurchase by the Company of its own shares

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

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

In 2019, the Management Board was authorised to acquire up to 10% of the shares or GDRs thereof. This authorisation is valid through 10 November 2020. 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 2019, the Company repurchased 46,875 GDRs under the authorisation of the General Meeting of Shareholders held on 10 May 2018.

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 2019, 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 10 November 2020.

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 10 November 2020.

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 10 May 2019, the General Meeting of Shareholders appointed Ernst & Young Accountants LLP as external auditor for the 2019 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:

2.1.7/2.1.8:

Independence of the Supervisory Board and its members

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

Both Mikhail Fridman and Andrei Elinson are related to companies that are owned or controlled by companies that ultimately hold 10% or more of the shares in the Company. Stephan DuCharme was a member of the Management Board immediately prior to his appointment to the Supervisory Board in November 2015. These members of the Supervisory Board are, therefore, not considered to be independent within the meaning of the 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. Meanwhile, the Supervisory Board took a further step in improving the ratio of independent to non-independent board members in 2019 by appointing an additional independent member to the Supervisory Board.

2.1.9:

Independence of the Chairman of the Supervisory Board

In 2015, Stephan DuCharme stepped down as CEO and was appointed as Chairman of the Supervisory Board. Having carefully considered the interests of the Company and its shareholders, the Supervisory Board took the view that these interests are best served by retaining Stephan's experience and leadership for X5 in a renewed capacity as Chairman of the Supervisory Board. This offers shareholders the greatest continuity and ensures that the Chairman entrusted with X5's progress has a proven track record, as well as the confidence of critical stakeholder groups and investors.

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. Equity-based awards given to members of the Supervisory Board are not subject to performance criteria and are determined by the General Meeting of Shareholders.

How we manage risk

Our 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 regulation.

Risk management

During 2019, 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:

- 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 central risk assessment team, supported by the internal control 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.

During the annual strategy review and budgeting process, management reassessed X5's risks and developed action plans to mitigate risks and allocate appropriate resources for risk mitigation. The results of performing risk mitigation actions are regularly monitored and are reported to the Audit and Risk Committee quarterly. Risk-appetite boundaries are set through X5's Strategy, Code of Business Conduct and Ethics, authority matrixes, budgets and other policies. X5's risk appetite differs by risk areas:

The table below shows the X5 risk-appetite scale used for risk-appetite calibration:

Averse	Minimal	Cautious	Open
Risks are unacceptable in any case despite mitigating factors and considerable potential reward.	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.	The maximum potential impact from these risks should be lower or equal to the minimal return. The necessary mitigation actions and controls should prevent losses.	The risk impact may exceed the potential level of return; compensating factors may partly mitigate this impact.

RISK CATEGORY	
Strategy	OPEN
Operations	CAUTIOUS
Compliance	MINIMAL
Reporting and financing	AVERSE

Internal control

To ensure the effectiveness and completeness of the Company's internal control system, X5 employs a three-tier model to establish and maintain control:

1ST LINE	2ND LINE	3RD LINE
Business	**Risk management and internal control and compliance**	**Internal Audit**
Manage risks on a daily basis and provide assurance regarding the effectiveness of control	Steer, monitor and support line management in terms of managing risks and developing and maintaining an adequate internal control framework	Conduct audits and test the internal control systems to provide additional assurance regarding the effectiveness of control

Ethics and compliance culture

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, and we have established and internally communicated rules and policies that outline these values and principles.

Data on these objectives can be found in the "Compliance and ethics" and "Risk profile" sections.

Monitoring and assurance

Internal Audit provides independent and objective assurance of the impact of the above-mentioned control 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 the 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 for the responsible executives in terms of improving controls. 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.

The Company's principal risks

Risk profile

The principal risks that may impede the achievement of X5's objectives with respect to strategy, operations, compliance and reporting matters are described below. It should be noted that there are additional risks that management believes are immaterial or otherwise common to most companies, or that we are currently not aware of.

This Annual Report presents the revised and confirmed risk profile by the Executive Board including risk appetite.

Principal risks	Mitigation

Strategy

Market and macroeconomics

Principal risks	Mitigation
• 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. Also see "Economic and market trends" on pages 38–39

Competitive environment

Principal risks	Mitigation
• Actions on the part of competitors or new market entrants affect the Company's competitive advantage and performance.	• We constantly analyse customer behaviour and adjust our strategy accordingly. • We continue to adapt and innovate to refine our CVP to customer needs across all formats. Also see "Competitive landscape" on page 31

Business development investments

Principal risks	Mitigation
• Insufficient returns from 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. • We implement action plans to improve the performance of non-performing stores.

Principal risks	Mitigation

Operations

Retail and customer service

Principal risks	Mitigation
• 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 regarding prices, product range, availability and service. • Every year we increase our regional management teams to ensure our stores are well supported across all locations.

Supply chain

Principal risks	Mitigation
• 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 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. • Monitor the production of the food and non-food goods we sell "from farm to fork" for quality and safety. Also see "Retail infrastructure" on pages 136–161

Human resources

Principal risks	Mitigation
• Fast 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.	• We regularly monitor the labour market, and 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.

IT continuity performance

Principal risks	Mitigation
• Disruptions of business continuity due to IT infrastructure problems may result in the unavailability of core business operations.	• 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 system productivity. • We have implemented a disaster recovery plan that focuses on IT and technology systems supporting critical business functions. Also see "Information technologies" on pages 150–151

Cybersecurity

Principal risks	Mitigation
• 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 "Information technologies" on pages 150–151

Real estate, rent and maintenance

Principal risks	Mitigation
Our ability to open new stores and provide the required level of maintenance is heavily dependent on: • Our ability to obtain planning or other consents • Our ability to comply with varying country safety, design and construction standards • Our ability to provide cost-effective maintenance service	• When identifying, leasing, purchasing or refurbishing suitable properties, our real estate divisions monitor and address regulatory and other risks related to construction work. • The performance of a property is monitored and reviewed on an ongoing basis, and a refurbishment programme for stores is in place to maintain and optimise the property.

Principal risks | Mitigation

Compliance

Fraud and corruption

- 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.

Mitigation:
- We uphold a zero-tolerance policy for abuse and provide personnel training in this area.
- We implement automated and manual controls in business processes, and separate the rights to access information systems.
- We require that all employees complete a declaration of a conflict of interest to ensure there is not a conflict.

Legislation and litigation

- Inability to identify, quickly respond to and attempt to modify unfavourable proposed changes to applicable laws.
- Enter 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.

Mitigation:
- Our legal team participates in every stage of important business negotiations and analyses contract terms to minimise risks.
- Contracts are largely standardised to ensure our rights are uniformly protected.
- We are strongly committed to complying with all applicable laws and regulations.

Reputation and social responsibility

- X5 has brand risk through either brand damage or inability to maintain social responsibility, etc.

Mitigation:
- We ensure that we set high ethical standards, which are well communicated through our Code of Ethics, and that activities are regularly monitored.
- We have approved and are implementing a sustainability strategy.
- We provide sustainable development training for employees and Company management.
- We believe we have taken appropriate steps to protect our trademarks and other intellectual property rights.

Also see "Sustainable development" on pages 162–209

Environment and rational use of resources

- Failure to commit to preserving and protecting the environment and making sustainable use of natural resources.

Mitigation:
- We support rational consumption, and we are reducing energy consumption.
- Our vehicles are now greener and produce less emissions.
- Energy-saving equipment in our stores is more efficient.

Also see "Sustainable development" on pages 162–209

Health and safety

- Prevention of injury or loss of life to both employees and customers is of utmost importance. Failures could damage customer trust and confidence, impacting our customer loyalty and ultimately our financial results.

Mitigation:
- We have a health and safety policy in place to cover workplaces across Company's various functions.
- We are committed to promoting the highest health and safety standards by implementing advanced safety technologies and techniques.
- OHS teams in retail chains oversee compliance with the Company's health and safety policies.

Also see "Occupational health and safety" on pages 198–203

Human rights

- Failure to uphold ethical behaviour and resulting violations of the human rights of customers, employees or contractors.

Mitigation:
- We uphold our Code of Business Conduct and Ethics.
- We uphold our Human Rights Policy.
- We provide training to employees and develop our corporate culture.
- We guarantee accessibility for special-needs customers and employees.

Also see "People review" section on pages 190–203

Principal risks | Mitigation

Compliance

Product safety and quality

- X5 is potentially exposed to the risk of being unable to establish strict food safety and quality control policies and procedures and to ensure full adherence to these at all times.

Mitigation:
- We introduced strict product safety procedures for ensuring product integrity at all times.
- We cooperate with suppliers to ensure mutual understanding of the required standards.
- We constantly monitor changes in the regulations regarding food safety and regularly review our respective policies and procedures to ensure compliance.

Also see "Sustainable development" on pages 162–209

Taxation

- Unfavourable changes in tax legislation such as the introduction of new taxes and fees.
- State authorities interpreting tax laws in a way that is disadvantageous for X5.
- Attempts to challenge previous transactions and amounts of associated tax payments by tax authorities.

Mitigation:
- We monitor taxation-related legislative initiatives and court practice that can influence our position regarding the tax treatment of our business processes.
- We conduct preliminary review of potential tax risks before executing transactions.
- We assume and reassess, if needed, our attitude to risk assessment every quarter, taking into account the changing tax environment and case law.

Data privacy and security

- Failure to identify and prevent non-compliance with privacy rules and regulations standards resulting in improper disclosure of confidential customer information.

Mitigation:
- 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.

Reporting and financing

Reliability of financial reports

- Non-compliance with statutory requirements on financial reporting.
- Misrepresentation of management accounts and financial statements.
- Ambiguity of management accounts and financial statements.
- Disclosure level not in line with shareholder, lender and market expectations.

Mitigation:
- We monitor legislative initiatives and case law regarding financial statements, as well as changes in reporting methodologies.
- We manage our bookkeeping methodology and apply necessary internal controls to record transactions and prepare financial statements.

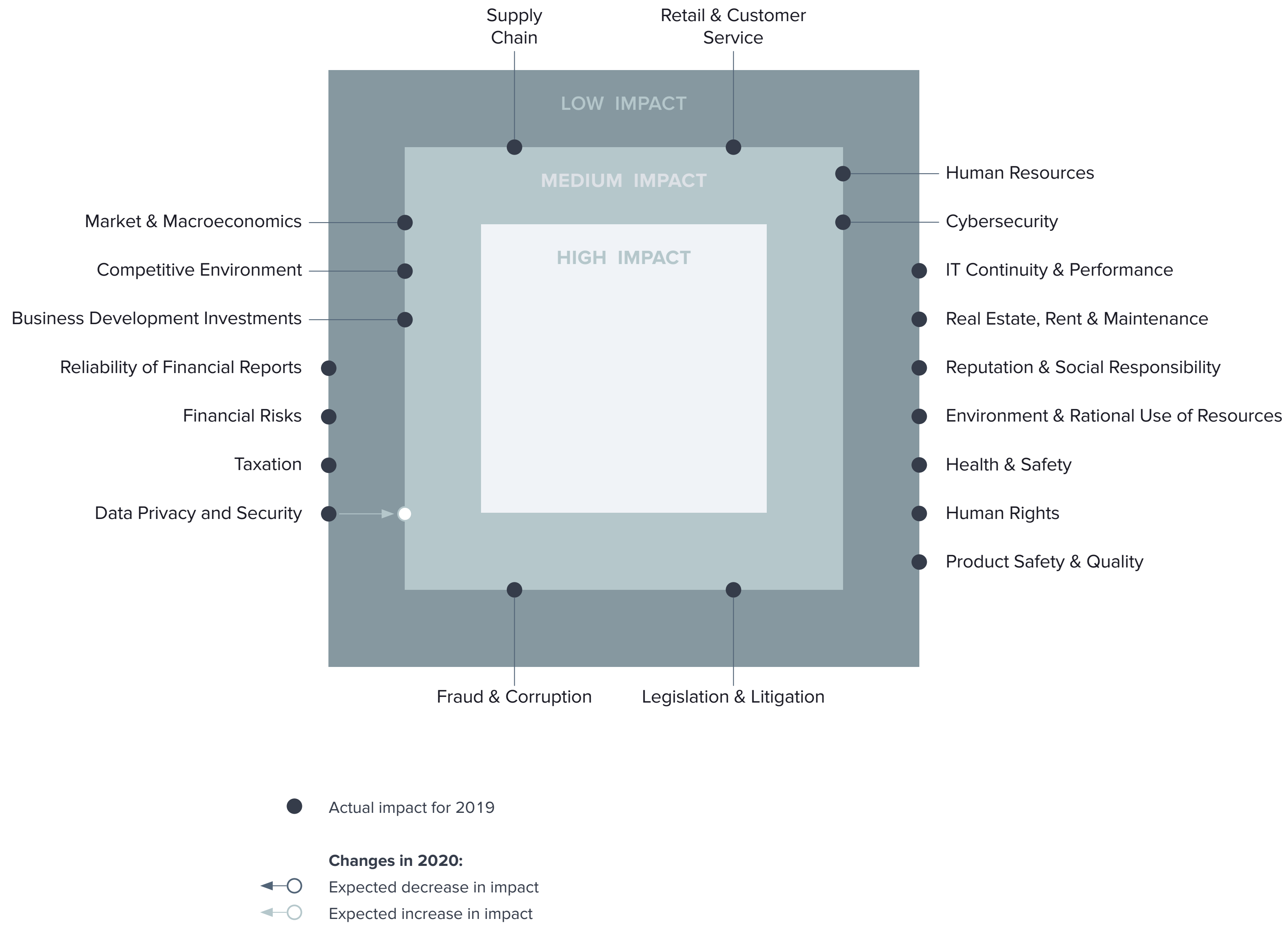
Financial risks

X5 could be affected by common financial risks:
- Increases in interest rates and/or banking fees.
- Significant volatility of foreign exchange rates.
- Liquidity risk and credit risk.

Mitigation:
- X5 plans and monitors its budget and performance, and the Company also introduces changes needed to achieve financial targets.
- We monitor repayment schedules for long-term and short-term accounts receivable, and oversee the use of short-term lending via available credit lines to manage liquidity.
- We manage the effective financing rate and have undrawn credit limits in banks.
- We maintain a strong credit rating so that maturing debt may be refinanced as it falls due.

Expected risk trends

For the designated risk groups, X5 analysed the actual risk impact in 2019 and made predictions about the expected future impact, taking external conditions and trends into account.



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 2019. 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;
- internal audit's overall opinion regarding X5's risk management, internal controls and corporate governance processes in 2019;
- 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 three main business segments (retail formats):
- ongoing monitoring of key risk-management initiatives aimed at mitigating risks and keeping risks at an acceptable level;
- management assurances regarding the adequacy and effectiveness of risk management and control systems in the retail chains and business support units during 2019;
- 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 Supervisory Board.

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. Such 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 be prepared on a going-concern basis. This conclusion is based on our review of the strategic plan, the budget 2020 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.

1 2 3 4 5 6 7 8 9 10 11 12

Supervisory Board

1. Stephan DuCharme

CHAIRMAN OF THE SUPERVISORY BOARD

Stephan DuCharme, a dual US/German citizen, is Managing Partner of L1 Retail, part of LetterOne investment group. Stephan currently serves as Chairman of DIA and 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 (EBRD) and Salomon Brothers Inc. He graduated with distinction from the University of California at Berkeley and received an MBA from INSEAD.

2. Peter Demchenkov

VICE-CHAIRMAN OF THE SUPERVISORY BOARD, CHAIRMAN OF THE NOMINATION AND REMUNERATION COMMITTEE

Peter Demchenkov, a Russian citizen, is CEO of ALIDI, a leading provider of distribution and logistics services in Russia. From 2004 to 2005, he was Development Director at the investment bank CIT Finance, and from 1997 to 2004, he worked in Procter & Gamble's Business Development Department for Eastern Europe. Peter graduated from the St. Petersburg Polytechnic University with a degree in Technical Cybernetics.

3. Mikhail Fridman

MEMBER OF THE SUPERVISORY BOARD

Mikhail Fridman, 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. Mr Fridman was born in Lvov, Ukraine, in 1964.

4. Andrei Elinson

MEMBER OF THE SUPERVISORY BOARD

Andrei Elinson, a Russian citizen, is Managing Partner of A1 and a member of the Supervisory Board of A1 Investment Holding S.A. From December 2015 to March 2018, he held the office of Director of Asset Management in CTF Consultancy Limited. Prior to joining CTF, Mr Elinson was Deputy CEO of Basic Element, where he worked from August 2007 and was responsible for managing companies in aviation, construction, automotive, financial and other industries. From 1997 to 2007, Mr Elinson worked at Deloitte CIS and became a Partner in 2005. Mr Elinson graduated with honours from the Russian State Finance Academy, Accounting & Auditing faculty. Mr Elinson is a US Certified Public Accountant and a US Certified Fraud Examiner. He holds a Certificate in Company Direction (UK).

5. Geoff King

MEMBER OF THE SUPERVISORY BOARD, CHAIRMAN OF THE AUDIT AND RISK COMMITTEE

Geoff King is a British national and is the 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 SE 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.

6. Michael Kuchment

MEMBER OF THE SUPERVISORY BOARD

Michael Kuchment, a Russian citizen, 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.

7. Karl-Heinz Holland

MEMBER OF THE SUPERVISORY BOARD

Karl-Heinz Holland, a German citizen, 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, currently serving as CEO and on the Board of Directors of Distribuidora Internacional de Alimentación, S.A., as well as on the Supervisory Board of Zooplus AG. Karl-Heinz holds a degree in Business from Augsburg University of Applied Sciences.

8. Nadia Shouraboura

MEMBER OF THE SUPERVISORY BOARD

Nadia Shouraboura, a US citizen, 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. In 2004–2012, Nadia served as Technology Vice President for Amazon's global supply chain and fulfilment platforms. 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 the co-founder of Anko Retail Inc., where she serves as a director and is a non-executive director at Ferguson plc. Nadia holds a degree in Mathematics and Computer Science from Moscow State University and a PhD in Mathematics from Princeton University.

