



ESEF reporting
should not be considered
as the financial statements

Contents

01

Strategic Report

Overview	5
About this report	5
Our approach, values and goals	6
2021 key highlights	8
Chairman's statement	11
Business model	13
Our formats	16
Russia's food retail market	19
Strategic review	33
CEO statement	33
Our future-ready strategy	37
Geography of operations	44
Leadership team	46
Review by formats	51
Pyaterochka	51
Perekrestok	58
Karousel	65
Chizhik	67

PAGES 3-140

02

Corporate Governance

Digital businesses	71
Express delivery	71
Vprok.ru Perekrestok	73
5Post	76
Food.ru media platform	79
Mnogo Lososya	81
X5 Bank	83
Financial review	84
Information on alternative performance measures	93
Retail infrastructure	98
Logistics	98
X5 Transport	103
Direct imports	105
X5 Technologies	106
Innovations	110
Sustainable development	117
Our sustainability goals	117
Stakeholder engagement	118
Compliance and business ethics	120
Local communities	125
Rational consumption of resources	127
Health	131
People review	132
Occupational health and safety	136

PAGES 141-176

03

Financial Statements

Consolidated financial statements	179
Notes to the consolidated financial statements	184
Company financial statements	250
Notes to the company financial statements	252
Other information	265

Annual report



Overview	5
Strategic review	33
Review by formats	51
Digital businesses	71
Financial review	84
Information on alternative performance measures	93
Retail infrastructure	98
Sustainable development	117

Strategic report



We have built Russia's leading food retailer, with a portfolio of successful offline and online businesses that are leading players in their respective sectors.

Two of our key areas of focus are constantly improving the efficiency and effectiveness of our current operations, while in parallel investing in preparing for the future of retail such as pursuing digital initiatives ranging from enhanced big data analysis and process automation to integrating digital media platforms with our online retail services.

We also have a global innovation scouting programme that helps us to identify, analyse, pilot and roll out successful innovations that help to further enhance the business. Our track record in recent years has shown that this strategic approach has enabled us to stay at the leading edge of Russian food retail, and we are confident that X5 remains ready for the future.



Overview

About this report

X5 Group's 2021 Annual Report complies with UK and Russian Federation listing requirements, as well as the Dutch Corporate Governance Code.

This document looks at our performance from a number of different perspectives. It provides an analysis of our financial and operating performance, reports on progress perspectives our strategic goals and gives an overview of our ESG performance and priorities, which are discussed in greater detail in the 2021 Sustainability Report.

Report boundary and scope

This report covers the period from 1 January 2021 to 31 December 2021, and looks at X5 Group's business model and strategy, market and consumer trends, operating and financial performance, environmental, social and governance (ESG) achievements and the results of key business units.

Key business units include Pyaterochka proximity stores, Perekrestok supermarkets, Chizhik hard discounter stores and Karusel hypermarkets. Our key digital businesses include express delivery, Vprok.ru Perekrestok, 5Post, Mnogo Lososya, the food.ru media platform and X5 Bank. X5 Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). IFRS financial results in this report are presented according to IFRS 16 as well as old pre-IFRS 16 standards. Significant events after the reporting date are also covered in this report.

Alternative performance measures

Alternative performance measures (APMs) that are not defined or specified under IFRS requirements are also used in this report. These APMs provide important insights into the performance of our business. A glossary with explanations of how each APM is calculated, why we use it and how it can be reconciled to a statutory measure, where relevant, is provided on pages 93–97.

Assurance

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

Materiality

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

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

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

Financial and non-financial information

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

Supervisory Board approval

The Supervisory Board of X5 Group has confirmed that it believes this report provides a balanced overview of all material issues concerning the Company's performance for the reporting period, as well as an accurate reflection of its updated strategic goals. The Board approved the 2021 Annual Report for publication on 19 May 2022.

Our approach, values and goals

Approach

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

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

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

Values

Respect

Our values provide guidance in our professional life and give us a road map for our decision-making.

They help us to better understand one another, achieve success and derive satisfaction from working together. All of X5's business divisions share the same values.

WHAT DOES THIS MEAN IN PRACTICE?

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

Customer-oriented approach

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

- We look for solutions that meet the customer's¹ needs.
- In any situation, we put ourselves in the position of the customer.
- We build long-term relationships with customers.

Honesty and integrity

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

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

Desire for achievement

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

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

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

Sustainability goals

X5 Group's four key UN SDGs are Zero Hunger, Good Health and Well-being, Decent Work and Economic Growth, and Responsible Consumption and Production. In addition, we have determined secondary goals that our business contributes to: Gender Equality, Affordable and Clean Energy, Reduced Inequalities, Sustainable Cities and Communities, Climate Action, Life Below Water and Life on Land.



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

Planet



30 %

Reduction in GHG emissions
(Scope 1 + Scope 2)

30 %

Share of renewable energy used
in X5 operations

30 %

Reduction in ratio of waste
generated to retail sales

Communities



30 %

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

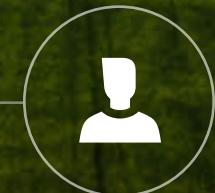
Health



Promote responsible
programmes and principles
across the supply chain
among suppliers

Expansion of healthy lifestyle
assortment

Employees



1

Employer in ranking of Russian
food retailers

Organisation of a healthy and safe
workplace for all employees

2021 key highlights

We successfully navigated a changing market landscape in 2021 thanks to successful implementation aimed at strengthening X5's existing business while preparing for the future of retail. X5 Group continues to thrive even as competition intensifies from digital platforms, niche players and new formats like hard discounters.

Thanks to our robust business processes, combined with an entrepreneurial spirit that is part of our DNA, X5 Group is adapting and competing in a changing market while delivering on our financial, operating and sustainability targets.

One of the ways that we adapted during 2021 was with the official launch of the Chizhik hard discounter, which was announced in 2020 as a pilot project. The Chizhik CVP will address the needs of rational shoppers in difficult macroeconomic conditions while providing the promise of reliable quality customers trust X5 Group to deliver. We have also continued to grow our digital businesses and expand our presence at every stage of the customer journey: during the year we launched the Food.ru media platform, acquired Mnogo Lososya dark kitchens and launched our own X5 Bank financial services.

We remain focused on implementing our strategy while adapting to a changing market in order to deliver value for our shareholders and all of X5 Group's stakeholders.

2021 financial and operating highlights



7.3 %

EBITDA margin
pre-IFRS 16



47.9 RUB
BLN

Digital business sales
+140% y-o-y



+5.1 %

Like-for-like sales
y-o-y



26.8 MLN

Digital services MAUs
+78% y-o-y



1.67 ×

Net debt/EBITDA
pre-IFRS 16 as of
31 December 2021



27.0 MLN

Parcels delivered by 5Post
4× growth y-o-y

+11.5% y-o-y

2,205 RUB
BLN

Revenue



2021 strategic highlights

Leadership in the food market

We confidently maintained our leadership position in Russia's food market, despite a wave of consolidation by other large players and the growing role of niche players and digital ecosystems. X5 Group's overall share of food retail revenue in 2021 was 12.7% (12.6% in 2020), thanks to 11.5% year-on-year growth in our total revenue and 140.0% year-on-year growth in digital business net sales.

Growth in the top line was supported by both a 7.3% expansion in selling space and a 5.1% increase in like-for-like (LFL) sales. Our 62.6 million active users of loyalty cards, which are a key element of our ability to offer each customer a more personalised experience tailored to their needs, accounted for 86% of net retail sales in 2021, and we were also successful at increasing sales densities to RUB 271.5 ths/sqm, a rise of 3.5% year-on-year.

Our leadership is largely a function of our ability to successfully serve our customers and create value for them every time they visit an X5 Group store or use an X5 Group online service, and this is reflected in customer feedback: X5 brands are among Russia's top brands, with Pyaterochka in first place according to a Romir and BCG survey conducted in 2021.

Our suppliers are another key stakeholder group that contribute to our success, and for whom we seek to create value as business partners. According to a supplier survey by the market research agency Advantage, Perekrestok was ranked the best partner among the top 15 food retailers for the second year running. Pyaterochka improved its position in this survey vs 2020 and is now in second place.

Leadership in digitalisation

Digitalisation is one of the central elements of our efforts to continuously strengthen our existing business by helping us achieve greater efficiency and become even better at putting our customers at the centre of our decision-making. Digitalisation continues to benefit our bottom line, and had a RUB 18 billion positive effect on X5 Group's EBITDA pre-IFRS 16 of RUB 161.0 billion in FY 2021.

As we build out our consumer-facing digital businesses and the Food.ru media platform, we continue to attract more existing and potential guests, whose customer journey often starts online: X5 Group's MAUs rose to 26.8 million in 2021, a 78% increase year-on-year.

ESG leadership

ESG performance was another area where we excelled in 2021. Throughout the year we sought to lead the industry in this field, driving the adoption of sustainable packaging standards, developing new ways to reduce food waste and expanding programmes aimed at supporting the communities where we operate. X5 Group has now established a Sustainable Development and Innovation Committee at the Supervisory Board level with responsibility for guiding our ESG strategy and monitoring implementation. X5 was the first company in the Russian food retail sector to publish its inaugural GRI-compliant, externally verified sustainability report in 2021, continued to enhance its ESG databook for investors and improved key ESG ratings (MSCI ESG, S&P Global, CDP).

Maintaining profitability and commitment to shareholders

As we continue to invest in our offline and digital businesses, we are delivering value for shareholders: X5 Group's adjusted ROIC pre-IFRS 16 for 2021 was 17.1%, we maintained an EBITDA margin pre-IFRS 16 of 7.3%.

12.7 %

X5 Group's share on the Russian food retail market in 2021

17.1 %

X5 Group's adjusted ROIC (pre-IFRS 16) for 2021¹

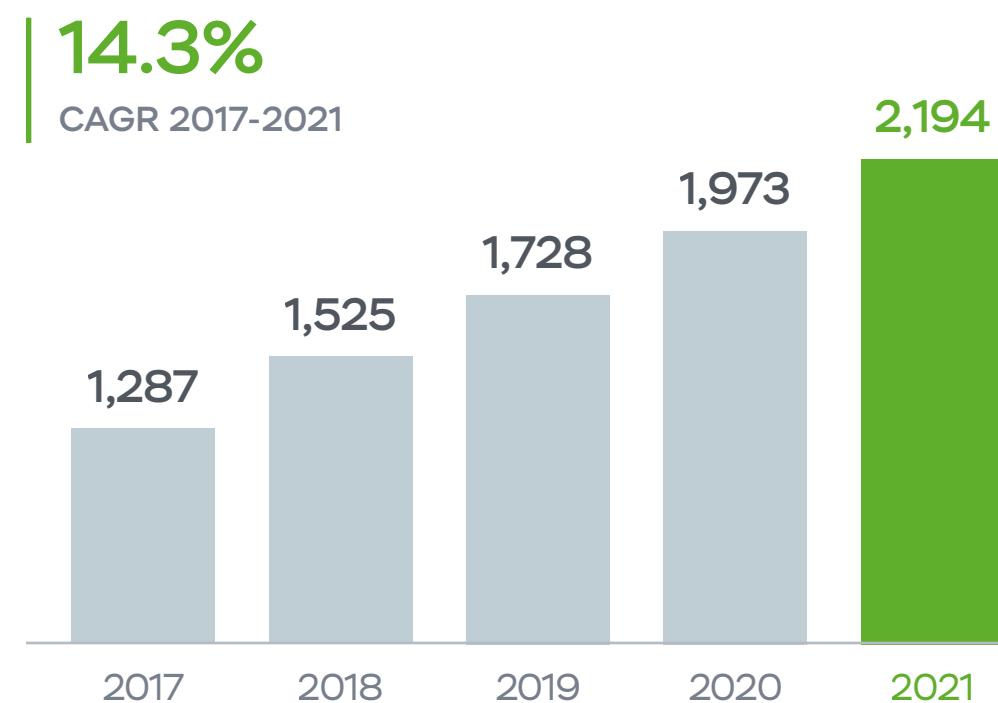


Operational and Financial highlights

2021 operational and financial performance overview

Operational highlights

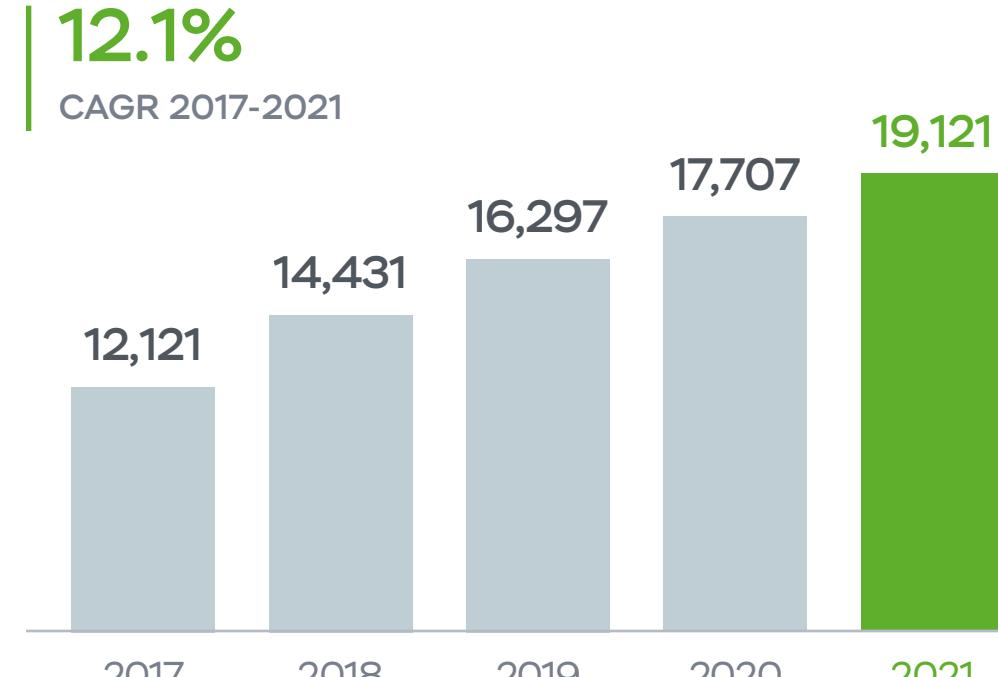
Net retail sales, RUB bln



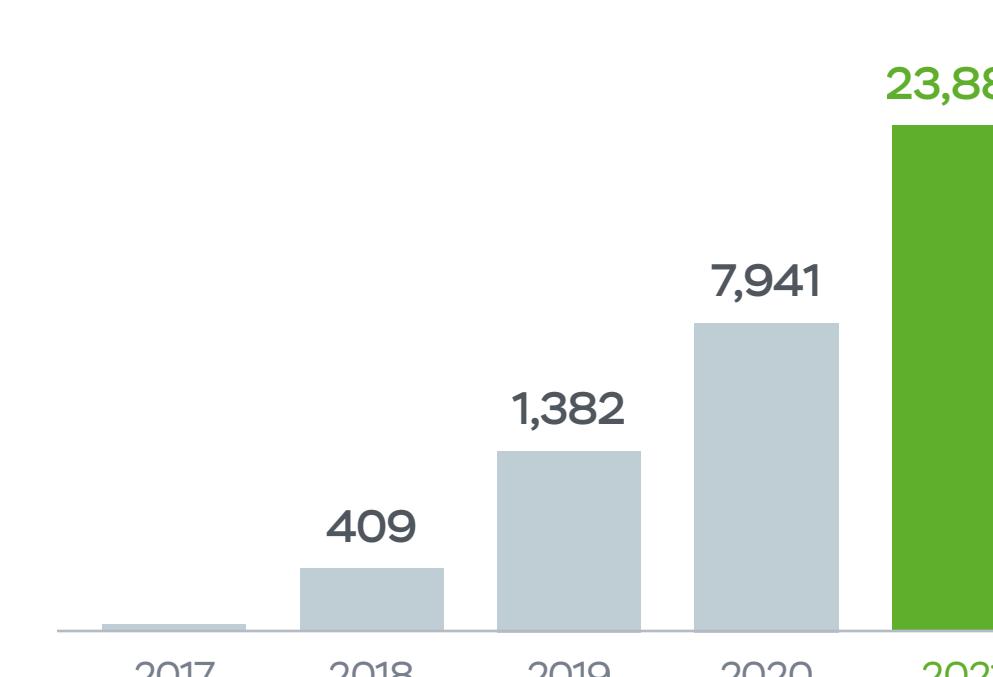
Selling space, ths sqm



Number of stores



Number of orders in online businesses



Financial highlights (pre-IFRS 16)

Revenue, RUB bln



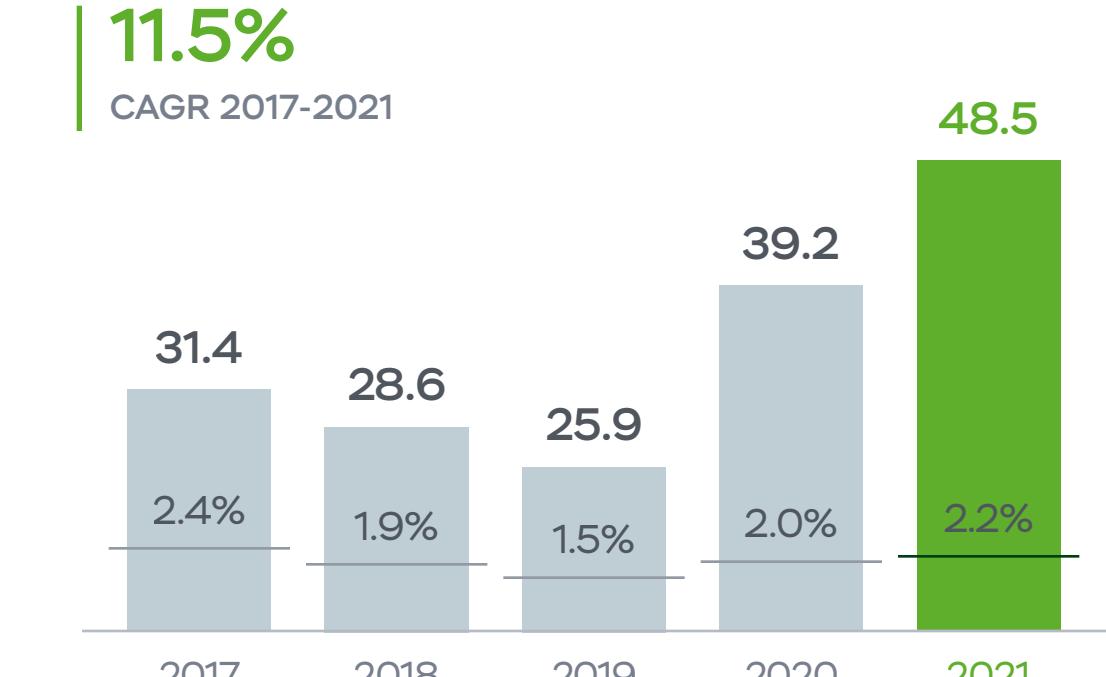
Gross profit, RUB bln



EBITDA, RUB bln



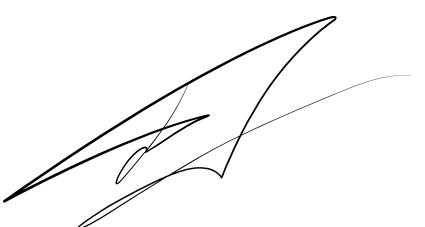
Net profit, RUB bln



Chairman's statement

Dear stakeholders,

We are living in disturbing times. Despite the strong achievements in 2021, now, as geopolitical tensions rapidly unfold and a major impact on Russia's consumer markets lies ahead, we are faced with the inevitable necessity of adjusting both our short- and longer-term strategies. The Supervisory Board is closely engaged with management in this process, while also monitoring contingency planning and the impact on X5's operations, in order to ensure business continuity in the interest of our employees, customers and other stakeholders.



Peter Demchenkov

CHAIRMAN OF THE SUPERVISORY BOARD



Chairman's statement

**Peter Demchenkov**

CHAIRMAN OF THE SUPERVISORY BOARD

In this 2021 annual report, X5 Group reports on another challenging year in which X5 Group continued to grow its business in the new reality of COVID-19, with consumer behaviour being impacted by both safety-related and macroeconomic factors. In the context of the pandemic and difficult market conditions with strong competition, we maintained our focus on X5's long-term strategy, which aims to strengthen the existing businesses while growing our digital capabilities and omnichannel presence.

First of all I would like to thank our employees for their commitment to providing consistently high-quality service for our customers while ensuring a reliable and safe shopping experience. Our team's commitment to putting the customer at the centre of everything we do, and our ability to adapt quickly helped X5 to continue to perform in line with its strategic targets in 2021.

I am proud to say that we continue to deliver results: X5 remains the #1 player in Russia's food market, growing in line with our targets while also maintaining profitability. Our key banners Pyaterochka and Perekrestok continued to deliver healthy growth and profits in 2021, increasing trading space with 1,263 and 57 new stores, respectively. Meanwhile, we ramped up the rollout of our new hard discounter format, Chizhik. Building on promising results since the launch of this new format in 2020, we aim to operate more than three thousand Chizik stores by 2025. We value customer feedback as the key driver of these developments; it allows us to continuously meet customer needs by piloting new store formats and value propositions.

X5's digital businesses continued to grow thanks to the Company's focus in this area in 2021. Following explosive growth in 2020, Vprok.ru Perekrestok, express delivery and 5Post continued their expansion, driven by sustainable changes in consumer behaviour towards online shopping. Throughout 2021, even in the face of fierce competition, our digital businesses continued to grow with revenue rising by 140% year-on-year. By the end of the year, more than 1,600 stores in 50 regions of Russia offered express delivery.

To meet consumer needs and support our leading market positions, we continued to adapt the customer value propositions of our core formats, integrate new omnichannel offerings and expand our ability to be with customers at every stage of their shopping journey. Several important milestones were achieved in 2021 to further strengthen X5's CVP for shoppers: the launch of the Food.ru media platform, the acquisition of Mnogo Lososya dark kitchens, and the launch of X5 Bank branded financial services that are integrated into Perekrestok and Pyaterochka loyalty programmes.

We are happy to report on the increasing importance of X5's sustainability efforts in 2021. As part of our commitment to corporate social responsibility and transparency, we released our first Sustainability Report in accordance with GRI Standards in May. In September, the remit of the Innovation and Technology Committee was expanded, and it was renamed the Sustainable Development and Innovation Committee to strengthen the focus of the Supervisory Board on environmental, social and governance matters. Through the work of this committee, the Board closely monitors X5's progress against the medium- and long-term goals set out in X5's sustainability strategy. I am pleased to say that the Company has made excellent progress and is ahead of schedule at meeting some of its 2023 targets, particularly in the area of CO2 emissions.

The management team deserves our recognition for successfully integrating ESG targets into X5's business processes, at the same time delivering continued revenue growth while maintaining margins in an increasingly competitive and complex environment. This team helps us to adjust our strategy to constantly evolving customer needs, maintaining the core pillars that build value over the long term while adapting to the dynamic market we operate in.

As an important part of our ESG work, we continue to seek ways to improve and enhance our corporate governance standards in line with international best practices and the evolving needs of the Company and of society. The Supervisory Board seeks to operate as a team and to be a partner to management in supporting the Company's successful and sustainable growth. The common theme in our discussions with management was ensuring that the decisions taken would prioritise long-term value creation for the Company and all its stakeholders.

That said, 2021 was a year of significant change in the Supervisory Board itself: at the annual General Meeting of Shareholders, Karl-Heinz Holland stepped down, while at the same time we welcomed Richard Brasher and Alexander Tynkovan as new board members. We would like to thank Karl-Heinz for his significant contribution to the Company. Today, only in the first half of the new year, the Board has undergone further changes as a consequence of current events: it is with deep regret that we had to see Mikhail Fridman, Stephan DuCharme, Richard Brasher, Geoff King and Michael Kuchment step down in March. We thank Mikhail, Stephan, Geoff and Michael for their invaluable contribution and counsel over many years, and Richard for his dedication and commitment despite pandemic-related travel restrictions during his short term in office.

I would like to conclude by saying that it is a great honour that the Supervisory Board decided to elect me as its Chair, and I would like to thank the Executive Board and, again and above all, all employees across our businesses for their continued efforts to make 2021 another year of progress. Looking ahead I am confident that the entire X5 team's strong commitment to the success of this business will continue to be of paramount value for our customers, despite the disturbing times we are living in.

Business model

Our business model aims to create value for stakeholders at every step, from our cooperation with suppliers to the corporate centre and onto our online and offline business operations.

96 %

Share of centralised deliveries to stores from Company-operated distribution centres in 2021

In today's highly competitive environment, it is essential to ensure the efficiency and effectiveness of every part of our business model, and to maintain a constant focus on delivering the best for our customers.

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

While marketing and loyalty programmes are highly independent between businesses, we use a unified ID system (X5.ID), as well as shared big data and IT infrastructure. All operations are run based on SAP ERP.

In terms of logistics, we run our own operations, with Company-operated distribution centres accounting for 96% of centralised deliveries to stores in 2021.



Suppliers

During 2021 we continued to develop X5's supplier portal, which helps to centralise all communications, transactions and paperwork. We also share our big data capabilities with suppliers, enabling them to access insights about sales and promo efficiency.

7,083

Suppliers

30 %

Share of top 30 suppliers in revenue

Corporate Centre

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

Media platform

Food.ru provides consumers with inspiration and information as they discover and plan their food shopping and cooking. With recipes and advice, as well as integration into X5 services like Vprok.ru Perekrestok and express delivery, Food.ru is often the entry point for customers of X5 Group's offline and digital businesses.



Supply chain infrastructure

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

 4 direct import hubs

 406.8 stores per DC

 4,654 Company-owned trucks

 6.36 sqm selling space per 1 sqm of DC space

 47 distribution centres to support offline stores

 0.23 Company-owned trucks per store

 36 dark stores to support digital businesses

Offline businesses

We are constantly developing the CVPs of our offline business to meet changing customer needs and address new segments of the market. While we are refurbishing Pyaterochka and Perekrestok stores in line with new concepts, we have also begun the full rollout of the entirely new Chizhik hard discounter format.

 **17,972 Pyaterochka proximity stores**
in 67 regions

 **990 Perekrestok supermarkets**
in 46 regions

 **72 Chizhik hard discounter stores**
in 4 regions

 **33 Karusel hypermarkets**

Digital businesses



Express delivery

50

Regions

30

Darkstores

6

Darkstores

74

Regions

835

Light trucks

16.9 THS

Pickup points

5.7 THS

Parcel lockers

3.3 MLN

MAU

27 MLN

Orders fulfilled



Vprok.ru Perekrestok



5Post



Mnogo Lososya

50

Dark kitchens (including two franchisees)

Digital businesses



Express delivery

As of 31 December 2021, express delivery service was available from 1,611 stores (923 Pyaterochka stores, 30 Pyaterochka dark stores, 655 Perekrestok supermarkets and 3 Karusel hypermarkets) in 50 regions, compared with 992 stores and 13 regions a year earlier.

In Q4 2021, the number of orders for express delivery was 69.8 thousand per day (including Okolo), with a delivery time of c. 60 minutes and an average ticket of RUB 1,527 at Pyaterochka and RUB 1,775 at Perekrestok, up 4% and 1% year-on-year, respectively. The daily number of fulfilled orders during Q4 2021 peaked in December at 114 thousand on the busiest days.

4×

Revenue increase in 2021
y-o-y



Vprok.ru Perekrestok

In addition to five large dark stores (three in Moscow, one in St Petersburg, one in Nizhny Novgorod), Vprok.ru Perekrestok opened its first small dark store in Moscow to provide fast delivery service to its customers.

In Q4 2021, Vprok.ru Perekrestok's revenue increased by 23.1% year-on-year. The total number of Vprok.ru Perekrestok orders increased by 14% year-on-year and reached 1.5 million in Q4 2021. The average number of daily orders in Q4 2021 reached 16.1 thousand. The average Vprok.ru Perekrestok basket in Q4 2021 increased by 8.1% year-on-year, reflecting further expansion in the assortment to 72 thousand SKUs.

41.5 %

Revenue increase in 2021
y-o-y



5Post

delivery service

In Q4 2021, 5Post's e-commerce delivery service revenue increased by three times year-on-year. Orders fulfilled by 5Post reached 12.2 million in Q4 2021, with 16.9 thousand pickup points and 5.7 thousand multi-parcel lockers. Parcel lockers in operation. Pickup points in stores generate additional LFL traffic of up to 2%-3%.

4×

Revenue increase in 2021
y-o-y



Mnogo Lososya

The Mnogo Lososya ready-to-eat digital service, which became part of X5 Group in late March 2021, continued expanding. As of the end of December, it was operating 50 dark kitchens (including two franchisees), compared with 42 dark kitchens at the end of September.

In Q4 2021, Mnogo Lososya's net sales reached RUB 397 million, up 31.9% quarter-on-quarter with an average ticket of RUB 1,728 in Q4 2021.

+31.9 %

Net sales increase in Q4 2021
q-o-q

Our formats

We are constantly evolving our formats and their CVPs as we adapt to changes in the market landscape, driven by both consumer demand and competitive challenges. While we have rolled out new concepts for our core Pyaterochka and Perekrestok formats, we are also launching a new hard discounter format aimed at rational shoppers who value everyday low prices combined with reliable quality.

As our offline businesses grow, we are also competing in the e-grocery space: our digital businesses often leverage the extensive scale of our operations to further ensure we can be at every stage of the customer journey.





Pyaterochka

17,972

Number of stores
+7.6% y-o-y

7,048 THS SQM

Selling space
+7.7% y-o-y

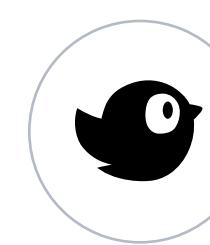
1,794 RUB BLN

Net retail sales
+12.3% y-o-y

81.7 %

Share of X5 Group's net retail sales

Pyaterochka operates conveniently located proximity stores and is Russia's largest food retailer on a stand-alone basis, with 17,972 stores as of 31 December 2021 and net retail sales of RUB 1.8 trillion in FY 2021. The first Pyaterochka was opened in 1999 and today it has stores in 67 regions of Russia. The format's main focus is on being Russia's trusted source for affordable and high-quality food. At the same time, the new Pyaterochka store concept offers customers and employees a modern and comfortable shopping experience, while Pyaterochka express delivery lets customers get the goods they need delivered to their door from a nearby store. Pyaterochka had 47.1 million loyal customers in 2021 and serviced on average 13.8 million customers every day.



Chizhik

72

Number of stores
18x growth y-o-y

20 THS SQM

Selling space
21x growth y-o-y

2.9 RUB BLN

Net retail sales
59x growth y-o-y

0.1 %

Share of X5 Group's net retail sales

Chizhik is X5 Group's new hard discounter format and was operating 72 stores as of 31 December 2021, with net retail sales of RUB 2.9 billion for FY 2021. The new everyday low-price (EDLP) concept focuses on a limited assortment of essential goods, with a high share of private labels that have been developed with the help of customer feedback. This customer engagement has helped generate trust in the new low-price brand. Chizhik serviced on average 16 thousand customers every day.



Perekrestok

990

Number of stores
+6.1% y-o-y

1,099 THS SQM

Selling space
+8.4% y-o-y

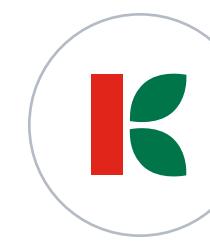
349 RUB BLN

Net retail sales
+13.4% y-o-y

15.9 %

Share of X5 Group's net retail sales

Perekrestok is the largest supermarket business in Russia, with 990 stores as of 31 December 2021 and net retail sales of RUB 349 billion for FY 2021. Perekrestok was also Russia's first supermarket chain, established in 1995. With innovative technologies that improve the customer experience, Perekrestok offers customers a top-class food retail experience. Perekrestok had 14.4 million loyal customers in 2021 and serviced on average 1.7 million customers every day.



Karousel

33

Number of stores
-41.1%

128 THS SQM

Selling space
-42.3%

31.7 RUB BLN

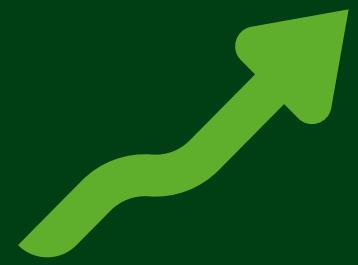
Net retail sales
-43.0%

1.4 %

Share of X5 Group's net retail sales

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

Digital business



Thanks to our strategy aimed at preparing X5 Group for the future of retail, our digital businesses continue to grow at a rapid pace, contributing to overall revenue, customer acquisition and retention.



5Post

22.6 THS

Pickup points and parcel lockers

2.6 RUB BLN

Revenue
4x growth y-o-y

66

Regions of Russia

27.0 THS

Orders delivered in 2021

5Post is a last-mile delivery service established in 2019 that enables e-commerce providers and other X5 digital businesses to deliver goods to parcel lockers, cashier desks and/or pickup points located at X5 stores. As of 31 December 2021, 5Post had 22.6 thousand pickup points in 17.3 thousand locations across 66 regions of Russia, and the business unit delivered a total of 27.0 thousand orders during FY 2021. 5Post reached positive EBITDA profitability in 2021.



Express delivery

1,611

Number of stores

25.7 RUB BLN

Revenue
4x growth y-o-y

19.2 MLN

Orders delivered in 2021

UP TO 114 THS

Number of orders on peak days

Express delivery operations were launched in late 2019. The service offers delivery from local Perekrestok and Pyaterochka stores within 50–60 minutes. Express delivery is a cross-format project that utilises a common digital platform: the formats are responsible for assortment and in-store staff to pick orders, which are then delivered by a third-party courier. As of 31 December 2021, express delivery services were available from 1,611 Perekrestok, Pyaterochka and Karusel stores in 50 regions across Russia. The service handled a total of 19.2 million orders during FY 2021, with up to 114 thousand orders on peak days.



Vprok.ru Perekrestok

5

Large dark stores

18.7 RUB BLN

Revenue
+41.5% y-o-y

4.7 MLN

Orders delivered in 2021

>22 THS

Number of orders on peak days

Vprok.ru Perekrestok is an online supermarket that aims to address demand from customers looking to stock up on groceries and FMCG, with the convenience of delivery to their door or to specially equipped parcel lockers at X5 Group stores. With five large dark stores and operations in three cities as of 31 December 2021, Vprok.ru Perekrestok handled 4.7 million orders in FY 2021, with more than 22 thousand orders being delivered on peak days.