9. Alexander Torbakhov

MEMBER OF THE SUPERVISORY BOARD, CHAIRMAN OF THE INNOVATION AND TECHNOLOGY COMMITTEE

Alexander Torbakhov, a Russian citizen, has extensive experience in digital transformation processes, most recently as Deputy Chairman of the Executive Board of Sberbank, where he headed the Retail Business Unit. Currently he serves as a non-executive member of the Board of Directors of Fortenova Grupa. Prior to Sberbank, he held General Director positions in Vimpel Communications and Rosgosstrakh-Life Insurance Company. Mr Torbakhov holds an engineering degree from the Moscow Aviation Institute, an economics degree from the Moscow State Institute of International Relations and an MBA from the University of Chicago (USA).

Management Board

10. Igor Shekhterman

X5 CHIEF EXECUTIVE OFFICER, CHAIRMAN AND MEMBER OF THE MANAGEMENT BOARD

Igor Shekhterman, a Russian national, 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).

11. Frank Lhoëst

COMPANY SECRETARY, MEMBER OF THE MANAGEMENT BOARD

Frank Lhoëst, a Dutch national, joined X5 in 2007, having previously held several positions at Intertrust Group. Frank graduated from Leiden University with a degree in Law.

12. Quinten Peer

MEMBER OF THE MANAGEMENT BOARD

Quinten Peer, a Dutch national, 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 Dutch University of Groningen.

Report of the Supervisory Board

The Supervisory Board is responsible for supervising and advising the Management Board and overseeing the general course of affairs, strategy and operational performance of the Company. In performing its duties, the Supervisory Board acts in accordance with the interests of the Company and its affiliated businesses, taking into consideration the overall good of the Company and the relevant interests of all its stakeholders. In X5's two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independently of the Management Board.

Composition and profile of the Supervisory Board

X5's Supervisory Board currently consists of nine members, with a majority of six independent members. 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.

In 2019, the Supervisory Board strengthened its expertise in the area of technical and commercial innovation with the nomination of Alexander Torbakhov. Alexander, who was appointed by the Annual General Meeting of Shareholders on 10 May 2019, has extensive experience in digital transformation processes, most recently as Deputy Chairman of the Executive Board of Sberbank.

Also at the Annual General Meeting of Shareholders, following their nomination in line with the rotation schedule of the Supervisory Board, Peter Demchenkov and Geoff King were reappointed for an additional four-year term, Mikhail Kuchment was reappointed for an additional three-year term and Stephan DuCharme was reappointed for an additional two-year term.

On 18 March 2020, the Supervisory Board nominated Marat Atnashev as a new member of the Supervisory Board. He will succeed Andrei Elinson, who will not be available for reappointment at the 2020 Annual General Meeting of Shareholders, having served since 2016.

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 a 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 approved in 2018.

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 210–253.

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.

The Innovation and Technology Committee was established in January 2019 to strengthen the focus of the Supervisory Board on technical and commercial innovation and to address the disruption that is increasingly characteristic of the retail industry. The members of the committee are Alexander Torbakhov (Chairman), Nadia Shouraboura and Mikhail Kuchment.

Upon his appointment by the General Meeting of Shareholders, Alexander Torbakhov also took a seat on the Audit and Risk Committee. In view of new engagements outside the Group, Karl-Heinz Holland stepped down from the Audit and Risk Committee as of 1 June, to be succeeded by Peter Demchenkov.

The Supervisory Board also evaluated the composition of the Nomination and Remuneration Committee. Allowing Stephan DuCharme to focus on his duties as Chairman and specifically the Company's overall strategic development, sustainability agenda and digital transformation, the Board approved in December his resignation from the Nomination and Remuneration Committee in March 2020, with Geoff King taking his place.

Also in December 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.

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

Induction and ongoing education

Induction and ongoing 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 deeper knowledge of local operations, opportunities and challenges.

As an additional source of informal learning, guest speakers with expert knowledge of topics that are of particular relevance to the Company are invited to plenary Board meetings.

The Supervisory Board remains committed to the ongoing education of its members in order to comply with the highest standards of excellence and governance.

Meetings of the Supervisory Board

In 2019, the Supervisory Board held four regular meetings and one additional meeting in January. In addition, resolutions in writing were taken when necessary during the year. For each of the four regular meetings in 2019, the Supervisory Board meeting 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 more frequently throughout the year, and meetings of the Related-Party Committee were held if and when necessary.

The plenary Supervisory Board meetings in June, September and December included a half-day strategy session, thus ensuring sufficient time for the meetings and discussions on specific themes, such as operational performance, strategy and management development. The CEO and CFO attended all meetings, and other members of senior management were regularly invited to present.

In 2019, 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 2018 Annual Report and financial statements were recommended for adoption by the Annual General Meeting of Shareholders. In between the Supervisory Board meetings, several informal meetings and telephone calls 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 remains well informed about the running of the Company's operations.

The Supervisory Board confirms that all Supervisory Board members have adequate time available to give sufficient attention to the concerns of the Company. In 2019, the attendance rate was 100% for both the Supervisory Board and the committee meetings.

Activities in 2019

In 2019, the Supervisory Board reviewed various matters related to all significant aspects of the Company, its activities and operational results, strategy going forward and the management team and its development.

The 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. Against the background of an increasingly competitive environment and challenging macroeconomic conditions as well as technological disruption, the Supervisory Board focused on measures to strengthen X5's core businesses, with specific attention for operational efficiencies and improving customer experience through the use of technology and innovation.

As part of the strategy to better meet customer needs and maximise investment returns across each business unit, the Board extensively reviewed the position of the Karusel hypermarket segment within X5's multi-format strategy. In September, the Board approved transforming this format and focusing on strengthening the Company's leadership position in its core proximity and supermarket segments.

Throughout the year the Board engaged in an active dialogue on key trends recognised in the retail marketplace and which of these trends would provide opportunities for the Company to accelerate growth. As part of these discussions, and the Board's oversight in the area of technical and commercial innovation, Board members reviewed various initiatives and new business concepts. Board members visited new Pyaterochka and Perekrestok concept stores, and joined the senior management team for a seminar in Silicon Valley on technology and disruption in retail. Through the work of its Innovation and Technology Committee, the Board also reviewed opportunities to digitalise key functions and processes inside the Company, including store and category management, logistics and HR, to increase efficiency and decrease operational risks.

Meanwhile, as e-commerce and digital transformation becomes an integral part of the business, with Perekrestok.ru and 5Post emerging alongside the existing retail channels, the Board remained strongly focused on striking the right balance between traditional and online retail, profitability targets of new businesses, cost discipline and systematic digitalisation across the Group.

In December, conscious of the fact that the rapidly expanding footprint of the Company goes hand in hand with enhanced social and environmental responsibilities, the Board reviewed and approved the Company's renewed sustainable development strategy, embedding clearly defined sustainable development goals in its overall business strategy.

As part of the ongoing performance review of the Company's various functions and business divisions, the main topics reviewed and discussed by the Supervisory Board included:

- the balanced growth strategy for the Pyaterochka retail chain, the format's new customer-centric store concepts, and continued focus on operational efficiencies, price leadership and cost discipline;
- the leadership strategy for the Pyaterochka retail chain, with a focus on CVP updates, development in regions of Russia, rebranding of former Karusel stores and a growth strategy for the format's online business;
- customer feedback as a key element in support of the Company's ability to continuously adapt to market trends and changing consumer needs;
- requirements in terms of organisation, leadership and corporate culture to ensure sustainable growth in the rapidly changing retail industry;
- the launch of an internal Digital Academy;
- direct import, real estate and transport as newly organised business support functions at the central level;
- the private-label strategy and implementation programme for each of the formats.

In addition, the Supervisory Board discussed and/or approved the following (regular) topics throughout the year:

- the financial reporting process and in particular the approval of the 2018 Annual Report and review of the 2019 half-yearly and quarterly financial reports, taking into account the impact of IFRS 16 accounting standards for lease accounting, implemented in 2019;
- the agenda and explanatory notes for the Annual General Meeting of Shareholders held in May 2019, including the dividend proposal;
- reports by the internal and external auditors;
- the assessment of 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 of the Supervisory Board and its committees, and in particular the nomination of Alexander Torbakhov as a new member of the Board and Chairman of the Innovation and Technology Committee established early in the year;
- the adjusted remuneration policy for the Supervisory Board based on an external benchmark analysis commissioned by the Nomination and Remuneration Committee;
- the updated financing strategy;
- updates on X5's risk landscape and risk appetite, as well as risk mitigation measures and internal controls;
- the annual budget for 2020.

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 the autumn of 2019, the Board performed its annual self-assessment, partly through questions building on the Board assessment performed in previous years. Items assessed and subsequently discussed included the profile and composition of the Supervisory Board, oversight of business performance, effectiveness in overseeing strategy, the level of attention to ESG matters, the effectiveness of the committees in alleviating the Board's overall oversight, and the Supervisory Board's relationship with the Executive Board. In addition to the self-assessment by the Supervisory Board members, input was also solicited and received from members of the Executive Board.

The main conclusions of the evaluation were collectively discussed by the Supervisory Board at its meeting in December. The evaluation concluded that the Board felt its work and performance during the year had been positive. There had been an effective process to develop and streamline the Group's strategic priorities, and Board discussions remained open and constructive. Key points of attention resulting from the evaluation included continued focus on the Board's composition in light of the rapid changes happening in the industry, emphasis on ESG matters as an integral part of the overall strategy, and strengthening the role and effectiveness of the Innovation and Technology Committee. 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 the activities, composition and functioning of the Supervisory Board and its Committees and 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 2019, the Audit and Risk Committee consisted of Geoff King (Chairman), Peter Demchenkov, Andrei Elinson and Alexander Torbakhov. In 2019, the Committee held four meetings in person. Additional meetings were held by conference call when necessary, for instance to review the publication of the half-yearly results. 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 Committee's focus in 2019 was on, among other things, on overseeing the integrity and quality of X5's financial reporting and the effectiveness of the internal risk and control systems. The Committee reviewed the Company's annual and interim financial statements, including non-financial information, quarterly results and related press releases, as well as the outcomes of the year-end audit. The Committee discussed relevant and new accounting standards, with continued focus on the impact of lease accounting under IFRS 16. Throughout the year, the Committee 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 controls and initiatives in the area of working capital management.

Furthermore, the Committee reviewed and approved the audit plans of the internal and external auditors, with a focus on scoping, materiality and key risks. The Committee monitored the progress of the internal and external audit activities, including a quarterly review of internal audit findings and remedial actions, procedures performed by the external auditor and the audit performed at year end by the external auditor. The Committee oversaw follow-up by management on the recommendations made in the internal and external management letters.

The Audit and Risk Committee, together with management, conducted its annual assessment of the functioning and independence of the external auditor. The main conclusions of this assessment were shared with the Supervisory Board for the purpose of submitting the reappointment of the external auditor to the General Meeting of Shareholders.

Throughout the year, the Committee closely monitored risk management and the risk management process, including the timely follow-up to high-priority actions and risk mitigation measures based on quarterly progress updates. The Committee was informed regularly on compliance and reviewed and received regular updates on the Company's whistle-blower programmes. Furthermore, the Committee reviewed activities and initiatives relating to detection and prevention of misconduct and irregularities, and risk mitigating measures to protect the Company in these areas.

The Committee extensively discussed the effectiveness of the internal control framework. Each quarter, the agenda includes a discussion on 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, mitigate any significant risks or weaknesses, and to build a relevant internal audit plan for 2020.

In 2019, the Committee also continued to review the operational control framework, paying particular attention to stock and fixed assets. Management processes concerning stock-holding and loss levels were examined across all formats.

Throughout the year, the Committee closely monitored the effectiveness of the capital investment process, the appraisal methodology, and the safeguarding of core assets. The Committee also reviewed management actions addressing underperforming stores and impaired assets. Assessing the level of returns from investments, the Committee specifically focused on adapting existing and proven capital investment disciplines and control models to support a greater level of investment in new business areas and technology-based projects which have a different profile of investment risk.

The Committee also discussed other issues, including:

- the external auditor's report with respect to accounting and audit issues and internal control recommendations in respect of their audit of the 2018 consolidated financial statements;
- quarterly interim financial reports and trading updates;
- financing strategy;
- tax matters;
- Information security and data protection;
- regulatory compliance and changes in legislation;
- non-commercial procurement processes;
- efficiency and the framework of risks and internal controls for key support functions within the Group, including direct import, transport and real estate.

With respect to the external auditor's management letter about the 2019 financial year, the Audit and Risk Committee confirms that the management letter contained no significant items that need to be mentioned in this report.

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 2019, the Nomination and Remuneration Committee consisted of Peter Demchenkov (Chairman), Stephan DuCharme and Andrei Elinson. The Nomination and Remuneration Committee held six meetings in 2019, including one telephone meeting in January to discuss 2019 performance measures for the Executive Board, and one meeting with the Innovation and Technology Committee in August to review organisational aspects of the Company's e-commerce strategy. The Chairman of the Audit and Risk Committee and the CEO were invited to attend every meeting, and other members of the Supervisory Board and senior management were invited when necessary or appropriate.

In 2019, 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 particularly discussed new skills and leadership requirements in light of the rapidly changing environment in which the Company operates, introducing new business models driven by big data, e-commerce and innovation alongside traditional retail. The Committee thoroughly reviewed the talent map and organisation structure in support of the ongoing developments driven by digitalisation and new trends, including the creation of an executive Digital Committee to streamline the Group's activities in this area, the launch of the X5 Digital Academy and development of business units responsible for new trends such as ready-to-eat.

As part of its review of the governance and organisation structure, the Committee remained focused on 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 centre as a platform for performing unique functions in support of the Group's businesses. Also, the Committee reviewed and made recommendations in respect of the Group's central leadership and direct reports structure.

The Committee also 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.

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;
- the proposed reappointment of the CEO for an additional two-year term, as well as the proposed (re-) appointment of other members of the Management Board;
- composition of the Supervisory Board, in particular the nomination of Alexander Torbakhov as a new Board member with a strong digital background, and the nomination of Stephan DuCharme, Peter Demchenkov, Geoff King and Michael Kuchment, each reappointed for a new term at the 2019 Annual General Meeting of Shareholders;
- the profile and effectiveness of the Supervisory Board in the context of the annual Board evaluation;
- the adjusted remuneration policy for the Supervisory Board based on an external benchmark analysis performed early in the year.

In autumn, the Committee reviewed the remuneration policies for the Management Board and the Supervisory Board that were drawn up in accordance with the revised EU Shareholders Rights Directive, as well as the new disclosure requirements for the annual remuneration report, which can be found on pages 243–253. Further details of actual remuneration in 2019 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 2019, the Innovation and Technology Committee consisted of Alexander Torbakhov as Chairman of the committee, Nadia Shouraboura and Mikhail Kuchment. The Innovation and Technology Committee held nine meetings in 2019. 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 was established in January 2019 to strengthen the focus of the Supervisory Board on technical and commercial innovation and to address the disruption that is increasingly characteristic of the retail industry. In 2019, the Committee reviewed the overall digitalisation strategy of the Company, specific innovation projects and new online business channels. Jointly with the Nomination and Remuneration Committee, the Innovation and Technology Committee discussed organisational and human resource aspects of the digital transformation, including the launch of a dedicated Digital Academy to secure ongoing training for X5 employees.

In terms of online retail channels, the Committee closely monitored the development of Perekrestok.ru, and discussed and reviewed other e-commerce initiatives such as 5Post and Express Delivery. Throughout the year, the Committee also 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. Finally, the Committee held in-depth discussions with management regarding the IT architecture, as well as the organisation and development of the IT function, in support of the Company's strategy for growth and digital transformation.

Related-Party Committee

In December 2019, the Board resolved to dissolve the Related-Party Committee as of 1 January 2020 and to integrate its responsibilities into the overall remit of the Audit and Risk Committee.

During 2019, the Related-Party Committee consisted of Geoff King (Chairman) and Nadia Shouraboura. In accordance with the Company's Related-Party Transaction Policy, the Related-Party Committee reviewed transactions with a materiality threshold for either the Company or members of the Supervisory Board, Management Board and Executive Board, transactions that qualify as significant related-party transactions as defined in the policy, and transactions of a recurring nature that are pre-approved by the Supervisory Board.

In 2019, the Related-Party Committee did not convene in person, but transactions were reviewed and/or approved in writing when necessary during the year in accordance with the Related-Party Transactions Policy, provisions 2.7.3 and/or 2.7.5 of the Corporate Governance Code, as well as the rules set forth in Article 10 (Conflicts of Interest) of the rules of procedure of the Supervisory Board, which are available on the Company's website. Apart from pre-approved transactions agreed on terms that are customary to the market and tested periodically to ensure ongoing competitiveness, there were no transactions with Management Board or Supervisory Board members that were of material significance to the Company and/or to the relevant Management Board or Supervisory Board members.

Independence

The Supervisory Board confirms that during 2019 all Supervisory Board members were independent within the meaning of provision 2.1.10 of the Dutch Corporate Governance Code, with the exception of Mikhail Fridman and Andrei Elinson as representatives of the Company's major shareholder, CTF Holdings S.A., and Stephan DuCharme, who acted as CEO and Chairman of the Management Board until November 2015.

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 will be submitted to the 2020 Annual General Meeting of Shareholders taking into account certain additional disclosure requirements under the Dutch Act implementing the revised EU Shareholders Rights Directive that became effective as of 1 January 2019.

The detailed amounts are reflected in the Remuneration Report on pages 243–253, as well as notes 28 and 29 to the consolidated financial statements.

Financial statements

This Annual Report and the 2019 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 335–346.

The Supervisory Board recommends that shareholders adopt these financial statements and, as proposed by the Management Board, allocate RUB 30,000 million for dividend payments. The underlying principle of the dividend policy is that at least 25% of the consolidated net profit for the full year has to be placed at the disposal of holders of global depositary receipts for distribution as dividends. The proposed dividend amounts to RUB 110.47 per GDR with a nominal value of EUR 0.25.

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 2019.

The Supervisory Board wishes to express its sincere appreciation for the results achieved and would like to thank the Executive Board and all X5 employees for their continued dedication and efforts in 2019.

The Supervisory Board
18 MARCH 2020

Remuneration

This report constitutes the remuneration report within the meaning of Article 2:135b of the Dutch Civil Code, and outlines the actual remuneration of both Management Board and Supervisory Board members for the 2019 financial year, in line with the respective remuneration policies that are available on our corporate website (www.x5.ru). Further details of actual remuneration of the Management Board and Supervisory Board can be found in notes 28 and 29 to the consolidated financial statements. For Executive Board remuneration in 2019, please refer to the paragraph "Remuneration of the Executive Board ('Other key management personnel')" in note 28 to the consolidated financial statements.

In accordance with the Dutch Act implementing the revised EU Shareholders Rights Directive (SRD II), the General Meeting of Shareholders has an annual advisory vote on the Remuneration Report. In the Remuneration Report of the subsequent financial year, an explanation will be included on how the advisory vote has been taken into account.

This Remuneration Report explains how the remuneration in 2019 complies with the remuneration policies, how it contributes to the long-term performance of the Company, and how financial and non-financial performance criteria were applied to calculate the variable remuneration.

Remuneration policy

In line with the SRD II, both the Management Board and the Supervisory Board must each have a remuneration policy in place. The remuneration policies must be adopted by the General Meeting of Shareholders at least every four years, and any changes to the policies also require shareholder approval.

The level of support by our shareholders and stakeholders is important to us and was taken into account when formulating each remuneration policy. In preparing these policies, the Supervisory Board considered the external environment in which the Company operates, the relevant statutory provisions and provisions of the Dutch Corporate Governance Code, competitive market practice as well as the guidance issued by organisations representing institutional shareholders and input from the Company's major shareholders.

Management Board remuneration policy

The Supervisory Board resolved that the remuneration policy for the Management Board serves as a basis for the remuneration policy for the Executive Board. The remuneration policy for the Management Board was most recently amended in 2018 when the General Meeting of Shareholders approved the 2018–2020 long-term incentive plan. The remuneration policy will be resubmitted to the 2020 Annual General Meeting of Shareholders taking into account certain additional disclosure requirements under the SRD II.

The objective of the remuneration policy is twofold:

- to create a remuneration structure that supports a healthy corporate culture and allows the Company to attract, reward and retain the best-qualified talent to lead the Company towards its strategic objectives;
- to provide for a balanced remuneration package that is focused on achieving sustainable financial results, aligned with the long-term strategy of the Company and that will foster alignment of the interests of management with those of shareholders and other stakeholders, including customers, employees and wider society.

As such, the remuneration policy supports the long-term development of the Company, while aiming to fulfil all stakeholders' requirements. While developing the remuneration policy, the Nomination and Remuneration Committee conducted scenario analyses to determine the risks to which variable remuneration could expose the Company.

The remuneration provided to Management Board members consists of the following fixed and variable components ("Total Direct Compensation"): a base salary, an annual cash incentive (STI) and a long-term cash incentive (LTI). Both the STI and the LTI are built around performance measures, both financial and non-financial, to support the Company's strategic objective of achieving long-term value creation through sustainable leadership in customer, employee and shareholder recognition.

Supervisory Board remuneration policy

As outlined below and under "2019 Supervisory Board remuneration", the remuneration policy for the Supervisory Board was amended and approved in 2019. 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 developments and sustainability. As such, the remuneration policy supports the long-term development of the Company, while aiming to fulfil all stakeholders' requirements.

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 off against the Company's performance over the five most recent financial years.

	2019	2018	2017	2016	2015
COMPANY PERFORMANCE					
Revenue, *RUB bln*	1,734	1,533	1,295	1,034	809
Selling space, *ths sqm*	7 ,239	6,464	5,480	4,302	3,333
Number of stores	16,297	14,431	12,121	9,187	7,020
Net profit (under IAS 17), *RUB bln*	26	29	31	22	14
Share price, *USD eop*	34.5	24.8	37.8	32.5	19.0
MANAGEMENT BOARD REMUNERATION (RUB MLN)					
I. Shekhterman [1]	259	347	344	455	516
F. Lhoëst	35	33	28	36	45
Q. Peer	10	–	–	–	–
OTHER EMPLOYEES' REMUNERATION					
Average annual employees' remuneration, *RUB*	754,990	701,192	659,344	665,257	656,932
Internal pay ratio (CEO vs. employee remuneration) [2]	211	209	174	195	187

1. Mr Shekhterman was appointed as a member of the Management Board and CEO on 12 November 2015. The table reflects his annualised remuneration.
2. 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. For 2015, the calculation for the CEO is made from the date of his appointment. The average remuneration per employee is calculated as the total labour costs derived from note 28 to the consolidated financial statements divided by the number of employees on an FTE basis.

As outlined in more detail in the Management Report on pages 58–59, X5 continued, in 2019, to implement its strategy of balanced growth, gradually shifting its focus from selling space expansion to growth through constantly evolving customer value propositions, operational efficiencies, digital transformation and new businesses. As such, for the fifth year in succession, and against the background of an increasingly competitive environment and challenging macroeconomic conditions, the Company expanded its footprint in Russian food retail, with the Company's top line rising by 13.2% year-on-year to RUB 1.7 trillion.

As part of the strategy to better meet customer needs and maximise investment returns across each business unit, the Company launched the transformation of its hypermarket format in September. The Company further strengthened its leadership position in the core proximity and supermarket segments by testing and launching new store concepts, while maintaining focus on quality, efficiency and assortment across the entire store base. Meanwhile, digital transformation became an integral part of the business, with Perekrestok.ru and 5Post emerging alongside the existing retail channels.

The growth and rapidly expanding footprint of the Company goes hand in hand with social and environmental responsibilities. In 2019, the Company strengthened its sustainable development ambitions, embedding clearly defined sustainable development goals in its overall business strategy.

Within the context of these developments, the Nomination and Remuneration Committee continued to reflect on the remuneration policy for the Management and Executive Board to ensure that it is still aligned to support the strategy and long-term growth of the Company. Applying like-for-like sales, return on investment, net promotor score and staff turnover as key annual strategic imperatives to the short-term incentive plan, and sustained leadership in revenue and enterprise value multiples to the long-term incentive plan, we feel that our remuneration policy for the Management Board adequately contributes to the Company's success in the short term, while also securing the long-term objectives of the Company.

Benchmarking

The remuneration of Management Board and 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. 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.

The remuneration of Supervisory Board members is benchmarked against a reference group of Dutch and other European companies that are comparable in size and complexity, as well as Russian and world leading retailers. In order to attract the most talented individuals with the necessary international experience, knowledge and ability, Supervisory Board fees are set between the 50th and the 75th percentile.

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.

Changes in Management Board remuneration

At the 2019 Annual General Meeting of Shareholders, both Igor Shekhterman and Frank Lhoëst were reappointed for, respectively, two- and four-year terms, while Quinten Peer was appointed as a new director for a four-year term. Upon his reappointment, Mr Lhoëst's base salary increased in line with compensation levels in peer group companies. Further information on remuneration in 2019 is explained below under "2019 Management Board remuneration".

Changes in Supervisory Board remuneration

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

	2019	2018	2017	2016	2015
Stephan DuCharme	40	39	34	42	11
Mikhail Fridman[1]	–	–	–	–	–
Geoff King	36	35	34	36	21
Peter Demchenkov	31	24	20	11	8
Mikhail Kuchment	15	13	24	9	3
Andrei Elinson[1]	–	–	–	–	–
Karl-Heinz Holland[2]	11	4	–	–	–
Nadia Shouraboura[2]	12	4	–	–	–
Alexander Torbakhov[3]	17	–	–	–	–

1 Mikhail Fridman and Andrei Elinson, 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 Karl-Heinz Holland and Nadia Shouraboura were appointed by the General Meeting of Shareholders on 30 August 2018.

3 Alexander Torbakhov was appointed by the General Meeting of Shareholders on 10 May 2019.

Since the last revision of the Supervisory Board's remuneration in 2010, the Company evolved into a leading Russian retailer, with a Board profile that reflects X5's ambition to be fit for the future. In view thereof, the Supervisory Board proposed an adjustment of the Supervisory Board fees to the General Meeting of Shareholders in 2019, based on an external benchmark analysis commissioned by the Nomination and Remuneration Committee. Further details are reflected below under "2019 Supervisory Board remuneration".

2019 Management Board remuneration

The Management Board remuneration for 2019 is in accordance with the remuneration policy for members of the Management Board.

The following table provides an overview of the Management Board's remuneration that became unconditional in 2019 or at year end (in millions of Russian roubles).

NAME	YEAR	BASE SALARY (1)	SHORT-TERM INCENTIVE (2)	LONG-TERM INCENTIVE (3)	SHARE-BASED COMPENSATION (4)	SOCIAL SECURITY COST	TOTAL
Igor Shekhterman	2019	76	53	97	–	33	**259**
	2018	60	59	183	1	44	**347**
Frank Lhoëst	2019	22	13	–	–	–	**35**
	2018	20	13	–	–	–	**33**
Quinten Peer	2019	6	4	–	–	–	**10**
	2018	–	–	–	–	–	
Total	2019	104	70	97	–	33	**304**
	2018	80	72	183	1	44	**380**

Ad (1)

Base salary

Base salaries are in line with compensation levels in peer group companies, based on the salary benchmarking survey conducted annually.

As described earlier in this report, the composition of the Management Board changed in 2019. At the 2019 Annual General Meeting of Shareholders, both Igor Shekhterman and Frank Lhoëst were reappointed for a new term of, respectively, two and four years. Upon reappointment, Mr Lhoëst's base salary was set at EUR 315,000 in line with compensation levels in peer group companies. At the same shareholders meeting, Quinten Peer was appointed on a 50% FTE basis, with an annual base salary of EUR 137,500. In 2020, Mr Peer's annual base salary amounts to EUR 275,000 on an FTE basis.

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, Mr 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.

Ad (2)

Short-term incentive

Short-term incentives are based on results achieved in 2019 and payable in 2020. For 2019, the Supervisory Board determined that 50% of the total on-target bonus opportunity for the CEO and other members of the Executive Board depends on achieving financial performance measures, and 50% on non-financial performance measures, with revenue and profitability thresholds as a condition for payout. Financial performance criteria are like-for-like sales and return on investment (ROI), each equally weighted, reflecting the Company's strategic direction to balanced growth through CVP improvements, operational efficiencies and digital transformation. As part of the Company's strategic objective to achieve leadership in both customer and employee recognition, non-financial performance measures are net promotor score (NPS) and staff turnover metrics, each equally weighted. 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 to be commercially sensitive information.

For the Company Secretary, the STI is based on individual, function-related performance measures with revenue and profitability thresholds as a condition for STI payout. The total on-target bonus opportunity for the COO of X5 Retail Group N.V. depends on return on investment as a financial performance measure with 30% weight, and individual non-financial performance measures with 70% weight, also with revenue and profitability thresholds as a condition for payout. The target payout as a percentage of base salary is set at a level of 100% for the CEO and 60% for the Company Secretary and the COO of X5 Retail Group N.V.

The achievement of performance targets was assessed and determined by the Supervisory Board for each Management Board member individually. For the 2019 reporting year, the revenue and profitability thresholds as a condition for payout were met.

For Igor Shekhterman (CEO) the achievement levels of financial performance targets set for 2019 were as follows: 58.2% for like-for-like sales and 91.8% for ROI. The achievement levels of non-financial targets NPS and staff turnover were, respectively, 87.3% and 133.4%. Due to achievement of performance targets like-for-like sales and NPS below target thresholds, this leads to a payout level of 56% of target payout (or base salary) for Igor Shekhterman. Taking into account the Company's overall performance in 2019, with strong like-for-like sales growth in comparison to the market, the Supervisory Board applied its discretion to increase the payout with 20% of target payout. This results in a total cash payout of 76% of the target payout (or base salary) for Mr Shekhterman.

For Frank Lhoëst (Company Secretary) the individual performance targets were achieved at target level, which results in a cash payout of 100% of the target payout, or 60% of base salary.

For Quinten Peer (COO X5 Retail Group N.V.) the achievement level of financial performance target ROI was 91.8%. The average achievement level of individual non-financial performance targets was above target. This results in a cash payout of 101% of target payout for Mr Peer, or 60.6% of base salary.

Ad (3)

Long-term incentive

For the CEO, the long-term incentive amount in 2019 was composed of a final deferred payout under the 2015–2018 LTI programme (RUB 37 million) as well as an accrual-based amount under the current 2018–2020 LTI programme (RUB 75 million), in line with IFRS reporting requirements (see note 28 "Staff costs" on pages 310–314).

The 2015–2018 LTI Programme came to an end when targets were achieved in 2017. Under the programme's deferred payout mechanism, 50% of the total award under the second stage of the programme was paid in 2018, with a final 50% deferred payout in 2019. Payouts were based on achieving and maintaining revenue leadership targets throughout 2018, with an EBITDA threshold to protect profitability.

The current LTI is a cash incentive programme over a three-year period from 1 January 2018 until 31 December 2020, also with an extension component of deferred, conditional payouts in order to maintain the focus on long-term goals and to provide for an effective retention mechanism. Targets under the LTI are structured to align the long-term interests of shareholders and management, with enhanced focus on sustainability and strategic objectives that contribute to long-term value creation for the Company. This is translated into performance criteria geared to leadership in terms of revenue and enterprise value multiple relative to competition. Additionally, the LTI includes thresholds relating to (i) the EBITDA margin to ensure that profitability is not sacrificed and (ii) the net debt/EBITDA ratio to retain focus on 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.

Members of the Management Board based in the Netherlands do not participate in the LTI Programme.

Ad (4)

Share-based compensation

Members of the Management Board are no longer entitled to restricted stock units or other share-based compensation. The share-based compensation in the table below reflects the restricted stock units awarded to Mr Shekhterman in his previous role as a member of the Supervisory Board.

Restricted stock units awarded and outstanding to members of the Management Board

	Tranche	RSUs awarded in 2014	RSUs awarded in 2015	RSUs awarded in 2016	Year of vesting	RSUs vested	Value on vesting date[1]	GDRs locked up as per 31/12/2019[2]	End of lock-up period	RSUs outstanding as per 31/12/2019	RSUs outstanding as per 31/12/2018
I. Shekhterman	4	7,384	–	–	2016	7,384	9	–	2018	–	–
	5	–	15,793	–	2017	15,793	33	–	2019	–	–
	6	–	–	11,396	2018	11,396	21	11,396	2020	–	–

1 The vesting date is 19 May of each respective year of vesting. If 19 May falls on a weekend, the vesting date is the immediately following business day (in 2018, 21 May; in 2019, 20 May).

2 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.

2019 Supervisory Board remuneration

In 2019, the remuneration policy for members of the Supervisory Board was applied, taking into account the adjusted base fees approved by the 2019 Annual General Meeting of Shareholders.

The following table provides an overview of the Supervisory Board's remuneration that became unconditional in 2019 or at year end (in millions of Russian roubles).

		(1) BASE REMUNERATION		(2) SHARE-BASED COMPENSATION		TOTAL REMUNERATION	
NAME	POSITION	2019	2018	2019	2018	2019	2018
Stephan DuCharme	Chairman	19	20	21	19	40	39
Andrei Elinson[1]		–	–	–	–	–	–
Mikhail Fridman[1]		–	–	–	–	–	–
Geoff King	Chairman, Audit and Risk Committee	18	19	18	16	36	35
Peter Demchenkov	Chairman, Nomination and Remuneration Committee	17	15	14	9	31	24
Mikhail Kuchment		8	7	7	6	15	13
Karl-Heinz Holland		7	4	4	–	11	4
Nadia Shouraboura		8	4	4	–	12	4
Alexander Torbakhov[2]	Chairman, Innovation and Technology Committee	14	–	3	–	17	–

1 Mikhail Fridman and Andrei Elinson, 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 Alexander Torbakhov was appointed by the Annual General Meeting of Shareholders on 10 May 2019, and remunerated as of 25 January 2019, the date of his nomination by the Supervisory Board.

Ad (1)

Base remuneration

Supervisory Board fees are set at an appropriate level to attract individuals with the necessary international experience, knowledge and ability to make a significant contribution to the Company's strategy, long-term developments and sustainability. In 2019, the General Meeting of Shareholders approved an adjustment of the Supervisory Board fees based on an external benchmark analysis commissioned by the Nomination and Remuneration Committee. This resulted in the following fee schedule, effective 1 June 2019:

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 December 2019, the Board resolved to dissolve the Related-Party Committee as of 1 January 2020 and to integrate its responsibilities into the overall remit of the Audit and Risk Committee.

Ad (2)

Share-based compensation

The share-based compensation reflects the accrued amounts related to the Restricted Stock Unit Plan (see table below).

All remunerated Supervisory Board members are entitled to equity in the form of restricted stock units (RSUs). 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. Equity-based awards given to members of the Supervisory Board are not subject to performance criteria and are determined by the General Meeting of Shareholders.

The number of RSUs awarded in each given year is based on 100% of the respective 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 are determined by the General Meeting of Shareholders.

In 2019, following the appointment of Karl-Heinz Holland and Nadia Shouraboura as Supervisory Board members in 2018, the General Meeting of Shareholders approved 2018 RSU awards to Mr Holland and Mrs Shouraboura equal to 100% of their pro rata annual remuneration in 2018 divided by USD 30, the average market value of one GDR as of 21 May 2018. These RSUs were awarded under tranche 9 and will vest in 2021, followed by a lock-in period ending in 2023.

Furthermore, the General Meeting of Shareholders approved the 2019 RSU awards under tranche 10, meaning that the Supervisory Board members Stephan DuCharme, Peter Demchenkov, Geoff King, Mikhail Kuchment, Karl-Heinz Holland, Nadia Shouraboura and Alexander Torbakhov were awarded a number of RSUs with an award date of 19 May 2019 equal to 100% of the gross annual remuneration of the relevant Supervisory Director in 2019 divided by USD 30.87, the average market value of one GDR as of 20 May 2019. The RSUs awarded under tranche 10 will vest in 2022, followed by a lock-in period ending in 2024.

* The average market value is defined as the volume weighted average price of a GDR over the 30 calendar days immediately preceding the award date. The volume weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange.