Russia's food retail market

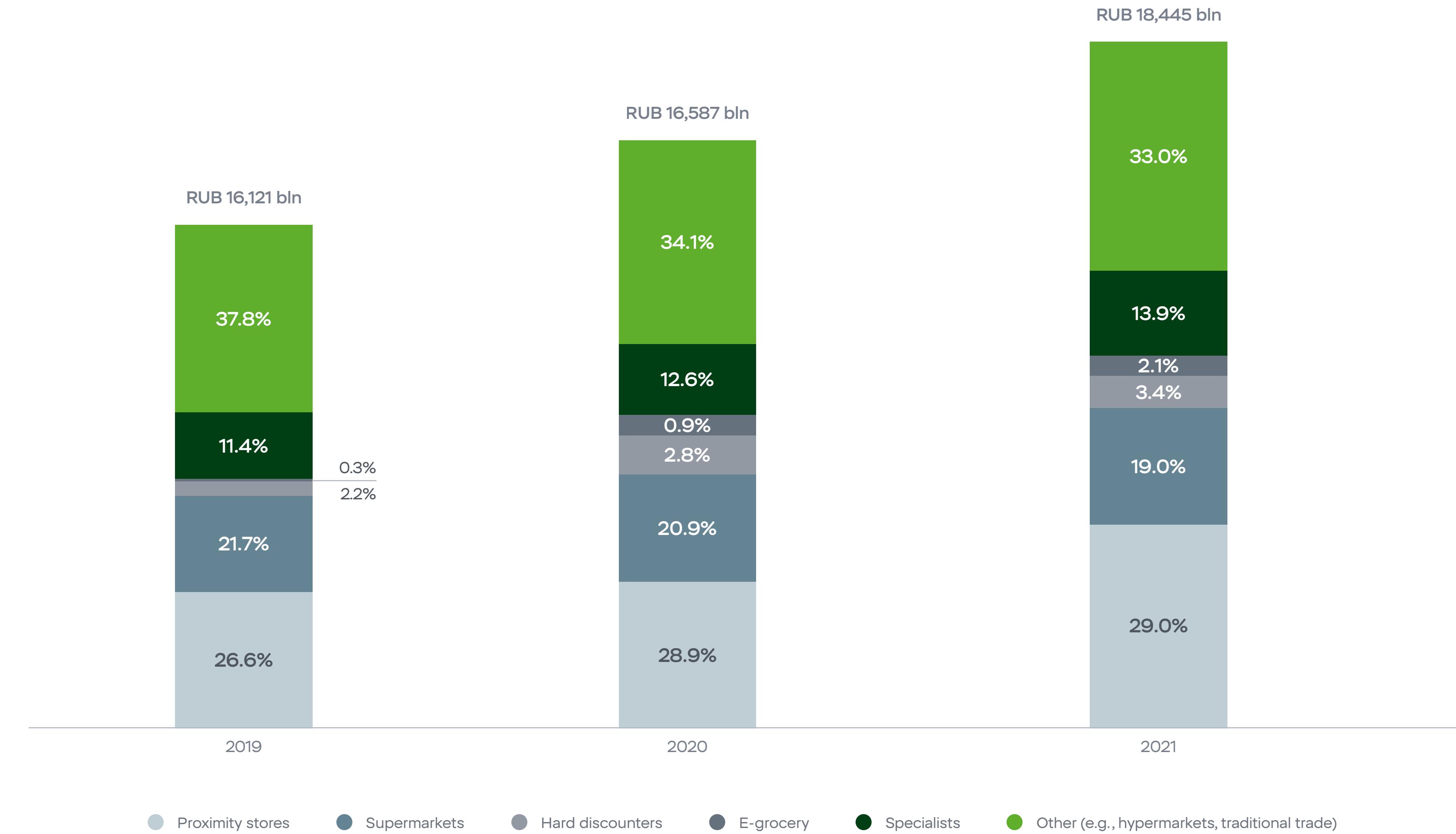
The Russian food market was worth RUB 18.4 trillion in 2021. During the last two years, the fastest growth was seen in the hard discounter and e-grocery segments, where we are actively growing our business.

X5's position in a changing market

We are already the #1 player in the proximity and supermarket segments, with our two traditional formats, and X5 Group is the absolute leader in Russia's overall food market. We are also one of the top players in e-grocery, a rapidly expanding segment defined by fierce competition from online ecosystems and marketplaces. In the hard discounter segment, we are rapidly scaling up the operations of Chizhik, which has shown promising results through its pilot and initial rollout.

- #1 player with 12.7% market share in FY 2021
- Digital business revenue grew by 140% year-on-year
- 62.6 million active loyalty card users

Russian food retail market development



Food market trends in 2021



The wave of consolidation that took place in 2021 meant that, for the first time in five years, X5 Group did not grow revenue at a faster pace than the remaining top-10 food market players, combined.

Top 10 Russian food retailers, % market share

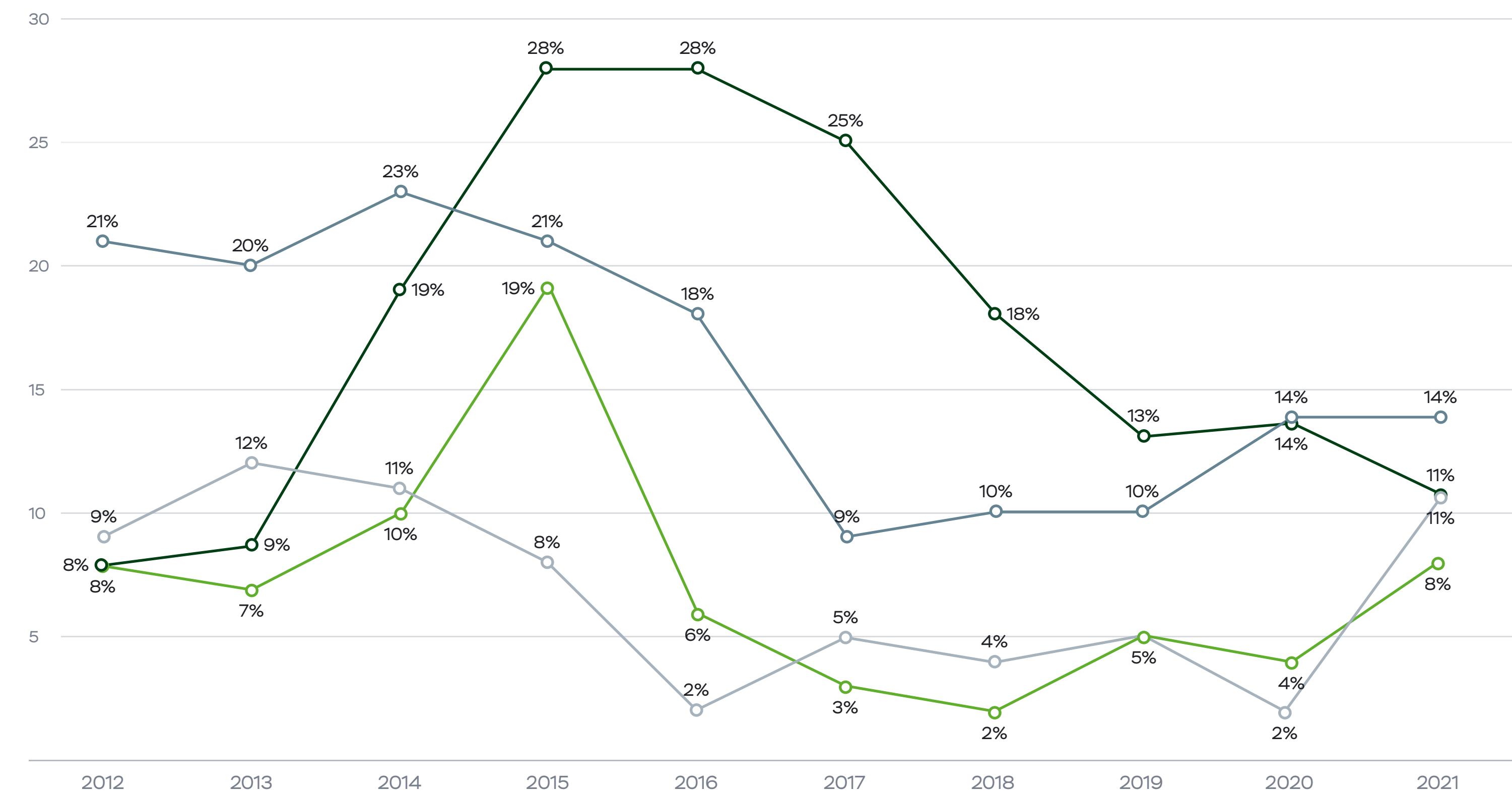
	2021	2020
1. X5 Group	12.7%	12.6%
2. Magnit	9.5%	8.7%
3. Mercury Retail	5.9%	6.2%
4. Lenta	2.4%	2.4%
5. Svetofor	1.8%	1.3%
6. Auchan	1.4%	1.4%
7. METRO	1.1%	1.2%
8. O'Key	1.1%	1.1%
9. Vkusvill	1.0%	0.8%
10. Monetka	0.8%	0.8%
TOTAL TOP 10	37.5%	36.5%

Top 10 Russian online food retailers, % market share

	2021	2020
1. SberMarket	13.7%	11.2%
2. X5 Group	12.9%	13.0%
3. Vkusvill	12.9%	9.4%
4. Yandex	10.5%	7.9%
5. Samokat	10.4%	6.3%
6. Ozon	7.9%	8.3%
7. Wildberries	7.7%	7.8%
8. Utkonos	3.7%	9.0%
9. Delivery Club	3.3%	0.6%
10. Lenta	2.4%	0.7%
TOTAL TOP 10	85.4%	74.1%

X5 vs Russian food retail in top-line growth

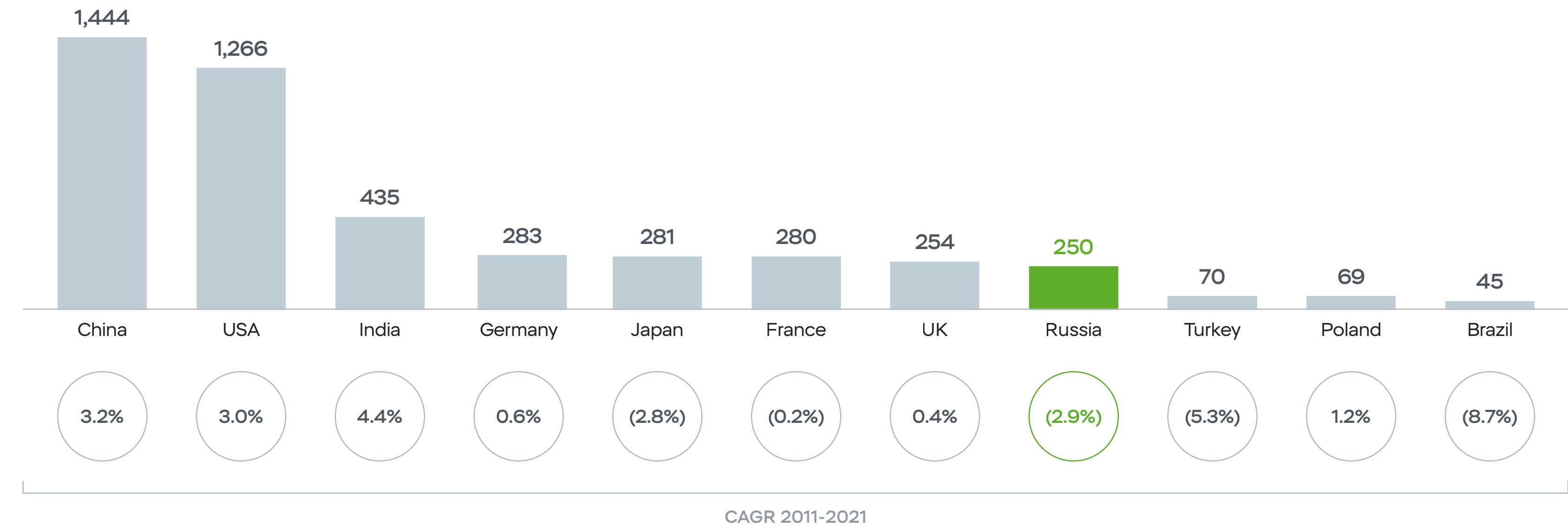
● X5 y-o-y revenue growth ● Top 10 ● Market ● Food CPI



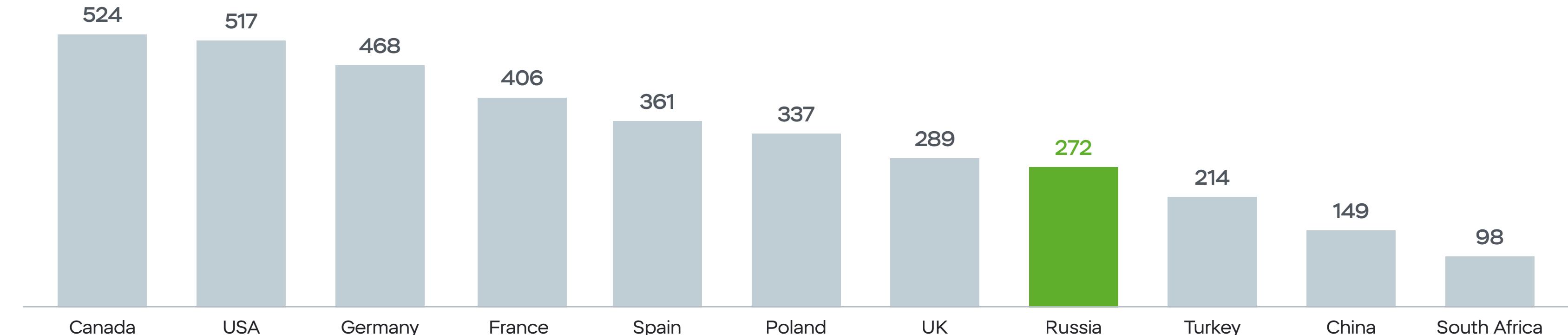
Russian food retail in the global context

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

Grocery retail market size globally in 2021, USD bln

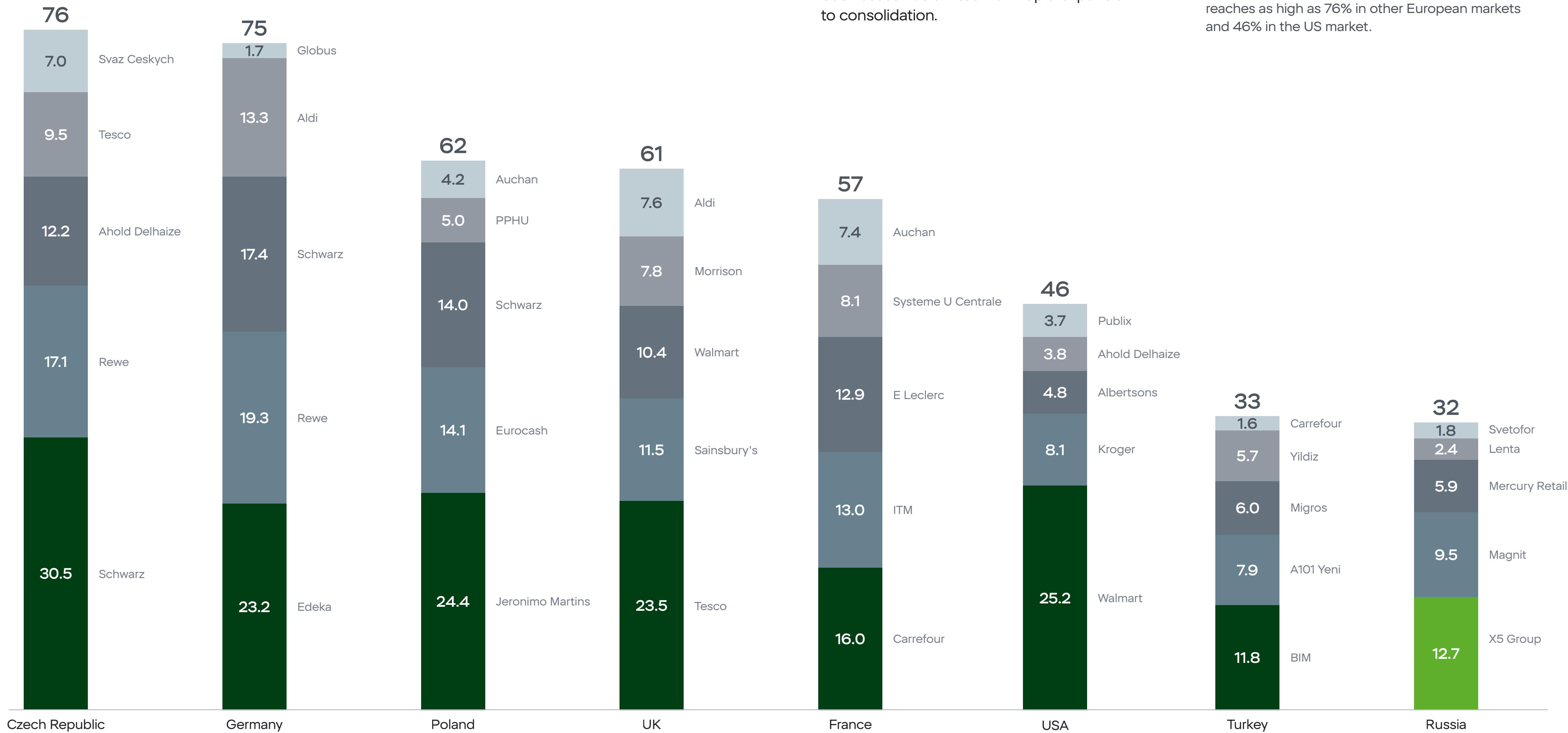


Modern grocery retail selling space per thousand people in 2021, sqm



Source: Euromonitor, Infoline (market size for Russia only)
Note: All numbers are excluding VAT/sales tax

Share of top 5 grocery retailers globally in 2021, %



The main driver of growth for Russian food retail businesses has shifted from rapid expansion to consolidation.

The combined market share of Russia's five largest grocery retailers was 32% in 2021, while this number reaches as high as 76% in other European markets and 46% in the US market.

In this context, we have succeeded in growing primarily through organic expansion of our business, but around half of new openings are replacing smaller, less efficient grocery retailers.

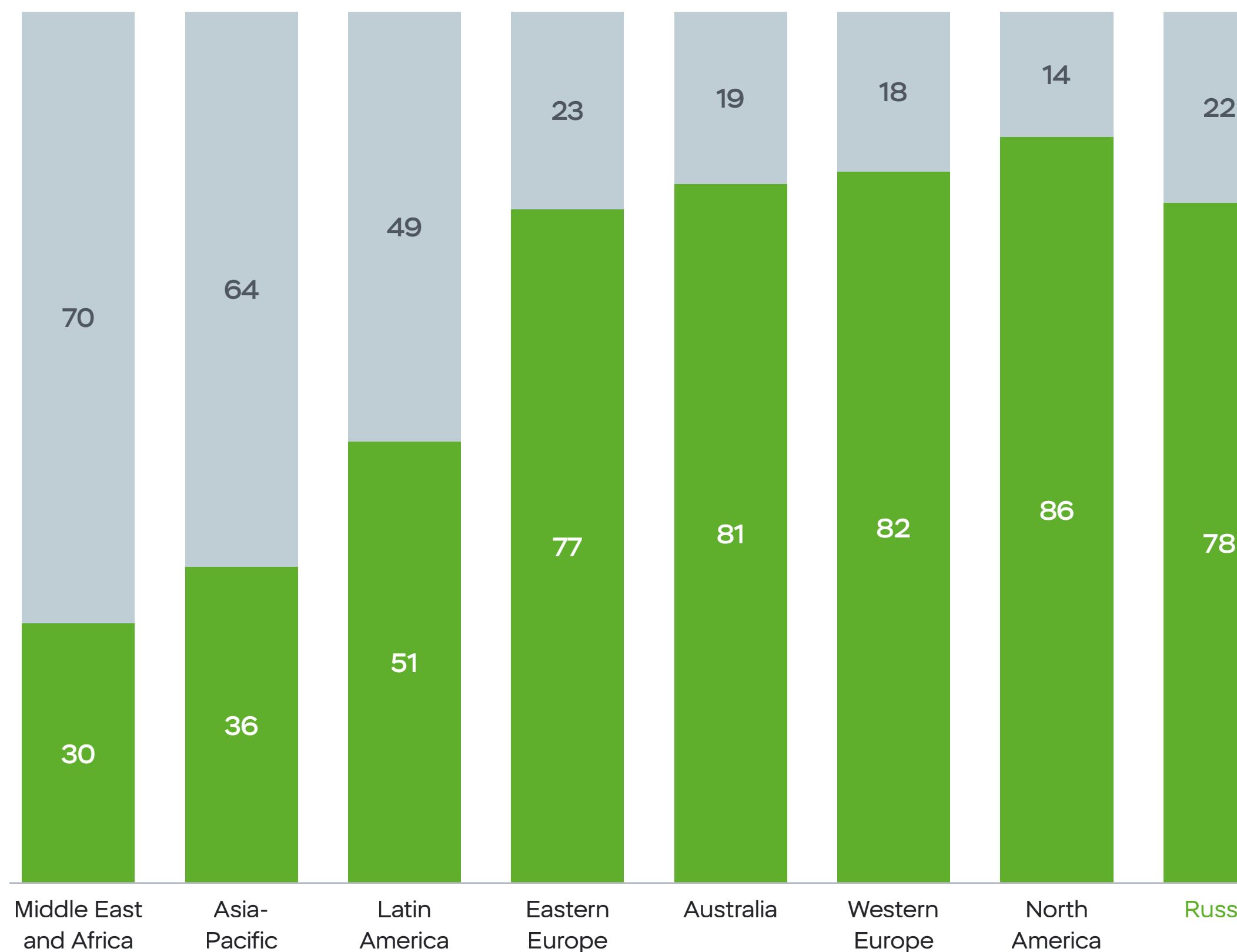
While we act as a consolidator and grow our share of the market, we also expect the continued shift to modern retail and the growing role of federal players like X5 Group.

As the market expands and consolidates, we also expect to see the fastest growth from segments where X5 is already present: proximity/discounters, online and hard discounters.

Overall, X5's current portfolio of is present in what accounts for over 60% of the market today.

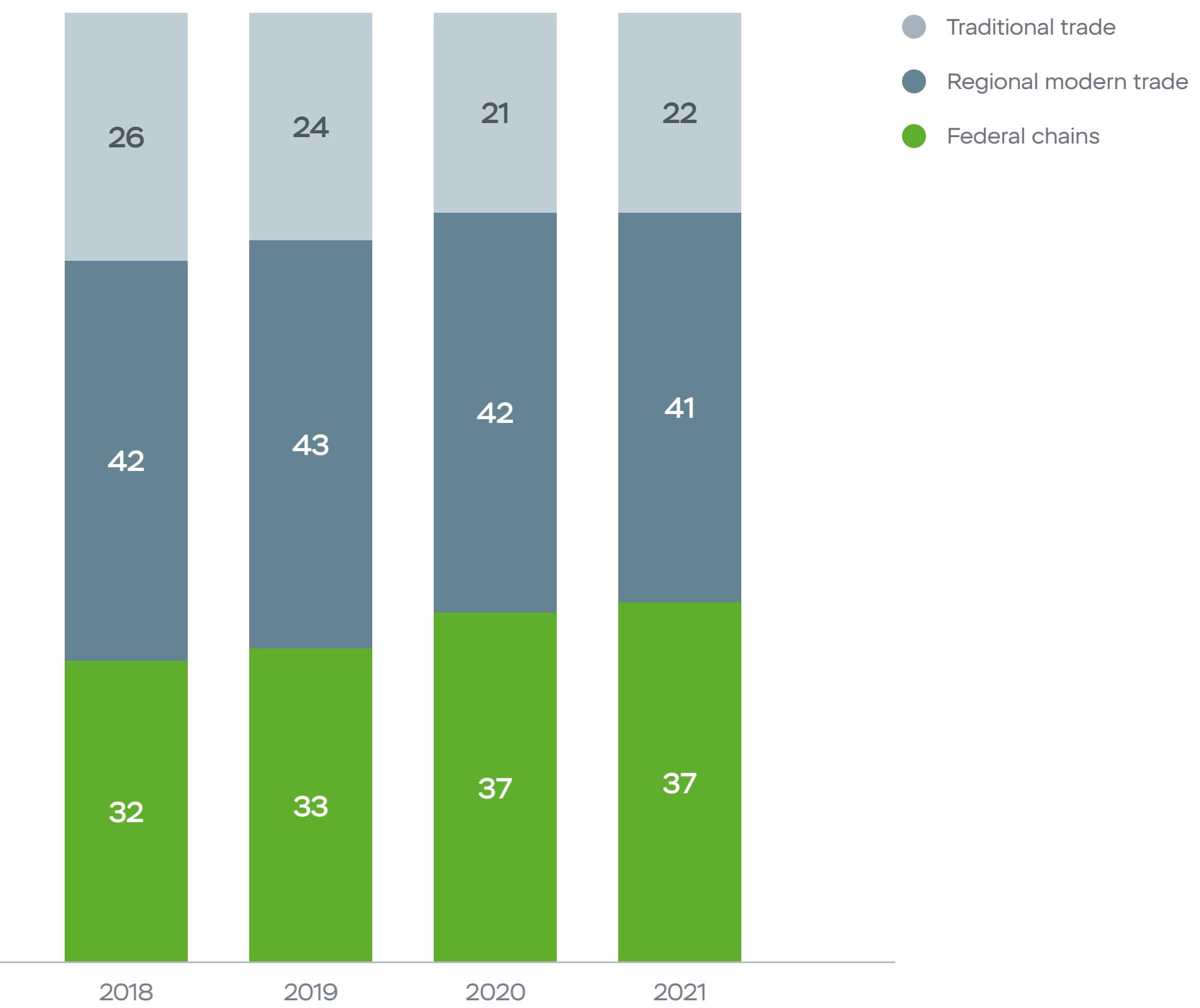
Traditional vs Modern retail in Russia and across key world regions in 2021, %

Market segments → ● Modern retail ● Traditional retail



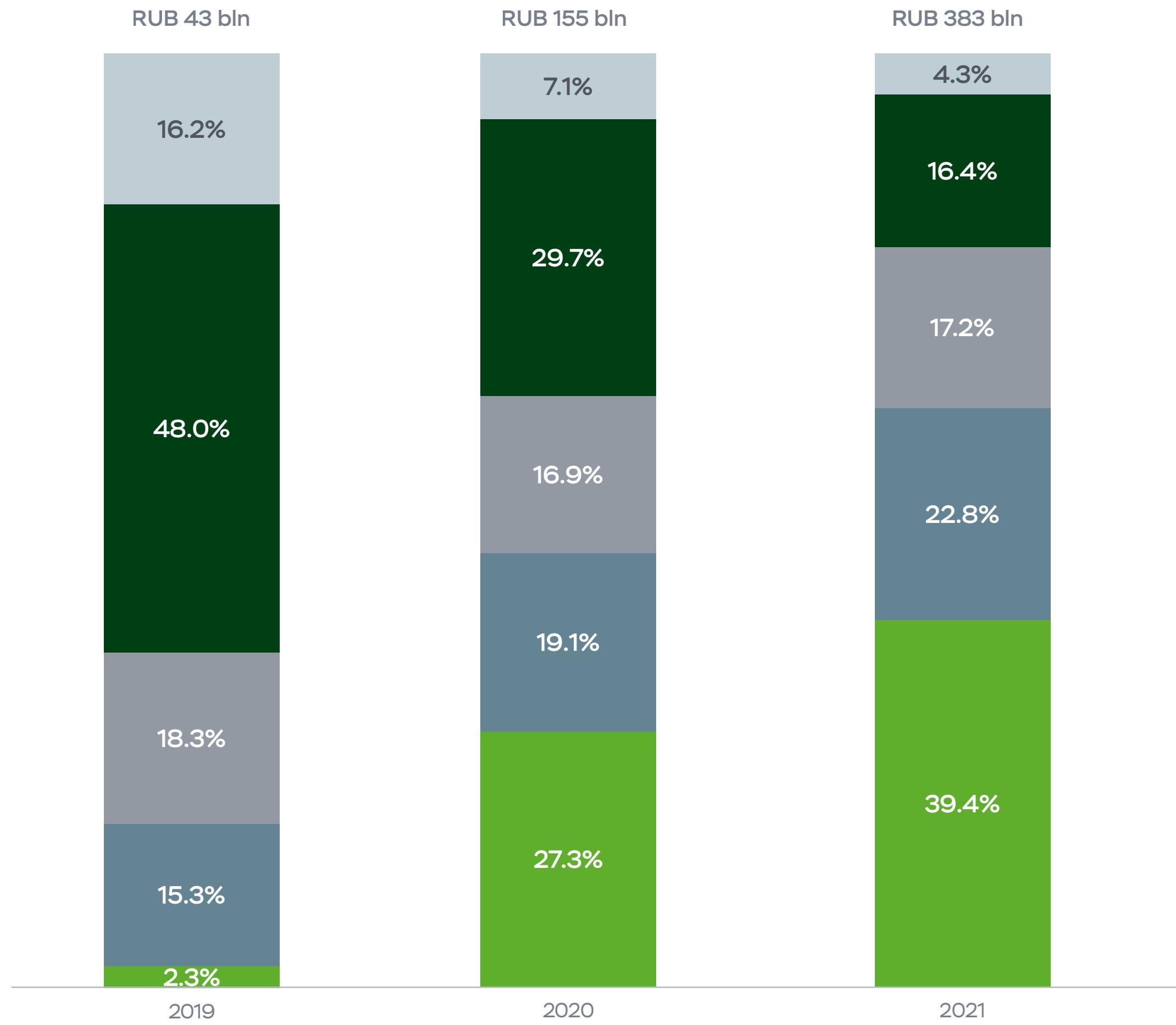
Source: Euromonitor, Infoline for Russia

Russian grocery retail market dynamics, %



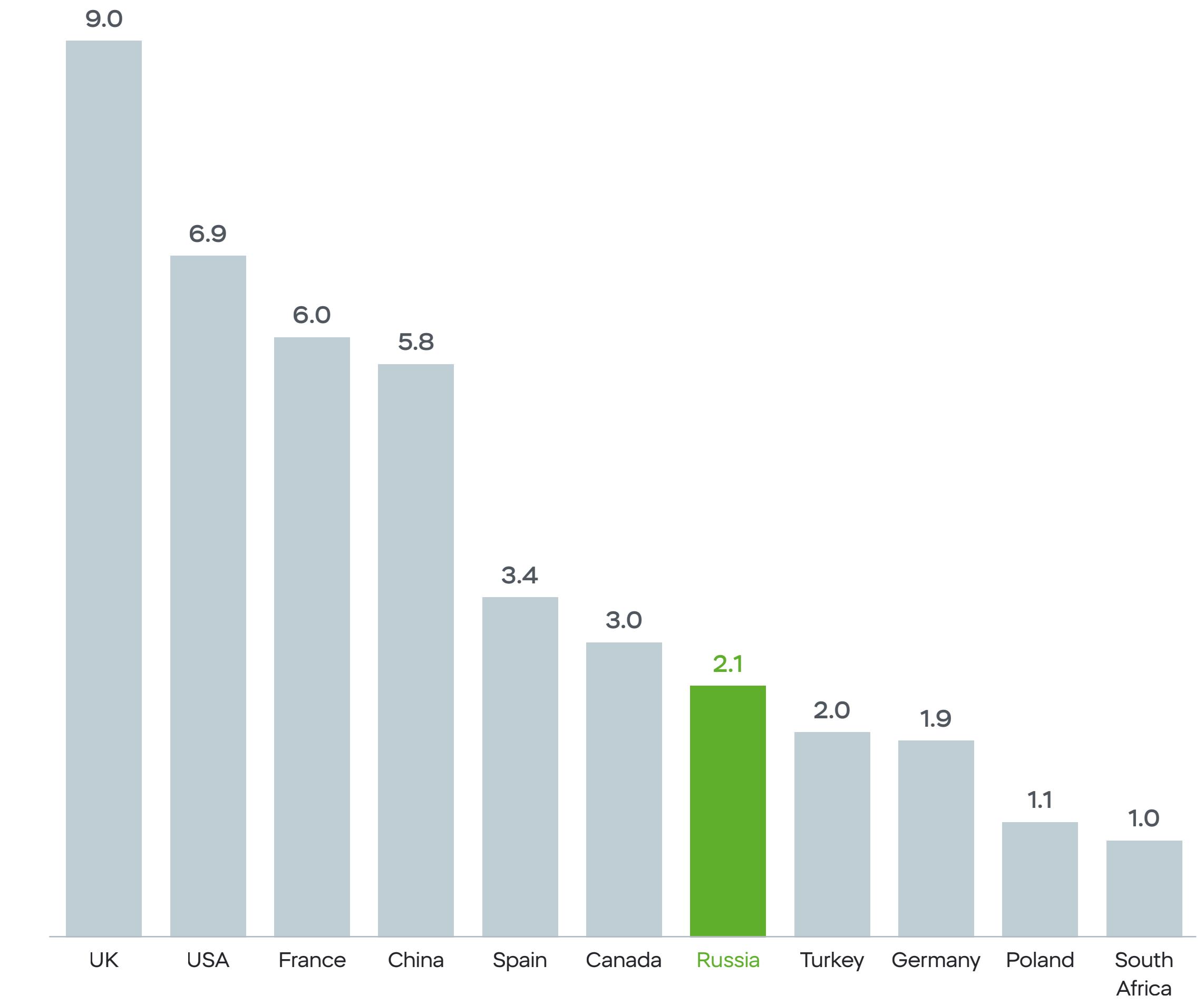
Source: Infoline

E-grocery market development, %



● Express delivery ● Delivery services ● Online marketplaces ● Online hypermarkets ● Other channels

Online grocery sales penetration globally, %



Trends in the economy and consumer behaviour

Selected macroeconomic data

RUSSIAN MACROECONOMIC INDICATORS, YEAR-ON-YEAR COMPARISON, %	Q1	Q2	Q3	Q4	2021			2020		
					FY	Q1	Q2	Q3	Q4	FY
Real GDP	(0.7)	10.5	4.3	9.1	4.7	1.4	(7.8)	(3.5)	(1.8)	(2.7)
RUB/USD exchange rate, weighted average for the period	74.3	74.2	73.5	72.6	73.7	66.1	72.3	73.6	76.2	72.0
CPI	5.6	6.0	6.8	8.3	6.7	2.4	3.1	3.5	4.4	3.4
Food inflation	7.4	7.3	8.1	10.8	8.4	2.0	3.6	4.3	5.8	3.9
Real wage growth	1.6	5.5	2.0	2.8	2.9	6.2	(0.1)	1.8	2.2	3.8
Real income growth	(3.7)	7.9	8.1	0.8	3.4	3.0	(6.4)	(3.1)	0.5	(1.4)
Unemployment rate	5.6	4.9	4.4	4.3	4.8	4.6	6.0	6.3	6.1	5.8
Retail trade turnover, nominal	5.4	32.4	14.2	14.3	15.9	7.5	(12.1)	3.5	3.8	0.7
Food retail trade turnover, nominal	4.1	15.8	11.4	13.3	11.2	7.0	(2.5)	3.2	4.0	2.9

According to preliminary estimates, GDP grew by 4.7% in 2021. By the end of Q3 2021, the economy had recovered to pre-crisis levels at the end of 2019.

GDP growth was driven by a recovery in the global economy and strong domestic demand. The average annual inflation rate increased from 3.4% to 6.7%, while wage growth increased from 7.3% to 9.8%. Lending to consumers accelerated to 20-25% despite the fact that the Bank of Russia doubled the key rate (from 4.25% to 8.5%).