	Tranche	RSUs awarded in 2016	RSUs awarded in 2017	RSUs awarded in 2018[3]	RSUs awarded in 2019[4]	Year of vesting	RSUs vested	Value on vesting date[1]	Vested GDRs after tax	GDRs locked up as of 31/12/2019[2]	End of lock-up period	RSUs outstanding as of 31/12/2019	RSUs outstanding as of 31/12/2018
Stephan DuCharme	7	25,703	–	–	–	2019	25,703	53	13,257	13,257	2021	–	25,703
	8	–	9,631	–	–	2020	–	–	–	–	2022	9,631	9,631
	9	–	–	9,977	–	2021	–	–	–	–	2023	9,977	9,977
	10	–	–	–	9,722	2022	–	–	–	–	2024	9,722	–
Geoff King	6	13,250	–	–	–	2018	13,250	25	8,749	8,749	2020	–	–
	7	14,280	–	–	–	2019	14,280	29	9,449	9,449	2021	–	14,280
	8	–	8,026	–	–	2020	–	–	–	–	2022	8,026	8,026
	9	–	–	9,977	–	2021	–	–	–	–	2023	9,977	9,977
	10	–	–	–	9,373	2022	–	–	–	–	2024	9,373	–
Peter Demchenkov	6	5,698	–	–	–	2018	5,698	11	3,762	3,762	2020	–	–
	7	5,712	–	–	–	2019	5,712	12	3,779	3,779	2021	–	5,712
	8	–	5,618	–	–	2020	–	–	–	–	2022	5,618	5,618
	9	–	–	7,982	–	2021	–	–	–	–	2023	7,982	7,982
	10	–	–	–	8,942	2022	–	–	–	–	2024	8,942	–
Mikhail Kuchment	7	5,712	–	–	–	2019	5,712	12	3,779	3,779	2021	–	5,712
	8	–	3,210	–	–	2020	–	–	–	–	2022	3,210	3,210
	9	–	–	3,991	–	2021	–	–	–	–	2023	3,991	3,991
	10	–	–	–	4,099	2022	–	–	–	–	2024	4,099	–
Karl-Heinz Holland	9	–	–	1,995		2021	–	–	–	–	2023	1,995	–
	10	–	–	–	3,749	2022	–	–	–	–	2024	3,749	–
Nadia Shouraboura	9	–	–	1,995		2021	–	–	–	–	2023	1,995	–
	10	–	–	–	4,099	2022	–	–	–	–	2024	4,099	–
Alexander Torbakhov	10	–	–	–	7,365	2022	–	–	–	–	2024	7,365	–

1 The vesting date is 19 May of each respective year of vesting. If 19 May falls on a weekend, the vesting date is the immediately following business day (in 2018, 21 May; in 2019, 20 May).

2 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.

3 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.

4 For Alexander Torbakhov, a pro rata factor of 11/12 was applied for the 2019 RSU award.

Remuneration by subsidiaries or other companies

No remuneration has been granted and allocated by subsidiaries or other companies whose financials are consolidated by the Company to members of the Supervisory Board.

Loans

The Company has not granted any (personal) loans to, nor has it granted any guarantees or the like in favour of, any of the members of the Management Board or the Supervisory Board.

Claw-back variable remuneration

No variable remuneration has been clawed back.

Severance payments

No severance payments were granted to members of the Management Board or the Supervisory Board.

2020 outlook

We will present this remuneration report to the General Meeting of Shareholders in 2020 for an advisory vote. The Supervisory Board will also submit the remuneration policies for the Management Board and the Supervisory Board updated in accordance with SRD II.

In 2019, both remuneration policies were applied, and it is the intention that they will be continued in the next financial year.

In 2019, X5 made significant progress in achieving the long-term strategic goals set by the Supervisory Board under the long-term incentive plan. With the programme coming to an end on 31 December 2020, the Nomination and Remuneration Committee will, over the course of 2020, reflect on a programme extension taking into account the Company's long-term strategic objectives. Meanwhile, due to the rapidly changing environment in which the Company operates, the Supervisory Board recognises the challenge of constantly evolving targets and performance criteria to secure sustainable growth and long-term value creation for the Company.

The Supervisory Board
18 MARCH 2020

3

FINANCIAL STATEMENTS

X5 RETAIL GROUP N.V.

International Financial Reporting Standards Consolidated Financial Statements

31 DECEMBER 2019

Contents

X5 RETAIL GROUP N.V.

Consolidated Statement of Financial Position

AT 31 DECEMBER 2019

(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	NOTE	31 DECEMBER 2019	31 DECEMBER 2018*
ASSETS			
Non-current assets			
Property, plant and equipment	10	315,257	303,802
Right-of-use assets	11	428,166	–
Investment property	12	5,564	6,173
Goodwill	13	101,927	94,627
Other intangible assets	14	24,338	22,126
Investments in associates and joint ventures		200	203
Other non-current assets		2,646	8,015
Deferred tax assets	30	16,478	5,013
		894,576	**439,959**
Current assets			
Inventories	15	127,462	115,990
Indemnification asset	7	140	–
Trade, other accounts receivable and prepayments	17	15,853	14,172
Current income tax receivable		5,631	6,167
VAT and other taxes receivable	18	12,066	10,143
Cash and cash equivalents	9	18,602	24,368
		179,754	**170,840**
TOTAL ASSETS		**1,074,330**	**610,799**

	NOTE	31 DECEMBER 2019	31 DECEMBER 2018*
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	22	2,458	2,458
Share premium		46,150	46,192
Retained earnings		67,843	116,707
Share-based payment reserve	29	105	118
		116,556	**165,475**
TOTAL EQUITY		**116,556**	**165,475**
Non-current liabilities			
Long-term borrowings	21	153,178	147,329
Long-term lease liabilities	11	427,173	–
Deferred tax liabilities	30	5,501	6,166
Other non-current liabilities		3,349	626
		589,201	**154,121**
Current liabilities			
Trade accounts payable		160,434	154,873
Short-term borrowings	21	74,755	60,435
Interest accrued		1,734	1,770
Short-term lease liabilities	11	57,622	–
Short-term contract liabilities	20	2,206	1,664
Current income tax payable		750	725
Provisions and other liabilities	19	71,072	71,736
		368,573	**291,203**
TOTAL LIABILITIES		**957,774**	**445,324**
TOTAL EQUITY AND LIABILITIES		**1,074,330**	**610,799**

* The Group made a transition to IFRS 16 using the modified retrospective approach under which the comparative information was not restated (refer to Note 4).

Igor Shekhterman
Chief Executive Officer

18 March 2020

Svetlana Demyashkevich
Chief Financial Officer

18 March 2020

X5 RETAIL GROUP N.V.

Consolidated Statement of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2019
(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	NOTE	2019	2018*
Revenue	24	1,734,347	1,532,537
Cost of sales	25	(1,301,868)	(1,162,817)
Gross profit		**432,479**	**369,720**
Selling, general and administrative expenses	25	(356,890)	(323,358)
Net impairment losses on financial assets	17	(215)	(501)
Lease/sublease and other income	26	14,024	12,293
Operating profit		**89,398**	**58,154**
Finance costs	27	(56,957)	(18,846)
Finance income	27	54	179
Net foreign exchange gain/(loss)		2,203	(447)
Profit before tax		**34,698**	**39,040**
Income tax expense	30	(15,191)	(10,398)
Profit for the year		**19,507**	**28,642**
Profit for the year attributable to:			
Equity holders of the parent		19,507	28,642
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	287.33	421.90
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	287.33	421.87

* The Group made a transition to IFRS 16 using the modified retrospective approach under which the comparative information was not restated (refer to Note 4).

Igor Shekhterman
Chief Executive Officer

18 March 2020

Svetlana Demyashkevich
Chief Financial Officer

18 March 2020

X5 RETAIL GROUP N.V.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019
(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	2019	2018*
Profit for the year	19,507	28,642
Total comprehensive income for the year, net of tax	**19,507**	**28,642**
Total comprehensive income for the year attributable to:		
Equity holders of the parent	19,507	28,642

* The Group made a transition to IFRS 16 using the modified retrospective approach under which the comparative information was not restated (refer to Note 4).

Igor Shekhterman
Chief Executive Officer

18 March 2020

Svetlana Demyashkevich
Chief Financial Officer

18 March 2020

X5 RETAIL GROUP N.V.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019
(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	NOTE	2019	2018*
Profit before tax		**34,698**	**39,040**
Adjustments for:			
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment property and intangible assets	25	122,085	49,474
Gain on disposal of property plant and equipment, investment property and intangible assets and gain on derecognition of right-of-use assets		(1,470)	(213)
Finance costs, net	27	56,903	18,667
Net impairment losses on financial assets	17	215	501
Impairment of prepayments	17	134	216
Share-based compensation expense	29	63	72
Net foreign exchange (gain)/loss		(2,203)	447
Other non-cash items		1,225	(377)
Net cash from operating activities before changes in working capital		**211,650**	**107,827**
(Increase)/decrease in trade, other accounts receivable and prepayments and VAT and other taxes receivable		(5,938)	4,360
Increase in inventories		(11,472)	(16,690)
Increase in trade payable		5,604	24,183
Increase in other accounts payable and contract liabilities		1,157	7,756
Net cash flows from operations		**201,001**	**127,436**
Interest paid		(55,664)	(16,893)
Interest received		48	75
Income tax paid		(14,922)	(12,584)
Net cash flows from operating activities		**130,463**	**98,034**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets		(64,222)	(73,494)
Acquisition of businesses, net of cash acquired	7	(8,426)	(14,524)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		784	735
Purchase of other intangible assets		(9,290)	(5,274)
Acquisition of interest in associates and joint ventures		–	(203)
Proceeds from sale of interest in associates and joint ventures		3	–
Net cash flows used in investing activities		**(81,151)**	**(92,760)**

	NOTE	2019	2018*
Cash flows from financing activities			
Proceeds from loans	21	97,540	108,054
Repayment of loans	21	(77,502)	(94,810)
Purchase of treasury shares		(118)	(90)
Payments of principal portion of lease liabilities	11	(50,059)	–
Dividends paid to equity holders of the parent	22	(25,000)	(21,590)
Net cash flows used in financing activities		**(55,139)**	**(8,436)**
Effect of exchange rate changes on cash and cash equivalents		61	(75)
Net decrease in cash and cash equivalents		**(5,766)**	**(3,237)**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	9	24,368	27,605
Net decrease in cash and cash equivalents		(5,766)	(3,237)
Cash and cash equivalents at the end of the year	**9**	**18,602**	**24,368**

* The Group made a transition to IFRS 16 using the modified retrospective approach under which the comparative information was not restated (refer to Note 4).

Igor Shekhterman
Chief Executive Officer

18 March 2020

Svetlana Demyashkevich
Chief Financial Officer

18 March 2020

X5 RETAIL GROUP N.V.

Consolidated Statement of Changes In Equity

FOR THE YEAR ENDED 31 DECEMBER 2019
(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 2018	**67,886,748**	**2,458**	**46,212**	**117**	**109,655**	**158,442**	**158,442**
Profit for the period	–	–	–	–	28,642	28,642	28,642
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**–**	**–**	**–**	**–**	**28,642**	**28,642**	**28,642**
Dividends	–	–	–	–	(21,590)	(21,590)	(21,590)
Share-based payment compensation (Note 29)	–	–	–	72	–	72	72
Transfer and waiving of vested equity rights (Note 29)	3,351	–	(20)	(71)	–	(91)	(91)
Balance as at 31 December 2018	**67,890,099**	**2,458**	**46,192**	**118**	**116,707**	**165,475**	**165,475**
Effect of adoption of new accounting standards (Note 4)	–	–	–	–	(43,371)	(43,371)	(43,371)
Balance as at 1 January 2019 Restated	**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**

Igor Shekhterman
Chief Executive Officer

18 March 2020

Svetlana Demyashkevich
Chief Financial Officer

18 March 2020

X5 RETAIL GROUP N.V.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
(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 2019 the Group operated a retail chain of 16,297 proximity stores, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel" (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 2018: 14,431 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express"), with the following number of stores:

FEDERAL DISTRICT	31 DECEMBER 2019	31 DECEMBER 2018
"PEREKRESTOK" — SUPERMARKET		
Central FD	503	449
Volga FD	128	119
North-western FD	116	98
Ural FD	48	42
Southern FD	49	43
Northern Caucasus	8	9
TOTAL	**852**	**760**
"PYATEROCHKA" — PROXIMITY STORES		
Central FD	5,759	5,279
Volga FD	4,153	3,676
North-western FD	1,703	1,552
Ural FD	1,306	1,120
Southern FD	1,447	1,174
Siberian FD	702	479
Northern Caucasus	284	242
TOTAL	**15,354**	**13,522**
"KARUSEL" — HYPERMARKET		
Central FD	39	39
Volga FD	25	25
North-western FD	17	18
Ural FD	4	6
Southern FD	5	5
Northern Caucasus	1	1
TOTAL	**91**	**94**
"PEREKRESTOK EXPRESS" — EXPRESS	**–**	**55**
TOTAL STORES	**16,297**	**14,431**

As at 31 December 2019 and 31 December 2018 the principal shareholder exerting significant influence over the Company was CTF Holdings S.A. ("CTF"). CTF owns 47.86% of total issued shares in the Company, indirectly through Luxaro Retail Holding S.a.r.l. As at 31 December 2019 and 31 December 2018 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).

X5 Retail Group N.V. has issued a liability statement as mentioned in article 403 sub 1f of Book 2 of the Dutch Civil Code regarding its subsidiary X5 Finance B.V. In compliance with these and other conditions as included in article 403, the financial statements of X5 Finance B.V. for the year ended 31 December 2019 will be prepared on a condensed basis and will not be audited.

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 2019 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.

On 18 March 2020, the Management Board authorised the consolidated financial statements for issue. Publication is on 19 March 2020.

2.2 Basis of consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of businesses other than those acquired from parties under common control. The consideration transferred is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. However, when a business combination is achieved in stages by successive share purchases, the date of exchange is the date of each exchange transaction; whereas the acquisition date is the date on which acquirer obtains control of the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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	5–10 years
Refrigerating equipment	7–10 years
Vehicles	5–7 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 property

Investment property consists of buildings held by the Group to earn rental income or for capital appreciation, or both, and which are not occupied by the Group. The Group recognises the part of owned shopping centres that are leased to third party retailers as investment property, unless they represent insignificant portions of the property and are used primarily to provide auxiliary services to retail customers not provided by the Group rather than to earn rental income. After purchase or construction of the building the Group assesses the main purpose of its use and, if the main purpose is to earn rental income or for capital appreciation, or both, the building is classified as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs 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 property 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 property is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are 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.

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.

Operating leases before 1 January 2019
Leases of assets under which substantially all the risks and benefits of ownership were effectively retained by the lessor were before 1 January 2019 classified as operating leases. Payments made under operating leases were charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease except preopening rentals, which were directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management, capitalised as a part of retail store or distribution centre construction costs.

Initial direct costs incurred by the Group in negotiating and arranging an operating lease including key money paid to previous tenants for entering into lease contracts were recognised as lease rights.

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);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments) is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:
- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade and other receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(b) Financial liabilities
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings. For more information refer to Note 2.11 and Note 2.12.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.11 Borrowings

Borrowings are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest ("EIR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

2.12 Trade and other payables

Trade and other payables are accrued when the counterparty performs its obligation under the contract and are carried at amortised cost using the effective interest method. Trade payables are recognised initially at fair value and measured subsequently at amortised cost.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments used for meeting short term cash commitments.

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.

2.21 Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting period. Diluted earnings per share are calculated by adjusting the earnings and the number of shares for the effects of dilutive options.

2.22 Taxes

Current tax is the amount expected to be paid to, or recovered from, the state budget in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Current income tax liabilities (assets) are measured in accordance with IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments, based on legislation that is enacted or substantively enacted at the reporting date, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided using the reporting liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In accordance with the initial recognition exception, deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on tax rates which are enacted or substantially enacted at the reporting date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted within the consolidated group of taxpayers (CGT) and within individual companies of the Group for the entities that are not members of the CGT.

The Group considers whether it is probable that a taxation authority will accept an uncertain tax treatment. If the Group concludes it is probable that the taxation authority will accept an uncertain tax treatment, the Group determines the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

If the Group concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the Group reflects the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. The Group reflects the effect of uncertainty for each uncertain tax treatment by using either of the

following methods, depending on which method the entity expects to better predict the resolution of the uncertainty: the most likely amount or the expected value.

If an uncertain tax treatment affects current tax and deferred tax (for example, if it affects both taxable profit used to determine current tax and tax bases used to determine deferred tax), the Group makes consistent judgements and estimates for both current tax and deferred tax

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, any known court or other rulings on such issues, and relevance and effect of a change in facts and circumstances or of new information in the context of applicable tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge and included in current income tax payable line of the consolidated statement of financial position. Interest incurred in relation to taxation is included in finance costs in the consolidated statement of profit or loss. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing.

2.23 Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 34.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.24 Income and expense recognition

Income and expenses are recognised on an accrual basis as earned or incurred. Recognition of the principal types of income and expenses is as follows:

(a) Revenue from contracts with customers
The Group is in the retail business and sells its goods both through stores operated by the Group and through franchisees (agents) acting as a principal. The revenue recognised by the Group meets the definition of revenue from contracts with customers as per IFRS 15. The Group recognises revenue when control of goods and services is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods.

The Group has loyalty points programmes, which allow customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance are charged against revenue.

(b) Cost of sales
Cost of sales includes the purchase price of the products sold and other costs incurred in bringing the inventories to the location and condition ready for sale, i.e. retail outlets. These costs include costs of purchasing, storing, rent, salaries and transporting the products to the extent it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of allowances from suppliers in the form of volume discounts and other forms of payment. In accounting for supplier bonuses received by the Group, the Group determined that these bonuses are a reduction in prices paid for the product and are reported as part of the cost of sales as the related inventory is sold. Bonuses receivable from suppliers in cash are presented as trade receivables.

(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.

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 treats such transactions as business combinations when the integrated set of activities and assets acquired is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to the Group. In making this judgment the Group considers whether it acquired inputs and processes applied to the inputs that have ability to create output. All acquisitions of assets and operations of retail stores occurred in 2019 and 2018 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.

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 2019 the Group recognised an impairment loss in the amount of RUB 4,333 (year ended 31 December 2018: a net impairment loss in the amount of RUB 4,117).

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 2019 the Group recognised a net impairment loss in the amount of RUB 434 (year ended 31 December 2018: a net impairment gain in the amount of RUB 72).

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 2019 the Group recognised a net impairment loss in the amount of RUB 1,805.

Inventories of goods for resale provisions
The Group provides for estimated inventory shrinkage on the basis of historical shrinkage as a percentage of cost of sales. This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results. The Group also provides for 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 2019, the estimated liability for unredeemed points was RUB 1,836 (31 December 2018: RUB 1,489).

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 years ended 31 December 2019 and 31 December 2018 the Group did not recognise any impairment of brand and private labels.

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.

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 2019. Standards, Interpretations and amendments other than those described below effective 1 January 2019 did not have a material impact on the financial position or performance of the Group.