Monetary policy remained soft due to the simultaneous increase in the key rate and inflation. The average annual RUB/USD exchange rate was 73.7, compared with 72.0 a year earlier. At the same time, the exchange rate demonstrated low volatility due to high prices for raw materials and limited service imports.

The rapid recovery in GDP was driven by a rebound in external demand for commodities and domestic demand resulting from the economic stimulus brought about by the combination of fiscal and monetary policies. Low interest rates across the economy and the extension of subsidised mortgage interest rates amid rising inflation and inflationary expectations stimulated consumer demand.

The labour market experienced a shortage due to a low influx of labour migrants and a high rate of mortality. At the same time, the demand for labour quickly recovered as the economy grew. Unemployment reached a record low of 4.3% in December 2021 (4.8% average in 2021). In addition, due to the shrinking labour force, the number of people unemployed reached a record low of 3.2 million.

The strongest demand for labour was seen in sectors such as construction, retail trade and transport. Prior to the pandemic, a considerable percentage of the vacancies in these industries were filled by migrant workers. As a result of imbalances in labour supply and demand, wage growth accelerated from 7.3% to 9.8%

Wages and one-time cash benefits from the state were key drivers of the growth in household incomes. On average for the year, wages increased by almost 9.8%, while the average annual inflation rate was 6.7%. The total cash benefits paid out by the state in August and September amounted to 0.5% of GDP, or almost RUB 700 billion. Up to two-thirds of these funds were used for current consumption, including the food market.

Accelerating inflation threatened to offset any growth in real disposable incomes, and increased inflationary expectations stimulated lending.

Accelerating inflation both in Russia and throughout the world was the result of volatile imbalances in supply and demand in markets for goods and services as a result of the simultaneous impact of stimulus policies and ongoing pandemic restrictions on the functioning of the economy. By the end of 2021, inflation had increased to 8.4%, while food inflation reached 10.6%, its highest point since 2015. In 2020, prices increased by 4.9% and 6.7%, respectively.

In 2021, amid a recovery in household incomes, the grocery retail market grew by 2.3% in real terms and by 11% in nominal terms. Overall, retail trade turnover increased by 7.3% and 15.9%, respectively. Alongside the increase in turnover, consumers adapted to rapidly rising prices. Consumers began to take a more careful approach to spending: they became more price-sensitive, and their interest in promotions and discounts increased.

Legislative changes

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
Ban on the remote sale of nicotine-containing products	<p>Tobacco heating devices and products with heated tobacco were designated as a separate category of goods called nicotine-containing products and devices for consuming nicotine-containing products.</p> <p>A ban on the remote sale of nicotine-containing products was introduced.</p> <p>For more details, see Federal Law No. 303-FZ of 31 July 2020</p>	28 January 2021
Restrictions on the sale of tobacco products manufactured in or imported into the Russian Federation before 1 April 2021	<p>Tobacco products manufactured in or imported into the Russian Federation before 1 April 2021 with a maximum retail price indicated on the consumer packaging (pack) of tobacco products that is below the sole established minimum price of tobacco products may be sold until 1 July 2021.</p> <p>For more details, see Federal Law No. 504-FZ of 30 December 2020</p>	1 April 2021
New requirements for employers	<p>From 1 March 2022, the quota for the hiring of disabled persons shall be considered to have been fulfilled by an employer in the event that employment relationships with disabled persons are formalised in accordance with the established procedure as part of the employer's obligation to employ disabled persons in accordance with the established quota.</p> <p>From 1 January 2022, employers whose average number of employees for the previous calendar year exceeds 25 and newly created entities whose average number of employees exceeds the specified limit are required to publish on the "Work in Russia" digital platform or other sites information on the need for employees and on hiring conditions, on the availability of jobs and vacant positions and on special workplaces equipped (outfitted) for work to be performed by disabled persons.</p> <p>For more details, see Federal Law No. 219-FZ of 28 June 2021</p>	1 July 2021, with the exception of certain provisions

Legislative changes

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
Requirements for providing data on advertising to Roskomnadzor	<p>Advertisers who have placed advertisements online and who meet the criteria determined by the Government of the Russian Federation are required to provide information about such advertising to Roskomnadzor.</p> <p>In the event that Roskomnadzor adopts a decision to ban advertising on sites belonging to foreign entities, a ban on the distribution of advertising on such sites shall be in place.</p> <p>For more details, see Federal Law No. 347-FZ of 2 July 2021</p>	2 July 2021
Amendments to the classification of types of alcoholic products	<p>The notion of "fruit wine" was replaced by "fruit-based alcoholic product".</p> <p>The sale of fruit wines shall remain possible until the end of this year.</p> <p>Cognac and brandy produced and recorded in the Unified State Automated Information System no later than 2 July 2021 are subject to retail sales in the manner and on the terms that were in effect prior to 2 July 2021. But they are to be displayed separately.</p> <p>The term "sparkling wine (champagne)" has been replaced by the terms "sparkling wine, including Russian champagne" and "sparkling wine". From a literal interpretation of the law, it follows that imported products must have the name "sparkling wine".</p> <p>The classification of wines with a protected geographical indication (PGI) / protected designation of origin (PDO) is carried out on the basis of the Russian national system for the protection of wine products.</p> <p>For more details, see Federal Law No. 345-FZ of 2 July 2021</p>	2 July 2021
A list of imported goods subject to traceability (goods for which businesses must submit reports to the Federal Tax Service) was approved	<p>The list of goods subject to traceability includes household refrigerators and freezers, refrigeration and freezer equipment, forklift trucks and other loaders, monitors and projectors.</p> <p>For more details, see Decree of the Government of the Russian Federation No. 1110 of 1 July 2021</p>	8 July 2021

Legislative changes

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
Description of cases in which traceability is applied	<p>Traceability applies in relation to goods specified in the List of Goods in the following cases:</p> <ul style="list-style-type: none">• goods imported into the Russian Federation and released for domestic consumption;• goods imported into the Russian Federation and confiscated or appropriated as the property (income) of the Russian Federation;• goods imported into the Russian Federation and seized pursuant to a court decision for payment of duties and taxes;• goods imported into the Russian Federation from the Eurasian Economic Union, with the exception of customs transit;• goods previously imported into the Russian Federation and that are located in the Russian Federation on the day the List of Goods enters into force (amendments to supplement the List of Goods). From the date of the entry into force of the List of Goods (8 July 2021), entities involved in the sale of goods shall be required to submit a notification of their inventories of goods to the Federal Tax Service of Russia not later than the date of transactions involving the goods. <p>For more details, see Decree of the Government of the Russian Federation No. 1108 of 1 July 2021</p>	8 July 2021
Amendments to the Law on Advertising	<p>The distribution of auditory advertising using audio equipment mounted and placed on external walls, roofs and other structural elements of buildings and other structures is prohibited.</p> <p>For more details, see Federal Law No. 150-FZ of 26 May 2021</p>	25 July 2021

Legislative changes

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
Labelling rules for bottled water	<p>The rules specify:</p> <ul style="list-style-type: none">the procedure for labelling bottled waterthe procedure for information exchange between entities involved in the sale of bottled water and the state information system for monitoring the sale of goodsthe specifications for means of identificationthe procedure for entities involved in the sale of bottled water to provide information to the operator of the information system for monitoring the placement of bottled water on the market, the selling of bottled water and the withdrawal of bottled water from the market. <p>For more details, see Decree of the Government of the Russian Federation No. 841 of 31 May 2021</p>	1 September 2021
Suspension of the enforcement of compliance with the requirements for wine products	<p>The enforcement of compliance with the requirements for wine products in terms of the classification thereof was suspended until 31 December 2021.</p> <p>For more details, see Decree of the Government of the Russian Federation No. 1807 of 22 October 2021</p>	22 October 2021
Amendments to the Labour Code of the Russian Federation regarding electronic document management	<p>Provisions regulating electronic document management (EDM) in the area of labour relations were added to the Labour Code of the Russian Federation.</p> <p>The obligation to issue a hiring order was abolished. This is now the right of an employer.</p> <p>Procedures were established for the use of EDM, for the hiring of employees by employers using EDM, and for interaction between employers and employees through EDM. Employers have the right to use EDM on the basis of a by-law.</p> <p>For more details, see Federal Law No. 377-FZ of 22 November 2021</p>	1 November 2021

Legislative changes

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
The introduction of administrative liability for the sale of medicines without identification and tobacco products without a label	<p>Administrative liability was introduced for committing the following offences:</p> <ul style="list-style-type: none">• selling pharmaceutical products for medicinal purposes without affixing identifying information or in violation of the procedure for affixing identifying information in the event that the affixation of such identifying information is obligatory;• selling goods and products, with the exception of medicines and tobacco products, without a label and/or without affixing information as required by the laws of the Russian Federation, as well as in violation of the established procedure for the corresponding label and/or the affixation of information;• selling tobacco products without a label and/or without affixing information as required by the laws of the Russian Federation, as well as in violation of the established procedure for the corresponding label and/or the affixation of information;• failure to provide required information and/or violation of the procedure and deadlines for submitting said information <p>For more details, see Federal Law No. 204-FZ of 11 June 2021</p>	1 December 2021
The requirements for the carriage of goods by road and the procedure for issuing consignment notes were updated	<p>The requirements for the carriage of goods by road were updated. The procedure for issuing or generating a consignment note was formalised in terms of the requirements for completing said consignment notes; the form that a consignment note must take was specified, as were the requisite details of an order for the provision of a vehicle.</p> <p>For more details, see Decree of the Government of the Russian Federation No. 2116 of 30 November 2021</p>	1 January 2022, with the exception of certain provisions

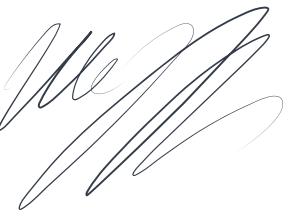
Legislative changes

REGULATIONS	MAIN LEGISLATIVE AMENDMENTS	DATE OF ENTRY INTO FORCE
Amendments to the rules for labelling dairy products	<p>Amendments to the rules for labelling dairy products by means of identification shall enter into force as of 1 March 2022. In particular, the conceptual framework was expanded, the actions of sellers of cheeses and dairy products with a shelf life of up to 40 and of more than 40 days were clarified, the procedure for registering dairy products in the subsystem of the national catalogue of labelled goods was clarified, and the procedure for submitting information to the information system for monitoring in relation to dairy products was clarified, etc.</p> <p>For more details, see Decree of the Government of the Russian Federation No. 2099 of 15 December 2020</p>	1 March 2022, with the exception of certain provisions
New unified lists of products subject to mandatory certification and of products subject to a declaration of conformity	<p>New unified lists of products subject to mandatory certification and of products subject to a declaration of conformity were approved.</p> <p>For more details, see Decree of the Government of the Russian Federation No. 2425 of 23 December 2021</p>	1 September 2022, with the exception of certain provisions

CEO statement

Dear stakeholders,

After successfully navigating the unexpected storm brought on by the COVID-19 pandemic in 2020, X5 adapted to accelerated changes in our market and maintained its growth throughout 2021. Despite several significant external factors that continue to impact the Company as we enter 2022, namely challenging macroeconomic factors that affect everything from labour supply to price inflation and consumer sentiment, and fierce competition both in offline and online, the Company has maintained its strong performance and high growth level.



Igor Shekhterman

X5 CHIEF EXECUTIVE OFFICER, CHAIRMAN
AND MEMBER OF THE MANAGEMENT
BOARD



CEO statement

**Igor Shekhterman**

X5 CHIEF EXECUTIVE OFFICER,
CHAIRMAN AND MEMBER
OF THE MANAGEMENT BOARD

At the same time, we are taking steps to address these challenges and ensure that our position as Russia's #1 food retailer is secure over the long term. The success of these actions is reflected in our performance: revenue growth accelerated to 11.5% year-on-year in 2021 to RUB 2.2 trillion, and we achieved a 7.3% EBITDA margin pre-IFRS 16. Despite the challenging external environment, X5 delivered solid performance in 2021. We take a long-term view of our business and we seek to anticipate consumer demand and ensure we are well positioned across all commerce channels. As such, we continue to develop our digital businesses, which comprise e-grocery services, 5Post and Mnogo Lososya. Revenue from our digital businesses rose 140% year-on-year to RUB 47.9 billion and contributed 2.2% to our consolidated revenue for 2021 (including a 2.7% share in Q4 2021).

ESG performance was another area where we excelled, with the Company on track to achieve or over-delivering on the 2023 targets set by the Supervisory Board. X5 improved its key ESG ratings (MSCI ESG, S&P Global, CDP) and published its first sustainability report under GRI Standards in 2021.

We achieved other key strategic milestones in 2021: we expanded the reach of our offering to cover all stages of the customer journey, with the launch the Food-centric media platform Food.ru, which attracts customers looking to plan meals and discover new food ideas; Food.ru already has 21 million MAUs.



We also launched payment services and piloted subscriptions, which will be integrated into our existing loyalty programmes.

Our core grocery formats have continued developing with a focus on adjusting their CVPs to market and customer trends. Based on the current macroeconomic situation and long-term dynamics in real disposable incomes in Russia, we took a decision to launch a new offline format, the Chizhik hard discounter brand. We believe that in the medium term, the hard discounter segment will be the fastest-growing part of the food retail market, and Chizhik gives X5 exposure to new groups of customers, complementing our existing footprint.

We maintain our position as one of market leaders in Russia's fast-developing e-grocery segment, thanks to our scale, efficient logistics, customer loyalty and strong in-house digital capabilities.

Looking at internal processes, we are working to reduce capital expenditure as a percentage of revenue. Capital investments under pre-IFRS 16 in 2021 amounted to RUB 97.9 billion, or 4.4% of revenue vs 4.5% in 2020. We opened 1,414 new stores and six DCs. In addition to new openings, we refurbished 1,037 stores and invested in projects to improve efficiency, logistics and new businesses. We also completed the next stage of our digital transformation programme, which had a positive impact of RUB 18 billion on X5 Group's FY 2021 EBITDA. Despite the significant investment programme in 2021, our net debt/EBITDA remained at a comfortable level of 1.67x under pre-IFRS 16 at year end.

On top of that, X5 significantly strengthened its free cash flow generation, driven by a continued focus on working capital improvements. In FY 2021, we delivered an adjusted FCF under pre-IFRS 16 of RUB 73 billion, which is RUB 56 billion higher than in 2020.

In 2021, we implemented changes to our senior management team with the appointment of Vsevolod Starukhin as CFO of X5. In January 2022, Vladislav Kurbatov, previously General Director of Perekrestok, was appointed General Director of Pyaterochka. The seamless transition of both Vsevolod and Vladislav into their new roles has further strengthened X5's senior team, ensuring we are ready to seize opportunities as they emerge in the year ahead.

Main highlights of 2021

- X5 continued to deliver revenue growth and securely maintained its #1 position on the food retail market, despite consolidation by major competitors during the year.
- Our e-grocery business continued its aggressive expansion, remaining firmly on track to achieve profitability and maintaining a high quality of service that attracts and retains customers for our offline businesses. The number of express delivery orders increased by four times to 19.2 million in 2021, while Vprok.ru Perekrestok delivered 4.7 million orders, up 30.1%.
- Our 5Post e-commerce delivery service reached positive EBITDA in 2021, having delivered 27.0 million e-commerce packages, finishing the year by handling 5.1 million parcels in December through its network of 5,692 parcel lockers and 16,943 delivery points at X5 stores.
- We maintained an EBITDA margin pre-IFRS 16 of 7.3% and continued investments in digital transformation and the development of the Chizhik format.
- We sustained positive momentum in personnel turnover and labour productivity: turnover declined 1.5 p.p. to 36.4%, and our average labour productivity improved by 7.4%.
- We continued to roll out new concepts and CVPs in our proximity and supermarket formats, having refurbished 1,037 stores (992 proximity and 45 supermarkets). The new concept stores continued to demonstrate strong like-for-like and NPS dynamics compared with the previous concept.
- We began the rollout of Chizhik hard discounter stores, with 72 stores as of 31 December 2021 and plans to open over 3,000 stores in the next three years.
- The Food.ru media platform was launched in July 2021. This new digital media platform helps us to attract customers at the search and discovery stage of the customer journey.
- The formats' loyalty programmes are adding joint initiatives with its strategic banking partner.
- We entered the Irkutsk region in November 2021 – our 67th region of our presence in Russia.

Delivering on strategic targets

X5 remained the leader in food retail, with a market share of 12.7%, up from 12.6% in 2020. We also remained among the top players in e-grocery, with digital sales growth continuing at a rapid pace, rising by 140% year-on-year to RUB 47.9 billion. Our digital consumer platforms had a combined total of 26.8 million MAUs, up by 78% year-on-year.

In line with our goal of strengthening our existing business, we achieved higher sales densities, which rose to RUB 271.5 ths/sqm from RUB 262.3 ths/sqm in 2020. In addition, we continued to increase the number of active loyalty card users, with a rise of 3.2% year-on-year to 62.6 million in FY 2021.

At the same time, the overall performance of X5's retail store portfolio is at an all-time high with the number of retail stores in "clinic" at a record low.

With a relentless focus on efficiency and improving the customer experience, X5 is a market leader in digitalisation.

Market environment

While the market environment was challenging in 2021, X5 was among the best placed to continue to create value for a wide range of stakeholders, during the year. Real GDP growth turned positive in 2021 and was 4.7%. Real disposable income also moved into growth territory, rising 3.4% for the year.

Despite these positive trends, customers began demonstrating rational behaviour in the context of high inflation levels in 2021, while also continuing to shift towards using online services as an essential part of their food shopping routine.

Unemployment continued to fall, reaching 4.3% at the end of 2021, the lowest level since August 2019. Demand for labour remains strong, while supply is restricted amid reduced labour migration and a declining working-age population due to the ongoing Covid-19 pandemic.

Client-facing and back-office digitalisation projects had a positive impact of RUB 18 billion on EBITDA for 2021, compared with RUB 7 billion a year earlier.

Our strategy aims to create value for all of our stakeholders, including our shareholders. In 2021, EBITDA margin was 7.3% under pre-IFRS 16, and total shareholder return over the last three years was 31.8% in RUB as of December 2021. Adjusted ROIC (pre-IFRS 16) increased by 1.0 percentage points year-on-year in 2021; FCF improved by 315% in 2021. I believe this demonstrates that we have been effective in delivering what our shareholders expect, while creating value for all our key stakeholders.

Our environmental, social and governance performance is another strategic priority for X5 Group. We will disclose our progress against our ESG strategy targets in our sustainability report, which will be published in May 2022.

At the same time, food inflation grew faster than disposable income, reaching 8.4% for the full year and leading to cost-conscious customer behaviour. Increasing costs and prices have spurred higher government involvement in the food market, as officials seek to keep inflation under control.

During this difficult year, the market underwent active consolidation, with the combined share of the top 10 players accounting for 37% in 2021.

In the digital space, ecosystems and marketplaces that did not historically specialise in food have sought to use this market as another way to keep consumers on their own platforms, often sacrificing margins and profitability to gain market share.

Responding to challenges

Years of work on developing a strong company capable of delivering sustainable growth in a changing market means we are in a good position to adapt to the challenges we face today. Amid the latest external developments, X5 has a number of strengths that support our continued growth.

The first is a robust infrastructure that has been refined during the economic challenges of 2020-21 and has proven flexible in responding to new market demands. This includes our in-house logistics infrastructure and our dedicated direct import operations, which enables us to ensure continued deliveries from suppliers all over the world. Our own digital sales platform, supports the resiliency of our business amid challenges that may arise for domestic players in the digital sphere. Meanwhile, our technology platform that relies largely on in-house developments further ensures the flexibility and information security of our business.

X5's long-term approach to relationships with suppliers enables us to maintain a stable supply of goods while diversifying our customer offering. We focus on partnerships with local suppliers to ensure the quality and freshness of our products, and continuously bring new suppliers on board to expand our assortment. The development of X5's private labels is a major initiative in this regard, and responds to increasing demand among rational consumers seeking the best value for their money.

We are already addressing increased competition in our offline operations through the rationalisation of our CVPs across formats and the rollout of Chizhik, X5's hard discounter. As labour and other resources increase in cost, we are expanding the digitalisation of business processes in commercial operations, supply chain and back office, as well as optimising our supply chain and increasing our purchasing power. In response to the growing footprint of online ecosystems in the food market, we are also expanding our own digital infrastructure to reach across the entire customer journey and support our core businesses.

We are well-placed to address these challenges: X5 has a track record for innovation and strong in-house technology capabilities; organic growth is part of our DNA, and our strong brands will continue to replace smaller existing players as they expand further. We have also succeeded in quickly integrating new businesses like Mnogo Lososya dark kitchens while creating and quickly rolling out our own new businesses and services, like 5Post and express delivery. Finally, our flexible business model has enabled the Company to build up sufficient cash reserves to continue implementing our strategy in changing market conditions.

I am confident that X5 will continue to grow and adapt, remaining Russia's top food market player and delivering value for shareholders in the years ahead.

Sustainable development

We announced our sustainable development goals for 2023 in the autumn of 2020, and I am happy to inform you that, as of 31 December 2021, we were significantly ahead of schedule or had already achieved our goals. X5's sustainable development strategy is focused on four different areas where we can make the greatest impact: health, the planet, employees and communities. We continue to integrate these goals into our business processes and to develop sustainability projects.

However, given the current environment resulting from external events, it is extremely important to double down on our support for local communities, in particular our programme for helping the most vulnerable members of society. We plan to scale up our "Basket of Kindness" project in 2022 in order to offer food support to more people than before, including by increasing the supplies we donate to charities.

We also understand that X5 Group's sustainability is a result of the hard work of our employees, who ensure smooth day-to-day operations, which is why we need to increase our focus on supporting our staff and improving working conditions and safety.

Sustainability will be one of X5 Group's key strategic priorities in the years to come, and I am certain we can make an even bigger impact together.

Outlook

Looking ahead to 2022, we are now operating in unprecedented and historic times, with volatility and unpredictability becoming the defining factors influencing the Russian economy and business. While we currently continue our normal day-to-day operations without interruption, X5 Group is also engaged in contingency planning to ensure business continuity, including selection of key suppliers, liquidity management and debt portfolio diversification.

We are realistic about the challenges we face, but optimistic about our ability to continue to deliver solid financial performance in the long term. We expect to achieve double digit revenue growth, optimise capital expenditure and deliver strong positive cashflow.

Thank you for your continued interest in X5 Group. We are living in challenging times, but I wholeheartedly believe that X5 has the right team and the right strategic approach to continue to successfully navigate the difficulties we will face in 2022 and to thrive in the years ahead.

Our future-ready strategy

X5 Group's strategic focus remains on leading the introduction of innovations and new technologies for food retail while continuing to develop and strengthen our existing business. This approach has enabled us to adapt quickly to changes in the market landscape, from evolving customer preferences and intensified competition to the impact of COVID-19 on everything from consumer behaviour to supply chains and the labour market.

During 2021 we made significant progress towards our goal of being with customers at every stage of their food purchasing journey, launching the Food.ru media platform, integrating Mnogo Lososya dark kitchens and beginning to offer X5 Bank financial services.

We are pursuing this strategic goal because most of our customers function in a digital environment, even if they make their food purchases offline. Beginning our engagement with current and potential customers at the stage of planning and discovery through a media platform like Food.ru will be a key way to guide them towards X5 Group services, and to compete with emerging online commercial ecosystems that also offer their users food retail services.

At the same time, we have undertaken major initiatives to strengthen our existing business, from the full launch of our Chizhik hard discounter format and the ongoing refinement of existing formats' CVPs to numerous digitalisation initiatives aimed at further improving the efficiency and accuracy of planning and decision-making.

After the reporting date, we announced our decision to explore ways to develop Vprok.ru Perekrestok together with an ecosystem partner like Sber. We believe that the expanded audience that the Sber ecosystem could bring to Vprok.ru Perekrestok could benefit the online hypermarket's business model. Express delivery services from stores and mini-dark stores will remain an area that we at X5 Group focus on, as we believe this is the best way to leverage our existing infrastructure to create value for our customers and shareholders.

Our sustainability strategy continues to develop, and while we are well on target to meet or beat our 2023 goals, we are also working to build out what we started, including the introduction of a climate strategy in 2022.

We continue to be the absolute leader in Russia's food retail market, and successful implementation of our strategy has enabled us to strengthen this position while also maintaining profitability margins. Looking ahead, I am confident that all of our stakeholders stand to benefit as we continue to deliver on our strategic business and sustainability goals.



Vladimir Salakhutdinov

DIRECTOR OF STRATEGY
AND BUSINESS DEVELOPMENT



Strategic goals to 2023

Throughout 2021 we worked hard to achieve our 2023 strategic goals while adapting to challenging market conditions during the year. Thanks to our focus on efficiency and investments in creating robust business processes and retail operations infrastructure, we were able to turn the challenges we face into opportunities.

With our customers at the centre of everything we do, we seek to create value for X5 shareholders and all our stakeholders by building a multifaceted food retail business that provides Russian society with modern, reliable and high-quality goods and services.

Leadership in the food market

TODAY 2021

12.7 %

Share of grocery market in 2021

62.6 MLN

Total active loyalty card users
+3.2% y-o-y

+140 %

Growth in digital sales

272 RUB THS/SQM

Sales density LTM
+3.5% y-o-y

2023 TARGETS



Leader in grocery
15% market share

Leadership in digitalisation

18 RUB BLN

EBITDA impact from digitalisation projects

26.8 MLN

MAUs
+78% y-o-y



Industry leader in digitalisation

Commitment to shareholders

17.1 %

Adjusted ROIC
(pre-IFRS 16)

7.3 %

EBITDA margin
(pre-IFRS 16)

31.8 %

3Y TSR in RUB



Strong return on equity to shareholders

Care for the community



Published first sustainability report under GRI Standards



Established Sustainable Development and Innovation Committee at Supervisory Board level



ESG agenda is a natural part of X5's DNA

LEADERSHIP IN THE FOOD MARKET

At least

15 %

Share of food
retail market

LEADERSHIP IN DIGITALISATION

At least

38 MLN

Monthly active users
of X5 digital channels
and mobile apps

At least

5 %

Share of revenue from
digital businesses

COMMITMENT TO SHAREHOLDERS

Increasing shareholder value

COMMITMENT TO SUSTAINABILITY

Meet sustainability goals approved
under the sustainability strategy

Continue dialogue with stakeholders
to adapt sustainability priorities

2023

STRATEGIC
GOALS

Converting challenges into opportunities

We remain focused on the key strategic pillars for strengthening our existing business, furthering X5 Group's digital transformation and leading the way to next-generation retail.

At the same time, we are operating in challenging macro and market conditions, with growing competition, rising prices and declining household incomes.

We are addressing these challenges in three main ways:

- As new offline competitors emerge and existing players improve their offer while disposable household incomes decline, we are already in the process of rationalising our CVP across all formats and rolling out a new hard discounter format, Chizhik.
- With rising costs for resources, from labour to the food we sell on our shelves, we are investing in further digitalisation and automation of products and processes in order to achieve sustainable long-term savings that can be shared with customers. We are also optimising operations across the supply chain and constantly reviewing ways to further leverage X5 Group's purchasing power and the scale of its infrastructure.
- In the online space, we are seeing ecosystems move into food retail as an attractive way to strengthen ties with users. X5 already has well-developed online businesses and has made good progress towards creating a digital infrastructure that enables X5 Group to address this competition. We are now able to engage with customers at every stage of their journey in the process of purchasing food, from discovering recipes on our Food.ru media platform to paying with an X5 Bank branded debit card.



Growing competition in offline segment triggered by a decline in disposable household incomes

CVP rationalisation across our formats

Rollout of a hard discounter



Increasing cost of resources

Scaling up digital products in commerce, operations, supply chain, back office

Optimising supply chain network across X5

Leveraging purchasing power and scale of existing infrastructure



Growing ecosystem footprint in food

Food.ru
media platform

X5 Bank
financial service

Dark kitchen
service

Single ID and subscription
service

Online delivery
platform

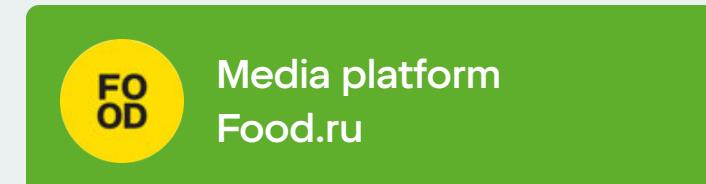
Expanding our footprint in the customer journey

We believe that a key element to the long-term success of our core businesses is expanding our ability to engage and attract customers across all stages of their food purchase process. The customer journey often begins with searching for recipes or planning a menu, for example, which is why we have integrated the Food.ru media platform into our business.

By the end of 2021, customers could use their X5.ID single sign-on account to browse articles and recipes, contribute their own content, and then compile an order via Vprok.ru Perekrestok with the click of a button. As we expand our reach into the broader food market beyond just groceries, the dark kitchen service Mnogo Lososya has also become a key element of our ability to address customer demand for quick delivery of meals that are ready to eat. Payment and subscription services mark the end of the customer journey, and we have already launched X5 Bank financial services, which are integrated into Perekrestok and Pyaterochka loyalty programmes.

These various digital businesses and “enablers” help us to acquire and retain customers, and nearly all are revenue-generating for X5 Group.

Planning



Media platform
Food.ru

Search / selection



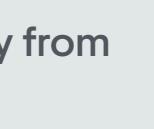
Online hypermarket
Vprok.ru Perekrestok



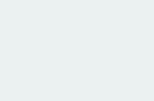
Express delivery from
X5 retail chains



Pyaterochka



Perekrestok



Chizhik



Mnogo Lososya dark kitchens



Last-mile e-commerce platform

Realisation



X5 Bank



Subscription
service



● X5 core businesses retail chains
and ready-to-eat food

● Enablers

● Digital businesses

X5 digital services impact

X5 business	Customer acquisition	Increasing customer retention	Revenue
 X5 express delivery	→ 		
 Vprok.ru Perekrestok	→ 		
 5Post	→ 		
 Mnogo Lososya	→ 		
 X5 Media	→ 		
 X5 Bank	→ 		

Strategic progress

We made good progress towards our 2023 goals during 2021

CORE PRINCIPLES AND 2023 GOALS	2021 RESULTS	NEXT STEPS		
Leadership in food market >15 % Share of grocery market	<ul style="list-style-type: none"> Continued refurbishments at Perekrestok and Pyaterochka to upgrade to new store concepts, which continue to achieve higher LFL sales and traffic performance Began rollout of Chizhik, which is delivering sales density that is 62% higher than our proximity format Digital business sales rose by 140% year-on-year and reached 4.0% of revenue in Moscow and the Moscow region 	<ul style="list-style-type: none"> Post e-commerce logistics platform delivered 27 million parcels in 2021 and achieved a positive EBITDA for the year Acquired and integrated the Mnogo Lososya dark kitchens business Expanded use of big data-driven CVM project that automates personalised offers for customers Converted 13 Karusel stores into large Perekrestok supermarkets 	<ul style="list-style-type: none"> Re-enforce CVPs across the portfolio and implement a set of actions in Pyaterochka and Perekrestok to further improve value for customers Open over 3,000 Chizhik stores in 2022-2024 Develop fast/express delivery from stores and ultra-fast delivery from mini-dark stores as primary area of focus in e-grocery Further integrate X5 Group's core food retail businesses into the Food.ru media platform Launch subscription service for food customers Continue to pilot new formats and sub-formats to meet consumer demand Pursue partnership opportunities for further development of Vprok.ru Perekrestok 	
Leadership in digitalisation >38 MLN MAUs in X5 digital channels and mobile apps	>5 % Share of digital businesses in revenue in 2023	<ul style="list-style-type: none"> MAUs for X5 digital services reached 26.8 million in Q4 2021 Digital transformation had an estimated positive impact on X5 Group EBITDA of RUB 18 billion Digital business revenue accounted for 2.2% of X5 Retail Group's total FY 2021 sales and was as high as 4.0% in Moscow and the Moscow region 	<ul style="list-style-type: none"> Continued to roll out technologies developed in-house, including facial-recognition payment options and self-scan trolleys with built-in payment services Maintained position as one of the leaders in e-grocery in Russia Received over 452 million product ratings from customers online and via mobile apps 	<ul style="list-style-type: none"> Transfer to new IT architecture that will achieve a new level of speed and flexibility Leverage big data tools and omnichannel capabilities to better meet the needs of a wider group of consumers Continue to improve communication with customers through online and mobile apps Continue end-to-end integration of X5.ID single sign-on as a convenient way for customers to access non-X5 online services Test and develop new and innovative food retail offerings that can enhance the CVP of X5's businesses
Commitment to shareholders Growing shareholder value	<ul style="list-style-type: none"> Achieved 11.5% annual revenue growth Maintained EBITDA margin pre-IFRS 16 above 7% Reduced shrinkage level by 10 b.p. Reduced employee turnover by 1.5 p.p. 	<ul style="list-style-type: none"> Continued to grow cash return on newly opened stores and maintained the share of underperforming stores in "EBITDA clinic" at 2.2% of the store base in Q4 2021 	<ul style="list-style-type: none"> Achieve at least 10% annual revenue growth Maintain EBITDA margin pre-IFRS 16 above 7% Maintain focus on improving operational efficiency and reducing shrinkage Focus on personnel engagement Maintain solid financial position, with net debt/EBITDA pre-IFRS 16 below 2.0x Increase ROIC and FCF as well as reduce capex as percentage of revenue 	

Geography of operations

As we move towards the future of retail, the breadth and depth of our operations will play key roles in enabling X5 Group to remain the leader in Russia's food market, delivering profitable and efficient growth, both offline and online, while constantly improving existing operations. At the end of 2021, X5 was operating 19,121 retail stores, five large dark stores, 31 small dark stores and 47 distribution centres in 67 regions across seven of the eight federal districts in Russia.



Number of stores¹
as of 31 December

	1 CENTRAL	2 NORTH- WESTERN	3 CENTRAL AND NORTH-WESTERN	4 VOLGA	5 URAL	6 SOUTHERN	7 NORTH CAUCASUS	8 SIBERIAN	TOTAL
2021	7,181	1,998	9,179	4,895	1,672	1,951	388	1,036	19,121
2020	6,703	1,910	8,613	4,621	1,535	1,718	334	886	17,707
2019	6,301	1,836	8,137	4,306	1,358	1,501	293	702	16,297
2018	5,822	1,668	7,490	3,820	1,168	1,222	252	479	14,431
2017	5,198	1,416	6,614	3,169	999	874	188	277	12,121
2016	4,077	1,095	5,172	2,468	764	606	137	40	9,187

¹ Based on federal districts of the Russian Federation

Rapid rollout of digital businesses

We continue to expand our digital businesses, leveraging a robust IT infrastructure and extensive retail operations to deliver agile services without losing our focus on the bottom line.

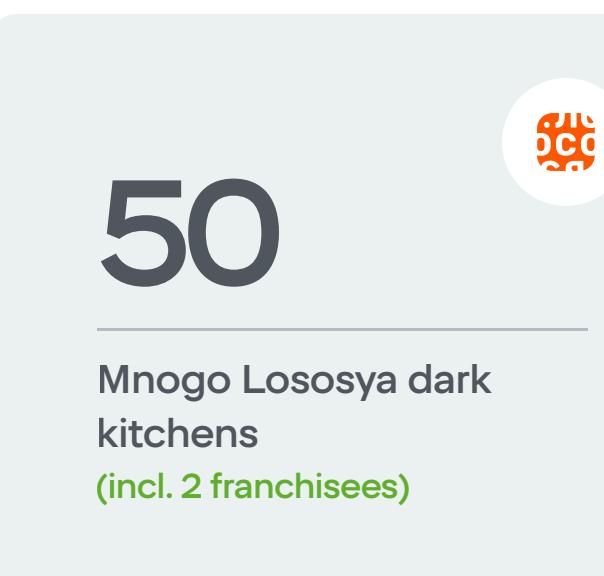
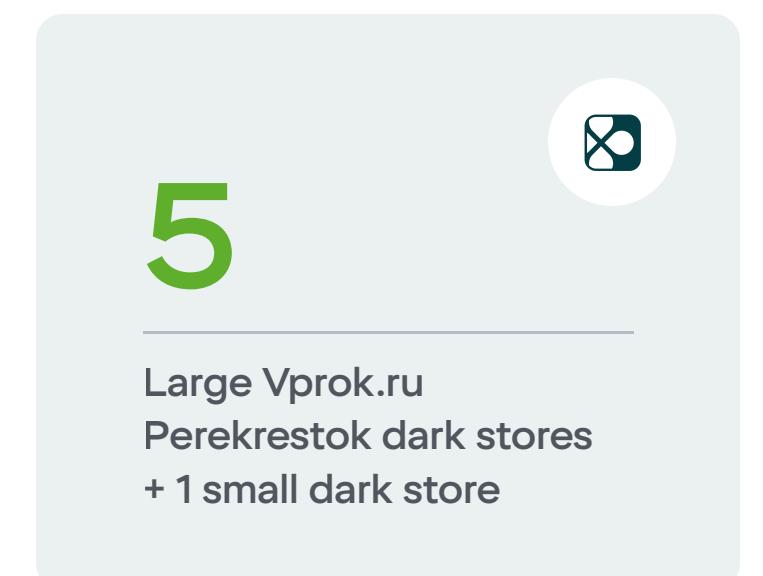
As of 31 December 2021, express delivery service was available from 1,611 stores (923 Pyaterochka stores, 30 Pyaterochka dark stores, 655 Perekrestok supermarkets and 3 Karusel hypermarkets) in 50 Russian regions, compared with 992 stores and 13 regions a year earlier. Our last-mile e-commerce delivery service 5Post had over 22 thousand pickup points in operation, including over 5 thousand multi-parcel lockers at the end of 2021, as well as 50 Mnogo Lososya dark kitchens.

Net retail sales by federal district in 2021, %

FEDERAL DISTRICT	SHARE OF NET RETAIL SALES, %	% OF RUSSIAN POPULATION	RUB MLN PER 1,000 PEOPLE
Central	47.8%	26.9%	26.9
Volga	19.0%	19.8%	14.5
North-Western	13.7%	9.5%	21.7
Ural	7.4%	8.4%	13.3
Southern	7.3%	11.3%	9.8
North Caucasus	1.2%	6.9%	2.6
Siberian	3.5%	11.6%	4.6

X5 today

Multi-format presence in 7 federal districts




5 Vprok.ru Perekrestok large
dark stores covering 8 regions


Express delivery services
available from 1,611 stores
in 50 regions

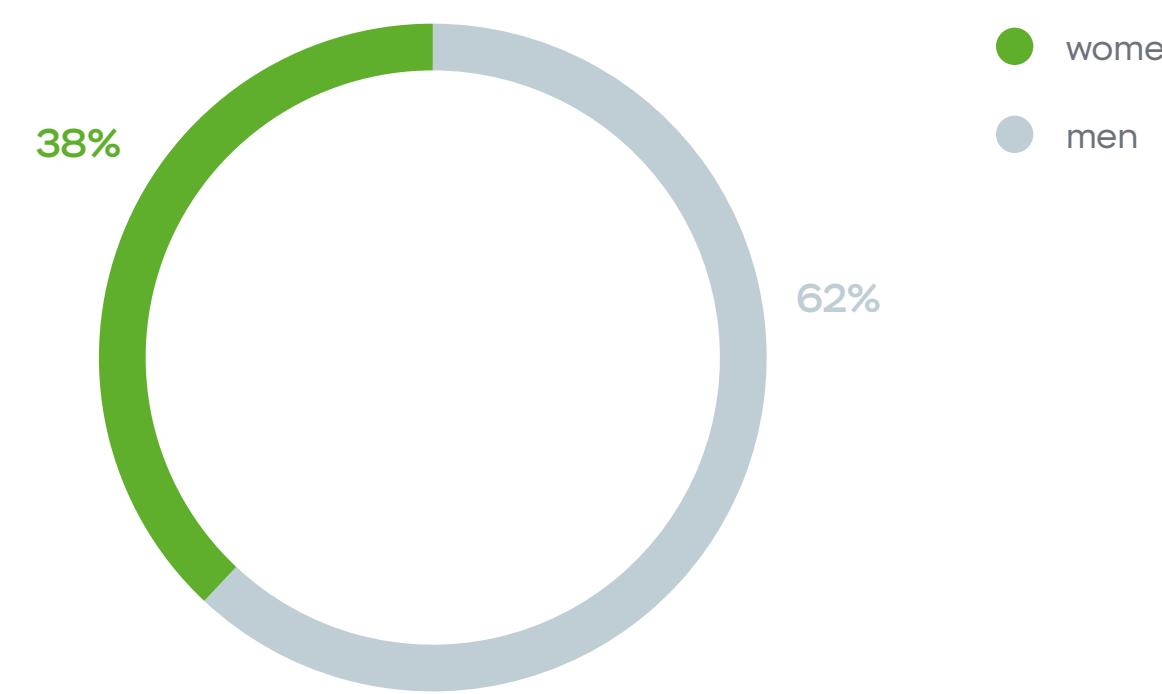

Over 22 thousand 5Post
pickup points, including 5,692
parcel lockers, available from
17,338 stores in 66 regions

Number of stores and DCs

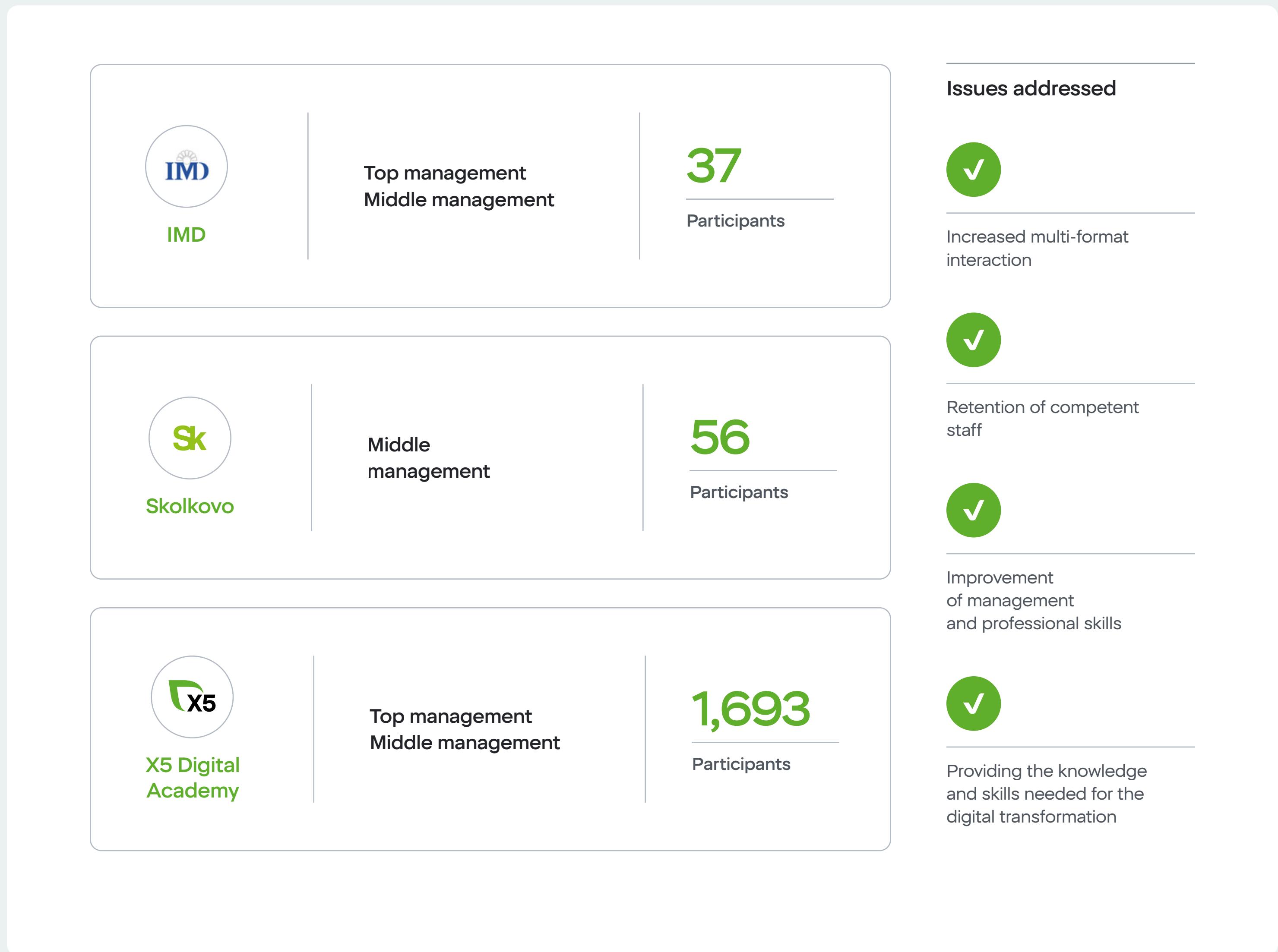
FORMAT	NORTH CAUCASUS FD	SOUTHERN FD	CENTRAL FD	VOLGA FD	NORTH-WESTERN FD	URAL FD	SIBERIAN FD
Pyaterochka	378	1,890	6,489	4,745	1,838	1,596	1,036
Perekrestok	9	60	552	142	151	76	-
Karousel	1	1	21	7	3	-	-
Chizhik	-	-	72	-	-	-	-
Number of DCs	-	5	16	9	6	9	2
Number of dark stores	-	-	4	1	1	-	-
Number of dark kitchens	-	-	43	-	5	-	-
Number of pickup points / parcel lockers	353	1,801	6,703	4,677	1,899	1,575	330

Leadership team

Top management team gender breakdown¹



Personnel development



Leadership team



Dmitry Agureev

HEAD OF CORPORATE SECURITY

Vladimir Sadovin

ACTING GENERAL DIRECTOR OF PEREKRESTOK

Tatiana Krasnoperova

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

Ekaterina Lobacheva

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

Igor Shekhterman

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

Ilya Yakubson

DIRECTOR OF CHIZHIK

Elena Konnova

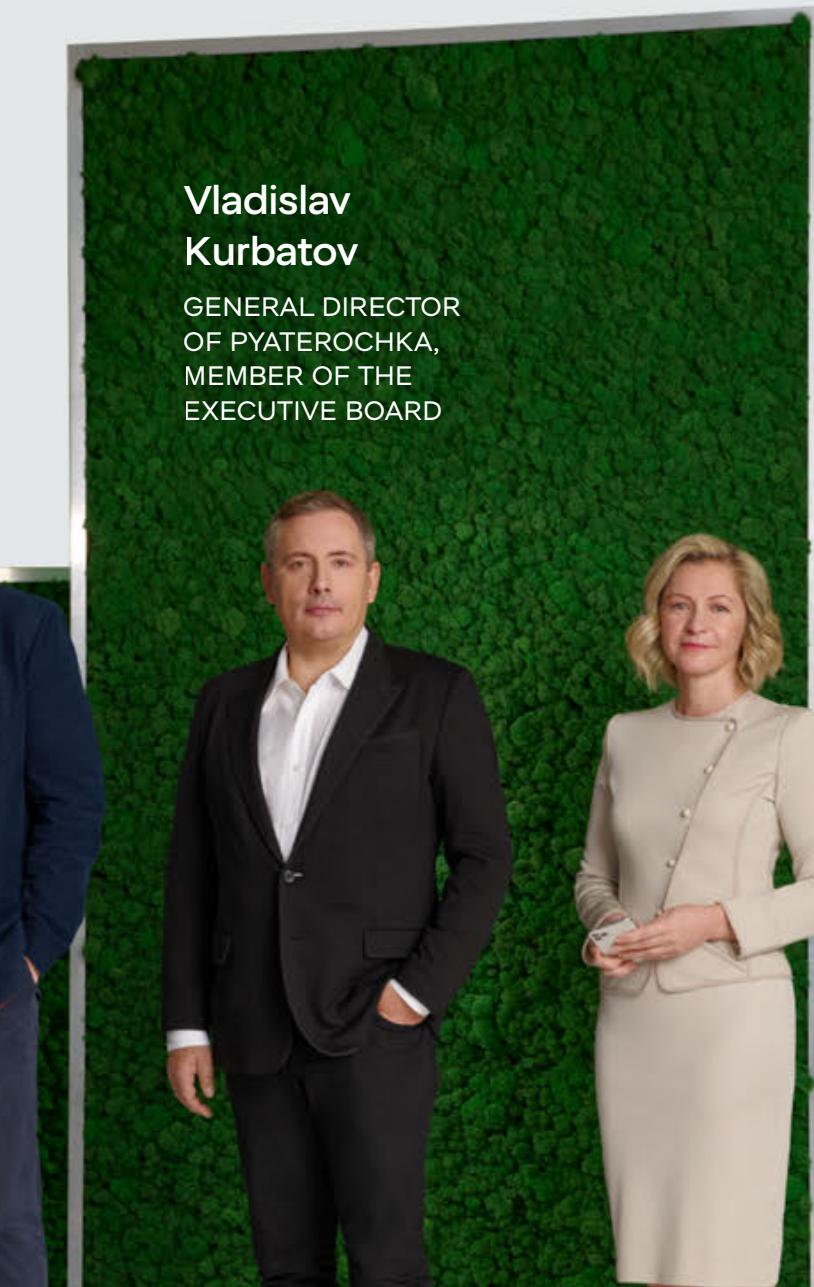
CORPORATE COMMUNICATIONS DIRECTOR

Svetlana Volikova

DIRECTOR OF BUSINESS SUPPORT, MEMBER OF THE EXECUTIVE BOARD

Tatiana Rakhmanova

MANAGING DIRECTOR OF X5 READY FOOD



X5 Group management team handles day-to-day management of the Company and is responsible for implementing the long-term strategic goals set by the Supervisory Board. The team reports to the Supervisory Board, which holds management accountable for delivering on strategic, financial and operating targets.

13

Members on the leadership team



Igor Shekhterman

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

Igor joined the X5 Supervisory Board in 2013. He has been Managing Partner and CEO at RosExpert, a consulting company that he co-founded in 1996. 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).



Vsevolod Starukhin

CHIEF FINANCIAL OFFICER, MEMBER OF THE EXECUTIVE BOARD

Vsevolod joined X5 in May 2021. He has extensive experience across a range of industries, from managing the finance departments of Russian and international FMCG companies to overseeing operations management for large businesses undergoing digital transformations.

Prior to joining X5, he worked at Sibur LLC from 2017, where he held several positions including the role of Chief Operating Officer of the Plastics, Elastomers and Organic Synthesis Division. From 2009 to 2016, he was CFO and later CEO of the energy company DTEK Energy in Ukraine. He also has experience leading the finance functions departments of companies including Mars, Schlumberger, RUSAL and others.

Vsevolod is a graduate of the SGH Warsaw School of Economics and holds PhD from the Academy of Labour and Social Relations in Moscow, and he completed corporate MBA programmes at the LBS and INSEAD business schools.



Vladislav Kurbatov

GENERAL DIRECTOR OF PYATEROCHKA, MEMBER OF THE EXECUTIVE BOARD

Vladislav joined X5 in 2015 as Chief Operating Officer of Perekrestok and led the supermarket chain from June 2018 to January 2022.

During the format's transformation phase, he contributed significantly to the development of Perekrestok, in particular, the ongoing CVP development, increasing the efficiency of in-store processes and improving the retail chain's customer focus.

Vladislav has extensive experience in retail having managed O'KEY's operations for over 13 years.

Vladislav graduated from the Leningrad Higher Military Topographical School.



Vladimir Sadovin

ACTING GENERAL DIRECTOR OF PEREKRESTOK

Vladimir joined X5 in 2021 as Strategic Marketing Director of Perekrestok. He has over 20 years of experience in FMCG. From 2002 to 2020, he worked at Azbuka Vkusa, first as Marketing Director, then as CEO from 2004 to 2018, after which he led the strategic development of the chain. From 1995 to 2001, Vladimir was Marketing Director of Russian Product.

Vladimir graduated from Moscow State University of International Relations with a degree in International Economics.



**Ilya Yakubson**

DIRECTOR OF CHIZHIK

Since 2019, Ilya has been managing the launch of Chizhik, X5 Retail Group's new hard discounter format. Until 2018, he was in charge of Alfa Health Center clinics. Between 2008 and 2015, Ilya held the position of CEO at DIXY Group. Before 2008, he was in charge of Pallada Group. He holds a PhD in Economics and an MBA.

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

Vladimir joined X5 in May 2019. From 2014, he served as Deputy CEO 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 and the Financial University under the Government of the Russian Federation. He also holds an MBA from the Kellogg School of Management at Northwestern University.

**Anton Mironenkov**MANAGING DIRECTOR
OF X5 TECHNOLOGIES,
MEMBER OF THE EXECUTIVE BOARD

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

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

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

**Elena Konnova**

CORPORATE COMMUNICATIONS DIRECTOR

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

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

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

Ekaterina joined X5 in October 2016 as the Head of the Corporate Law and X5 Corporate Structure Department. She has more than 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 the business. During her term at Evraz Holding, she held numerous positions, including Director of Corporate and Property Relations; Vice President, Legal; and Law and Corporate Law Director. Ekaterina worked at MDM Bank as the Corporate Secretary from 2007 to 2011. She began her professional career in the legal field in 1999, working in several private and government entities before joining MDM Bank. Ekaterina graduated from the Russian Academy of State Service with a degree in Law in 2005 and received an additional degree in Finance and Credit from the Plekhanov Russian University of Economics in 2011.

**Dmitry Agureev**

HEAD OF CORPORATE SECURITY

Dmitry has 29 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 Intelligence Service Academy, as well as a Volvo MBA.

**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.

**Tatiana Rakhmanova**

MANAGING DIRECTOR OF X5 READY FOOD

Tatiana joined X5 in April 2020. She is in charge of developing the ready-to-eat business line, working together with the Group's retail formats and other services. X5 Ready Food ensures a sufficient supply of ready-to-eat foods from internal and external suppliers and seeks innovative solutions and growth opportunities for the category.

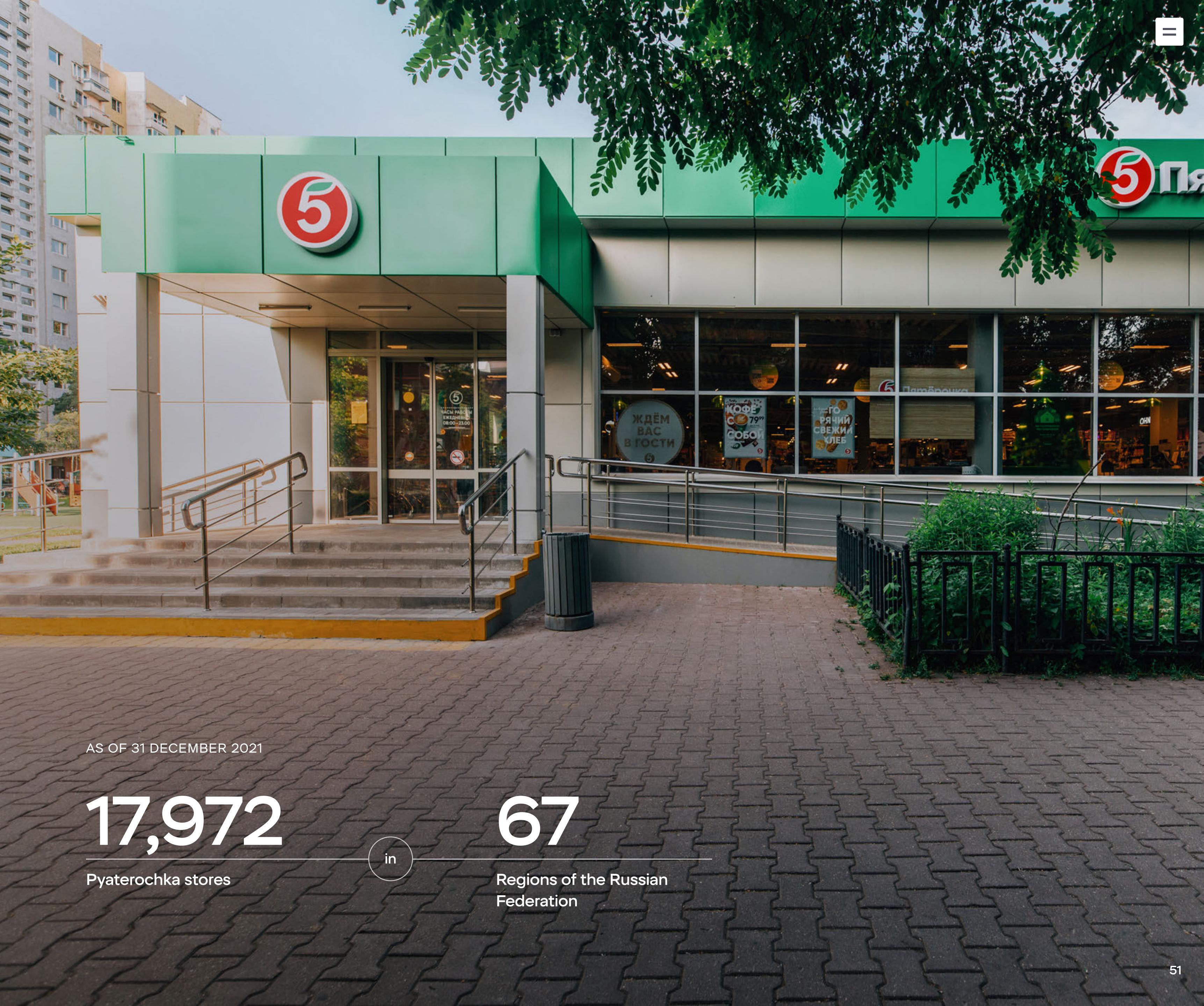
Tatiana has a solid track record in the HoReCa sector. Before joining X5, she spent four years heading up the Tanuki restaurant chain in Russia and abroad. Prior to that, she was in charge of operations and uniformity for Shokoladnitsa coffee shops across Russia, managed the PRIME cafe chain and supervised regional operations at McDonald's. Tatiana holds a degree in Physics from the Moscow State Pedagogical University.



Pyaterochka

Pyaterochka is Russia's largest food retailer by revenue and number of stores. Today the proximity store format operates 17,972 stores in 67 regions of the Russian Federation. A typical Pyaterochka store has 392 square metres of selling space and an assortment of over 4,000 SKUs.

In addition to ongoing refurbishments to update our offline stores to a new concept (25% of the store base as of 31 December 2021), Pyaterochka's express delivery online business handled 10.7 million orders in 2021, with GMV of RUB 16.1 billion for the year.



AS OF 31 DECEMBER 2021

17,972

Pyaterochka stores



67

Regions of the Russian Federation



We continued to develop Pyaterochka in 2021, offering reliable, modern and accessible food. It was often the closest place to shop for the millions of Russians who live in the catchment areas of our 17,972 Pyaterochka stores. We also expanded the reach of our online express delivery food offering to 953 stores.

While we maintain a focus on implementing a digital transformation of our business, we are also aware of the challenging macroeconomic situation and changing market landscape. We took measures to adapt Pyaterochka's CVP and optimise renovations costs for new concept stores. While our stores continue to offer unique and attractive features like freshly baked bread and coffee, we are also conscious that Russian consumers are increasingly trading down and becoming more rational shoppers.

A handwritten signature in black ink, appearing to read 'Vladislav Kurbatov'.

Vladislav Kurbatov

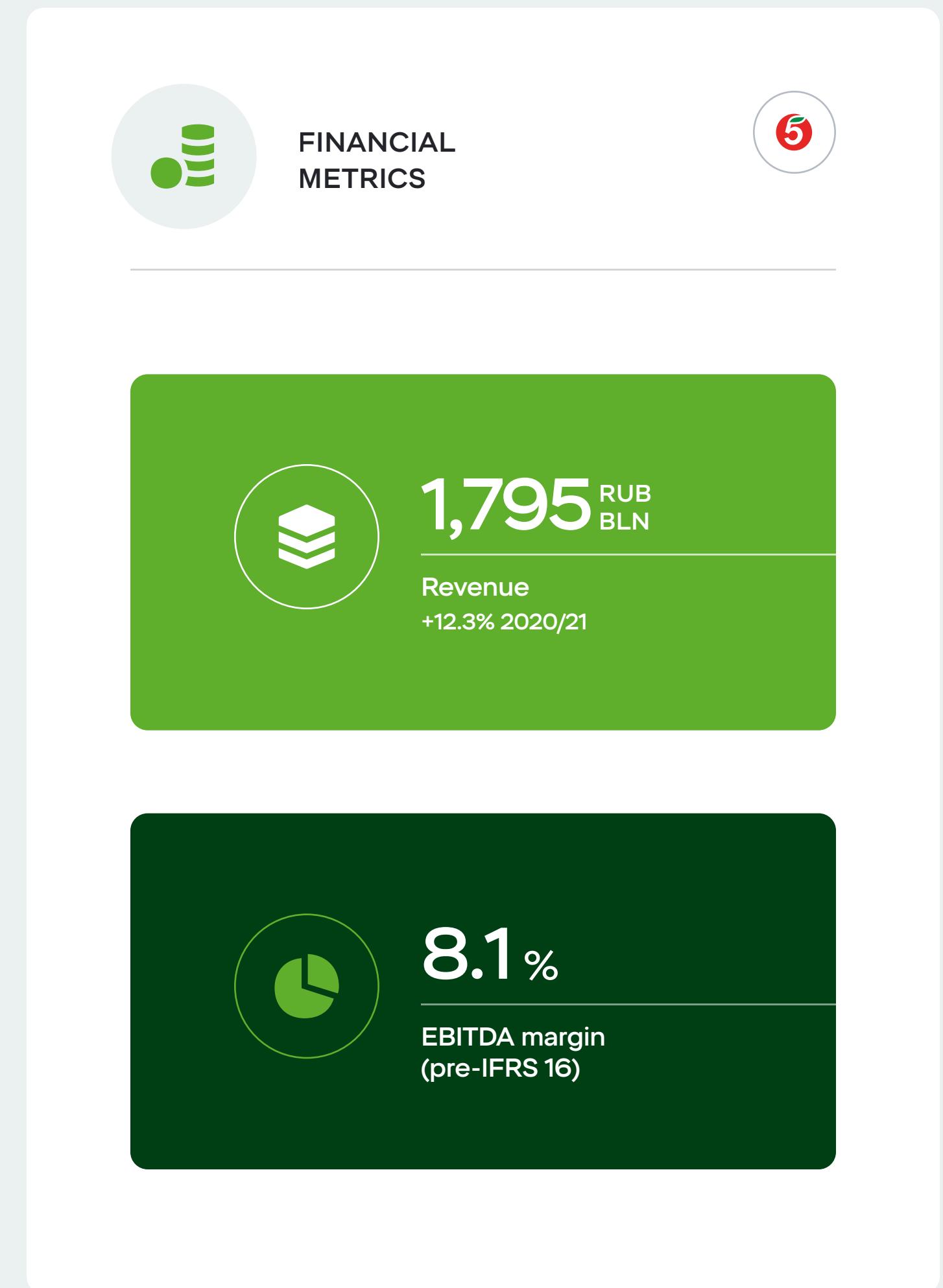
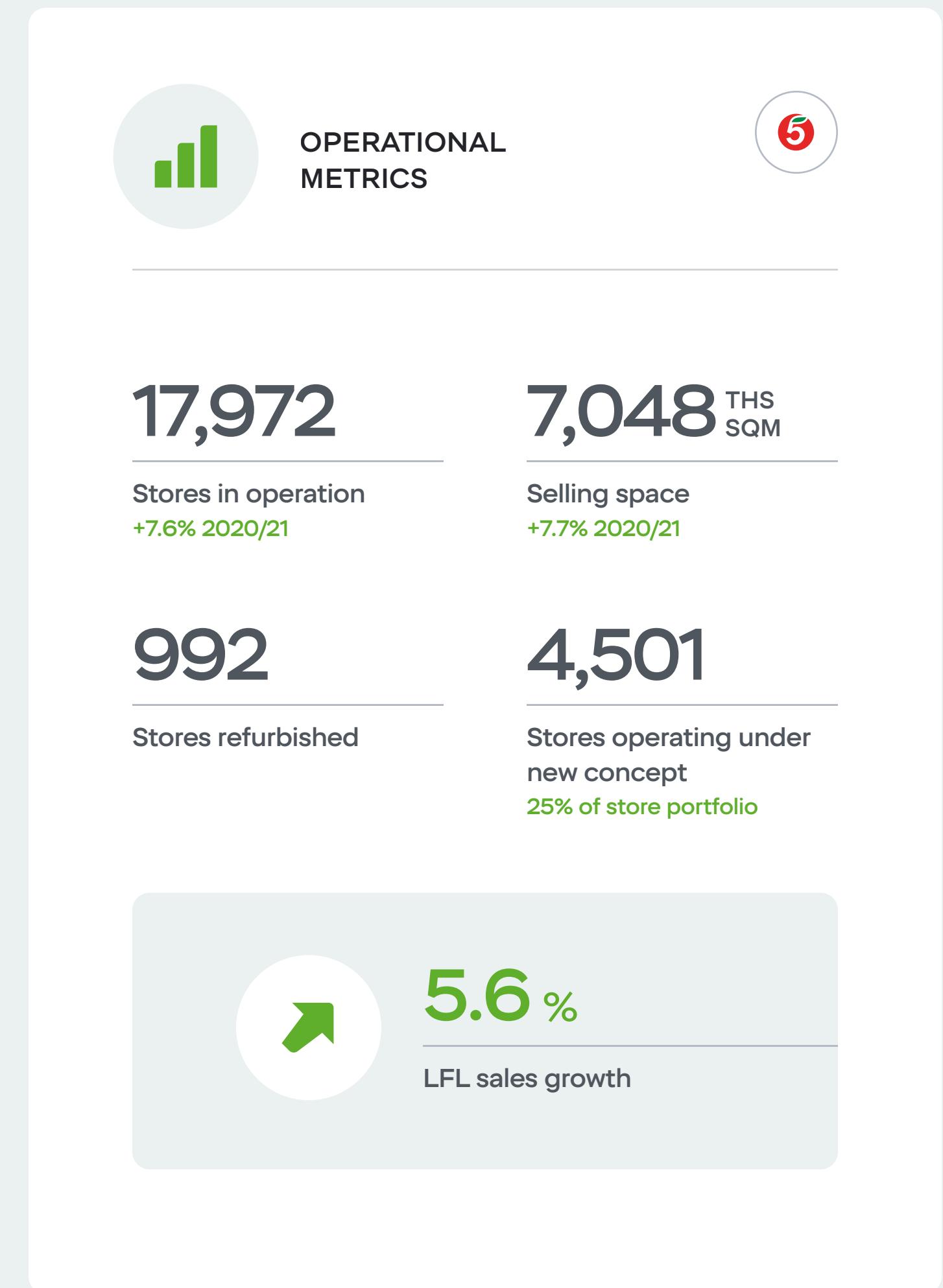
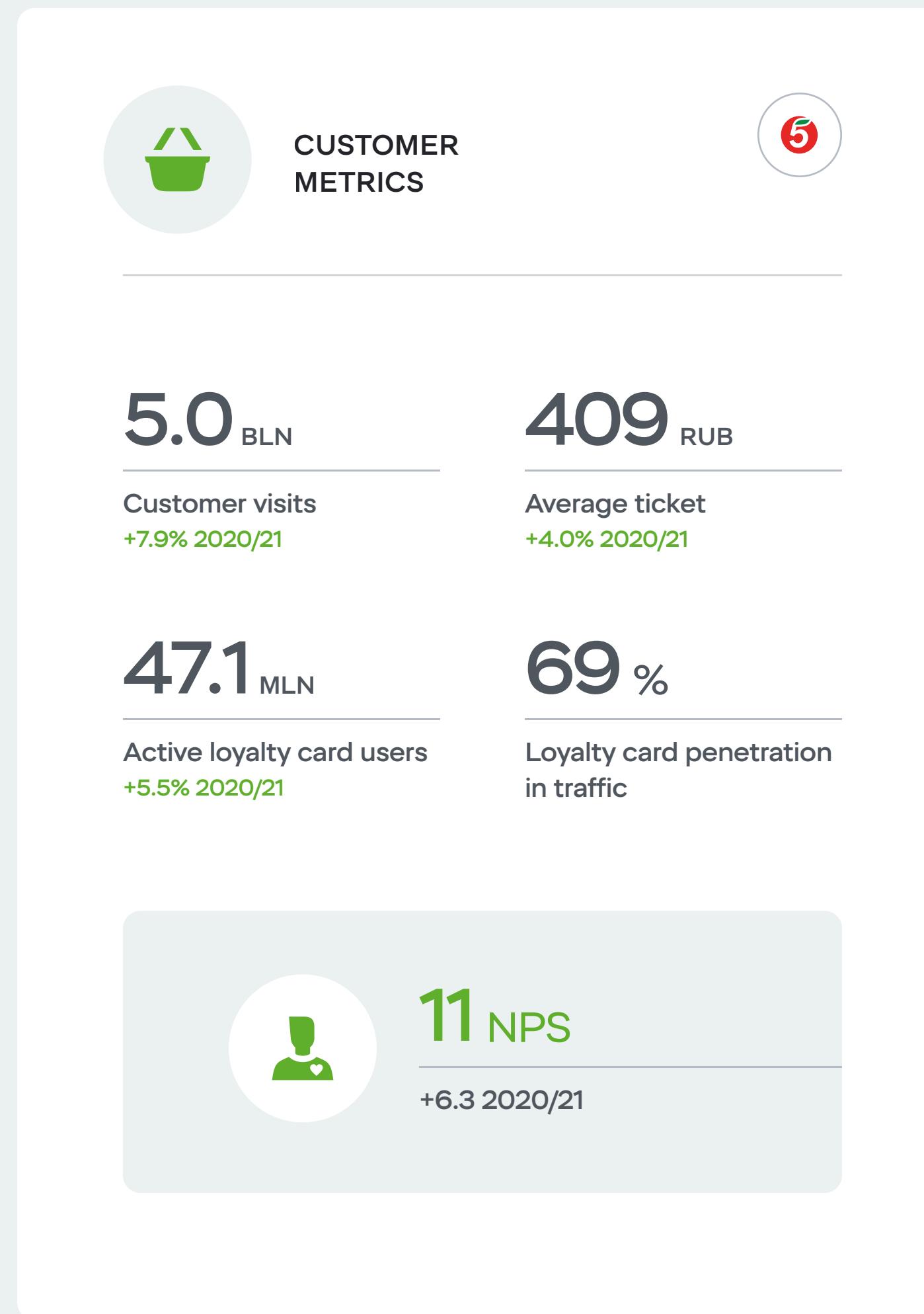
GENERAL DIRECTOR OF PYATEROCHKA

In addition to ongoing adaptations to the CVP and expansion of our digital offering, Pyaterochka has taken measures to digitalise business processes that will help us to achieve sustainable improvements on costs, including scaling up our use of big data powered planning tools, technology solutions to improve logistics operations and an innovative online platform that enables us to coordinate individualised promotion campaigns with suppliers.