IFRS 16 Leases
IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The Group has adopted IFRS 16 using the modified retrospective approach with the date of initial application of 1 January 2019. Under this approach the Group has not restated comparatives for the 2018 reporting period. The reclassifications and the adjustments arising from the new leasing rules were therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16 the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases*. The Group measured these lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8.58%.

For leases previously classified as operating leases applying IAS 17 the Group at the date of transition to IFRS 16 measured right-of-use assets on a lease-by-lease basis at either:

i) Its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the Group's applicable incremental borrowing rate at the date of transition to IFRS 16; or
ii) An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of transition to IFRS 16.

The Group has elected to use the following practical expedients proposed by the standard:
- On initial application initial direct costs excluded from the measurement of the right-of-use asset;
- On initial application IFRS 16 was only applied to contracts that were previously classified as leases;
- For all classes of underlying assets each lease component and any associated non-lease components were accounted as a single lease component;
- Lease payments for contracts with a lease term of 12 months or less for the classes of underlying assets other than land and buildings continue to be expensed to the statement of profit or loss on a straight-line basis over the lease term.

Based on the foregoing, as at 1 January 2019:
- Right-of-use assets of RUB 386,903 and lease liabilities of RUB 433,813 were recognised and presented separately in the statement of financial position;
- Prepayments of RUB 7,697 (included previously to other non-current assets and trade, other receivable and prepayments) related to previous operating leases were derecognised and added to the carrying amounts of the relevant right-of-use assets;
- Property, plant and equipment and Investment property increased by RUB 3,888 and RUB 24 respectively due to the effect of reallocation of certain part of impairment provision at transition date to right-of-use assets;
- Lease rights of RUB 4,186 (included previously in other intangible assets) were derecognised and in the part, which arose as a result of previous business combinations of RUB 2,512, were added to the carrying amount of the relevant right-of-use assets;
- Deferred tax assets increased by RUB 9,270 and deferred tax liabilities decreased by 1,485 because of the deferred tax impact of the changes in assets and liabilities;
- There were no changes in classification of subleases as a result of IFRS 16 adoption. All sublease agreements continue to qualify for recognition as operating leases;
- The net effect of these adjustments had been adjusted to retained earnings of RUB 43,371.

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019

	1 JANUARY 2019
ASSETS	
Property, plant and equipment	3,888
Right-of-use assets	386,903
Investment property	24
Other intangible assets	(4,186)
Other non-current assets	(6,484)
Deferred tax assets	9,270
Trade, other accounts receivable and prepayments	(1,213)
VAT and other taxes receivable	185
TOTAL ASSETS	**388,387**
EQUITY	
Retained earnings	(43,371)
TOTAL EQUITY	**(43,371)**
LIABILITIES	
Lease liabilities	433,813
Deferred tax liabilities	(1,485)
Provisions and other liabilities	(570)
TOTAL LIABILITIES	**431,758**
TOTAL EQUITY AND LIABILITIES	**388,387**

As 31 December 2018 the Group's outstanding short and long-term lease agreements were cancellable. IAS 17 requires disclosing operating lease commitments only for non-cancellable leases, while under IFRS 16 the Group is also required to include in lease term periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Operating lease commitments as at 31 December 2018	38,303
Reassessment of options to extend and terminate lease agreements	555,470
Impact of discounting	(159,960)
LEASE LIABILITIES RECOGNISED AS AT 1 JANUARY 2019	**433,813**

The following other new standards and amendments to IFRSs effective for the financial year beginning 1 January 2019 did not have a material impact on the Group and did not result in change of the Group's accounting policy:
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- IFRIC 23 *Uncertainty over Income Tax Treatments*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Annual Improvements to IFRS Standards 2015–2017 cycle (IFRS 3 *Business Combination*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs*).

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective:

STANDARDS ISSUED BUT NOT YET EFFECTIVE IN THE EUROPEAN UNION	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 *Business Combinations*	1 January 2020*
Amendments to IAS 1 and IAS 8 *Definition of Material*	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform*	1 January 2020
Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued on 23 January 2020)*	1 January 2022*
IFRS 17 *Insurance Contracts*	1 January 2021*

* Subject to EU endorsement.

The Group is currently assessing the impact of the amendments to IFRS 3 "Business Combinations" on its consolidated financial statements.

The Group expects that the adoption of other 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.

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 continued assessment of the performance of the operating segments based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment (EBITDA). The Group continued to apply IAS 17 for leases in calculation of segments EBITDA and capital expenditure. Other information provided to the Management Board is measured in a manner consistent with that in the consolidated financial statements. Capital expenditures include additions of property, plant and equipment, investment properties and intangible assets, acquisitions of property, plant and equipment, investment properties and intangible assets through business combinations as well as goodwill acquired through such business combinations.

The accounting policies used for segments are the same as accounting policies applied for these consolidated financial statements except for the accounting of leases under IAS 17 instead of IFRS 16.

The segment information for the year ended 31 December 2019, comparative figures for earlier periods and reconciliation of EBITDA to profit for the year is provided as follows:

YEAR ENDED 31 DECEMBER 2019	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	CORPORATE CENTRE	TOTAL
REVENUE (NOTE 24)	**1,370,414**	**274,761**	**88,459**	**713**	**–**	**1,734,347**
EBITDA UNDER IAS 17	**107,907**	**17,981**	**2,198**	**14**	**(5,515)**	**122,585**
Fixed lease expenses and gain on derecognition of right-of-use assets and lease liabilities						88,898
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**
Capital expenditure under IAS 17	57,471	18,982	2,018	–	2,656	81,127
31 DECEMBER 2019						
Inventories	100,281	20,166	7,015	–	–	**127,462**

YEAR ENDED 31 DECEMBER 2018	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	CORPORATE CENTRE	TOTAL
REVENUE (NOTE 24)	**1,200,457**	**232,490**	**92,458**	**7,132**	**–**	**1,532,537**
EBITDA	**92,910**	**15,550**	**4,423**	**(235)**	**(5,020)**	**107,628**
Depreciation, amortisation and impairment						(49,474)
OPERATING PROFIT						**58,154**
Finance cost, net						(18,667)
Net foreign exchange result						(447)
PROFIT BEFORE INCOME TAX						**39,040**
Income tax expense						(10,398)
PROFIT FOR THE YEAR						**28,642**
Capital expenditure	60,863	16,869	3,914	5	2,017	83,668
31 DECEMBER 2018						
Inventories	88,923	16,609	10,063	395	–	115,990

6. Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2019 and 31 December 2018 are as follows:

			OWNERSHIP (%)	
COMPANY	COUNTRY	NATURE OF OPERATIONS	31 DECEMBER 2019	31 DECEMBER 2018
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	–
PEREKRESTOK HOLDINGS Ltd	Gibraltar	Holding company	–	100
PEREKRIOSTOK-2000 LLC	Russia	Assets holding company	100	100
ALPEGRU RETAIL PROPERTIES Ltd	Cyprus	Assets holding company	100	100
Beta Estate LLC	Russia	Assets holding company	100	100
SPEAK GLOBAL Ltd	Cyprus	Assets holding company	100	100
X5 FINANSE LLC	Russia	Bond issuer	100	100
X5 Finance B.V	The Netherlands	Bond issuer	100	100
Agro-Avto LLC	Russia	Assets holding company	100	100

7. Acquisition of businesses

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.

Details of assets and liabilities of acquired business and the related goodwill are as follows:

	PROVISIONAL FAIR VALUES AT THE ACQUISITION DATE
Right-of-use assets (Note 11)	6,235
Indemnification asset	140
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	(329)
NET ASSETS ACQUIRED	**(7)**
Goodwill (Note 13)	2,549
PURCHASE CONSIDERATION	**2,542**
NET CASH OUTFLOW ARISING FROM THE ACQUISITION	**2,197**

The Group assigned provisional fair values to net assets acquired. The Group will finalise the purchase price allocation within 12 months from the acquisition date which is not yet finished at the date of approval of these consolidated financial statements.

The 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.

Details of assets and liabilities of acquired businesses and the related goodwill are as follows:

	PROVISIONAL 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 Group assigned provisional fair values to net assets acquired. In estimating provisional values of property, plant and equipment direct references to observable prices in an active market and estimates of the independent appraisal were used (market approach). 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 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.

Acquisitions in 2018

In 2018 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 2018 the acquired businesses contributed revenue of RUB 8,320 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. The 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 2018 as though the acquisition date had been the beginning of that period.

At 31 December 2018 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2019 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)	805
Other intangible assets (Note 14)	88
Deferred tax assets (Note 30)	896
Trade, other accounts receivable and prepayments	63
VAT and other taxes receivable	71
Cash and cash equivalents	28
Deferred tax liabilities (Note 30)	(47)
Provisions and other liabilities	(72)
NET ASSETS ACQUIRED	**1,832**
Goodwill (Note 13)	4,351
PURCHASE CONSIDERATION	**6,183**
NET CASH OUTFLOW ARISING FROM THE ACQUISITION	**4,982**

The purchase consideration comprised the transfer of cash and cash equivalents of RUB 5,010 and RUB 1,173 as deferred consideration.

The goodwill recognised is attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka and Perekrestok segments.

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 2019 and at 31 December 2018 are provided below. The ownership structure is disclosed in Note 1.

The following transactions were carried out with related parties:

	RELATIONSHIP	2019	2018
CTF HOLDINGS S.A.	Entity with significant influence over the Company		
Management services received		100	128
OTHER	Under control by the entity with significant influence over the Company		
Purchases from related parties		3,384	2,482
Insurance expenses		–	417
Other operating expenses		6	3
Bonuses from related parties		228	117
OTHER	Other		
Other operating expenses		17	16

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

	RELATIONSHIP	31 DECEMBER 2019	31 DECEMBER 2018
CTF HOLDINGS S.A.	Entity with significant influence over the Company		
Other accounts payable		22	83
OTHER	Under control by the entity with significant influence over the Company		
Trade accounts payable		567	394
Other accounts payable		–	1
Trade accounts receivable		24	23
Other receivables and prepayments from related parties		–	50
OTHER	Other		
Other accounts payable		14	–

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 2019 and 2018, 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.

9. Cash and cash equivalents

	31 DECEMBER 2019	31 DECEMBER 2018
Bank current account — Roubles	533	2,518
Bank current account — other currencies	2	–
Cash in transit — Roubles	11,459	16,523
Cash in hand — Roubles	6,608	5,327
TOTAL	**18,602**	**24,368**

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.

Credit quality of cash and cash equivalents balances are summarised as follows (current ratings):

BANK	MOODY'S	FITCH	S&P	31 DECEMBER 2019	31 DECEMBER 2018
Alfa-Bank	Ba1	BB+	BB+	31	945
Sberbank	Baa3	BBB	–	5	1,533
Gazprombank	Ba1	BBB-	BB+	251	28
Vneshtorgbank	Baa3	–	BBB-	239	10
Other banks				9	2
Cash in transit and in hand				18,067	21,850
TOTAL				**18,602**	**24,368**

10. Property, plant and equipment

	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	REFRIGERATING EQUIPMENT	VEHICLES	OTHER	CONSTRUCTION IN PROGRESS*	TOTAL
COST							
At 1 January 2018	**238,966**	**40,333**	**47,573**	**16,658**	**34,658**	**13,600**	**391,788**
Additions	–	–	–	–	–	72,089	72,089
Transfers	38,185	10,144	11,797	6,372	11,531	(78,029)	–
Transfers to investment property (Note 12)	(986)	–	–	–	–	–	(986)
Assets from acquisitions (Note 7)	452	78	57	–	6	212	805
Disposals	(2,035)	(3,037)	(2,391)	(1,457)	(1,953)	(299)	(11,172)
At 31 December 2018	**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)
At 31 December 2019	**299,815**	**55,317**	**64,657**	**25,547**	**52,428**	**4,637**	**502,401**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2018	**(59,162)**	**(15,001)**	**(15,217)**	**(5,843)**	**(17,211)**	**(426)**	**(112,860)**
Depreciation charge	(18,840)	(6,332)	(6,527)	(2,468)	(8,309)	–	(42,476)
Impairment charge	(5,795)	(597)	(489)	–	(131)	(576)	(7,588)
Reversal of impairment	3,303	–	–	49	–	119	3,471
Transfers to investment property (Note 12)	20	–	–	–	–	–	20
Disposals	1,982	2,884	2,332	1,374	1,928	211	10,711
At 31 December 2018	**(78,492)**	**(19,046)**	**(19,901)**	**(6,888)**	**(23,723)**	**(672)**	**(148,722)**
Effect of adoption of new accounting standards (Note 4)	3,819	–	–	–	–	69	3,888
At 1 January 2019 Restated	**(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
At 31 December 2019	**(96,152)**	**(24,221)**	**(26,319)**	**(8,847)**	**(31,384)**	**(221)**	**(187,144)**
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 31 December 2018	**196,090**	**28,472**	**37,135**	**14,685**	**20,519**	**6,901**	**303,802**
Net book value at 1 January 2019 Restated (Note 4)	**199,909**	**28,472**	**37,135**	**14,685**	**20,519**	**6,970**	**307,690**
Net book value at 1 January 2018	**179,804**	**25,332**	**32,356**	**10,815**	**17,447**	**13,174**	**278,928**

* This category also includes machinery and equipment, refrigerating equipment, vehicles and other items of property, plant and equipment not yet available for use.

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 2019 and 31 December 2018.

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 2019.

Impairment test

At the end of 2019 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.

Fair value less costs of disposal

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 2020 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 3.74% to 7.15% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2018: 4% to 6.38%). For the years beyond the forecast period the long term consumer price index forecast of 4% at 31 December 2019 is used (31 December 2018: 4%). 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)) — 11.43% (31 December 2018: 14.46%). 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 2,383 (31 December 2018: RUB 1,738), if 200 b.p. lower — increase by RUB 2,452 (31 December 2018: RUB 1,620). 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 856 (31 December 2018: RUB 2,879), lower — decrease by RUB 1,052 (31 December 2018: RUB 3,904).

11. Leases

Group as a lessee

The Group has lease contracts for land and buildings used in its operations. Leases of land and buildings generally have fixed lease terms between 5 and 45 years and contain extension options provided by the law. However vast majority of lease contracts include cancellation options on 2–12 months notice.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	RIGHT-OF-USE ASSETS (LAND AND BUILDINGS)	LEASE LIABILITIES
At 1 January 2019	**386,903**	**(433,813)**
Additions	92,373	(91,998)
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)**

The expenses related to short-term leases for the year ended 31 December 2019 amounted to RUB 39. The expense related to variable lease payments not included in the measurement of lease liabilities for the year ended 31 December 2019 amounted to 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.

Lease expenses in 2018 included RUB 76,956 of minimum lease payments and contingent rent of RUB 3,789 relating to operating leases.

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

As at 31 December 2019 potential future cash outflows of RUB 4,164 (undiscounted) 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 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 2019	31 DECEMBER 2018
Within 1 year	2,967	2,966
Between 1 and 2 years	869	873
Between 2 and 3 years	777	741
Between 3 and 4 years	633	659
Between 4 and 5 years	523	559
Later than 5 years	1,330	1,691
TOTAL	**7,099**	**7,489**

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2019 amounted to RUB 7,592 (2018: RUB 7,262). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2019 amounted to RUB 138 (2018: 123).

Income from subleasing right-of-use assets under operating lease agreement for the year ended 31 December 2019 amounted to RUB 2,921.

Impairment test

At the end of 2019 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).

12. Investment property

The Group held the following investment properties at 31 December 2019 and 31 December 2018:

	2019	2018
COST		
Cost at 1 January	**9,392**	**8,916**
Transfer from fixed assets (Note 10)	40	986
Disposals	(49)	(510)
Cost at 31 December	**9,383**	**9,392**
ACCUMULATED DEPRECIATION AND IMPAIRMENT		
Accumulated depreciation and impairment at 1 January	**(3,219)**	**(3,428)**
Effect of adoption of new accounting standards (Note 4)	24	–
Accumulated depreciation and impairment at 1 January Restated	**(3,195)**	**(3,428)**
Depreciation charge	(213)	(219)
Impairment charge	(474)	(64)
Reversal of impairment	40	136
Transfer from fixed assets (Note 10)	(9)	(20)
Disposals	32	376
Accumulated depreciation and impairment at 31 December	**(3,819)**	**(3,219)**
Net book value at 31 December	**5,564**	**6,173**
Net book value at 1 January	**6,173**	**5,488**
Net book value at 1 January Restated	**6,197**	**5,488**

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 2019 and 31 December 2018.

Rental income from investment property amounted to RUB 1,642 (2018: RUB 1,591). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 916 (2018: RUB 686). 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 2019 amounted to RUB 8,223 (31 December 2018: RUB 9,760). 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 2019 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).

13. Goodwill

Movements in goodwill arising on the acquisition of businesses at 31 December 2019 and 31 December 2018 are:

COST	2019	2018
Gross book value at 1 January	**161,225**	**156,874**
Acquisition of businesses (Note 7)	7,300	4,351
Disposal	(286)	–
Gross book value at 31 December	**168,239**	**161,225**
ACCUMULATED IMPAIRMENT LOSSES		
Accumulated impairment losses at 1 January	**(66,598)**	**(66,598)**
Disposal	286	–
Accumulated impairment losses at 31 December	**(66,312)**	**(66,598)**
Carrying amount at 1 January	**94,627**	**90,276**
Carrying amount at 31 December	**101,927**	**94,627**

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 2021. The reorganisation did not result in an impairment charge for the goodwill for the year ended 31 December 2019.

The allocation of carrying amounts of goodwill to each group of CGUs is as follows:

YEAR ENDED 31 DECEMBER 2019	PYATEROCHKA	PEREKRESTOK	KARUSEL	TOTAL
Goodwill	78,551	18,826	4,550	**101,927**

YEAR ENDED 31 DECEMBER 2018	PYATEROCHKA	PEREKRESTOK	KARUSEL	TOTAL
Goodwill	74,122	15,955	4,550	94,627

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 2020 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 3.74% to 7.15% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2018: 4% to 6.38%). For the years beyond the forecast period the long term consumer price index forecast of 4% at 31 December 2019 is used (31 December 2018: 4%). 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)) — 11.43% (31 December 2018: 14.46%). 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 2019 (year ended 31 December 2018: Nil).

14. Other intangible assets

Other intangible assets comprise the following:

	BRAND AND PRIVATE LABELS	SOFTWARE AND OTHER	LEASE RIGHTS	TOTAL
COST				
At 1 January 2018	17,136	14,581	13,281	44,998
Additions	–	6,178	157	6,335
Acquisition of businesses (Note 7)	–	–	88	88
Disposals	(293)	(70)	(370)	(733)
At 31 December 2018	16,843	20,689	13,156	50,688
Effect of adoption of new accounting standards (Note 4)	–	–	(13,156)	(13,156)
At 1 January 2019 Restated	16,843	20,689	–	37,532
Additions	–	10,055	–	10,055
Disposals	–	(240)	–	(240)
At 31 December 2019	16,843	30,504	–	47,347
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 January 2018	(11,816)	(6,041)	(8,699)	(26,556)
Amortisation charge	(19)	(2,068)	(672)	(2,759)
Impairment charge	–	(11)	(274)	(285)
Reversal of impairment	–	–	310	310
Disposals	293	70	365	728
At 31 December 2018	(11,542)	(8,050)	(8,970)	(28,562)
Effect of adoption of new accounting standards (Note 4)	–	–	8,970	8,970
At 1 January 2019 Restated	(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)
Net book value at 31 December 2019	5,289	19,049	–	24,338
Net book value at 31 December 2018	5,301	12,639	4,186	22,126
Net book value at 1 January 2019 Restated	5,301	12,639	–	17,940
Net book value at 1 January 2018	5,320	8,540	4,582	18,442

Brand and private labels includes brand "Pyaterochka" with the carrying amount of RUB 4,029 (31 December 2018: RUB 4,029) and brand "Karusel" with the carrying amount of RUB 1,258 (31 December 2018: RUB 1,258). The Karusel operating segment was reorganised during 2019. The reorganisation is expected to be finalised in 2021. The reorganisation did not result in an impairment charge for the brand for the year ended 31 December 2019.

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 2019 and 31 December 2018.

Impairment test

At the end of 2019 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.

15. Inventories

At 31 December 2019 inventories in the amount of RUB 127,462 were accounted at the lower of cost and net realisable value (31 December 2018: RUB 115,990). Write-off of inventory to net realisable value at 31 December 2019 amounted to RUB 2,412 (31 December 2018: RUB 2,274). At 31 December 2019 and 31 December 2018 inventories consisted mainly of goods for resale.

16. Financial instruments by category

	FINANCIAL ASSETS AT AMORTISED COST
31 DECEMBER 2019	
Assets as per consolidated statement of financial position	
Trade and other receivables excluding prepayments	13,907
Cash and cash equivalents	18,602
TOTAL	**32,509**

	FINANCIAL LIABILITIES AT AMORTISED COST
31 DECEMBER 2019	
Liabilities as per consolidated statement of financial position	
Lease liabilities	484,795
Borrowings	227,933
Interest accrued	1,734
Trade, other current and non-current payables excluding statutory liabilities and advances	217,999
TOTAL	**932,461**

	FINANCIAL ASSETS AT AMORTISED COST
31 DECEMBER 2018	
Assets as per consolidated statement of financial position	
Trade and other receivables excluding prepayments	10,900
Cash and cash equivalents	24,368
TOTAL	**35,268**

	FINANCIAL LIABILITIES AT AMORTISED COST
31 DECEMBER 2018	
Liabilities as per consolidated statement of financial position	
Borrowings	207,764
Interest accrued	1,770
Trade, other current and non-current payables excluding statutory liabilities and advances	208,758
TOTAL	**418,292**

17. Trade, other accounts receivable and prepayments

	31 DECEMBER 2019	31 DECEMBER 2018
Trade accounts receivable	12,501	10,218
Other receivables	2,465	1,780
Allowance for expected credit losses of trade and other receivables	(1,059)	(1,098)
Total trade and other accounts receivable	**13,907**	**10,900**
Prepayments	2,097	3,310
Advances made to trade suppliers	341	589
Allowance for impairment of prepayments and advances	(492)	(627)
Total prepayments	**1,946**	**3,272**
TOTAL	**15,853**	**14,172**

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.

Trade receivables

Trade receivables are mainly bonuses from suppliers of goods for resale with a low historic default rate. The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable. The Group did not hold any collateral as security.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	EXPECTED CREDIT LOSS RATE AT 31 DECEMBER 2019	ESTIMATED TOTAL GROSS CARRYING AMOUNT AT DEFAULT 31 DECEMBER 2019	EXPECTED CREDIT LOSS 31 DECEMBER 2019	EXPECTED CREDIT LOSS RATE AT 31 DECEMBER 2018	ESTIMATED TOTAL GROSS CARRYING AMOUNT AT DEFAULT 31 DECEMBER 2018	EXPECTED CREDIT LOSS 31 DECEMBER 2018
Not overdue — 1 month	0.09%	11,915	11	1.27%	9,422	120
1–6 months	34.38%	64	22	25.28%	269	68
6–12 months	57.14%	35	20	67.13%	216	145
Over 1 year	81.72%	487	398	69.13%	311	215
TOTAL		**12,501**	**451**		**10,218**	**548**

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

	2019	2018
At 1 January	**(548)**	**(688)**
Addition of allowance for expected credit losses	(86)	(417)
Release of allowance for expected credit losses	68	41
Trade receivables written off as uncollectable	115	516
At 31 December	**(451)**	**(548)**

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.

Other receivables

The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable. The Group did not hold any collateral as security.

Set out below is the information about the credit risk exposure on the Group's other receivables using a provision matrix:

	EXPECTED CREDIT LOSS RATE AT 31 DECEMBER 2019	ESTIMATED TOTAL GROSS CARRYING AMOUNT AT DEFAULT 31 DECEMBER 2019	EXPECTED CREDIT LOSS 31 DECEMBER 2019	EXPECTED CREDIT LOSS RATE AT 31 DECEMBER 2018	ESTIMATED TOTAL GROSS CARRYING AMOUNT AT DEFAULT 31 DECEMBER 2018	EXPECTED CREDIT LOSS 31 DECEMBER 2018
Not overdue — 1 month	10.53%	1,377	145	7.91%	860	68
1–6 months	15.82%	335	53	10.19%	265	27
6–12 months	26.47%	204	54	45.05%	182	82
Over 1 year	64.85%	549	356	78.86%	473	373
TOTAL		**2,465**	**608**		**1,780**	**550**

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

	2019	2018
At 1 January	**(550)**	**(780)**
Addition of allowance for expected credit losses	(326)	(437)
Release of allowance for expected credit losses	129	312
Other receivables written off as uncollectable	139	355
At 31 December	**(608)**	**(550)**

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

Movements on the allowance for impairment of prepayments and advances made to trade suppliers were as follows:

	2019	2018
At 1 January	**(627)**	**(695)**
Addition of allowance for prepayments and advances to trade suppliers impairment	(330)	(438)
Release of allowance for prepayments and advances to trade suppliers impairment	196	222
Prepayments and advances to trade suppliers written off as uncollectable	269	284
At 31 December	**(492)**	**(627)**

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.

18. VAT and other taxes receivable

	31 DECEMBER 2019	31 DECEMBER 2018
VAT receivable	11,551	9,856
Other taxes receivable	515	287
TOTAL	**12,066**	**10,143**

19. Provisions and other liabilities

	31 DECEMBER 2019	31 DECEMBER 2018
Other accounts payable and accruals	20,689	18,545
Accrued salaries and bonuses	20,656	19,194
Accounts payable for property, plant and equipment	12,371	13,823
Taxes other than income tax	12,452	16,488
Advances received	1,649	1,773
Payables to landlords	961	1,780
Provisions and liabilities for tax uncertainties (Note 35)	2,294	133
TOTAL	**71,072**	**71,736**

There were no significant amounts of other payables to foreign counterparties as at 31 December 2019 and 31 December 2018.

20. Contract liabilities

	31 DECEMBER 2019	31 DECEMBER 2018
SHORT-TERM CONTRACT LIABILITIES		
Short-term contract liabilities related to loyalty programmes	1,836	1,489
Advances received from wholesales customers	116	54
Advances received from other customers	254	121
TOTAL	**2,206**	**1,664**

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

	2019	2018
At 1 January	**1,489**	**1,665**
Deferred during the year	1,836	1,489
Recognised as revenue during the year	(1,489)	(1,665)
At 31 December	**1,836**	**1,489**

21. Borrowings

The Group had the following borrowings at 31 December 2019 and 31 December 2018:

	FINAL MATURITY YEAR*	FAIR VALUE		CARRYING VALUE	
		2019	2018	2019	2018
CURRENT					
RUB Bonds X5 FINANSE LLC series BO-04	2020	2,013	5,250	2,150	4,999
RUB Bonds X5 FINANSE LLC series BO-06		–	5,025	–	4,999
RUB Bonds X5 FINANSE LLC series BO-07		–	5,004	–	5,000
RUB Bonds X5 FINANSE LLC series 001P-01		–	15,072	–	14,994
RUB Bonds X5 FINANSE LLC series 001P-02	2020	10,551	–	9,995	–
RUB Bonds X5 FINANSE LLC series 001P-03	2020	10,030	–	9,998	–
RUB Eurobond X5 Finance B.V.	2020	20,171	–	19,985	–
RUB Bilateral Loans	2020	32,627	30,443	32,627	30,443
TOTAL CURRENT BORROWINGS		**75,392**	**60,794**	**74,755**	**60,435**
NON-CURRENT					
RUB Bonds X5 FINANSE LLC series BO-05	2021	365	410	390	390
RUB Bonds X5 FINANSE LLC series BO-06	2022	1,257	–	1,201	–
RUB Bonds X5 FINANSE LLC series BO-07	2022	5,175	–	4,996	–
RUB Bonds X5 FINANSE LLC series 001P-01	2023	98	–	96	–
RUB Bonds X5 FINANSE LLC series 001P-02		–	10,000	–	9,990
RUB Bonds X5 FINANSE LLC series 001P-03		–	9,908	–	9,988
RUB Bonds X5 FINANSE LLC series 001P-04	2021	5,148	–	4,994	–
RUB Bonds X5 FINANSE LLC series 001P-05	2022	5,255	–	4,995	–
RUB Bonds X5 FINANSE LLC series 001P-06	2022	10,044	–	9,998	–
RUB Bonds X5 FINANSE LLC series 001P-07	2022	4,994	–	4,999	–
RUB Bonds X5 FINANSE LLC series 001P-08	2022	4,950	–	4,999	–
RUB Bonds X5 FINANSE LLC series 001P-09	2022	4,994	–	4,999	–
RUB Eurobond X5 Finance B.V.		–	20,092	–	19,937
RUB Bilateral Loans	2022	111,972	103,254	111,511	107,024
TOTAL NON-CURRENT BORROWINGS		**154,252**	**143,664**	**153,178**	**147,329**
TOTAL BORROWINGS		**229,644**	**204,458**	**227,933**	**207,764**

* In case of the Group's Bonds — the next put-option date.

In February 2019 the Group issued RUB 5,000 exchange-registered corporate bonds series 001P-04 with 8.50% coupon rate and put-option in 2.5 years.

In February 2019 the Group successfully passed the put-option on the exchange-registered corporate bonds series BO-07 in the amount of RUB 5,000 with the new annual rate for the next 6 semi-annual coupon periods fixed at 8.55%.

In April 2019 the Group issued RUB 5,000 exchange-registered corporate bonds series 001P-05 with 8.45% coupon rate and put-option in 3 years.

In April 2019 the Group successfully passed the put-option on the exchange-registered corporate bonds series BO-04 in the amount of RUB 5,000 and bought back RUB 2,850 from the issue. For the remaining RUB 2,150 the new annual rate for the next 3 semi-annual coupon periods was fixed at 8.35%.

In May 2019 the Group successfully passed the put-option on the exchange-registered corporate bonds series BO-06 in the amount of RUB 5,000 and bought back RUB 3,799 from the issue. For the remaining RUB 1,201 the new annual rate for the next 7 semi-annual coupon periods was fixed at 8.45%.

In September 2019 the Group issued RUB 10,000 exchange-registered corporate bonds series 001P-06 with 7.40% coupon rate and put-option in 2.5 years.

In October 2019 the Group successfully passed the put-option on the exchange-registered corporate bonds series 001P-01 in the amount of RUB 15,000 and bought back RUB 14,904 from the issue. For the remaining RUB 96 the new annual rate for the next 7 semi-annual coupon periods was fixed at 7.30%.

In November 2019 the Group issued RUB 5,000 exchange-registered corporate bonds series 001P-07 with 6.65% coupon rate and put-option in 2.5 years.

In December 2019 the Group issued two exchange-registered corporate bonds series 001P-08 and 001P-09 in the total amount of RUB 10,000 with 6.70% coupon rate and put-option in 3 years.

The weighted average effective interest rate on X5's total borrowings for the year ended 31 December 2019 comprised 7.94% per annum (year ended 31 December 2018: 8.39%).

All borrowings at 31 December 2019 are shown net of related transaction costs of RUB 134 which are amortised over the term of the loans using the effective interest method (31 December 2018: RUB 166). Borrowing costs capitalised for the year ended 31 December 2019 amounted to RUB 71 (for year ended 31 December 2018: RUB 314). 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 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.

Change in total borrowings in amount of RUB 13,468 in 2018 equals to the proceeds from borrowings in amount of RUB 108,054, repayment of borrowings in amount of RUB 94,810 (the Consolidated Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 210 and other non-cash changes of RUB 14.

In accordance with a few loan agreements the Group maintains an optimal leverage ratio by tracking covenant: the maximum level of Net Debt/EBITDA (4.00/4.25 during 2 quarters after acquisition). The Group's Eurobond documentation implies 3.75 leverage ratio threshold but with additional permitted indebtedness baskets and exclusions. At 31 December 2019 the Group complied with this covenant and Net Debt/EBITDA was equal to 1.71 (31 December 2018: 1.70). According to all loan agreements and Eurobond documentation EBITDA is calculated under IAS 17.

22. Share capital

As at 31 December 2019 the Group had 190,000,000 authorised ordinary shares (31 December 2018: 190,000,000) of which 67,890,054 ordinary shares were outstanding (31 December 2018: 67,890,099) and 3,164 ordinary shares were held as treasury stock (31 December 2018: 3,119). 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).

The Supervisory Board proposed to the General Meeting to distribute in 2020 current year profit in the amount of RUB 30,000 (441.89 RUB per ordinary share) to shareholders.

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:

	2019	2018
Profit attributable to equity holders of the parent	19,507	28,642
Weighted average number of ordinary shares in issue	67,890,071	67,888,863
Effect of share options granted to employees, number of shares	238	4,533
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,890,309	67,893,396
Basic earnings per share for profit (expressed in RUB per share)	**287.33**	**421.90**
Diluted earnings per share for profit (expressed in RUB per share)	**287.33**	**421.87**

24. Revenue

2019

	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	TOTAL
Revenue from sale of goods through own stores (at a point of time)	1,355,849	272,743	87,397	479	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	1,293	919	202	5,506
Revenue from other services (over time)	665	287	143	32	1,127
TOTAL	**1,370,414**	**274,761**	**88,459**	**713**	**1,734,347**

2018

	PYATEROCHKA	PEREKRESTOK	KARUSEL	OTHER SEGMENTS	TOTAL
Revenue from sale of goods through own stores (at a point of time)	1,188,207	229,689	90,818	5,577	1,514,291
Revenue from sale of goods through franchisees (at a point of time)	9,565	1,159	–	–	10,724
Revenue from wholesale of goods (at a point of time)	2,256	1,435	1,442	1,549	6,682
Revenue from other services (over time)	429	207	198	6	840
TOTAL	**1,200,457**	**234,490**	**92,458**	**7,132**	**1,532,537**

25. Expenses by nature

	2019	2018
Cost of goods sold	1,257,565	1,116,264
Staff costs (Note 28)	165,245	139,456
Lease expenses (Note 11)	7,989	80,745
Depreciation, amortisation	115,089	45,454
Impairment of non-current assets	6,996	4,020
Other store costs	25,234	23,996
Utilities	38,128	33,401
Net impairment losses on financial assets	215	501
Other	42,512	42,839
TOTAL	**1,658,973**	**1,486,676**

Impairment of prepayments amounted to RUB 134 for the year ended 31 December 2019 (2018: RUB 216).

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):

	2019	2018
Statutory audit of financial statements performed by Ernst & Young Accountants LLP	22	16
Statutory audit of financial statements performed by Other EY Network	47	47
Non-audit services by Other EY Network	42	32
TOTAL	**111**	**95**

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.

26. Lease/sublease and other income

	2019	2018
Lease/sublease income (Note 11)	7,592	7,262
Income from sales of waste	2,631	2,267
Other	3,801	2,764
TOTAL	**14,024**	**12,293**

27. Finance income and costs

	2019	2018
Interest expense on lease liabilities	38,739	–
Interest expense on borrowings	16,889	17,021
Interest income	(48)	(73)
Other finance costs, net	1,323	1,719
TOTAL	**56,903**	**18,667**

28. Staff costs

	2019	2018
Wages and salaries	128,950	108,753
Social security costs	36,232	30,631
Share-based payments expense	63	72
TOTAL	**165,245**	**139,456**

Wages and salaries in 2019 included expenses of RUB 2,407 related to the long-term incentive programme (LTI) for key employees, including members of the Management Board, other key management and other key employees (2018: RUB 2,128).

Social security costs in 2019 included pension contributions amounted to RUB 24,253 (2018: RUB 20,422).

The number of employees as at 31 December 2019 amounted to 307,444 (31 December 2018: 278,399).

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 2019 the Executive Board consisted of nine 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:

	2019	2018
Management Board and Executive Board	1,182	1,121
Supervisory Board	162	178
TOTAL	**1,344**	**1,299**

Remuneration of the Management Board

Service agreements with individual Management Board members
Igor Shekhterman
In 2019 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 2019 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 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 2019, 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 of EUR 275,000 was increased by 14.5% to EUR 315,000 effective 1 April 2019. 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 2019, 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. Quinten Peer was appointed on a 50% full time equivalent (FTE) basis, with an annual base salary of EUR 137,500. 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]	SHARE BASED COMPENSATION[4]	SOCIAL SECURITY COST[5]	TOTAL
I. Shekhterman	2019	76	53	97	–	33	259
	2018	60	59	183	1	44	347
F. Lhoëst	2019	22	13	–	–	–	35
	2018	20	13	–	–	–	33
Q. Peer	2019	6	4	–	–	–	10
	2018	–	–	–	–	–	–
TOTAL	**2019**	**104**	**70**	**97**	**–**	**33**	**304**
	2018	**80**	**72**	**183**	**1**	**44**	**380**

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 2019 and payable in 2020. The short-term incentive levels are based on achievement of individual and group targets, resulting in payouts of 76% of base salary for Mr. Shekhterman (31 December 2018: 103%), 60% of base salary for Mr. Lhoëst (31 December 2018: 58%) and 60.6% of base salary for Mr. Peer.