Looking ahead, we hope to provide our customers with the best proximity store shopping experience while maintaining our reputation for low prices and reliable quality.



2021 performance highlights



2021 strategic highlights



INCREASE CUSTOMER TRUST AND LOYALTY



NPS level improved by 6.3 points in 2021

For the second year in a row, Pyaterochka was named the most loved brand by consumers in Russia during the COVID-19 pandemic. We beat not only competitors in proximity food retail but also local and international giants from other industries such as Sber, YouTube and Yandex.

In 2021, Pyaterochka also climbed to #6 in the ranking of the most valuable brands in the Russian market according to BrandFinance.



INCREASE PERSONNEL ENGAGEMENT

- Personnel engagement increased by 6% year-on-year
- Staff turnover decreased by 4.7 p.p.
- A pilot of the Pyaterochka shop director entrepreneurial motivation programme was launched. Developing an entrepreneurial approach helps combine the potential and interests of shop directors with X5 Group's development goals



ROLL OUT NEW CONCEPT AND ADAPT CVP

- 25% of Pyaterochka stores (4,501) were operating under the new concept as of 31 December 2021
- Capex reduced per sqm for new concept refurbishments
- Double-digit LFL growth for new concept stores vs old concept
- NPS of new concept Pyaterochka is 1.4x higher than for old concept



FURTHER IMPROVE OPERATIONAL EFFICIENCY AND SHRINKAGE

- Shrinkage level decreased by 17 b.p
- Labour productivity in December 2021 improved by 17% year-on-year
- LFL sales grew by 5.6% year-on-year in 2021



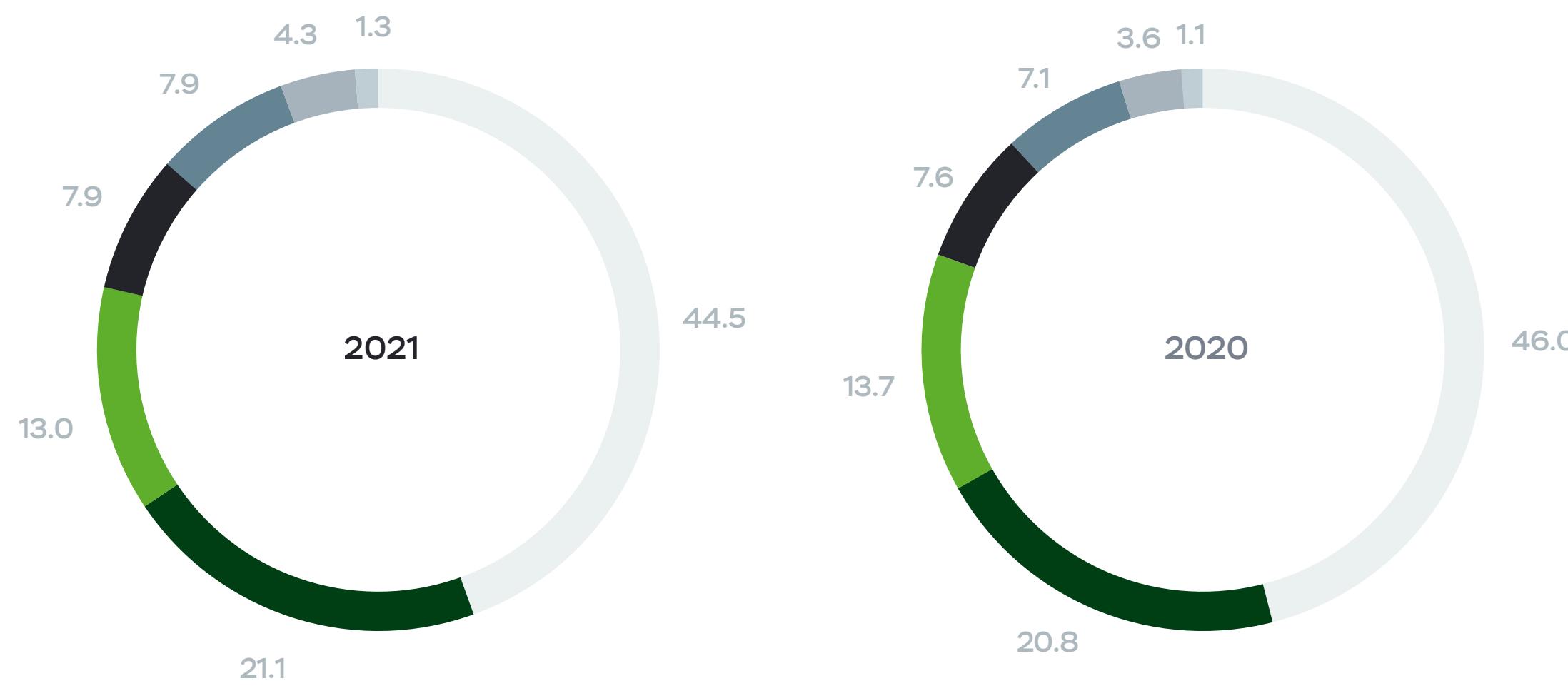
LEVERAGE BIG DATA TOOLS AND OMNICHANNEL CAPABILITIES

- Pyaterochka mobile app and website had 10.4 million MAUs in December 2021, up 27% year-on-year
- Express delivery continued rapid rollout across Pyaterochka geography of operations, with services in 50 regions
- Pyaterochka express delivery orders rose 3x year-on-year to 10.7 million in 2021

Key operating results

	CAGR	2021	2020	2019	2018	2017
Number of stores, eop	12.5%	17,972	16,709	15,354	13,522	11,225
Selling space '000 sqm, eop	12.3%	7,048	6,542	5,975	5,291	4,427
Net retail sales, RUB bln	15.7%	1,794	1,597	1,367	1,198	1,001
Customer visits, mln	11.4%	5,029	4,662	4,460	3,913	3,267

Net sales by region, %



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



STRATEGIC PRIORITIES

- Continue to refine CVP to reflect changing demand in challenging macro environment
- Maintain focus on reducing shrinkage and labour productivity
- Support “employer brand” to attract personnel in tight labour market
- Optimise capex for new openings and refurbishments
- Invest in further automation and data-driven tools to achieve sustainable cost savings and reduce exposure to higher costs as a result of labour shortage
- Continue implementing sustainability strategy, including focus on increasing use of renewable energy and decreasing carbon footprint

5

Adaptation and rollout of new CVP

We reached the milestone of 25% of Pyaterochka stores operating under the new concept in 2021, bringing the total to 4,501 stores operating under the new concept as of 31 December 2021.

With a modern and comfortable interior design, the new format stores offer optimised shopping routes for different shopping missions, as well as up-market features such as in-store bakeries, coffee and fresh juice points, healthy food assortments, and an expanded ready-to-eat and food-to-go offering.

We have developed a flexible matrix of Pyaterochka store formats with a variety of services and renovation requirements depending on a number of factors, such as location, traffic, etc.

Thus, store opening costs depend on the set of services it offers (oven, coffee machine, juicer, etc.). The decision to use one service or another is left to the macro-region's discretion.

NPS 11

+ 6.9

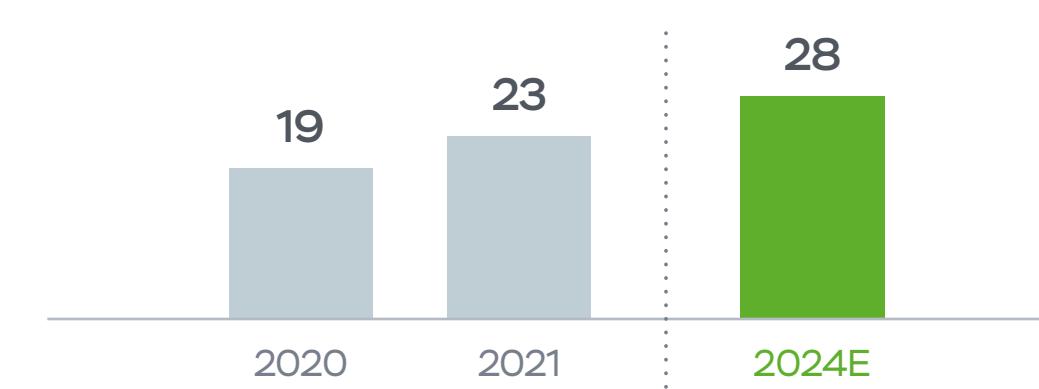
points y-o-y

We are also working on further increasing the share of private label goods in our assortment, enabling us to offer customers a range of goods at competitive prices while maintaining a reliable level of quality that they can trust. In 2021, the share of private labels in overall sales at Pyaterochka amounted to 23%.

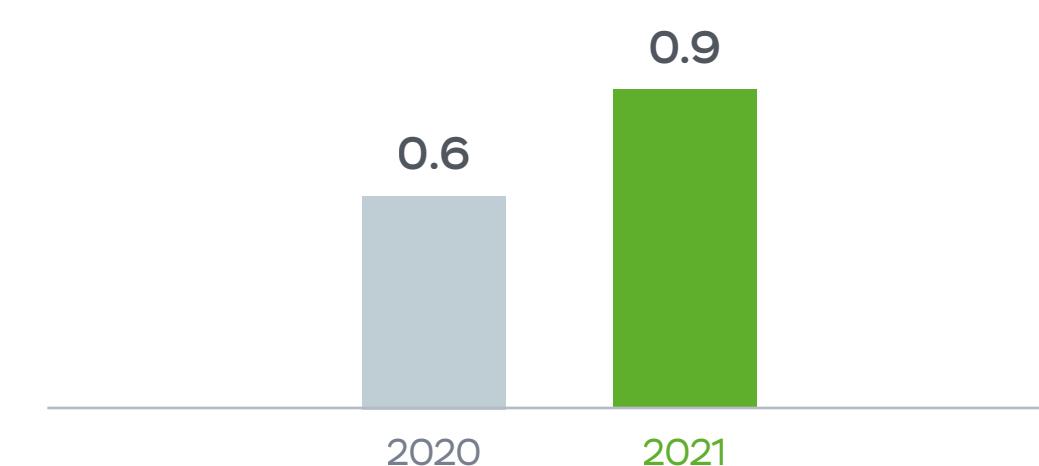
We are changing our approach to private labels:

- We accept zero compromise between price and quality, and offer the best price to value in our stores.
- Development of innovative products based on consumer research.
- One supplier per product for local supplies within a region.

Private label share in sales, %



Ready-to-eat share in sales, %



We conducted more than 100 advertising campaigns, both independently and in cooperation with suppliers. This helped us to maintain parity in SOV (share of voice) leadership in the food retail market against the backdrop of greater investment by key competitors.

Pyaterochka made important progress in further strengthening the trust of our guests, based on independent ratings like Romir, where we were #1, and internal research ranking Pyaterochka in 20th place, which is an improvement of four places among all food retailers in the country as of Q3 2021. This was achieved through the rollout of the new concept and communication related to the updated format, as well as social projects such as from Basket of Kindness and Liza Alert and joint environmental-themed activities with suppliers.

As a result of around 200 joint campaigns with suppliers, we managed to implement ESG goals, increase MAUs and customer loyalty, all of which had a positive impact on retail turnover.

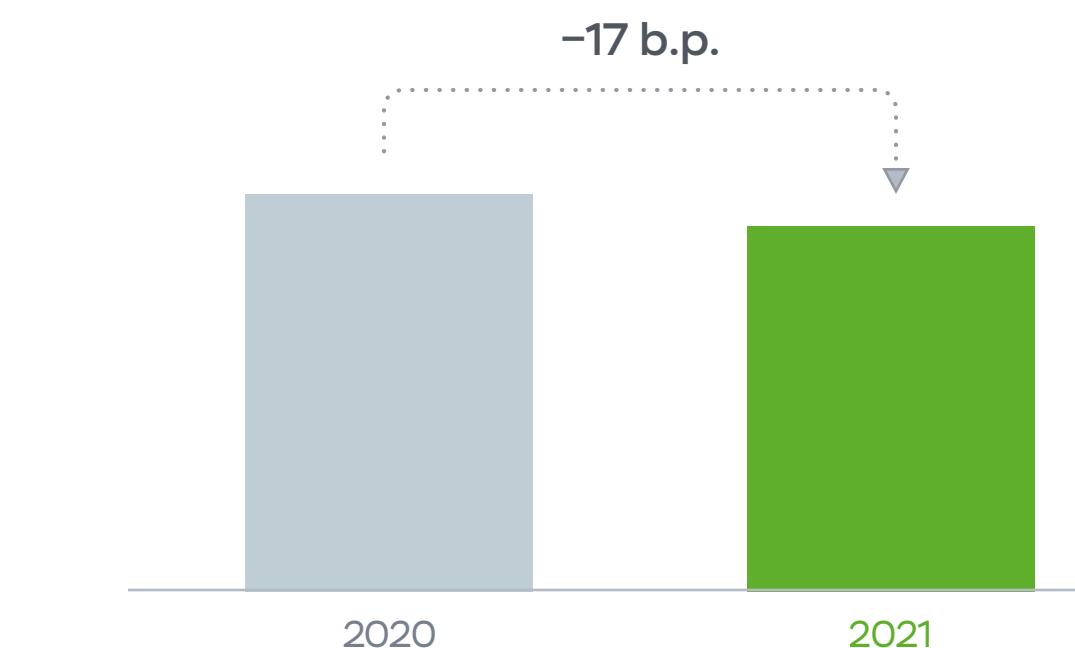
During 2021, Pyaterochka relaunched its loyalty programme: we reduced the number of points given out per guest by around 25% while making the programme more interesting. This enabled us to incentivise some of the customer base to consume more online (by increasing their check and/or frequency of purchases when choosing their favourite categories at their level, calculating the effect on validation). Total loyalty programme penetration in sales rose to 85%, and monthly active customers grew to 39 million (+7% year-on-year in November), and we increased monetisation of Pyaterochka's customer value management (CVM) product.

Throughout 2021, we worked on improving the efficiency of CVM with more personalised communication with customers through relevant channels. Through these efforts, we reduced the cost of contact by 40% in 2021 by increasing the use of free channels to a target of 40–50% compared to the previous period.

Operational efficiency

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

Shrinkage



Shrinkage

- Introduced shrinkage committees across macro regions
- Remote fruit and vegetable acceptance launched at DCs
- Smart reduction in assortment
- Reduced inventory and losses through an end-to-end supply planning process

Logistics

- Continued development of multilayer logistics infrastructure
- Focus on improving efficiency of transportation between our own DCs

Lean Store

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

Rent

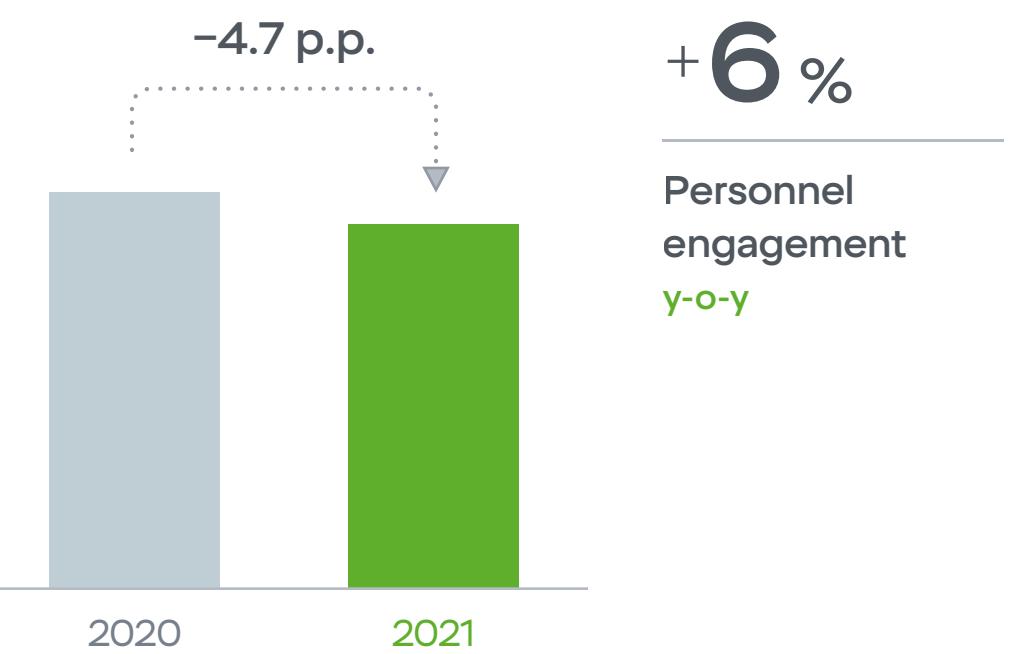
- Further optimisation of rent costs with a focus on revenue-linked rent

Personnel engagement

Pyaterochka achieved a 4.7 p.p. year-on-year improvement in staff turnover in 2021, while labour productivity in December rose by 17% year-on-year. Our store employees are becoming front-office workers, and we treat them as internal customers. Personnel engagement increased by 6% year-on-year.

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

Staff turnover dynamics



Big data and omnichannel opportunities

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

In our stores, we continue to expand the 5Post network of parcel lockers and pickup points. These parcel lockers help both to drive additional customer traffic to our stores and offer our guests additional convenient services.

As an extension of our stores, we rapidly accelerated the scaling up of express delivery services.

We continue to develop our mobile app as the key online channel for communicating with our customers. Today we are the market leaders in terms of MAUs in absolute terms and growth dynamics. We get feedback from our guests via our app, and based on this feedback we have rotated or refined with the producers over 3,000 SKUs, and the average rating for our private label products is 4.8 out of 5.

Big data tools primarily impact our business operations behind the scenes, but they are key to helping us meet consumer demand in the most effective and most efficient way possible.

Pyaterochka continues to lead the digitalisation of the food retail market in both communication and distribution channels. The total number of active Pyaterochka mobile app users rose to 9.6 million, which was the highest growth in absolute terms in the market. We also retained SOV leadership among brick-and-mortar retailers. We were especially pleased with our successful SMM performance, with Pyaterochka leading the market across platforms.

We also implement joint X5 projects, such as the launch of X5 Bank payment services in the Pyaterochka mobile app and the pilot of X5 subscriptions at 30 stores. In addition, we are coordinating on promotions and recipes with Food.ru, including offering rebates, cooking shows, etc.





Perekrestok

With 990 stores as of 31 December 2021, Perekrestok is Russia's largest supermarket chain, with a focus on the country's most affluent regions. Perekrestok has been successfully rolling out its new supermarket concept, with 23% of the store base operating under the new concept at the end of the year.

Online businesses are also a key part of the Perekrestok CVP, with 5Post pickup points and express delivery from stores all integrated parts of the supermarket's business.

Depending on its size, a Perekrestok supermarket will have an assortment ranging from 8,000 to 15,000 SKUs, and the average selling space is 1,110 sqm.



AS OF 31 DECEMBER 2021

990

Perekrestok stores

1,110

SQM

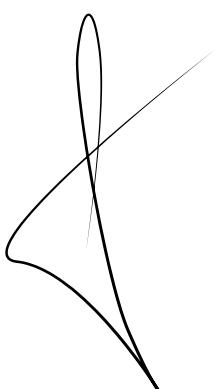
Average selling space

 **Перекрёсток**

Perekrestok delivered 3.8% LFL sales growth and a 13.5% year-on-year rise in revenue. We finished the year just shy of 1,000 supermarkets and remain Russia's largest supermarket chain. Thanks to our ongoing refurbishment programme and updates to the Perekrestok CVP, we continue to attract customers who know they can trust Perekrestok to provide a wide assortment of quality goods at fair prices.

We continue to implement our strategy, adapting the CVP and testing new formats for Perekrestok stores that focus on an emotional shopping experience and are tailored to our customers' needs. With 23% of the Perekrestok supermarket portfolio now operating under the new store concept, we continue to see consistently better LFL and NPS performance after refurbishments.

Efficiency was a major focus for Perekrestok in 2021. We piloted and rolled out numerous digital projects to reduce losses, automate and streamline store processes and use innovative solutions like the self-checkout machines we developed in-house. These initiatives both improved efficiency and helped increase retail turnover, and we plan to expand them in 2022.

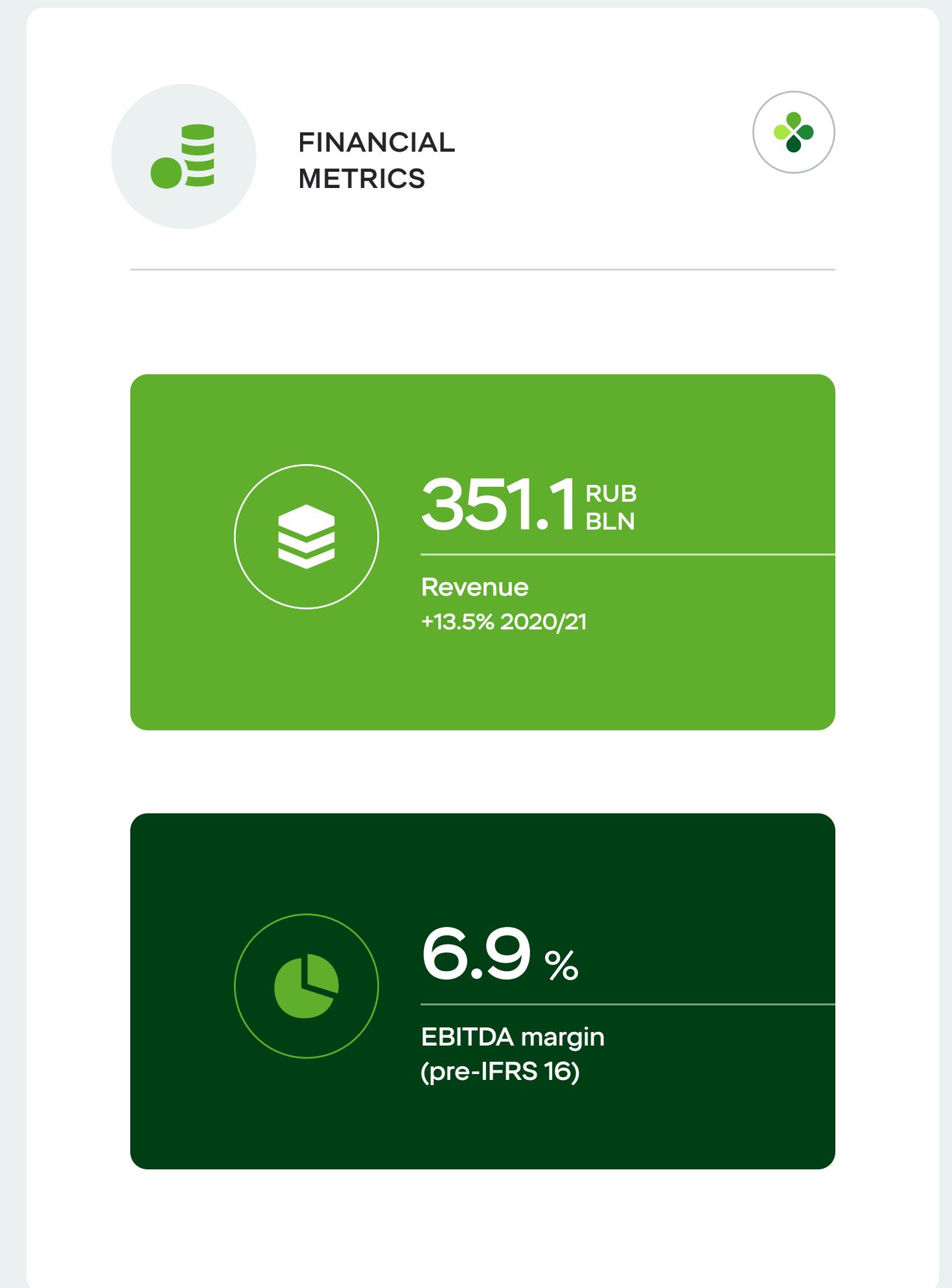
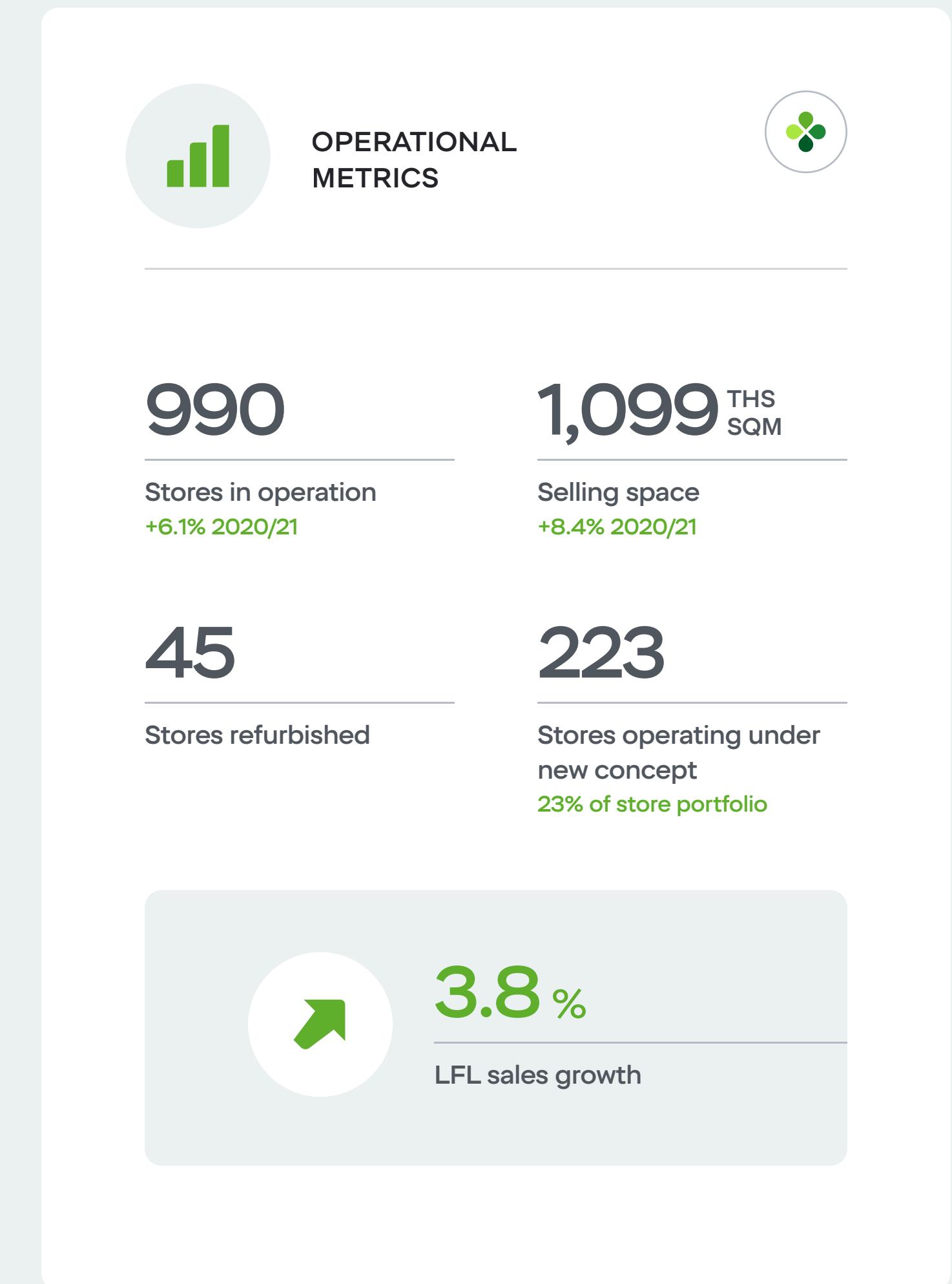
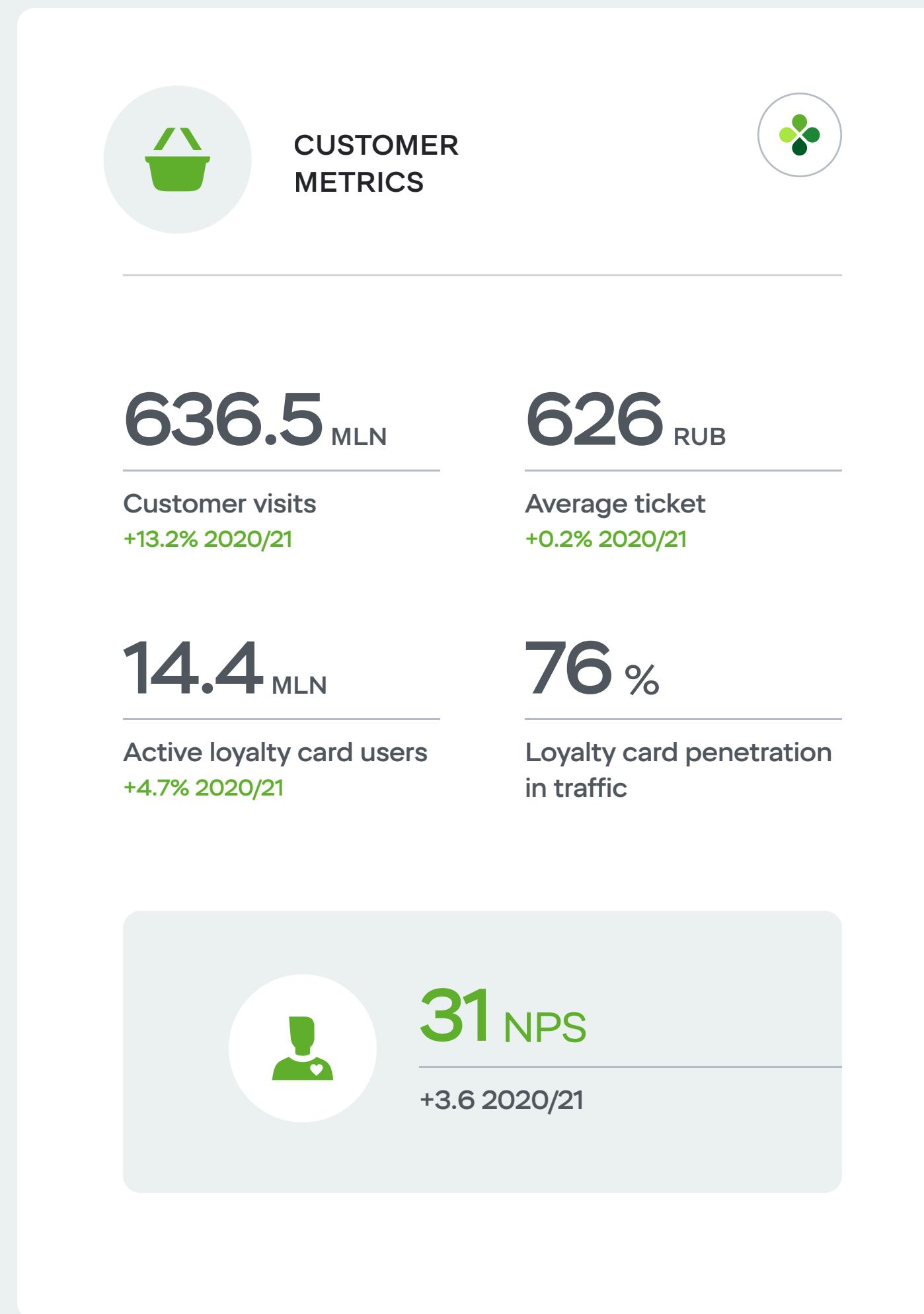
**Vladimir Sadovin**ACTING GENERAL DIRECTOR
OF PEREKRESTOK

Sustainability is an important part of what we do. We are particularly focused on continuous improvements in healthy living, energy efficiency, reducing CO2 emissions, facilitating recycling, reducing food waste and promoting community engagement. During 2021 these priority areas were an integral part of Perekrestok's business performance.

Looking ahead, we will focus on addressing the short term challenges that we face in the current market environment, while continuing to implement strategic priorities like digitalisation, sustainability and updated Perekrestok's CVP.