3 For Igor Shekhterman the expense recognised in 2019 for the long-term incentive award is composed of two elements: (i) the second payout under the second stage of the 2015–2018 LTI programme and (ii) an accrual based on the probability of achieving the targets under the 2018–2020 LTI programme.

4 Since 2013 members of the Management Board no longer participate in the Company's Restricted Stock Unit Plan. The share based compensation reflects the accrued amounts related to previous awards under the Restricted Stock Unit Plan (see table below) and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

5 For the year ended 31 December 2019 statutory pension contributions amounted to RUB 21 (2018: RUB 29).

Restricted Stock Units (RSUs) awarded and outstanding to members of the Management Board:

NAME	TRANCHE	RSUs AWARDED IN 2014	RSUs AWARDED IN 2015	RSUs AWARDED IN 2016	YEAR OF VESTING	RSUs VESTED	VALUE ON VESTING DATE[1]	GDRs LOCKED-UP AS AT 31.12.2019[2]	END OF LOCK-UP PERIOD	RSUs OUTSTANDING AS AT 31.12.2019	RSUs OUTSTANDING AS AT 31.12.2018
I. Shekhterman	4	7,384	–	–	2016	7,384	9	–	2018	–	–
	5	–	15,793	–	2017	15,793	33	–	2019	–	–
	6	–	–	11,396	2018	11,396	21	11,396	2020	–	–

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 2018: 21 May).

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

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 Director of Business Support. Also, in view of the Karusel transformation plan announced in September 2019, the general director of Karusel was no longer a member of the Executive Board. 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]	SHARE BASED COMPENSATION[4]	NON-COMPETITION REWARD[4]	SOCIAL SECURITY COST[5]	TOTAL
Other key management personnel	2019	259	173	276	6	48	116	878
	2018	228	167	235	42	–	69	741

1 B ase 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 2019 (2018) paid in cash in 2020 (2019).

3 The expense recognised in 2019 for the long-term incentive award is composed of two elements: (i) the second payout under the second stage of 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 payable 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 2019 statutory pension contributions amounted to RUB 80 (2018: RUB 45).

Remuneration of the Supervisory Board

The table below specifies the remuneration of the members of the Supervisory Board. In 2019, adjusted remuneration principles for members of the Supervisory Board were approved by the Annual General Meeting of Shareholders held on May 10, 2019. Details on Supervisory Board remuneration in 2019 are reflected in the Remuneration Report on pages 243–253.

In accordance with the remuneration policy for the Supervisory Board, members of the Supervisory Board receive remuneration in cash and an annual award of Restricted Stock Units (RSUs). Also, in line with the Remuneration Policy, any member of the Supervisory Board who represents a legal entity holding at least thirty per cent of the voting rights in the Company, shall waive his/her entitlement to remuneration for acting as a member of the Supervisory Board.

Expenses recognised for remuneration of the members of the Supervisory Board:

	BASE REMUNERATION[1]		SHARE-BASED COMPENSATION[2]	
	2019	2018	2019	2018
S. DuCharme	19	20	21	19
A. Elinson	–	–	–	–
M. Fridman	–	–	–	–
G. King	18	19	18	16
P. Demchenkov	17	15	14	9
M. Kuchment	8	7	7	6
K.-H. Holland	7	4	4	–
N. Shouraboura	8	4	4	–
A. Torbakhov[3]	14	–	3	–
C. Couvreux[4]	–	41	–	4
P. Musial[4]	–	12	–	2
TOTAL	**91**	**122**	**71**	**56**

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 and Andrei Elinson, 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 Share-based compensation in the form of Restricted Stock Units (RSUs). The number of RSUs awarded in each given year is 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 Alexander Torbakhov was appointed as member of the Supervisory Board on 10 May 2019.

4 Christian Couvreux and Pawel Musial stepped down from the Supervisory Board on, respectively, 10 May 2018 and 22 June 2018.

Restricted Stock Units

Following the appointment of Karl-Heinz Holland and Nadia Shouraboura as Supervisory Board members in 2018, the General Meeting approved that Mr. Holland and Mrs. Shouraboura were awarded a number of RSUs with award date 20 May 2019, equal to 100% of the pro rata annual remuneration of the relevant Supervisory Director in 2018, divided by USD 30.00, the average market value of one GDR as of 21 May 2018. These RSUs are awarded under tranche 9 and will vest on 19 May 2021, followed by a lock-in period ending on 19 May 2023.

Furthermore, in 2019 the Annual General Meeting of Shareholders approved the RSU awards under tranche 10, meaning that the Supervisory Board members Stephan DuCharme, Peter Demchenkov, Geoff King, Mikhail Kuchment, Karl-Heinz Holland, Nadia Shouraboura and Alexander Torbakhov were awarded a number of RSUs with award date 20 May 2019, equal to 100% of the gross annual remuneration of the relevant Supervisory Director in 2019, divided by USD 30.87, the average market value of one GDR as of 20 May 2019. The RSUs awarded under tranche 10 will vest on 19 May 2022, followed by a lock-in period ending on 19 May 2024.

The number of RSUs awarded and outstanding to the members of the Supervisory Board is shown below. For the calculation of the intrinsic value and further details please refer to Note 29.

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]	YEAR OF VESTING	RSUs VESTED	VALUE ON VESTING DATE[1]	VESTED GDRs AFTER TAX	GDRs LOCKED-UP AS AT 31.12.2019[2]	END OF LOCK-UP PERIOD	RSUs OUTSTANDING AS AT 31.12.2019	RSUs OUTSTANDING AS AT 31.12.2018
S. DuCharme	7	25,703	–	–	–	2019	25,703	53	13,257	13,257	2021	–	25,703
	8	–	9,631	–	–	2020	–	–	–	–	2022	9,631	9,631
	9	–	–	9,977	–	2021	–	–	–	–	2023	9,977	9,977
	10	–	–	–	9,722	2022	–	–	–	–	2024	9,722	–
G. King	6	13,250	–	–	–	2018	13,250	25	8,749	8,749	2020	–	–
	7	14,280	–	–	–	2019	14,280	29	9,449	9,449	2021	–	14,280
	8	–	8,026	–	–	2020	–	–	–	–	2022	8,026	8,026
	9	–	–	9,977	–	2021	–	–	–	–	2023	9,977	9,977
	10	–	–	–	9,373	2022	–	–	–	–	2024	9,373	–
P. Demchenkov	6	5,698	–	–	–	2018	5,698	11	3,762	3,762	2020	–	–
	7	5,712	–	–	–	2019	5,712	12	3,779	3,779	2021	–	5,712
	8	–	5,618	–	–	2020	–	–	–	–	2022	5,618	5,618
	9	–	–	7,982	–	2021	–	–	–	–	2023	7,982	7,982
	10	–	–	–	8,942	2022	–	–	–	–	2024	8,942	–
M. Kuchment	7	5,712	–	–	–	2019	5,712	12	3,779	3,779	2021	–	5,712
	8	–	3,210	–	–	2020	–	–	–	–	2022	3,210	3,210
	9	–	–	3,991	–	2021	–	–	–	–	2023	3,991	3,991
	10	–	–	–	4,099	2022	–	–	–	–	2024	4,099	–
K.-H. Holland	9	–	–	1,995	–	2021	–	–	–	–	2023	1,995	–
	10	–	–	–	3,749	2022	–	–	–	–	2024	3,749	–
N. Shouraboura	9	–	–	1,995	–	2021	–	–	–	–	2023	1,995	–
	10	–	–	–	4,099	2022	–	–	–	–	2024	4,099	–
A. Torbakhov	10	–	–	–	7,365	2022	–	–	–	–	2024	7,365	–

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 2018: 21 May, 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 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.

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 2019, a total number of 51,339 RSUs were awarded under tranche 9 and 10 of the RSU Plan and will vest in 2021 and 2022 respectively. In 2019 51,407 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.

During the year ended 31 December 2018, a total number of 35,918 RSUs were awarded under tranche 9 of the RSU Plan and will vest in 2021. In 2018 62,072 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 2019 the Group recognised expense related to the RSU Plan in the amount of RUB 63 (expense during the year ended 31 December 2018: RUB 72). At 31 December 2019 the equity component was RUB 105 (31 December 2018: RUB 118). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding were as follows:

	2019		2018	
	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	109,819	1,645.55	152,097	1,397.63
Awarded during the period	51,339	2,003.03	35,918	1,858.22
Vested during the period	(51,407)	1,272.00	(62,072)	1,133.34
Forfeited during the period	–	–	(16,124)	1,752.51
Outstanding at the end of the period	**109,751**	**1,987.74**	**109,819**	**1,645.55**

30. Income tax

	2019	2018
Current income tax charge	15,379	8,923
Deferred income tax (benefit)/charge	(188)	1,475
Income tax charge for the year	**15,191**	**10,398**

The theoretical and effective tax rates are reconciled as follows:

	2019	2018
Profit before taxation	**34,698**	39,040
Theoretical tax at the effective statutory rate*	**6,940**	7,808
TAX EFFECT OF ITEMS WHICH ARE NOT DEDUCTIBLE OR ASSESSABLE FOR TAXATION PURPOSES		
Effect of income taxable at rates different from standard statutory rates	(18)	4
Expenses on inventory shortage	165	200
Change in unrecognised tax loss carry forwards for the year	699	650
Change in deferred tax liability associated with investments in subsidiaries	1,579	1,294
Other non-deductible expense	5,826	442
Income tax charge for the year	**15,191**	10,398

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

As at 31 December 2019 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.

Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were attributable to the following items for the year ended 31 December 2019:

	31 DECEMBER 2018	EFFECT OF ADOPTION OF NEW ACCOUNTING STANDARDS (NOTE 4)	1 JANUARY 2019 RESTATED	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	–	4,893	644	–	5,537
Right-of-use assets and lease liabilities	–	11,130	11,130	1,825	–	12,955
Property, plant and equipment and Investment property	467	(2)	465	(144)	81	402
Other intangible assets	601	392	993	(1,876)	1,106	223
Inventories	1,701	–	1,701	406	–	2,107
Accounts receivable	41	–	41	(30)	–	11
Accounts payable	5,600	–	5,600	1,021	–	6,621
Other	605	1	606	(231)	–	375
Gross deferred tax assets	**13,908**	**11,521**	**25,429**	**1,615**	**1,187**	**28,231**
Less offsetting with deferred tax liabilities	(8,895)	(2,251)	(11,146)	(607)	–	(11,753)
Recognised deferred tax assets	**5,013**	**9,270**	**14,283**	**1,008**	**1,187**	**16,478**
TAX EFFECTS OF TAXABLE TEMPORARY DIFFERENCES						
Right-of-use assets and lease liabilities	–	(14)	(14)	(26)	–	(40)
Property, plant and equipment and Investment property	(11,389)	(782)	(12,171)	1,046	–	(11,125)
Investments into subsidiary	(2,452)	–	(2,452)	(1,579)	–	(4,031)
Other intangible assets	(218)	29	(189)	(719)	–	(908)
Accounts receivable	(705)	–	(705)	(144)	–	(849)
Accounts payable	(7)	(1)	(8)	5	–	(3)
Other	(290)	2	(288)	(10)	–	(298)
Gross deferred tax liabilities	**(15,061)**	**(766)**	**(15,827)**	**(1,427)**	**–**	**(17,254)**
Less offsetting with deferred tax assets	8,895	2,251	11,146	607	–	11,753
Recognised deferred tax liabilities	**(6,166)**	**1,485**	**(4,681)**	**(820)**	**–**	**(5,501)**

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 2018:

	31 DECEMBER 2017	CREDITED/(DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	31 DECEMBER 2018
TAX EFFECTS OF DEDUCTIBLE TEMPORARY DIFFERENCES AND TAX LOSS CARRY FORWARDS				
Tax losses available for carry forward	4,980	(87)	–	4,893
Property, plant and equipment and Investment property	585	(143)	25	467
Other intangible assets	808	(1,078)	871	601
Inventories	1,026	675	–	1,701
Accounts receivable	103	(62)	–	41
Accounts payable	5,092	508	–	5,600
Other	750	(145)	–	605
Gross deferred tax assets	**13,344**	**(332)**	**896**	**13,908**
Less offsetting with deferred tax liabilities	(8,201)	(694)	–	(8,895)
Recognised deferred tax assets	**5,143**	**(1,026)**	**896**	**5,013**
TAX EFFECTS OF TAXABLE TEMPORARY DIFFERENCES				
Property, plant and equipment and Investment property	(10,971)	(371)	(47)	(11,389)
Investments into subsidiary	(1,158)	(1,294)	–	(2,452)
Other intangible assets	(451)	233	–	(218)
Accounts receivable	(837)	132	–	(705)
Accounts payable	(10)	3	–	(7)
Other	(444)	154	–	(290)
Gross deferred tax liabilities	**(13,871)**	**(1,143)**	**(47)**	**(15,061)**
Less offsetting with deferred tax assets	8,201	694	–	8,895
Recognised deferred tax liabilities	**(5,670)**	**(449)**	**(47)**	**(6,166)**

Unrecognised deferred tax liability on unremitted earnings of certain subsidiaries amounted to RUB 2,579 (2018: RUB 4,968) 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 5,537 recognised at 31 December 2019 for the carry forward of unused tax losses (31 December 2018: RUB 4,893).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards at 31 December 2019 of RUB 3,941 (31 December 2018: RUB 3,966).

At 31 December 2019 these unused tax losses in the amount of 1,462 were available for carry forward for a period not less than three years, unused tax losses in the amount of 2,479 have no time restrictions for carry forward.

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 2019 the Group had trade accounts payable denominated in foreign currency in the amount of RUB 3,813 (31 December 2018: RUB 3,071) and leases in the amount of RUB 10,857. As at 31 December 2019 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 2019 the Group had no floating interest-bearing assets, but had 18% 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 6% share of borrowings. If the Key rate had been 100 b.p. higher the profit before tax for the year ended 31 December 2019 had been RUB 141 lower. If the Key rate had been 100 b.p. lower the profit before tax for the year ended 31 December 2019 had been RUB 126 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.

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 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**

YEAR ENDED 31 DECEMBER 2018	DURING 1 YEAR	IN 1 TO 5 YEARS	OVER 5 YEARS
Borrowings	76,196	158,865	–
Trade payables	154,873	–	–
Other financial liabilities	53,342	543	–
TOTAL	**284,411**	**159,408**	**–**

At 31 December 2019 the Group had net current liabilities of RUB 188,819 (31 December 2018: RUB 120,363) including short-term borrowings of RUB 74,755 (31 December 2018: RUB 60,435). At 31 December 2019 the Group had available bank credit lines of RUB 415,592 (31 December 2018: RUB 341,502). At 31 December 2019 the Group had RUB registered bonds programme available for issue on MOEX of RUB 30,000 (31 December 2018: RUB 15,000).

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.

32. 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 future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by highly volatile oil prices and sanctions imposed on Russia by a number of countries. The Rouble interest rates remained relatively high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

33. 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 (4.00/4.25 during two quarters after acquisition). The Group's Eurobond documentation implies 3.75 leverage ratio threshold but with additional permitted indebtedness baskets and exclusions. Net debt is calculated as the sum of short-term and long-term borrowings less cash and cash equivalents. Reconciliation of EBITDA 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 2019 the Group complied with the requirements under the loan facilities and Eurobond documentation.

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 85,045 at 31 December 2019 (31 December 2018: RUB 70,761). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 83,795 at 31 December 2019 (31 December 2018: RUB 70,297) (Note 21). The fair value of long-term borrowings amounted to RUB 111,972 at 31 December 2019 (31 December 2018: RUB 103,254). 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 738 at 31 December 2019. The fair value of short-term borrowings was not materially different from their carrying amounts.

35. Commitments and contingencies

Capital expenditure commitments

At 31 December 2019 the Group contracted for capital expenditure for the acquisition of property, plant and equipment and intangible assets of RUB 7,386 (net of VAT) (31 December 2018: RUB 10,801).

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 2019.

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 2019 Russian legislative authorities performed further update of state taxation system and implementation of mechanisms directed against tax evasion and avoidance through low-tax jurisdictions and aggressive tax planning. These amendments covered further development of the concept of beneficiary ownership, legal entities' tax residency according to the place of economic activity, and approach to taxation of controlled foreign companies in Russia.

Russian tax authorities continue to diligently collaborate with foreign tax authorities in the framework of an international tax information exchange which makes corporate operations more transparent. In the context of tax management procedures, it also requires a comprehensive consideration of the reasonability of an economic purpose for the formation of an international business structure.

The Russian transfer pricing legislation is to the large extent aligned with the international transfer pricing principles developed by the Organization 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 1 billion rubles 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 have not been previously under cloud. 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 unfavorable 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.

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 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.

In 2018 the Group made net release of provisions and liabilities for tax uncertainties attributable to income tax and non-income tax risks in amount of RUB 626 including net release of non-income tax provision of RUB 463, income tax provision of RUB 67 with simultaneous release of indemnification asset of RUB 96.

At the same time management has recorded liabilities for income taxes in the amount of RUB 444 (31 December 2018: RUB 384) and provisions for taxes other than income taxes in the amount of RUB 2,294 at 31 December 2019 (31 December 2018: RUB 133) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 31 December 2017	**883**
Release of provision	(1,113)
Accrual of provision	487
Offset of provision	260
Balance at 31 December 2018	**517**
Release of provision	(718)
Accrual of provision	6,597
Offset of provision	(3,658)
Balance at 31 December 2019	**2,738**

36. Subsequent events for the group

The Group is continuously assessing the effect of coronavirus outbreak and the fall in oil prices on the financial statements and the business as a whole. The share of direct purchases from China and other countries subject to virus outbreak is not significant and can be substituted. In the coming year the fluctuation of Russian Rouble exchange rate as a consequence of oil prices drop is not expected to affect the Group's operations deeply as the Group does not have significant foreign currency exposure. However other effects, such as a potential decrease in consumer purchasing power or other impacts from measures that may be taken in the future to prevent the spread of the virus cannot be readily determined.

X5 RETAIL GROUP N.V.