2021 performance highlights



2021 strategic highlights



CONTINUOUS ADAPTATION OF THE CVP



New supermarket format rollout continues

- Testing new formats, such as small Perekrestok stores with a limited assortment for dense urban environments
- Focus on expanding ready-to-eat and health food assortments

- Service quality improving thanks to better employee engagement
- Successful differentiation from competition, with rising share of private label, health food and ready-to-eat assortments in overall sales



CUSTOMER-CENTRIC BUSINESS: NPS GROWTH AND FEEDBACK

- Perekrestok's NPS improved from 27 in 2020 to 31 in 2021
- Handling of complaints and queries streamlined and systematised
- Customer ratings and feedback inform decision-making on assortment
- Growing share of private label goods in sustainable packaging
- Basket of Kindness food drives continue to grow



PRIVATE LABEL DEVELOPMENT

- Portfolio of private label brands addresses range of audiences with competitive products
- Management of private label suppliers streamlined with digitalisation
- Customer feedback further integrated into selection and quality control



FURTHER IMPROVE OPERATIONAL EFFICIENCY AND SHRINKAGE

- Continued investment in automation of supplier interactions and HR processes
- In-store processes leveraging digital technologies
- Big data tools helping to improve assortment, pricing and replenishment



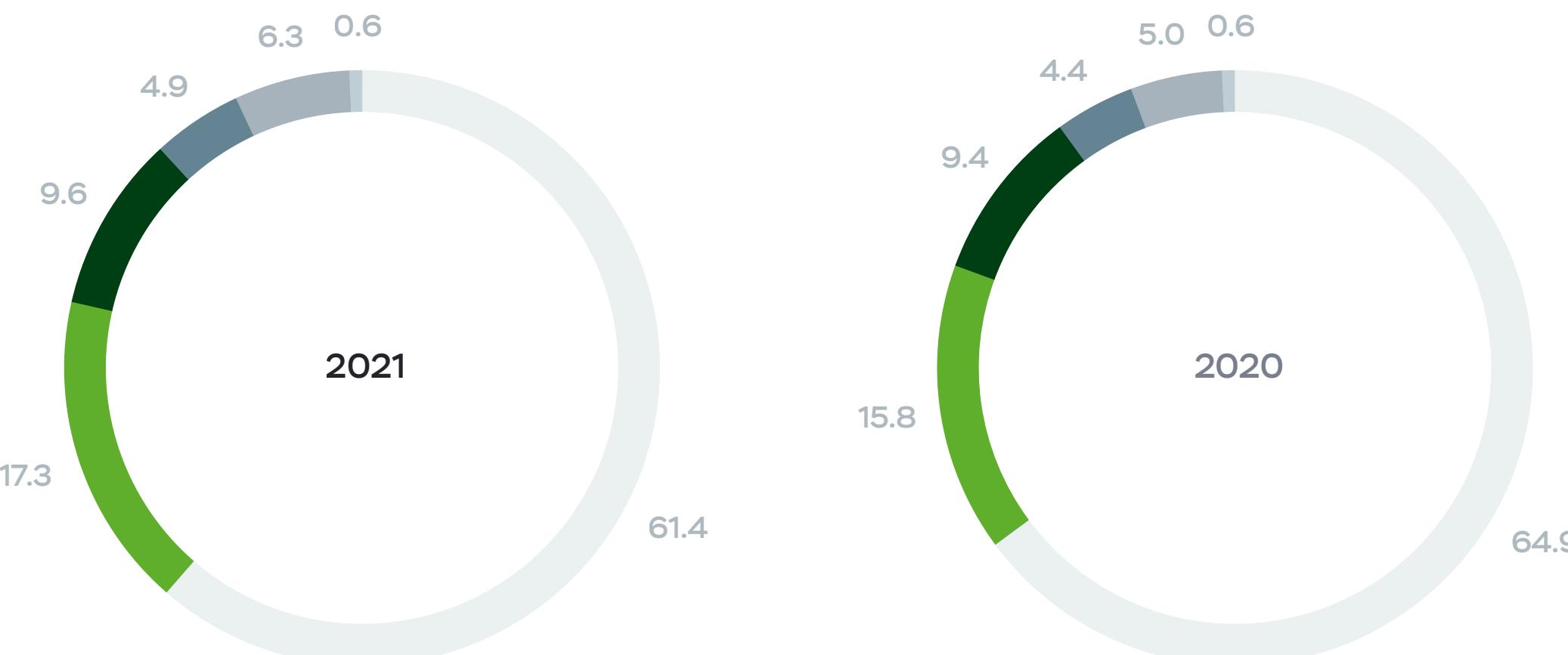
LEVERAGE BIG DATA TOOLS AND OMNICHANNEL CAPABILITIES

Online businesses: 655 Perekrestok supermarkets offer express delivery, with Perekrestok app MAUs reaching 3.3 million

Key operating results

	CAGR	2021	2020	2019	2018	2017
Number of stores, eop	11.6%	990	933	852	760	638
Selling space '000 sqm, eop	14.6%	1,099	1,014	879	782	637
Net retail sales, RUB bln	16.9%	349	320	273	231	187
Customer visits, mln	11.8%	636	562	589	505	407

Perekrestok net retail sales by region, %



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



STRATEGIC PRIORITIES

- Continue to adapt CVP and roll out new store concept, with focus on efficiency and controlling costs
- Refine the CVP with a focus on the emotional shopping experience and our assortment of fresh, ready-to-eat and private label goods
- Invest in digitalisation and automation to achieve sustainable cost savings
- Further improve speed and accuracy of decision-making, as well as automate key practices with big data tools
- Expand use of customer feedback as a key element of decision-making in the business, helping to guide private label development, overall assortment and CVP
- Become #1 supermarket in terms of health food, ready-to-eat and private label assortments

Updating the value proposition and concept of supermarkets

Perekrestok's new store concept reflects the leading edge of global food retail, with increased assortments of health food, ready-to-eat and ready-to-cook offerings. As of the end of 2021, 23% of Perekrestok's 990 supermarkets were operating under the new store concept.

We have developed a new mission and positioning for Perekrestok, with a focus on the emotional shopping experience. Perekrestok's updated CVP is being finalised, with a focus on strengthening fresh categories and differentiation.

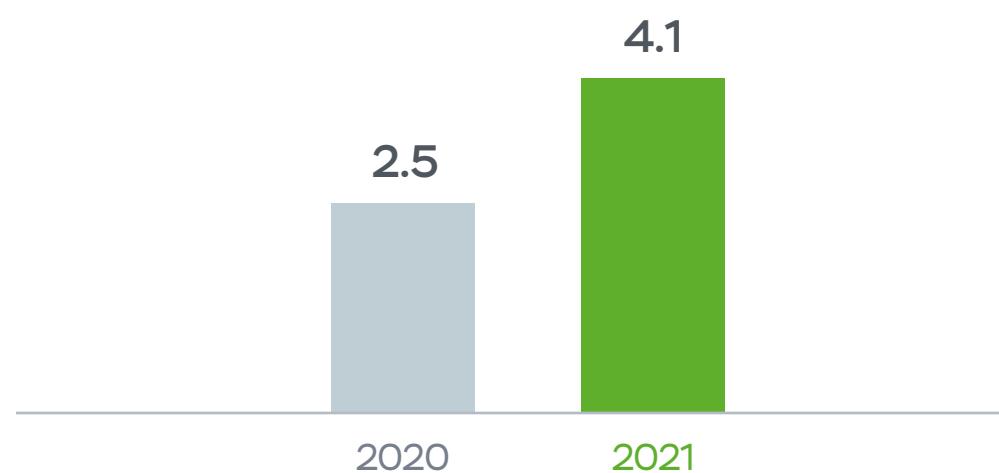
NPS 31

+3.6

points y-o-y

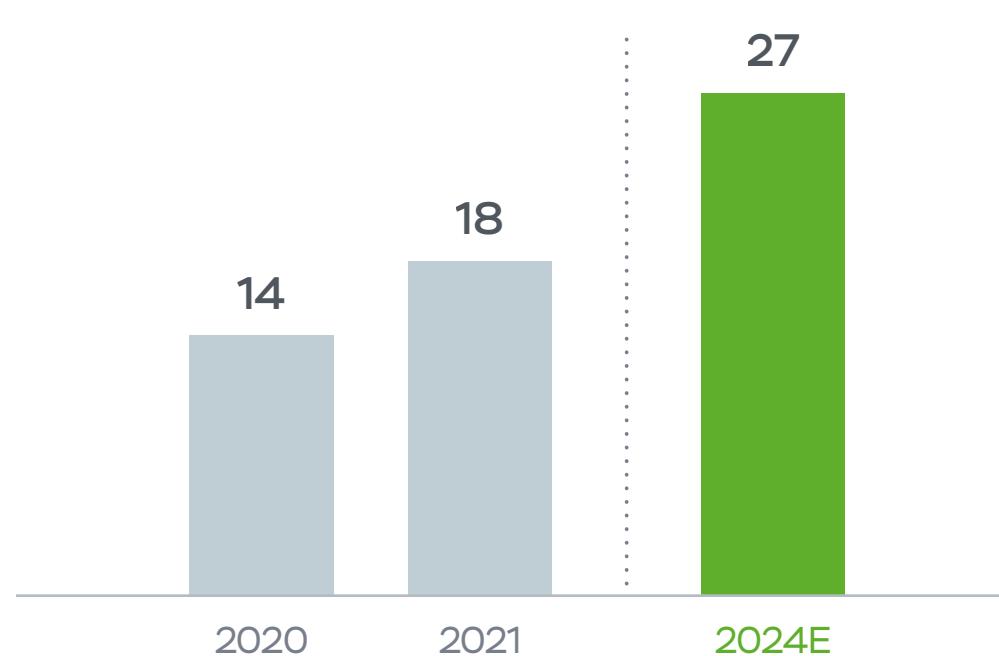
One important element of Perekrestok's developing CVP is our ready-to-eat assortment. X5 launched its own Smart Kitchen in 2019, designed to ramp up our own supply of ready-to-eat goods in response to demand. During 2021, ready-to-eat assortment sales reached RUB 3.5 bln, 67% growth year-on-year.

Ready-to-eat share in sales, %



Our private label assortment accounted for 15% of revenue in 2021, reaching 18% at the end of the year, up from 14% at the end of 2020. Our private labels include Green Line healthy foods and a range of other brands that cover all price segments.

Private label share in sales, %



With increasing interest in healthy lifestyles among consumers, and in line with our commitment to support healthy lifestyles as part of our sustainability strategy, we are expanding our assortment of healthy products and making them more visible in stores in order to help customers navigate their way to making healthier choices.

Operational efficiency

In an environment of declining real disposable household incomes and rising costs for labour and resources, achieving further breakthroughs in operational efficiency is a top priority for Perekrestok.

Thanks to ongoing initiatives like customer value management, as well as automation of forecasting, replenishment and interactions with suppliers, we continue to be able to maintain profitable operations while sharing savings with our customers.

In 2021, we launched a pilot of our Mobile Assistant, which enables automatic routing of shop incidents (equipment breakdowns, staff absenteeism, waste removal problems, etc.) and sends them directly to relevant employees, while also tracking their implementation. In 2022, we plan to roll out this solution to all Perekrestok supermarkets.

We have also launched a Digital Operations Assistant product, which enables store directors and cluster directors to save time in analysing performance. The solution highlights stores where performance requires attention. In 2022, we plan to expand the number of indicators that the system will analyse.

In 2021, we piloted a Freshness project, aimed at improving the perception of quality and freshness of Perekrestok supermarkets by extending our monitoring of goods to cover their entire journey from the producer to store shelves. This includes remote quality control at suppliers' DCs, incoming and outgoing quality control at our DCs, monitoring of the cold chain at all stages of transportation, management of stock levels and quantities, shop standards, etc. This project has helped to improve retail turnover and reduce losses. In Q4 2021, we rolled out of the project in the Central region and in 2022 we plan to extend this to all Perekrestok stores.

Throughout last year, we continued the rollout of our lean store project, which is aimed at increasing the productivity of store personnel through a convenient system of storing goods on roll cages, which are used for stocking shelves. On average, a store with lean processes spends 7%-10% less time restocking shelves. By the end of 2021, around 130 stores were involved in the project. For 2022, we plan to continue replicating the project, and by the end of the year we plan to have around 250 to 300 stores converted to lean processes.

We also installed around 1,500 self-service checkouts (SCCs) at Perekrestok supermarkets in 2021. At the end of the year, a total of around 4,000 SCCs had been installed in 550 stores. SCCs significantly improve store productivity, as only one employee is required for six SCCs. Queues have also been reduced. We plan to install around 1,500 more SCCs in 250 stores in 2022.

Regional model

- Develop and test clustered pricing policies
- Rollout of a regional pilot store

Logistics

- Further development of regional logistics
- Synergies with Pyaterochka for remote regions
- Further improve staff productivity

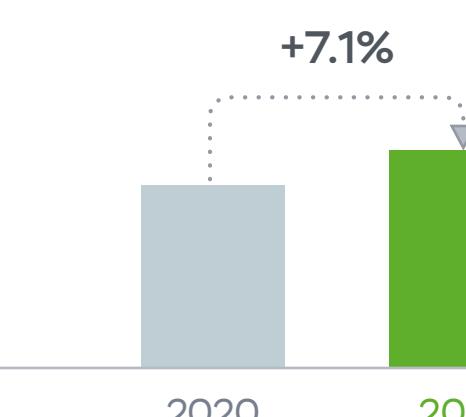
Personnel

- Matching personnel compensation with market benchmarks
- Optimise salary in regions
- Transformation of the organisational structure: a new organisational model for central and regional offices was introduced, and operational verticals with a focus on increasing territorial autonomy and adapting to local customer needs was implemented

Inventory

- Pricing at SKU/store level, based on product elasticity
- Clustering and assortment optimisation using big data solutions
- Big data solution to increase accuracy of promo forecast
- Introduction of individual planograms based on JDA

Labour productivity



Personnel

Our employees are one of the keys to our success in providing a reliable high level of service to our customers. We continue to implement best-in-industry practices for our store staff, ranging from improving staff lounges and adding new functionality to the Perekrestok employee mobile app to expanding training opportunities and maintaining ways for staff to engage in and share our success.

In order to further improve efficiency, Perekrestok is automating HR processes and implementing a personnel planning and management system.

Big data and omnichannel opportunities

Omnichannel retail is increasingly part of the Perekrestok CVP, with integrations into express delivery as well as 5Post parcel lockers and pickup points.

In addition to these services, we are using X5.ID to enable a single sign-on for customers at any stage of the customer journey, whether they are logging on to Food.ru to discover recipes, placing express delivery orders through the Perekrestok mobile app, using their loyalty card at a self-checkout machine in a store or paying with an X5 Bank branded debit card.

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

In a tight labour market, these measures have helped us to retain staff while also enabling us to recruit efficiently as we open new stores.

In 2021, our Mobile Workstation product was rolled out to all Perekrestok stores. The aim of the product is to increase the efficiency of operations, which in turn will increase sales, reduce shrinkage and increase productivity. The plan for 2022 is to expand the functionality of the product to include the receipt of goods, the display of goods and the hourly availability of goods on shelves. This will further increase sales and productivity.

Customer value management

We launched customer value management (CVM) for Perekrestok in 2020. CVM uses analytical models to automatically generate personalised offers based on customer preferences.

We are building a system that can personalise offers for customers at every contact point, at every stage of the customer journey. This client-centric approach supports long-term cooperation with each customer.

During 2021, we expanded our CVM product to partners and suppliers interested in CVM campaigns.





Karusel

Following the decision in 2019 to transform the Karusel hypermarket format, the process continued in 2021. While we believe that many customers will switch to online hypermarkets like Vprok.ru Perekrestok for their stock-up shopping needs, we are also transferring some Karusel stores to Perekrestok to be run as large supermarkets.

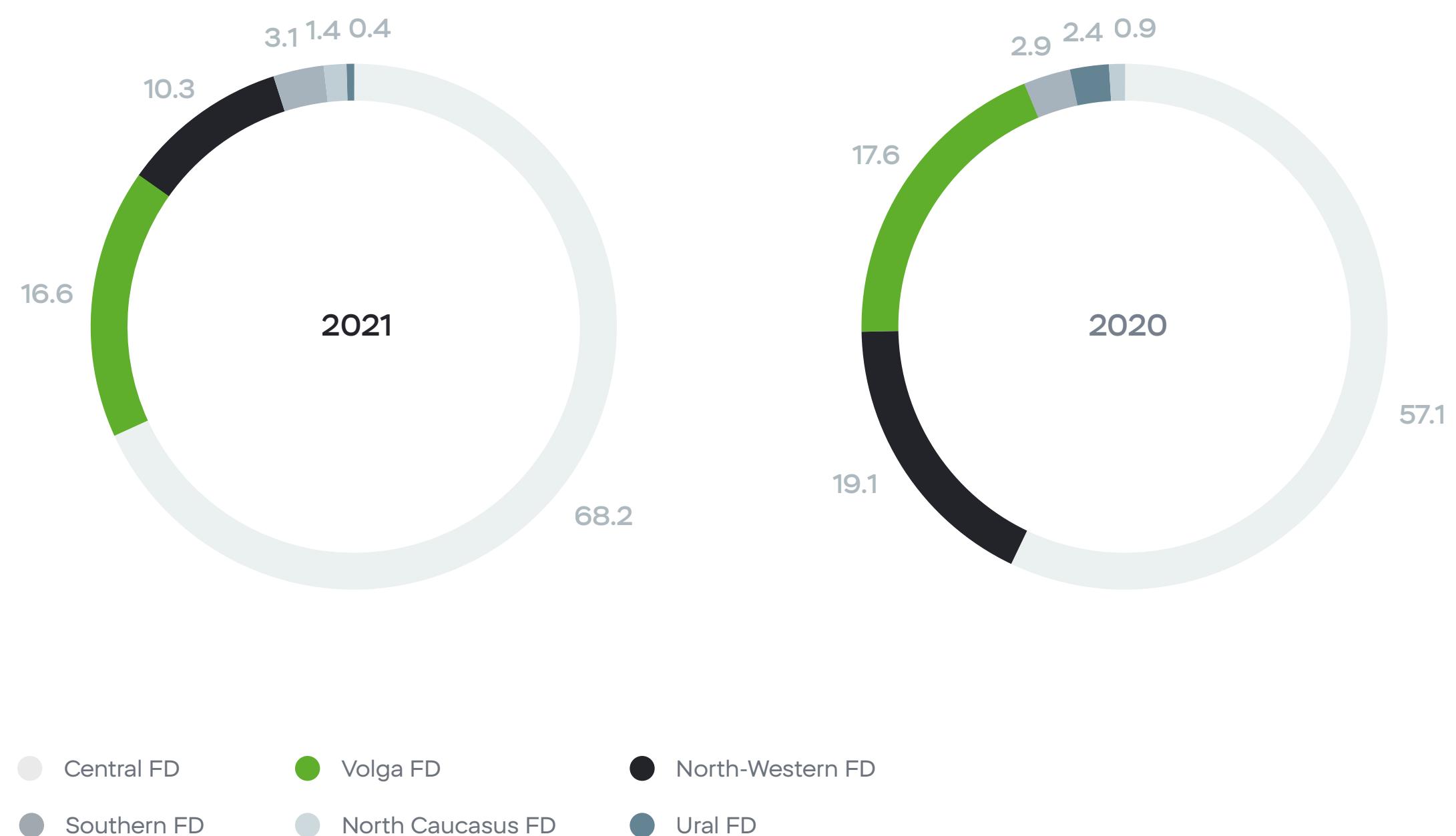
Karusel's team, in parallel with downsizing its operations, focused on the operational efficiency of the stores that remain in operation as hypermarkets for the immediate future.



Key operating results

	2021	2020	2019	2018	2017
Number of stores, eop	33	56	91	94	93
Selling space '000 sqm, eop	128	222	364	382	385
Net retail sales, RUB bln	32	56	87	91	89
Customer visits, mln	36	68	121	132	135

Karusel net retail sales by region, %



2021 highlights



DIGITAL TRANSFORMATION

Karusel continues to maintain a mobile app that enables customers to manage their loyalty programme, receive personalised offers and submit ratings or reviews of goods. The Karusel mobile app uses the X5.ID single sign-on, meaning users can use the same login and personal data across X5 services, receiving the same personalised approach no matter where they shop. Mobile app users accounted for 41% of retail turnover in 2021, compared with just 16% in December 2020.

We also implemented the “digital store director” programme, which helps to streamline the workload for store management personnel and automate inventory monitoring processes.



OPERATIONAL EFFICIENCY

Throughout the transformation process, Karusel has remained focused on efficiency. We have implemented a “multi-skill” approach to staffing stores, so that now 100% of floor staff are able to work at tills, stocking shelves, at service desks or in the storeroom.

Even as the store base shrinks, we continue to focus on efficient management of rental space in our stores.



LOYALTY PROGRAMME

Loyalty card penetration in Karusel sales was 93% in FY 2021, while penetration in traffic was 86% for the same period.



Chizhik

After launching our hard discounter format Chizhik in 2020, we announced official rollout plans in 2021, with a target of opening around 300 stores in 2022.

Chizhik aims to address rational shoppers looking to get reliable value and everyday low prices. We have built the format from the ground up to run efficiently, with every process optimised.

A typical Chizhik store has 250–300 square metres of selling space and an SKU range of 750–800 goods. Our aim is for private labels with an attractive value proposition to account for up to 75% of the assortment, contributing to our ability to help customers save 20%-25% vs shopping with peers.





We completed the Chizhik pilot in 2021 and are now in the process of scaling up and replicating the project to achieve a rapid expansion of the format in the coming years.

The Chizhik store concept is designed for rational buyers who value their time and money but are unwilling to compromise on product quality. Our hard discounter format means we are able to offer low prices based on constant optimisation of costs and business processes, as well as a high level of quality of private label brands.

One of our key focuses in 2021 was the ramp-up of our private label assortment: we launched over 300 private label products during the year, adhering to our strict quality control systems, which are based on product quality monitoring and customer feedback analysis. We also finalised the store opening process, from selection criteria for new sites to equipment standards and formalising key business processes.



Ilya Yakubson

DIRECTOR OF CHIZHIK

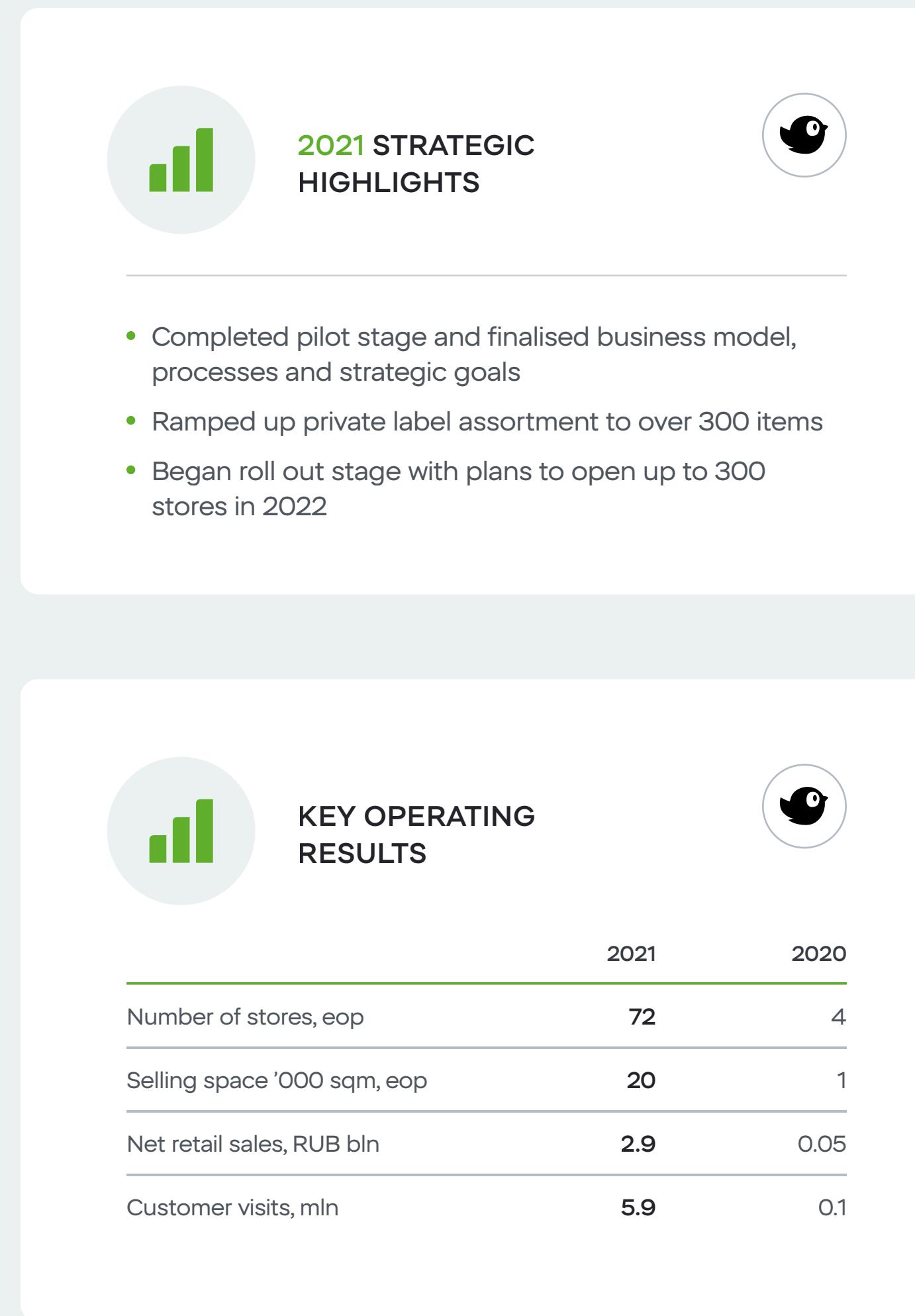
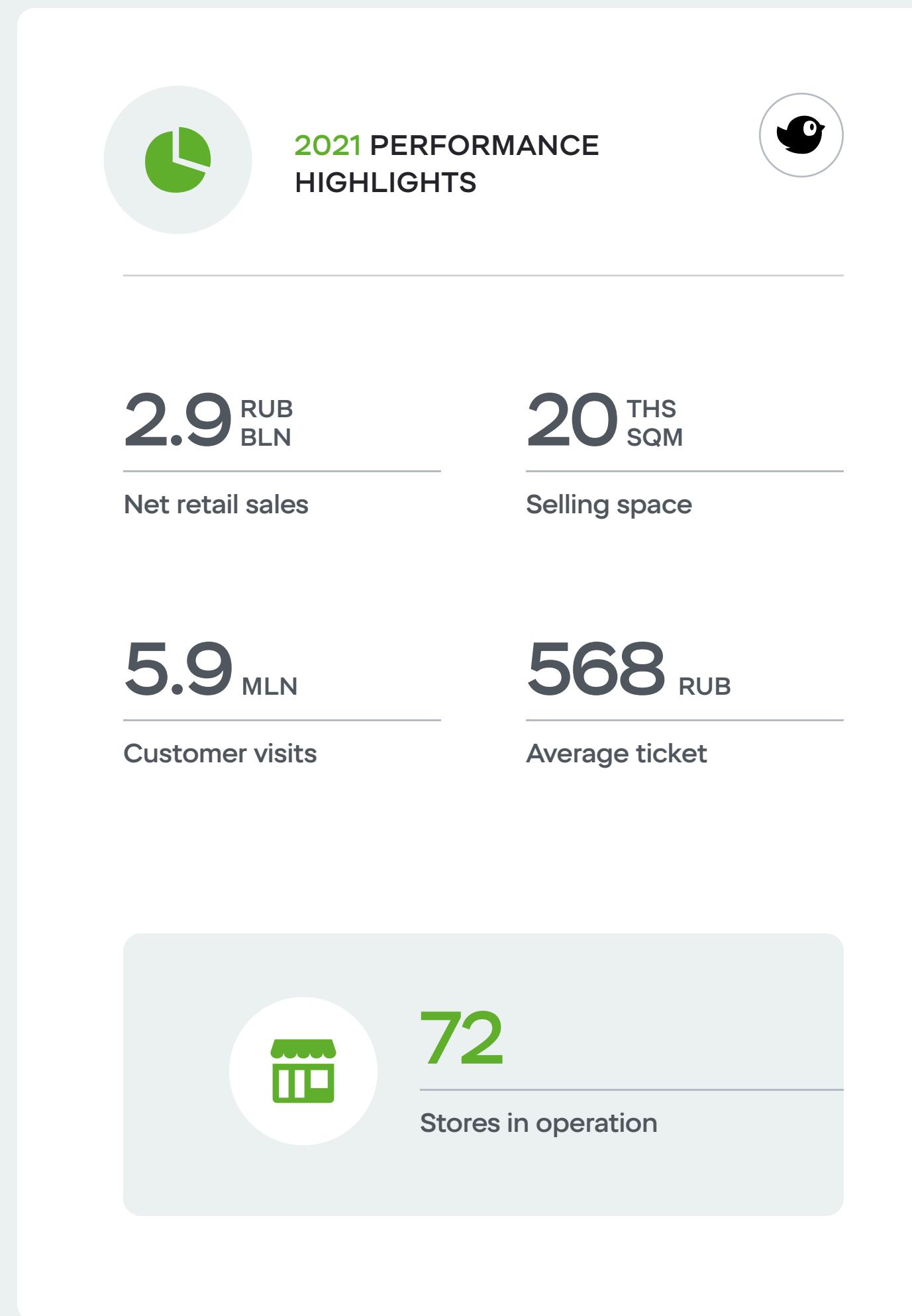
By the end of 2021, we had completed hiring for the Chizhik management team, tested and finalised the format's business model and established a clearly defined three-year strategic plan. Through the pilot phase, we verified key assumptions of our hard discounter business model all the way down to the store level, and now we are ready for scaling up.

We are optimistic about the outlook for Chizhik: our hard discounter format is certain to occupy a strong position in its market segment, which is expected to grow quickly in the coming years.

We plan to become masters of decentralisation, building independent regional teams that retain the Chizhik DNA as we grow. We will also launch full-scale and efficient logistics to support our expansion, while always remaining focused on cost optimisation and business efficiency. Of course, our ultimate goals are to deliver impressive results to our stakeholders and unbelievable quality goods at affordable prices to our customers.



Key indicators



CVP

The Chizhik CVP aims to meet demand for a rational shopping experience where customers can save money while getting quality and value they can rely on.

Price	<ul style="list-style-type: none">EDLP positioningSavings of up to 20%-25% compared with peers
Convenience	<ul style="list-style-type: none">Close proximity to householdsNarrow assortment – saving time on product choice
Assortment	<ul style="list-style-type: none">Basic assortment covering 50%-60% of customer needsHigh-quality of private labels in line with top brands
Atmosphere	<ul style="list-style-type: none">Young, friendly in-store personnelModern, simple stores
Social responsibility	<ul style="list-style-type: none">Affordable pricesTaking care of families by saving time and money (food budget)

Operational efficiency

Operational efficiency is at the core of our business model, drawing from the extensive experience and unique know-how of the X5 and Chizhik project teams.

A typical Chizhik store is about 400 sqm, of which 270-300 sqm is the sales floor. We have optimised the assortment matrix with just 750-800 SKUs and pricing that is 20%-30% lower than the benchmark for equivalent products. This helps us to achieve higher sales densities than in typical convenience stores.

Each store has a laser focus on productivity, with only seven full-time employees, low shrinkage and optimised processes.

Private label

At present, Chizhik already has over 300 private label goods in its assortment. These currently account for around 30% of sales. Our longer-term goal is for private label goods to account for 75% of our total assortment.

The key focus areas of our private label strategy are quality and supply chain efficiency. We handle complaints quickly and efficiently, and strive to demonstrate to customers that we are being responsive to their feedback. To support supply chain efficiency, we rely primarily on shelf-ready packaging (SRP) for goods, significantly reducing the amount of time needed to stock shelves.

Our aim is to make private labels market leaders

- Product**
 - Market-leader quality
 - Customer tests
 - Proper ingredients
- Packaging**
 - Development of packaging
 - Development of SRP boxes
 - Working with mix boxes
- Price**
 - EDLP strategy
 - 20%-30% gap to brand names
 - 10%-15% gap to private labels

Plans for 2022

- Launch and finalise the process for replicating the Chizhik model as the network expands, create independent regional teams
- Launch highly efficient logistics operations in several Russian regions
- Open around 300 stores in nine regions
- Implement digital initiatives, such as launching a mobile app, automating the handling of customer feedback and testing delivery services from Chizhik stores
- Raise the share of private label to more than 40% of the assortment



Express delivery

Our express delivery business continued to grow at a fast pace in 2021, with GMV rising more than fourfold year-on-year to RUB 30.8 billion.

In an increasingly crowded and competitive market, we managed to remain one of the market leaders thanks to our extensive loyal customer base and X5 Group's ability to quickly roll out new technology solutions to its existing store network.

One of the top priorities throughout 2021 was to roll out express delivery service to new regions, and the total number of regions of operations increased from 13 at the end of 2020 to 50 at the end of 2021. This expansion means that Pyaterochka has launched express delivery in nearly every city where it operates with a population over 500 thousand, while Perekrestok launched its service in almost every region of presence.



2021 highlights

25.7 RUB
BLN

Net sales

1,533 RUB

Average ticket

19.2 MLN

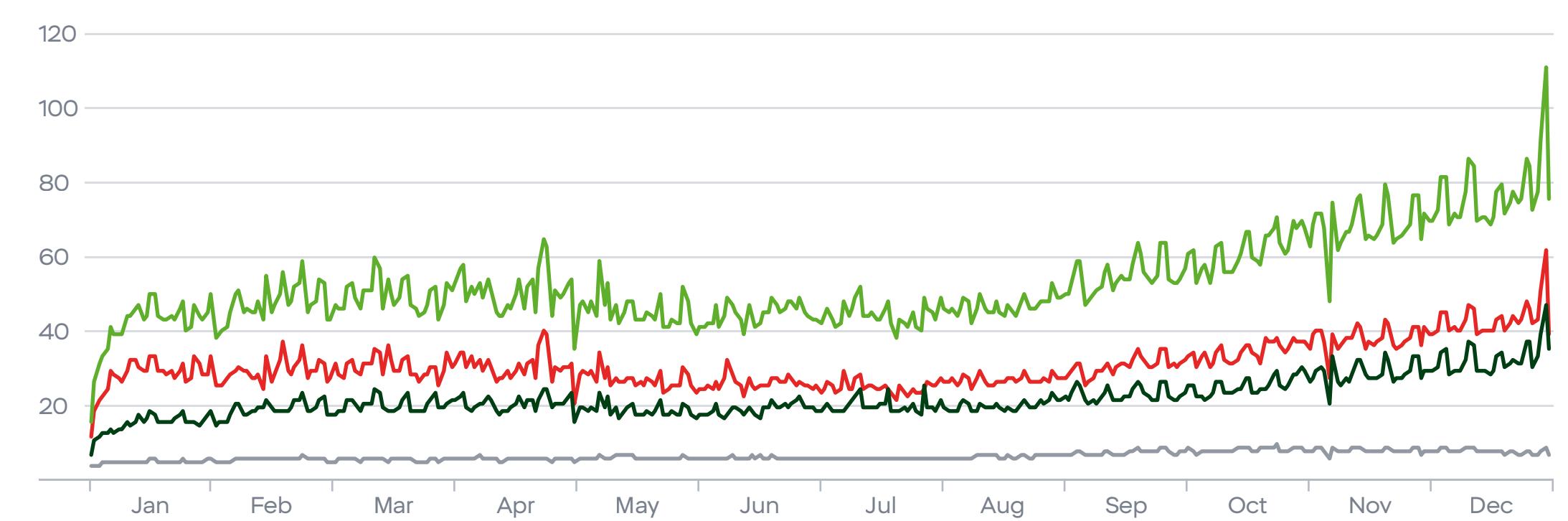
Total orders

69.8 THS

Average number
of daily orders
in Q4 2021

Express delivery order dynamics, ths

● Total ● Pyaterochka ● Perekrestok ● Okolo



Express delivery service was available from¹:

1,611

Stores

50

Regions

923 Pyaterochka stores

30 Pyaterochka dark stores

655 Perekrestok stores

3 Karusel stores



During 2021, we significantly improved the unit economics of the business, reaching positive contribution margins in some formats/regions, with scale effects and process improvements helping to reduce pick-and-pack and delivery costs per order.

Directed by customer feedback and a commitment to delivering the best customer experience, we worked hard to develop the express delivery mobile app functionality, primarily expanding omnichannel services as well as further integration with other X5 projects such as the Food.ru media platform.

How express delivery is managed

We view express delivery services as an extension of the customer value propositions of X5's retail formats. The express delivery technology platform is a solution that was developed in house based on X5's decentralised, multi-format business model. This means that each of our formats is responsible for managing the customer experience, assortment and marketing.

The technology platform and courier delivery services used by the formats are managed centrally by an internal service unit, X5 Digital.

X5 Digital

Plans for 2022

Amid the challenging macroeconomic environment, our main focus for 2022 will be to ensure that express delivery does not undermine the economics of our main business. We are confident in our ability to achieve sustainable profitability of the business segment in 2022, thanks in part to improved operational efficiency and unit economics. In the short term, we plan to step back from the current level of promotional and marketing activity and pause regional expansion until we see an improvement in the overall economic situation in the country.

At the same time, we will continue to focus on maintaining and improving the high quality of our delivery service, including delivery time and order fulfilment accuracy. Despite the macroeconomic headwinds, we expect to see continued strong competition in the express delivery segment. In response, we will aim to increase customer loyalty and strengthen our market position by expanding the range of our service offering along with other elements of the customer journey.