Company Statement of Financial Position

AT 31 DECEMBER 2019 BEFORE APPROPRIATION OF PROFIT
(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	NOTE	31 DECEMBER 2019	31 DECEMBER 2018*
ASSETS			
Non-current assets			
Financial fixed assets	38	205,067	210,867
		205,067	**210,867**
Current assets			
Amounts due from subsidiaries		2,031	7,977
Prepaid expenses		12	5
Other receivables		220	244
		2,263	**8,226**
TOTAL ASSETS		**207,330**	**219,093**
EQUITY AND LIABILITIES			
Paid up and called up share capital	39	4,708	5,395
Share premium account	39	46,150	46,192
Share-based payment reserve	42	105	118
Legal reserve	39	6,772	(1,593)
Retained earnings	39	39,314	86,721
Profit for the year		19,507	28,642
TOTAL EQUITY		**116,556**	**165,475**
Provisions			
Deferred tax liabilities	44	4,031	2,452
		4,031	**2,452**
Non-current liabilities			
Loans from group companies	40	3,784	18,873
Bank loan	41	46,531	21,572
		50,315	**40,445**
Current liabilities			
Loans from group companies	40	3,706	–
Amounts due to group companies		32,479	10,611
Accrued expenses and other liabilities		243	93
VAT and other taxes payable		–	17
		36,428	**10,721**
TOTAL LIABILITIES		**90,774**	**53,618**
TOTAL EQUITY AND LIABILITIES		**207,330**	**219,093**

* The Group made a transition to IFRS 16 using the modified retrospective approach under which the comparative information was not restated (refer to Note 4).

Igor Shekhterman
Chief Executive Officer
18 March 2020

Svetlana Demyashkevich
Chief Financial Officer
18 March 2020

X5 RETAIL GROUP N.V.

Company Statement of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2019
(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

	NOTE	2019	2018*
General and administrative expenses	43	(655)	(431)
Other income		450	359
Operating loss		**(205)**	**(72)**
Finance costs		(3,698)	(2,705)
Finance income		1,397	817
Net foreign exchange gain/(loss)		182	(210)
Loss before tax		**(2,324)**	**(2,170)**
Income tax expense	44	(1,579)	(1,294)
Income on participating interest after tax		23,410	32,106
Profit for the year		**19,507**	**28,642**

* The Group made a transition to IFRS 16 using the modified retrospective approach under which the comparative information was not restated (refer to Note 4).

Igor Shekhterman
Chief Executive Officer
18 March 2020

Svetlana Demyashkevich
Chief Financial Officer
18 March 2020

X5 RETAIL GROUP N.V.

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
(EXPRESSED IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

37. Accounting principles

General

The Company was incorporated as a limited liability Company under the laws of The Netherlands on 13 August 1975 and has its statutory seat in Amsterdam. The Company is publicly owned. The principal activity of the Company is to act as the listed holding company for retail chains operating mainly in Russia. The number at Chamber of Commerce is 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 (art 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 in three formats (proximity stores, supermarket and hypermarket 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 and 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 and Loss are eliminated (reversed) through the respective intercompany receivable account.

Financial guarantee

On subsequent measurement financial guarantees contacts 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 373 sub 5 of book 2 of the Dutch Civil Code. The difference is settled in the legal reserve.

38. Financial fixed assets

	31 DECEMBER 2019	31 DECEMBER 2018
A. MOVEMENTS IN THE INTERESTS IN GROUP COMPANIES HAVE BEEN AS FOLLOWS		
Opening balance	203,434	171,312
Effect of adoption of new accounting standards (Note 4)	(43,371)	–
Balance as at 1 January 2019 Restated	**160,063**	**171,312**
Acquisitions/capital contribution	8	16
Profit from group companies for the year	23,410	32,106
Closing balance	**183,481**	**203,434**

The list of significant group companies was disclosed in the consolidated financial statements (refer to Note 6 of the consolidated financial statements).

	31 DECEMBER 2019	31 DECEMBER 2018
B. MOVEMENTS IN THE LOANS TO GROUP COMPANIES WERE AS FOLLOWS		
Opening balance	7,433	7,321
Additions	35,079	77
Settlement / repayment	(20,903)	–
Foreign exchange differences	(23)	35
Closing balance	**21,586**	**7,433**
Non-current financial assets	205,067	210,867
TOTAL FINANCIAL FIXED ASSETS	**205,067**	**210,867**

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**		

31 DECEMBER 2018	LOAN CURRENCY	CARRYING VALUE	INTEREST RATE, % P.A.	MATURITY DATE
BORROWING GROUP COMPANY				
GSWL Finance Ltd	RUB	4,601	11%	December 2022
GSWL Finance Ltd	RUB	2,612	Mosprime 1m + 3.6%	December 2021
PEREKRESTOK HOLDINGS Ltd	USD	190	11%	December 2022
X5 Capital S.A.R.L	EUR	29	4.5%	December 2023
X5 Capital S.A.R.L	EUR	1	4%	December 2022
TOTAL LOANS TO GROUP COMPANIES		**7,433**		

The total amount of the loans provided to group companies was RUB 21,586 (2018: RUB 7,433) and it approximated the fair value. The loans have not been secured.

39. Shareholders' equity

	SHARE CAPITAL[1]	SHARE PREMIUM	LEGAL RESERVE	RETAINED EARNINGS	PROFIT FOR THE YEAR	SHARE-BASED PAYMENT (EQUITY)	TOTAL
Balance as at 1 January 2018	**4,675**	**46,212**	**(1,700)**	**77,744**	**31,394**	**117**	**158,442**
Share-based payment compensation (Note 29)	–	–	–	–	–	72	72
Transfer	–	–	827	30,567	(31,394)	–	–
Currency translation	720	–	(720)	–	–	–	–
Transfer of vested equity rights	–	(20)	–	–	–	(71)	(91)
Profit for the year	–	–	–	–	28,642	–	28,642
Dividends	–	–	–	(21,590)	–	–	(21,590)
Balance as at 1 January 2019	**5,395**	**46,192**	**(1,593)**	**86,721**	**28,642**	**118**	**165,475**
Effect of adoption of new accounting standards (Note 4)	–	–	–	(43,371)	–	–	(43,371)
Balance as at 1 January 2019 Restated	**5,395**	**46,192**	**(1,593)**	**43,350**	**28,642**	**118**	**122,104**
Acquisition of treasury shares	–	(75)	–	–	–	–	(75)
Share-based payment compensation (Note 29)	–	–	–	–	–	63	63
Transfer	–	–	7,678	20,964	(28,642)	–	–
Currency translation	(687)	–	687	–	–	–	–
Transfer of vested and waived equity rights (Note 29)	–	33	–	–	–	(76)	(43)
Result for the year	–	–	–	–	19,507	–	19,507
Dividends	–	–	–	(25,000)	–	–	(25,000)
Balance as at 31 December 2019	**4,708**	**46,150**	**6,772**	**39,314**	**19,507**	**105**	**116,556**

1 Share capital translated at the year-end exchange rate EUR/RUB of 69.3406 (2018: 79.4605).

Share capital issued

As at 31 December 2019 the Company had 190,000,000 authorised ordinary shares (31 December 2018: 190,000,000) of which 67,890,054 ordinary shares were outstanding (31 December 2018: 67,890,099) and 3,164 ordinary shares held as treasury stock (31 December 2018: 3,119). The nominal par value of each ordinary share is EUR 1.

Legal reserve as at 31 December 2019 included translation reserve of RUB (2,250) (2018: RUB (2,937)) and reserve for internally developed software of RUB 9,022 (2018: RUB 1,344).

Statutory profit appropriation

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).

The Supervisory Board proposed to the General Meeting to distribute in 2020 current year profit in the amount of RUB 30,000 (441.89 RUB per ordinary share) to shareholders.

40. Loans from group companies

	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**		

	LOAN CURRENCY	31 DECEMBER 2018	INTEREST RATE, % P.A.	FINAL MATURITY DATE
Trade House PEREKRIOSTOK JSC	RUB	16,570	10%	December 2020
Trade House PEREKRIOSTOK JSC	USD	1,515	10%	December 2020
Trade House PEREKRIOSTOK JSC	EUR	788	10%	December 2020
TOTAL		**18,873**		

The loan payable to Trade House PEREKRIOSTOK JSC denominated in RUB/USD/EUR. RUB facility amounted to 1,150 (2018: RUB 16,570), USD 19.5 million (2018: USD 21.8 million) and EUR 19.4 million (2018: EUR 9.9 million).

41. Bank loan

	31 DECEMBER 2019	31 DECEMBER 2018
BALANCE AS AT 1 JANUARY		
Opening balance	21,572	–
Proceeds from the bank loan	24,938	21,568
Amortisation of transaction costs	21	4
Closing balance	**46,531**	**21,572**

In May X5 Retail Group N.V. made several loan drawdowns in the total amount of RUB 24,938 with the maturity in July 2022.

42. Share-based payments

X5 Retail Group N.V. operates equity settled share based compensation plan in the form of its Restricted Stock Unit Plan.

The Restricted Stock Unit Plan consists of performance based awards and awards subject to the employment condition only. For employees of the Company an expense is recorded in the profit and loss account.

The receivable or expense is accounted for at the fair value determined in accordance with the policy on share-based payments as included in the consolidated financial statements, including the related liability for cash settled plans or as equity increase for equity settled plans (Note 29).

The following is included in the entity's accounts for the Restricted Stock Unit Plan:

	2019	2018
Equity share-based payment reserve as at 31 December	105	118
Expenses for the year ended 31 December	63	72

43. General and administrative expenses

	2019	2018
Other expenses	570	343
Audit expenses	22	16
RSU	63	72
TOTAL	**655**	**431**

In accordance with the Dutch legislation article 2:382a the total audit fees related to the accounting organisation Ernst & Young Accountants LLP amounted to RUB 22 (2018: RUB 16).

44. Income tax expense

	2019	2018
Current income tax charge	–	–
Deferred income tax charge	1,579	1,294
Income tax charge for the year	**1,579**	**1,294**

Theoretical and effective tax rates are reconciled as follows:

	2019	2018
Loss before taxation	**(2,324)**	**(2,170)**
Theoretical tax at the effective statutory rate*	**(581)**	**(543)**
TAX EFFECT OF ITEMS WHICH ARE NOT DEDUCTIBLE OR ASSESSABLE FOR TAXATION PURPOSES		
Unrecognised tax loss carry forwards for the year	564	526
Change in deferred tax liability associated with investments in subsidiaries	1,579	1,294
Other non-deductible expense	17	17
Income tax charge for the year	**1,579**	**1,294**

* Profit before taxation on operations in Netherlands is assessed based on the statutory rate of 25%.

No deferred tax asset has been recognised due to uncertainty of future taxable income to offset the current tax losses.

Deferred income tax

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:

	31 DECEMBER 2018	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)**

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 2018:

	31 DECEMBER 2017	CREDITED/(DEBITED) TO PROFIT AND LOSS	31 DECEMBER 2018
TAX EFFECTS OF TAXABLE TEMPORARY DIFFERENCES			
Investments into subsidiary	(1,158)	(1,294)	(2,452)
Gross deferred tax liabilities	**(1,158)**	**(1,294)**	**(2,452)**
Recognised deferred tax liabilities	**(1,158)**	**(1,294)**	**(2,452)**

The Company estimates that part of temporary difference related to investments in subsidiaries will be reversed in the foreseeable future and therefore accrued related deferred tax liability.

The Company estimated temporary differences related to unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 4,880 (2018: RUB 5,280) and unused tax credits of RUB 2,004 (2018 RUB: 0).

At 31 December 2019 temporary differences related to unrecognised potential deferred tax assets in respect of unused tax loss carry forwards in the amount of 4,880 were available for carry forward for a period not less than three years, temporary differences related to unrecognised potential deferred tax assets in respect of unused tax credits in the amount of 2,004 have no time restrictions for carry forward.

45. Staff numbers and employee expenses

The number of persons having a contract with the Company is seven, one of them has a services contract, and six of them have a contract of employment. One of them was posted outside of the Netherlands. For the remuneration of past and present members of the Management 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 five employees comprise RUB 16 (2018: RUB 12) (included former employee).

46. 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 2019	31 DECEMBER 2018
Irrevocable offer to holders of X5 FINANSE LLC bonds	64,920	51,424
Irrevocable offer to holders of X5 Finance B.V. Eurobonds	20,375	20,375
Suretyship for Trade House PEREKRIOSTOK JSC	–	22,458
Suretyship for Agrotorg LLC	25,054	25,054
TOTAL	**110,349**	**119,311**

The guarantees issued mature as follows:

	31 DECEMBER 2019	31 DECEMBER 2018
Not later than 1 year	42,840	44,690
Later than 1 year and no later than 5 years	67,509	74,621
TOTAL	**110,349**	**119,311**

47. Related party transactions

Refer to Note 8 of the consolidated financial statements; all group companies are also considered related parties.

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 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 the group companies refer to Note 38.

Loan from group company

For loan received from and interest expenses to the group company refer to Note 40.

48. Subsequent events for the company

There were no significant events after the reporting date.

Amsterdam, 18 March 2020

MANAGEMENT BOARD:	SUPERVISORY BOARD:
Frank Lhoëst	Stephan DuCharme
Igor Shekhterman	Mikhail Fridman
Quinten Peer	Andrei Elinson
	Geoff King
	Peter Demchenkov
	Michael Kuchment
	Karl-Heinz Holland
	Nadia Shouraboura
	Alexander Torbakhov

Other information

Auditor's report

The auditor's report is included on pages 335–346.

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 proposed to the General Meeting to distribute in 2020 current year profit and part of prior year retained earnings in the amount of RUB 30,000 million (441.89 RUB per ordinary share) to shareholders.

Subsequent events

For subsequent events, please refer to Notes 36 and 48 of the financial statements.

Independent auditor's report

To: The Supervisory Board and Shareholders of X5 Retail Group N.V.

Building a better working world

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

We have audited the financial statements 2019 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 2019, and of its result and its cash flows for 2019 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 2019, and of its result for 2019 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 2019;
- The following statements for 2019: 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 2019;
- The company statement of profit or loss for 2019;
- 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

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'.

As part of designing our audit, we determined materiality and identified and assessed 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 3.1 billion (2018: RUB 2.7 billion)
Benchmark applied	2.5% of EBITDA (under IAS 17)
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, adjusted for IFRS 16 impact, is an important benchmark for the financial performance of the Group. The materiality and applied benchmark are in line with the 2018 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 150 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.

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 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 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

In order to identify and assess the risks of going concern and to conclude on the 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.

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. We have visited EY Moscow during planning and execution phases, as well as held meetings with the Group's Management Board, finance and reporting, risk management, 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.

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.

The key audit matter, Long-term incentive program ("LTI"), which was included in our last year's auditor's report, is not considered a key audit matter for this year as the current LTI was initiated in 2018, which required significant judgment. The accounting for the LTI program in 2019 required less judgment.

A new key audit matter this year relates to the recognition of right-of-use assets and lease liabilities as part of the first-year adoption of IFRS 16 ('Leases'). We consider this a key audit matter due to the magnitude of the amounts involved, the implementation process required to identify and process all relevant data associated with leases and management's judgment applied in estimating matters, such as discount rates and lease terms. The effect of IFRS 16 transition on disclosure in the financial statements was included as a key audit matter in the last year's auditor's report.

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.

Impairment of goodwill

(see note 13 to the financial statements)

Risk	As a result of past acquisitions, the Group carries capitalized goodwill with a value of RUB 102 billion as at 31 December 2019. In accordance with the requirements of IAS 36 Impairment of Assets, management performs an impairment assessment of the capitalized goodwill on an annual basis. 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 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 and compared the assumptions used with 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 with observable market data. They also verified the methodology applied is compliant with EU-IFRS. We also verified that the Group's restructuring of its Karusel retail format has been appropriately taken into account in the goodwill impairment test. We tested 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 16,000 retail stores in Russia. The associated valuation of stores and other non-current assets, such as right-of-use assets, property, equipment and intangible assets, excluding goodwill, approximated RUB 773 billion as at 31 December 2019 and 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. 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. 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 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 stores and other non-current assets. 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 Group's restructuring of its Karusel retail format has been taken into account in managements key assumptions and forecasts. We also assessed 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 inventory 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. We consider this a key audit matter because the arrangements in respect of these allowances are individually different and can be complex to quantify. Due to this, recognition of vendor allowances income and related receivables requires, to some extent, 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. The Group evaluates all required disclosures for vendor allowances to determine that they are appropriately included in the financial statements.
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 2019. 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. 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.

IFRS 16 implementation

(see notes 11, 26, and 31 to the financial statements)

Risk	IFRS 16 "Leases", became effective for annual reporting periods beginning on or after 1 January 2019. The application of this new standard has a material effect on components of the financial statements and the presentation of the net assets, financial position and results of operations of the Group. The Group applied the 'modified retrospective approach' whereby the comparative figures 2018 were not restated. We consider this a key audit matter because of the magnitude of the amounts involved, management's judgment required in estimating matters such as discount rates (incremental borrowing rates), lease terms (including extension and renewal options) and the separation of lease and non-lease elements.
Our audit approach	We have reviewed accounting position papers prepared by the Group to determine whether the accounting is in accordance with IFRS 16. We have involved our IFRS technical specialists to assist us in reviewing and challenging management's key assumptions and judgments including those used in determination of the lease term and discount rates. Our procedures included evaluating the design and operating effectiveness of management's controls around the completeness and accuracy of the contractual lease agreements recognized in the lease accounting system, as well as recognition, processing and reporting of lease contracts under IFRS 16. Our testing procedures covered both IT application and manual controls. We selected samples of lease contracts and recalculated their right-of-use assets and lease liabilities calculated by the system for each material type lease contract. We also tested the IFRS 16 lease contracts database for completeness through reconciliation of this database to the list of open(ed) stores and warehouses and analysis of lease charges subsequent to 31 December 2019. We also performed substantive analytical procedures over expenses related to right-of-use assets and lease liabilities during the year. We considered the adequacy of the disclosures to the financial statements under IFRS 16.
Key observations	We did not identify material exceptions and we found the Group's recognition of right-of-use assets and lease liabilities to be reasonable. Additionally, we found the related disclosures in notes 11, 26 and 31 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:

- The Chairman's statement;
- The Management Report;
- The Supervisory Board Report;
- The 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 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 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 2015 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 2020

ERNST & YOUNG ACCOUNTANTS LLP

SIGNED BY
G.A. ARNOLD