In 2021, the first specialised dark stores for express delivery were launched; this process will continue in 2022, primarily in large cities. The transition to express delivery from dark stores will help to increase the speed and precision of order fulfilment while also improving the economics of the service. In this process, we are going to use centralised infrastructure for both of X5's retail formats to maximise economic efficiency.



Vprok.ru Perekrestok

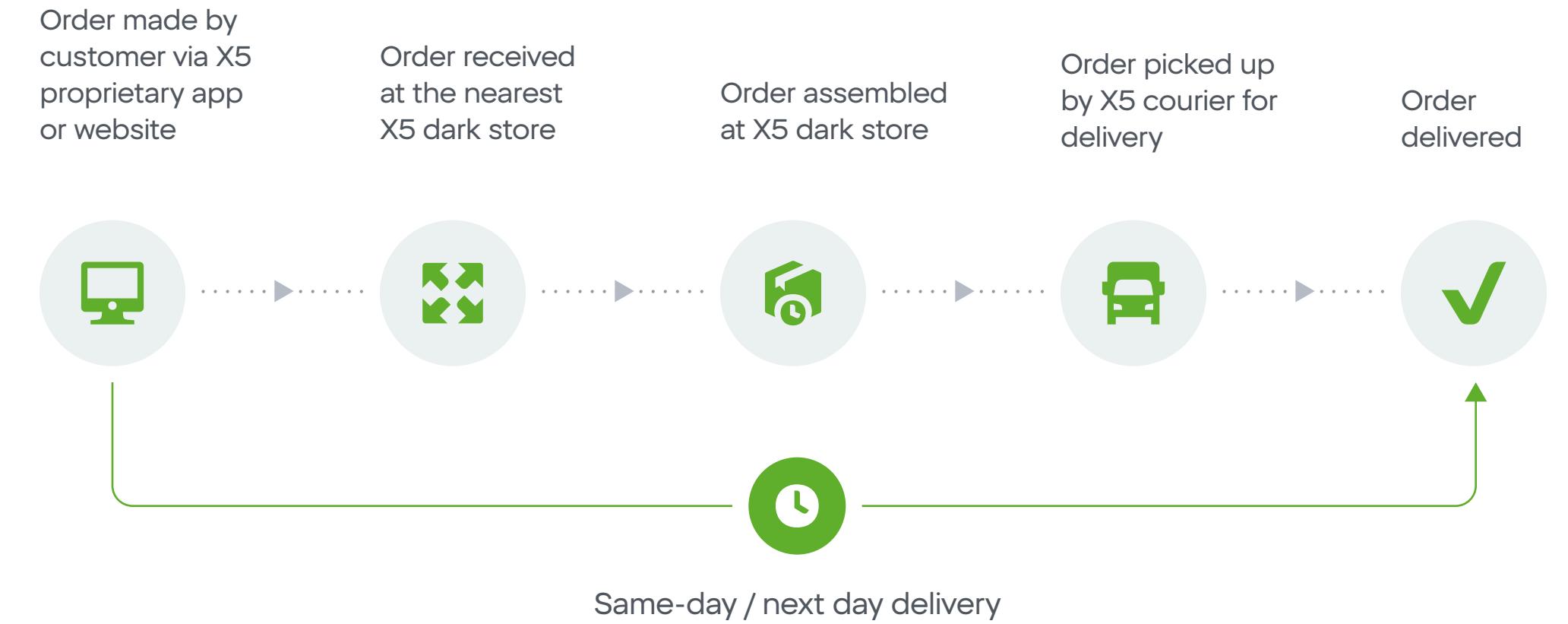


Online hypermarket

Vprok.ru Perekrestok is our online hypermarket, which offers customers looking to stock up on groceries to have FMCG products delivered to their door or in some cases to a nearby 5Post pickup point.

The hypermarket offers customers same-day or next-day delivery in its core markets, with service to a wider geography supported by 5Post.

Business model



2021 highlights

18.7 RUB BLN

Revenue
+41.5% y-o-y

5

Large dark stores
and 1 mini-dark store

74

Regions
vs 12 in 2020

4,533 RUB

Average ticket
+9.4% y-o-y

4.7 MLN

Total orders delivered
+30.1% y-o-y

2.6 MLN

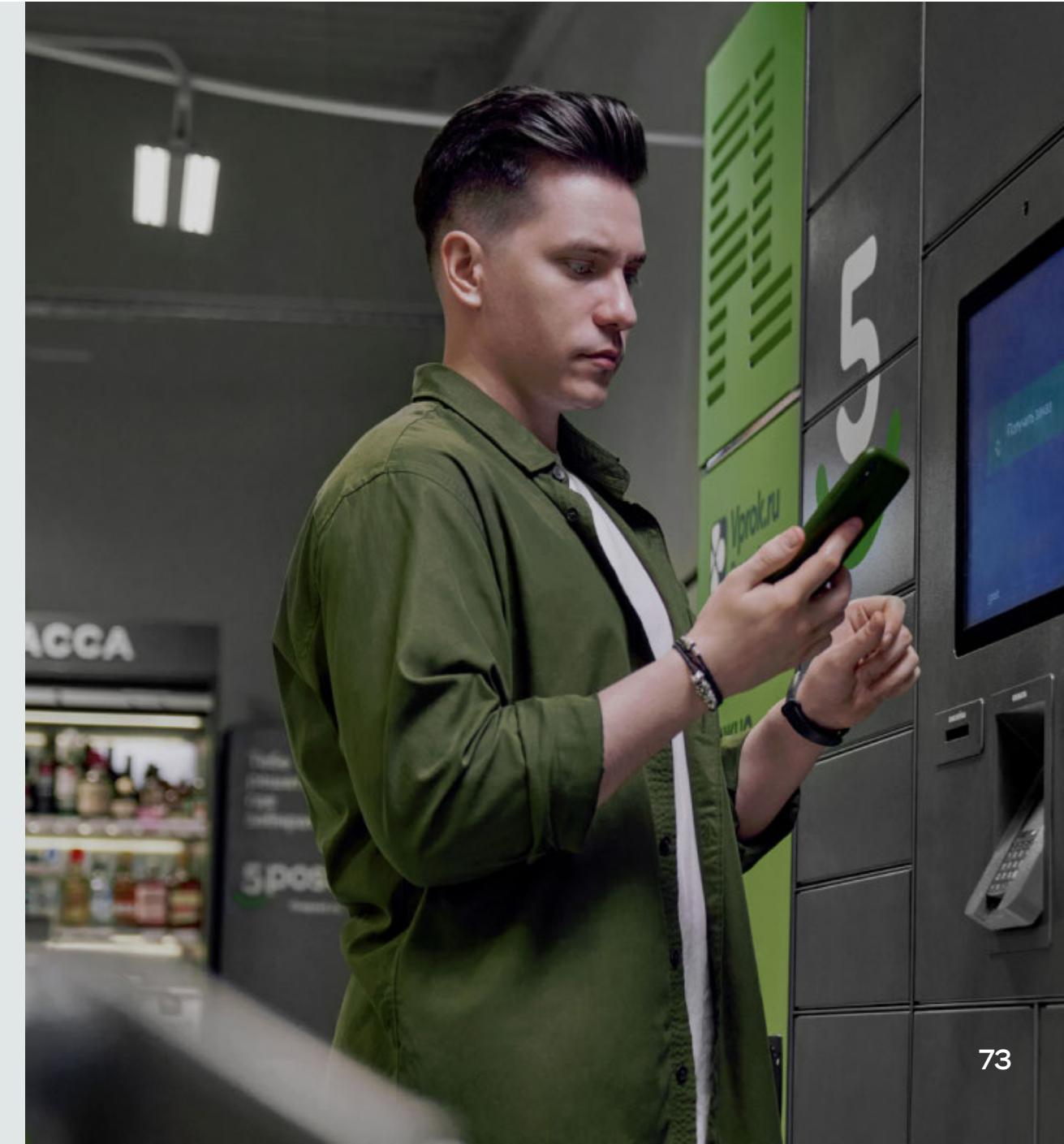
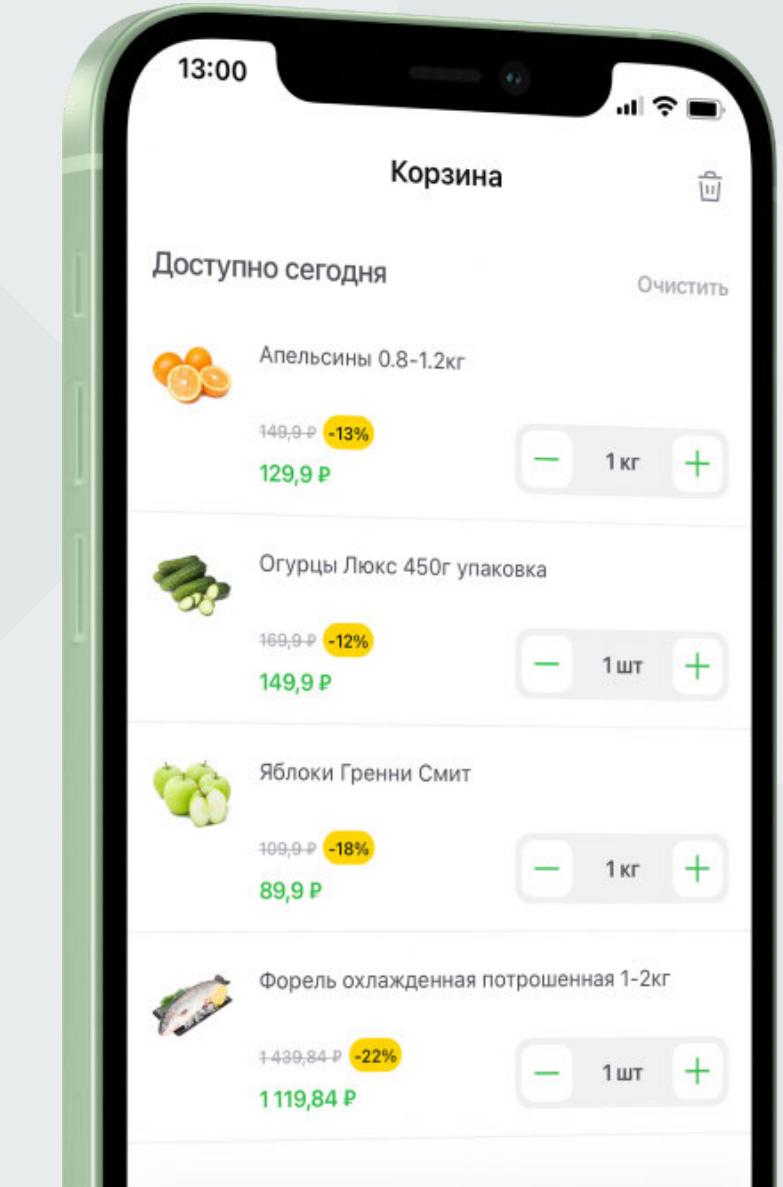
Website MAUs

0.9 MLN

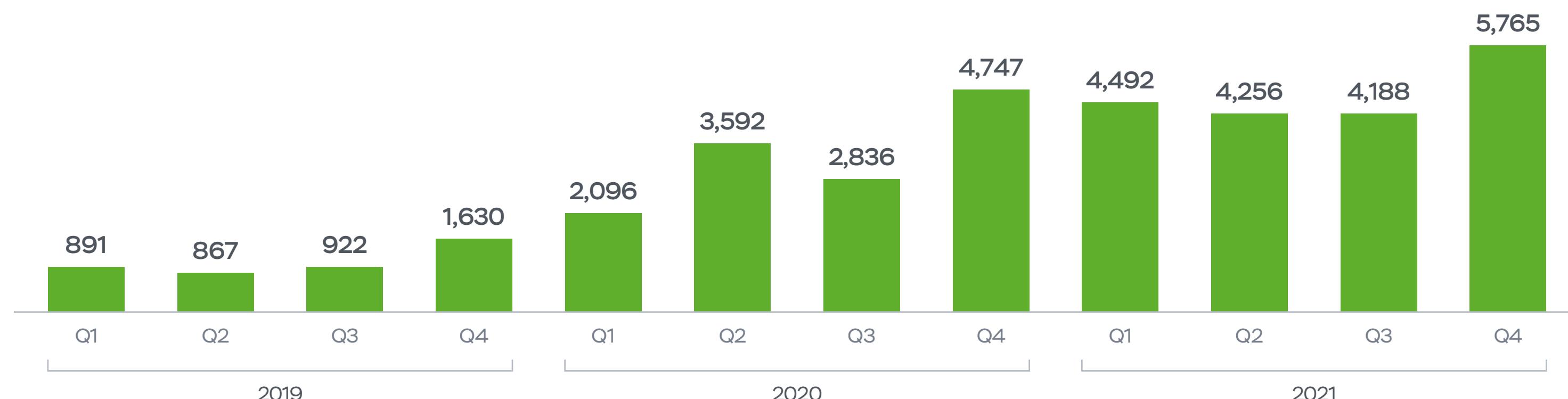
Mobile app MAUs
+21.6% y-o-y

<8 RUB BLN

Total capex
since 2017

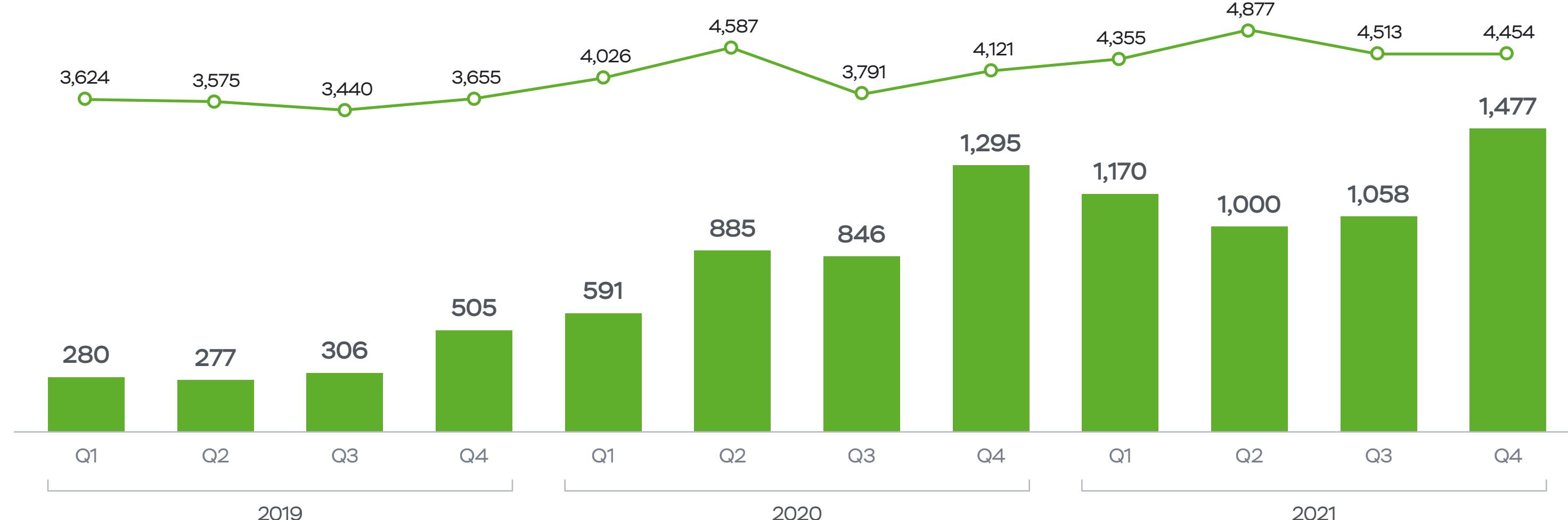


Net sales, RUB mln



Online brand Vprok.ru has become well known in market

Number of orders and average ticket



● Number of orders, thhs

○ Average ticket, RUB

Assortment expanded to c. 75,000 SKUs and continues to grow

Own logistics infrastructure and in-house last-mile delivery enhanced by 5Post platform for additional regional reach

Wide addressable market in cities of presence

Proprietary customer interface: mobile app or website

X5.ID integration for all stages of customer journey, from Food.ru media platform to ordering, loyalty points and payment

Leverages X5's purchasing power and supplier terms

Control over assortment, pricing, promotions and supply chain supports high NPS

Vprok.ru Perekrestok is an important part of X5 Group's strategic aim to be present at every stage of the customer journey in the food market. With service in 74 regions, the online hypermarket is able to deliver large orders to customers' doors or, from 2021, to specially equipped 5Post lockers outside of core service regions.

74

Regions of work



Vprok.ru continued to invest in infrastructure throughout 2021, opening a new dark store in Salaryevo to replace the less-efficient Skladochnaya dark store. The business also launched mini-dark stores in Moscow to enable 15-minute express deliveries.



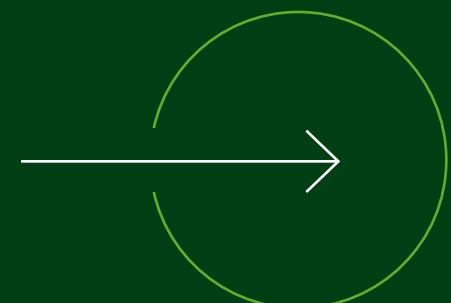
Russian online shoppers often tip couriers, so we have integrated a cashless tipping service into our Vprok.ru mobile app.



As part of Vprok.ru Perekrestok's mission to serve B2B customers, we launched deliveries to new corporate clients, such as Shokoladnitsa cafes, 223 Air squadron, Mnogo Lososya dark kitchens (part of X5 Group) and UCG.

Plan for 2022

Review of development strategy in light of potential partnership to support further rapid expansion of the business



2022



5Post

5Post is X5's last-mile delivery service for domestic and international e-commerce platforms.

The business offers delivery of goods to parcel lockers and pickup points operated by 5Post and X5 retail staff directly at the till in Perekrestok and Pyaterochka stores. Thanks to our extensive nationwide retail operations infrastructure, 5Post has been able to scale up a low-cost, high-quality service that benefits our core businesses by attracting more traffic to stores while also generating additional revenue.

Keys to success

- Nationwide network of conveniently located pickup points
- Leverages existing X5 logistics operations (distribution, logistics, stores)
- Broad and loyal client base
- Multi-channel pickup options: direct from stores, lockers, pickup points
- High-quality last-mile service based on X5's well-organised logistics, which ensures that stores receive daily supplies of products and, as a result, parcels are delivered promptly

2021 highlights

2.6 RUB BLN

Revenue

181

Commercial partners

TOP 5

Ranked in top five delivery service in Russia

31

Sorting facilities

~27 MLN

Parcels delivered

 Positive EBITDA reached in 2021

22,635

Pickup points,
Including 5,692 parcel lockers



Business model

Parcel acceptance for delivery from marketplaces—domestic/cross-border

Parcel delivery to hub
first mile

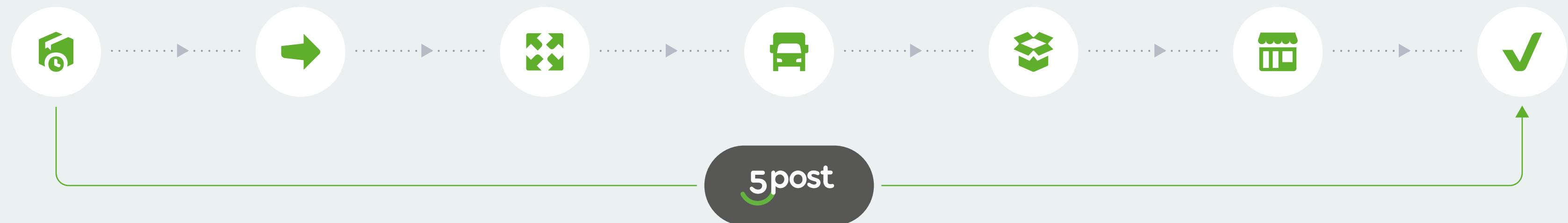
Parcel sorting at hub

Parcel delivery to satellites
interbranch transportation

Parcel sorting at satellites

Parcel delivery to X5 stores
last mile

Parcel pickup by customers
cashier desk, lockers, pickup points



Keys to success: X5's logistics platform for e-commerce

E-commerce is an increasingly important part of the overall retail market, and 5Post offers a way to capture complementary growth for X5's core businesses. With a last-mile delivery service that partners with top Russian and international e-commerce platforms to make parcels available in our stores, we are able to better meet demand from customers while also reinforcing X5's position as an active player in the digital market.

Thanks to our extensive retail operations, we already have a nationwide network with a presence in 66 regions. This scale of operations is comparable only to Russian Post. Our distribution centres and stores offering 5Post parcel pickups are primarily located in larger cities and population centres.

Thanks to X5's existing infrastructure, we have been able to grow the 5Post business with relatively small investments, while rapidly scaling up our nationwide logistics network for e-commerce platforms.

Key partners in 2021

5POST competitive advantages



Efficiency

X5 is the most efficient logistics operator in Russia by cost per order thanks to efficient business processes and our ability to utilise X5's existing logistics infrastructure



Coverage

Nationwide network of convenient pickup points covering 3,236 cities and towns



Accessibility

5Post pickup points are within 1 km (10 min walking distance) for over 70% of the Russian population



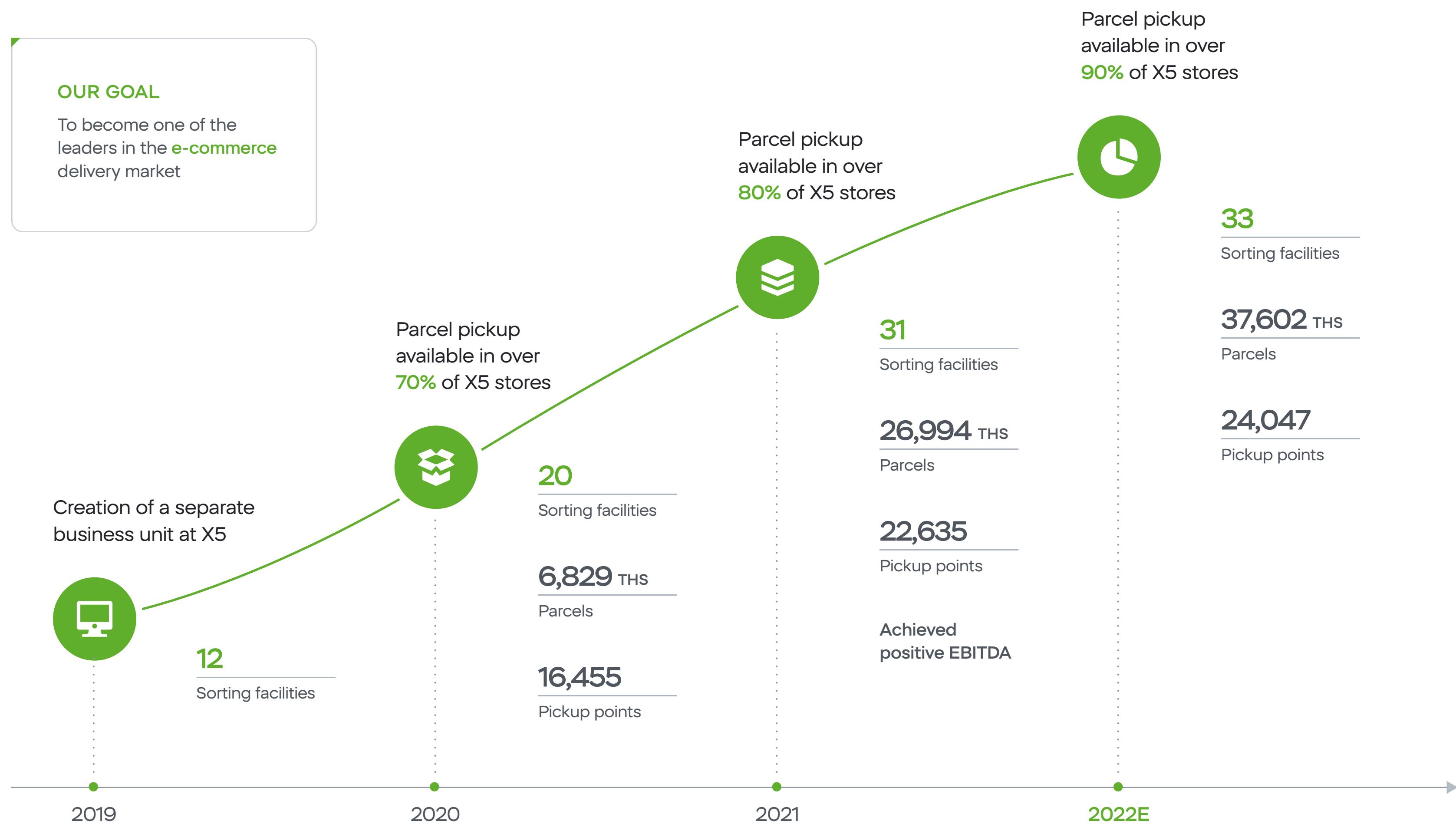
Convenience

Goods can be collected in stores, from lockers or at pickup points

Strategy

5Post was established in 2019 as an additional service to support traffic to our Pyaterochka stores that could also generate additional revenue from existing retail operations infrastructure.

By the end of 2021, 5Post was operating 22,635 pickup points and 31 sorting facilities located in existing X5 DCs or stores. By the end of 2022, we aim to have over 24 thousand pickup points and achieve 90% reach across our formats.



Strategic initiatives and plans for 2022–2023

- ✓ Bulk integrations with partners (over 100 new partners per month) to achieve economies of scale
- ✓ Maximise operating efficiency by achieving best-in-industry efficiency by CPO (cost per order)
- ✓ Leverage best-in-class efficiency to gain market share from competitors like Russian Post, SDEK, DPD, PickPoint, Boxberry
- ✓ Continue to open new sorting centres, with the goal of achieving 90% coverage of the store network by year-end 2022
- ✓ Expand beyond X5 properties to maximise network utilisation
- ✓ Increase marketplace-independent traffic
- ✓ Add new services, e.g. return or exchange of goods, deferred payment, fitting rooms, etc.

Food.ru media platform

Food.ru is a media platform that aims to engage customers at early stages of their shopping journey by offering recipes, culinary master classes and advice on topics like healthy eating.



While offering customers information at the planning and choice stages, Food.ru's integration into X5 services like express delivery and the X5.ID single sign-on help us to guide customers towards continuing their shopping journey with X5.

Food.ru plays a key role in our strategic goal of building a food market business that is present at every stage of the customer journey. By providing consumers with a dynamic, engaging media platform that is regularly updated with a wide variety of content about food, we are able to begin communication with them at the earliest stages of their customer journey.

As customers choose what to eat and plan their meals, the Food.ru platform, which is integrated with X5.ID, provides us with insights into customer preferences, enables us to extend more personalised marketing and promo offers and gives users the convenient option of ordering recipe ingredients directly from our online hypermarket Vprok.ru Perekrestok and express delivery services.

Content

30,000+

Recipes available on Food.ru, including with step-by-step photo and/or video instructions

4,100

Recipes submitted by users

500+

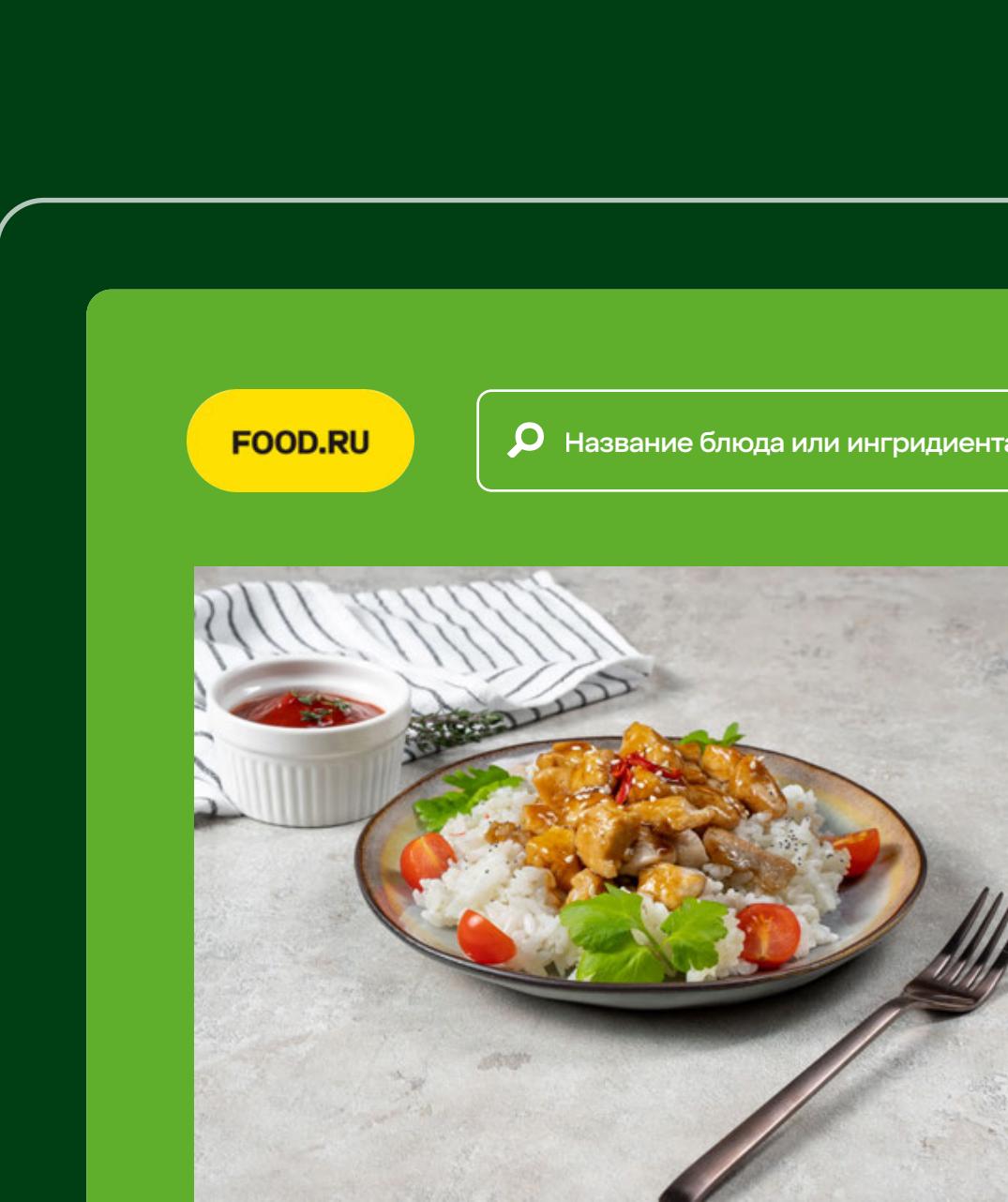
Recipes integrated with Pyaterochka and Perekrestok offerings and promos

150+

Recipes from professional chefs for Food.ru Academy

5,000

Articles and advice columns

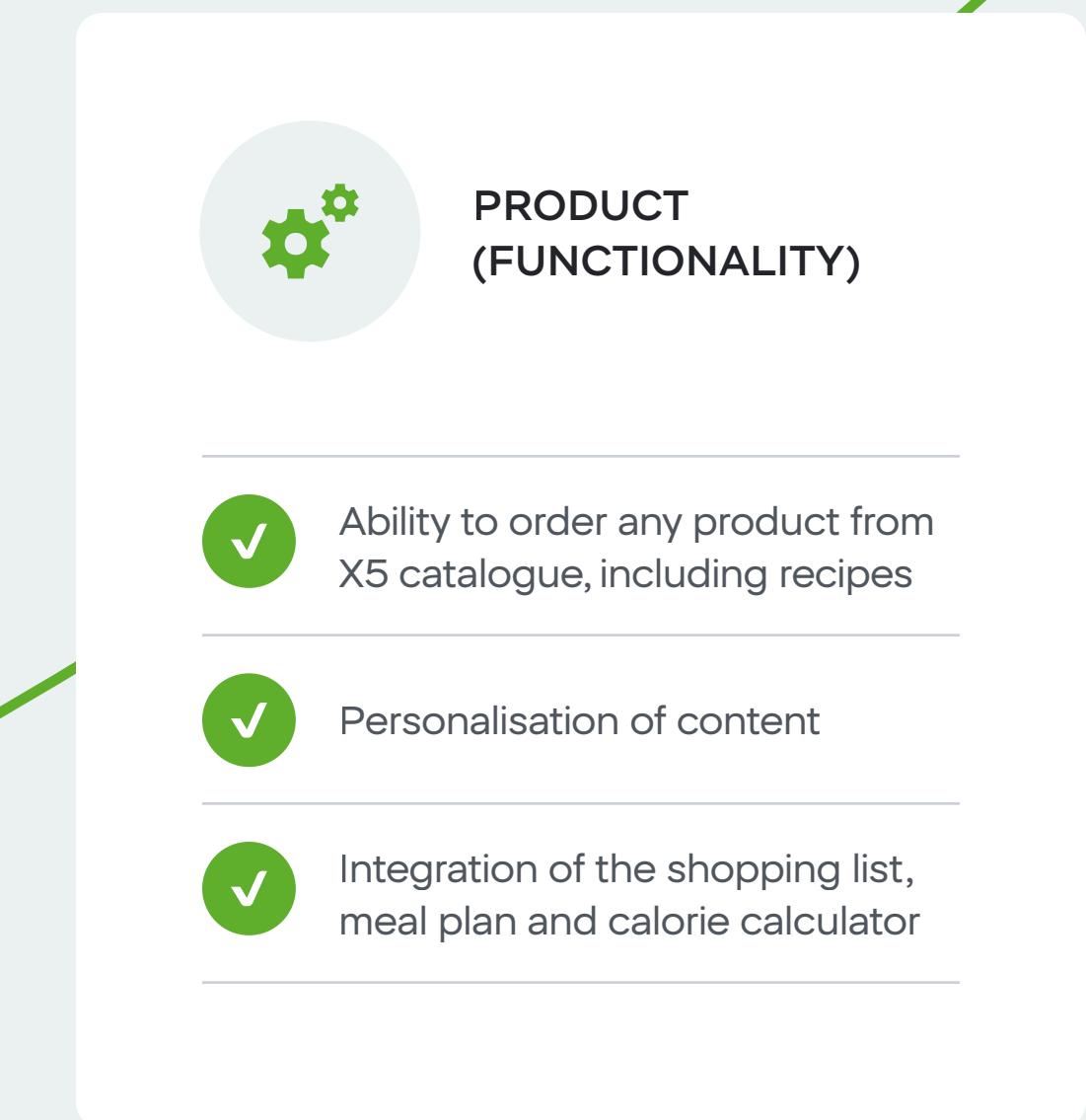
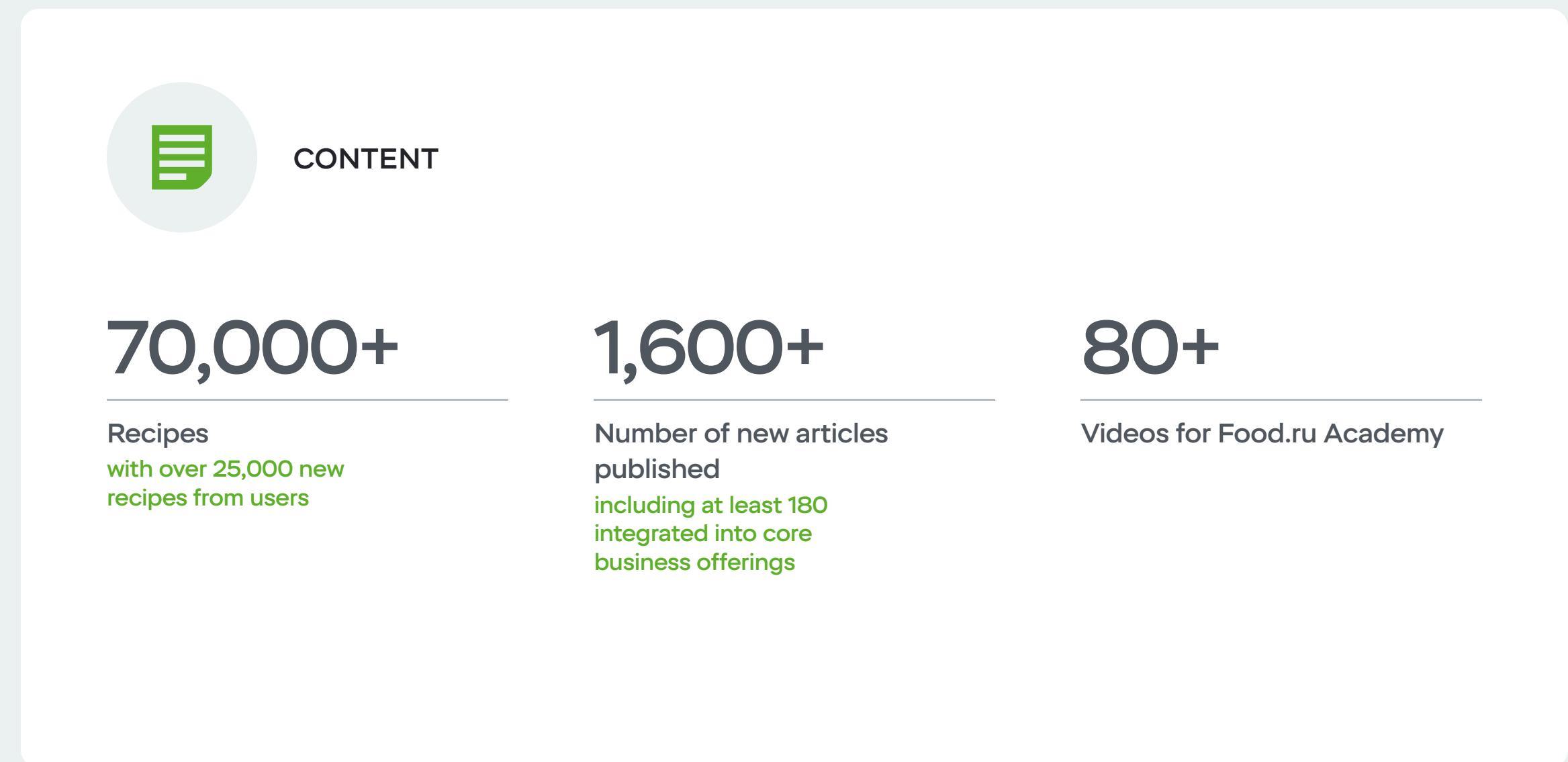
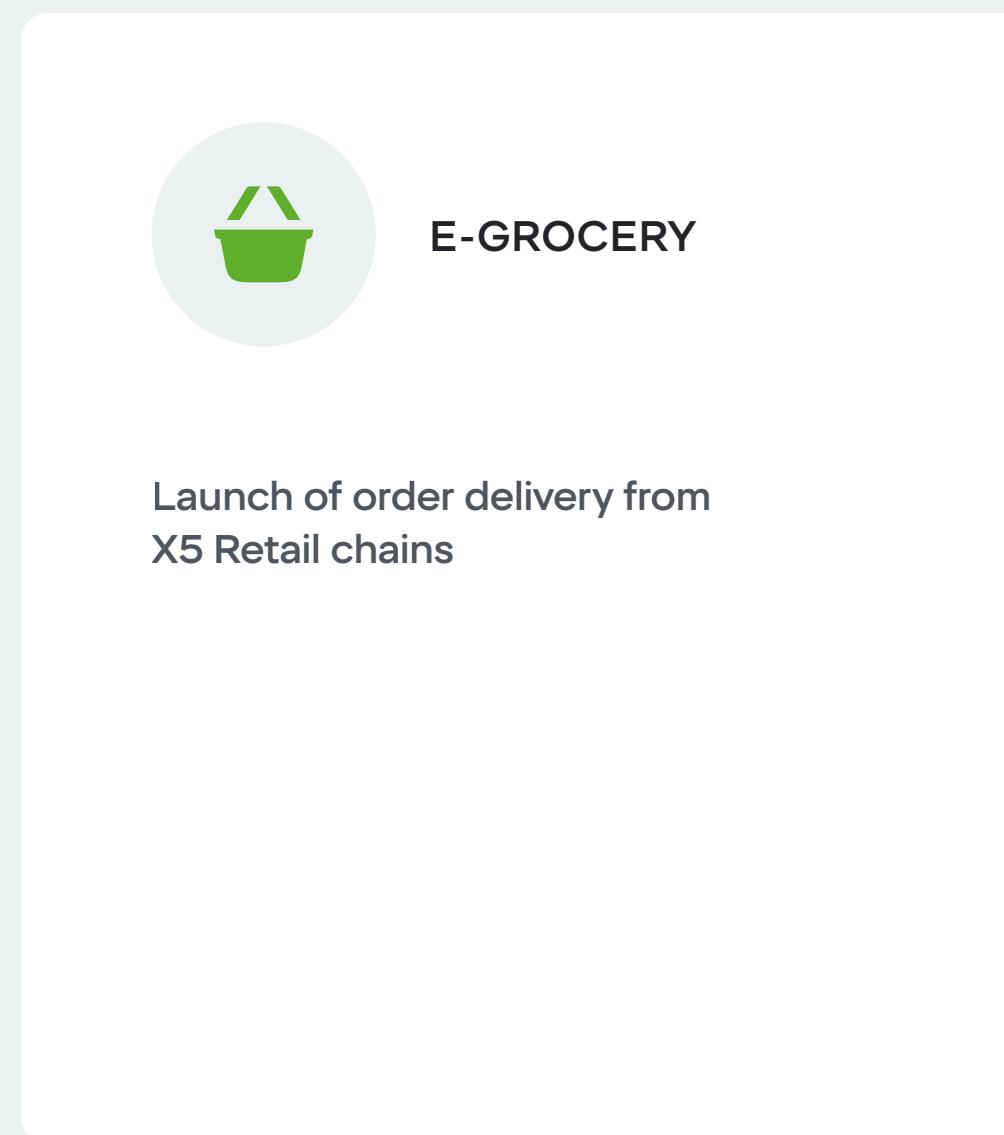


Product (functionality):

- Expanded search to offer filters by popular topics like healthy eating, meal preparation, etc.
- Added ability to save recipes to personal accounts
- Comments can now be left for recipes and articles
- Users can now submit their own recipes to the site
- Integration with Vprok.ru Perekrestok makes it possible to order recipe

Plans for 2022

We aim to continue to expand the content while further integrating Food.ru into our core businesses in the year ahead.



Mnogo Lososya



Mnogo Lososya is a food tech project that is developing a national network of dark kitchens that will support a portfolio of online “eating-out” brands.

Formats

Dark kitchens

Mnogo Lososya franchises
in checkout areas at
Pyaterochka and
Perekrestok stores

Cafe points
in Perekrestok stores

In late March 2021, Mnogo Lososya became part of X5 Group. As of 31 December 2021, Mnogo Lososya was operating 50 kitchens (including two franchisees) and 76 cafe points in Moscow's Perekrestok stores, as well as a mobile app and a software suite supporting key business processes such as food preparation and delivery. The business unit's portfolio currently includes three brands.

A dark kitchen produces over 200 ready-to-eat SKUs under the Mnogo Lososya, Ten Ideal Pizzas and Rolls No. 1 brands. Customers can place orders using both the company's own Mnogo Lososya app or through delivery aggregators.

2021 highlights

999 RUB
MLN

Revenue
excl. intra-Group sales

744 THS

Orders

50

Dark kitchens
in operation
incl. two franchisees

1,640 RUB

Average ticket

A dark kitchen produces:

200+

Ready-to-eat SKUs
under the following brands:

- 1 Mnogo Lososya
- 2 Ten Ideal Pizzas
- 3 Rolls No. 1



Key highlights of 2021

After becoming part of X5 Group in March 2021, Mnogo Lososya successfully developed its dark kitchen business through organic growth, including expanding into the St Petersburg market in June 2021. The business managed to exceed its 2021 revenue goal by around 20% thanks to the implementation in full of its development programme and strong demand from customers for its ready-to-eat hot meal offering.

In addition to geographic expansion, Mnogo Lososya also launched a project with Perekrestok to develop cafe points in selected Moscow supermarkets, which will be rolled out to other major cities during 2022.

While Mnogo Lososya work with a number of delivery aggregators, the company's app is also popular among customers, and currently generates around 30% of revenue for the dark kitchen business.

Plans for 2022 and beyond



Expand operations to increase the number of dark kitchens from 50 to 60-65 in 2022



Launch offering in Murmansk; other large cities being considered



Focus on development of own sales channel and positive brand recognition



Identify and test additional brands that can leverage X5's purchasing power



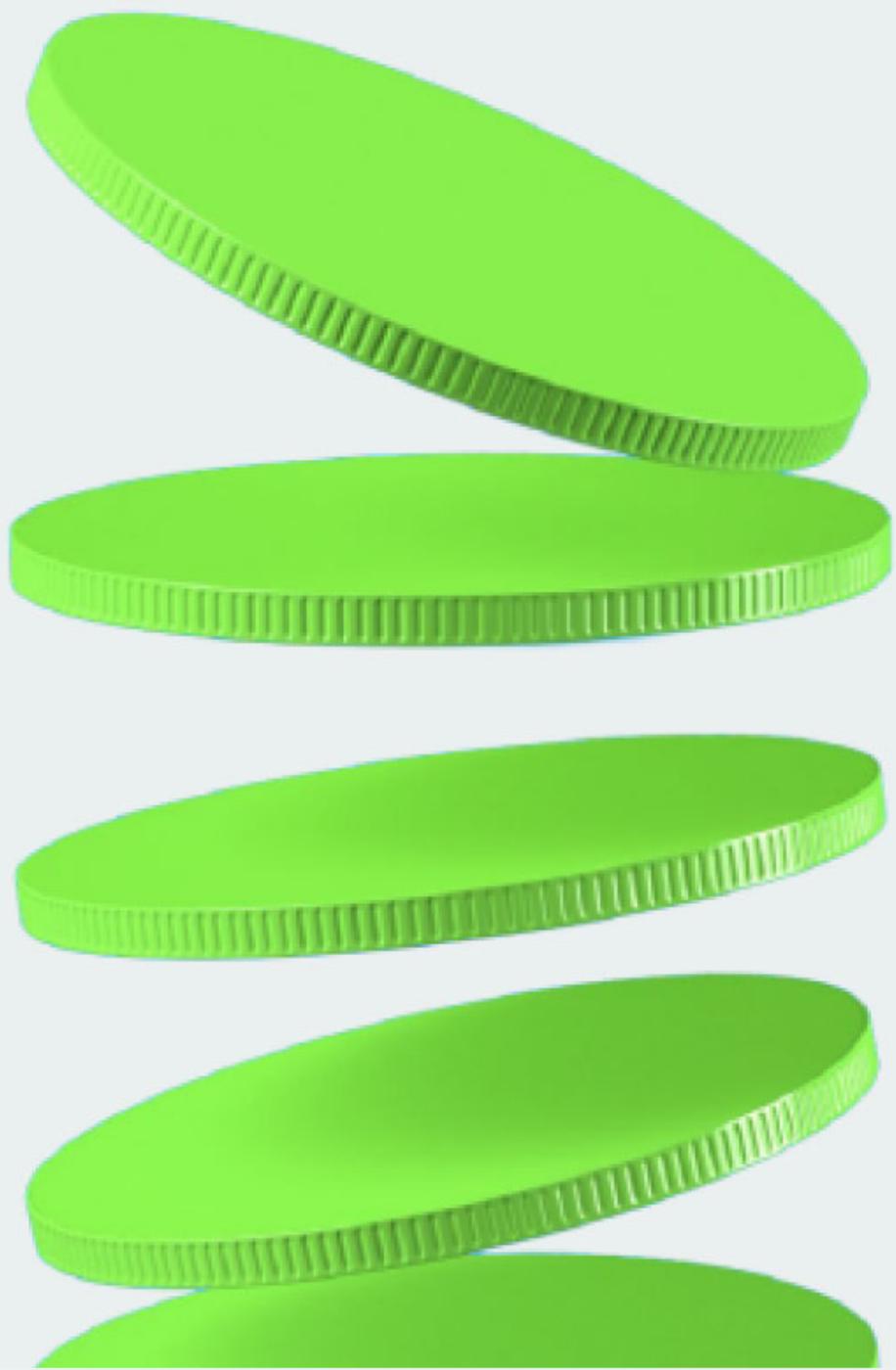
Be on track to reach positive EBITDA within three years



X5 Bank

X5 Bank's MVP was launched in November 2021, offering users plastic and digital cards that combine the functionality of Pyaterochka and Perekrestok loyalty cards with banking services such as payments, money transfers and rouble-denominated cashback, among others, in X5's mobile apps.

X5 Bank is a joint project between X5 and Alfa Bank, Russia's largest non-state bank. In line with our strategic goal of being present at every stage of the customer journey, X5 Bank cards support customer acquisition, increased retention and higher revenue by raising shopping frequency.



X5 Bank today

X5 Bank was launched in November 2021 and is still at the MVP stage.

Customers can now order plastic cards or use digital cards issued via the Perekrestok and Pyaterochka mobile apps.

In the first phase X5 Bank offers digital cards that combine the functionality of Pyaterochka and Perekrestok loyalty cards with bank services – payments, money transfers, cashback, etc.

As of 31 December 2021, X5 Bank digital cards were available to users of the Perekrestok and Pyaterochka mobile apps in 13 cities.

Plans for 2022

- ✓ X5 Bank's offering of various card types will be expanded to more cities where X5's formats operate and will be available digitally throughout Russia
- ✓ Expand the range of financial services offered via X5 Bank to include lending products: credit cards, instalment purchases, overdrafts and cash loans
- ✓ We plan to launch a new product line integrated into instalment programmes and providing maximum privileges at our stores



Perekrestok card



Pyaterochka card

Financial review

X5 Group's performance in 2021 well demonstrated the resilience, flexibility and sustainability of our business. We delivered revenue growth of 11.5% to RUB 2,205 billion with solid pre-IFRS 16 EBITDA margin of 7.3%, in line with our targets.

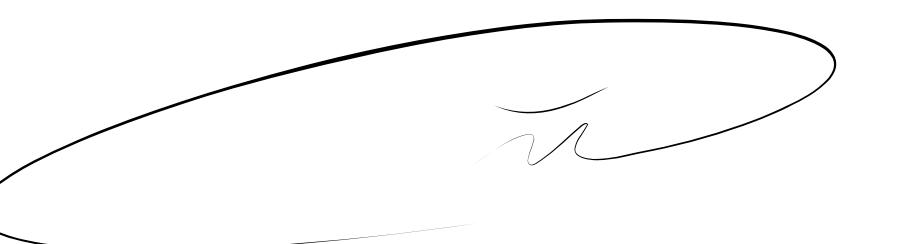
Top-line growth was driven by expansion in selling space, which delivered a 6.1% increase, and LFL performance, which contributed 5.1%. X5 maintained its top spot in Russian food retail and increased its market share to 12.7% in 2021, despite fierce competition from established players, the emergence of new and niche formats, as well as the aggressive expansion of online ecosystems into the food market. We were able to do this thanks to our continued focus on adapting the CVPs of our existing formats, successful steps to enable X5 to engage with consumers at every stage of the customer journey and the launch of our new hard discounter retail chain – Chizhik.

At the same time, our focus on the digital transformation of our business and efficiency measures enabled X5 Group to successfully deliver on profitability targets. Despite significant inflationary pressures, we were able to contain adjusted SG&A expenses under IFRS 16 as a percentage of revenue to 14.2%, representing year-on-year growth of 71 b.p. This increase was mainly due to higher staff costs, third-party services and other expenses.

Our net debt/EBITDA ratio (pre-IFRS 16) remained unchanged at the comfortable level of 1.67x, which is below our upper target limit of 2.0x. Despite the reduction in the weighted average effective interest rate on X5's total debt from 6.78% for 2020 to 6.56% for 2021, the rise in net finance costs under IFRS 16 of 1.0% year-on-year was due to new and prolonged contracts at higher rates. The share of borrowings with fixed interest rate accounted for 84% as the end of December 2021.

The X5 Group Supervisory Board has made a recommendation not to pay a final dividend for 2021. The total dividend for the year will amount to RUB 20 billion, or RUB 73.65 per GDR, which represents 46.8% of X5 Group's 2021 net profit.

Looking ahead, there is a great deal of uncertainty in economic environment. I am confident that X5 Group's strong balance sheet, robust business processes and talented team will help us to navigate the challenges we will undoubtedly face in the year ahead.



Vsevolod Starukhin

CHIEF FINANCIAL OFFICER



Financial review

The financial and operational information contained in this financial review comprises information about X5 Group N.V. and its consolidated subsidiaries (hereinafter jointly referred to as "we", "X5" or the "Company"). The following is a review of our financial condition and results of operations as of 31 December 2021 and for the years ended 31 December 2021 and 31 December 2020. The consolidated financial statements and related notes thereto are available on pages 177-264 of this document and were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Key highlights

REVENUE

2,205 RUB
BLN

11.5% year-on-year
increase

GROSS PROFIT MARGIN

25.5 %

45 b.p. year-on-year
increase
IFRS 16

25.1 %

47 b.p. year-on-year
increase
pre-IFRS 16

ADJUSTED EBITDA MARGIN

12.3 %

7 b.p. year-on-year
decrease
IFRS 16

7.4 %

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

CAPITAL EXPENDITURE

97.9 RUB
BLN

8.9% year-on-year
increase

NET DEBT/EBITDA

3.16 ×

IFRS 16

1.67 ×

pre-IFRS 16

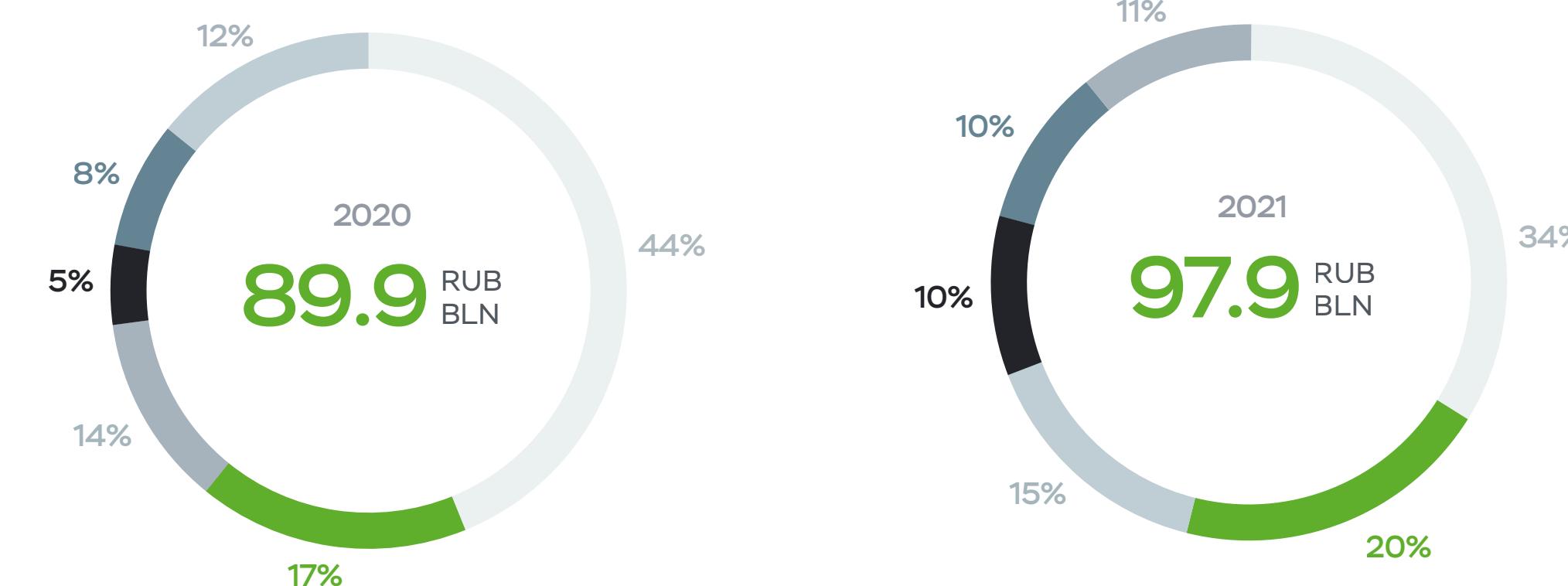
DIVIDENDS

20 RUB
BLN

46.8% of consolidated
IFRS 16 net profit

73.65 RUB
PER GDR

Capital expenditure structure (pre-IFRS 16), %



Segments →

● New store openings

● Refurbishments

● Maintenance

● Logistics

● IT

● Other, including new digital businesses

Results of operations for the year ended
31 December 2021 compared with the year
ended 31 December 2020

The following table and discussion provide a summary of our consolidated results of operations for the years ended 31 December 2021 and 31 December 2020.

Profit and loss statement: highlights

RUSSIAN ROUBLES (RUB), MILLIONS ¹	IFRS 16			PRE-IFRS 16		
	2021	2020	% CHANGE, Y-O-Y	2021	2020	% CHANGE, Y-O-Y
Revenue	2,204,819	1,978,026	11.5	2,204,819	1,978,026	11.5
incl. net retail sales ²	2,194,477	1,973,346	11.2	2,194,477	1,973,346	11.2
Pyaterochka	1,793,676	1,597,174	12.3	1,793,676	1,597,174	12.3
Perekrestok (including Vprok.ru Perekrestok)	365,119	320,459	13.9	365,119	320,459	13.9
Karusel	31,742	55,662	(43.0)	31,742	55,662	(43.0)
Chizhik	2,940	50	59 x	2,940	50	59 x
Mnogo Lososya	999	-	n/a	999	-	n/a
Gross profit	561,317	494,620	13.5	553,363	487,223	13.6
Gross profit margin, %	25.5	25.0	45 b.p.	25.1	24.6	47 b.p.
Adj. SG&A ³	(314,017)	(267,605)	17.3	(410,205)	(356,838)	15.0
Adj. SG&A, % of revenue	14.2	13.5	71 b.p.	18.6	18.0	56 b.p.
Adj. EBITDA	271,023	244,501	10.8	164,197	146,016	12.5
Adj. EBITDA margin, %	12.3	12.4	(7) b.p.	7.4	7.4	7 b.p.
EBITDA	267,850	243,622	9.9	161,024	145,137	10.9
EBITDA margin, %	12.1	12.3	(17) b.p.	7.3	7.3	(3) b.p.
Operating profit	117,572	105,717	11.2	84,359	76,785	9.9
Operating profit margin, %	5.3	5.3	(1) b.p.	3.8	3.9	(6) b.p.
Adj. net profit ⁴	44,613	35,828	24.5	50,323	46,863	7.4
Adj. net profit margin, %	2.0	1.8	21 b.p.	2.3	2.4	(9) b.p.
Net profit	42,738	28,344	50.8	48,513	39,180	23.8
Net profit margin, %	1.9	1.4	51 b.p.	2.2	2.0	22 b.p.

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

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

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 93-97.

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

Revenue and net retail sales

In 2021, X5's revenue increased by 11.5% year-on-year to RUB 2,205 billion. Net retail sales for 2021 grew by 11.2% year-on-year, driven by a 5.1% increase in like-for-like (LFL) sales and a 6.1% sales growth contribution from a 7.3% rise in selling space.

The Company's proximity store format, Pyaterochka, was the main growth driver in 2021: Pyaterochka's net retail sales rose by 12.3% year-on-year, driven by a 5.6% increase in LFL sales and a 6.7% contribution to sales growth from a 7.7% expansion in selling space. LFL traffic increased by 1.4% year-on-year, while the LFL basket grew by 4.1% year-on-year.

Perekrestok's net sales, excluding the online hypermarket Vprok.ru Perekrestok, increased by 13.4% in 2021, driven mostly by selling space expansion and a recovery at stores located in shopping malls after the lockdown restrictions were lifted. LFL sales growth was 3.8%.

Karousel experienced a 43.0% decline in net retail sales, driven by downsizing as part of the format's transformation programme.

In 2021, Chizhik's net sales rose 59x year-on-year. The number of stores reached 72 as of 31 December 2021.

Gross profit

The Company's gross profit margin under IFRS 16 in 2021 increased by 45 b.p. year-on-year to 25.5% (increased by 47 b.p. to 25.1% under pre-IFRS 16), driven predominantly by an improvement in commercial margin on the back of accelerating shelf inflation, reduced price investments in Q4 2021 and changes in category mix as well as a reduction in shrinkage as a result of operating improvements.

Summary of operating results

2021 net retail sales and sales drivers, y-o-y % change	Average ticket ¹	Number of customers ¹	Net retail sales ¹
Pyaterochka	4.0	7.9	12.3
Perekrestok	0.2	13.2	13.4
Karousel	7.2	(46.6)	(43.0)
Chizhik	24.7	48x	59x
X5 Group	2.9	7.9	11.2

Selling space end of period, square metres	31-Dec-21	31-Dec-20	% change, y-o-y
Pyaterochka	7,048,488	6,541,622	7.7
Perekrestok	1,098,905	1,013,860	8.4
Karousel	128,063	222,119	(42.3)
Chizhik	20,327	980	21x
Mnogo Lososya	4,992	-	n/a
X5 Group	8,409,757	7,840,055	7.3

2021 LFL ² results, % growth y-o-y	Sales	Traffic	Basket
Pyaterochka	5.6	1.4	4.1
Perekrestok	3.8	3.2	0.5
Karousel	(8.4)	(9.3)	1.0
X5 Group	5.1	1.5	3.5

¹ Excluding Vprok.ru Perekrestok

² 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.

Sales of offline and digital businesses

RUB MLN	2021	2020	CHANGE Y-O-Y, %
Pyaterochka	1,779,567	1,592,576	11.7
Perekrestok	337,391	306,218	10.2
Karousel	31,723	55,662	(43.0)
Chizhik	2,940	50	59x
Offline net sales	2,151,621	1,954,506	10.1
Vprok.ru Perekrestok	18,651	13,183	41.5
Express delivery (incl. Okolo)	25,678	6,112	4x
5Post (e-comm last mile)	2,615	683	4x
Mnogo Lososya	999	-	n/a
Digital businesses' net sales	47,943	19,978	140.0
Total net sales	2,199,564	1,974,484	11.4

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

In 2021, adjusted SG&A expenses under IFRS 16 as a percentage of revenue increased year-on-year by 71 b.p. to 14.2% (increased by 56 b.p. to 18.6% pre-IFRS 16), mainly due to increased staff costs, third-party services and other expenses.

Staff costs (excluding LTI and share-based payments) in 2021, as a percentage of revenue, increased year-on-year by 25 b.p. to 8.3% due to the shortage of labour force driven by the COVID-19 pandemic.

Lease expenses under IFRS 16 as a percentage of revenue in 2021 increased year-on-year by 8 b.p. to 0.7% (decreased by 10 b.p. to 4.8% pre-IFRS 16), mainly due to the higher number of stores with revenue-linked lease payments accounted for as part of operating activities under IFRS 16 and higher sales at those stores compared with the X5 average.

The decrease pre-IFRS 16 was mainly due to the positive operating leverage effect and measures taken to reduce lease expenses; the decrease was partially balanced by the growing share of leased space in X5's total real estate portfolio, which accounted for 82% as of 31 December 2021, compared with 80% as of 31 December 2020.

In 2021, other store costs under IFRS 16 as a percentage of revenue decreased year-on-year by 7 b.p. to 1.0% (decreased by 8 b.p. to 1.1% pre-IFRS 16), driven by lower maintenance expenses.

In 2021, third-party services under IFRS 16 as a percentage of revenue increased year-on-year by 18 b.p. to 1.0%, driven by investments in new services – subscription and a media platform.

Other expenses (excluding the impact of the Karusel transformation) under IFRS 16 as a percentage of revenue increased year-on-year by 22 b.p., totalling 1.2% (increased by 27 b.p. totalling 1.4% pre-IFRS 16) due to a growing share of courier service costs for express delivery, reflecting a 4x year-on-year increase in the number of orders and higher acquiring costs driven by the increased penetration of card payments.

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

RUB MLN	IFRS 16			PRE-IFRS 16		
	2021	2020	% CHANGE, Y-O-Y	2021	2020	% CHANGE, Y-O-Y
Staff costs	(185,572)	(159,261)	16.5	(185,572)	(159,261)	16.5
% of revenue	8.4	8.1	37 b.p.	8.4	8.1	37 b.p.
incl. LTI and share-based payments	(3,011)	(345)	772.8	(3,011)	(345)	772.8
staff costs excl. LTI % of revenue	8.3	8.0	25 b.p.	8.3	8.0	25 b.p.
Lease expenses	(14,452)	(11,291)	28.0	(105,451)	(96,573)	9.2
% of revenue	0.7	0.6	8 b.p.	4.8	4.9	(10) b.p.
Utilities	(45,539)	(39,819)	14.4	(45,539)	(39,819)	14.4
% of revenue	2.1	2.0	5 b.p.	2.1	2.0	5 b.p.
Other store costs	(22,568)	(21,625)	4.4	(23,418)	(22,621)	3.5
% of revenue	1.0	1.1	(7) b.p.	1.1	1.1	(8) b.p.
Third-party services	(22,016)	(16,257)	35.4	(21,718)	(15,894)	36.6
% of revenue	1.0	0.8	18 b.p.	1.0	0.8	18 b.p.
Other expenses	(26,881)	(19,697)	36.5	(31,518)	(23,015)	36.9
% of revenue	1.2	1.0	22 b.p.	1.4	1.2	27 b.p.
SG&A (excl. D&A&I and impact from Karusel transformation)	(317,028)	(267,950)	18.3	(413,216)	(357,183)	15.7
% of revenue	14.4	13.5	83 b.p.	18.7	18.1	68 b.p.
Adj. SG&A (excl. D&A&I, LTI, share-based payments and impact from Karusel transformation)	(314,017)	(267,605)	17.3	(410,205)	(356,838)	15.0
% of revenue	14.2	13.5	71 b.p.	18.6	18.0	56 b.p.

Long-term incentive (LTI) programme

Accruals were made in the consolidated financial statements for the year ended 31 December 2021 related to liabilities for deferred conditional payouts related to the LTI programme for 2018–2020, the new LTI programme for 2021–2023 and the new LTI programme for new businesses (5Post, Chizhik and Okolo). Accruals for the deferred conditional payout related to the 2018–2020 LTI programme will continue until Q2 2022. In total, RUB 3,011 million was accrued in 2021 for the LTI programme.

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

Targets under the LTI programme are structured to align the long-term interests of shareholders and management, with a focus on maintaining leadership in terms of revenue, maintaining leadership in terms of enterprise value multiple relative to peers and achieving ESG targets. Additionally, the LTI programme includes triggers relating to the EBITDA margin pre-IFRS 16 to ensure that profitability is not sacrificed and to the net debt/EBITDA ratio pre-IFRS 16 to retain focus on prudent financial and balance sheet management.

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

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

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

RUB MLN	2021	2020	2019	2018	2017	2015	2016
LTI 2015-2017	-	(541)	327	1,552	2,875	3,053	3,607
LTI 2018-2020	1,055	830	2,444	619	-	-	-
LTI 2021-2023	1,350	-	-	-	-	-	-
New businesses	515	-	-	-	-	-	-
Total LTI	2,920	289	2,771	2,171	2,875	3,053	3,607

EBITDA and adjusted EBITDA

RUB MLN	IFRS 16			PRE-IFRS 16		
	2021	2020	% CHANGE, Y-O-Y	2021	2020	% CHANGE, Y-O-Y
Gross profit	561,317	494,620	13.5	553,363	487,223	13.6
Gross profit margin, %	25.5	25.0	45 b.p.	25.1	24.6	47 b.p.
Adj. SG&A (excl. D&A&I, LTI, share-based payments and impact from Karusel transformation)	(314,017)	(267,605)	17.3	(410,205)	(356,838)	15.0
% of revenue	14.2	13.5	71 b.p.	18.6	18.0	56 b.p.
Net impairment losses on financial assets	(154)	(251)	(38.6)	(154)	(251)	(38.6)
% of revenue	0.0	0.0	(1) b.p.	0.0	0.0	(1) b.p.
Lease/sublease and other income	23,877	17,737	34.6	21,193	15,882	33.4
% of revenue	1.1	0.9	19 b.p.	1.0	0.8	16 b.p.
Adj. EBITDA	271,023	244,501	10.8	164,197	146,016	12.5
Adj. EBITDA margin, %	12.3	12.4	(7) b.p.	7.4	7.4	7 b.p.
LTI, share-based payments and other one-off remuneration payments expense and SSC	(3,011)	(345)	772.8	(3,011)	(345)	772.8
% of revenue	(0.1)	(0.0)	(12) b.p.	(0.1)	(0.0)	(12) b.p.
Effect of Karusel transformation	(162)	(534)	(69.6)	(162)	(534)	(69.9)
% of revenue	(0.0)	(0.0)	2 b.p.	(0.0)	(0.0)	2 b.p.
EBITDA	267,850	243,622	9.9	161,024	145,137	10.9
EBITDA margin, %	12.1	12.3	(17) b.p.	7.3	7.3	(3) b.p.

Lease/sublease and other income

As a percentage of revenue, the Company's income from lease, sublease and other operations under IFRS 16 increased by 19 b.p. year-on-year, totalling 1.1% (increased by 16 b.p. year-on-year totalling 1.0% under pre-IFRS 16), reflecting an increase in revenue from sales of recyclable materials on the back of improved efficiency of internal processes.

EBITDA analysis

EBITDA under IFRS 16 in 2021 grew year-on-year by 9.9% and totalled RUB 267,850 million (grew by 10.9% and totalled RUB 161,024 million pre-IFRS 16), while EBITDA margin under IFRS 16 decreased by 17 b.p. year-on-year to 12.1% (decreased by 3 b.p. to 7.3% pre-IFRS 16).

EBITDA analysis by segment

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

Pyaterochka (pre-IFRS 16)

RUB MLN	2021	2020	% CHANGE, Y-O-Y
Revenue	1,795,018	1,598,315	12.3
EBITDA	145,350	129,268	12.4
EBITDA margin, %	8.1	8.1	1 b.p.

Pyaterochka's EBITDA margin remained flat at 8.1% on the back of express delivery expansion, increasing corporate overheads and logistics costs.

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

RUB MLN	2021	2020	% CHANGE, Y-O-Y
Revenue	58,701	70,251	(16.4)
EBITDA	(4,375)	(2,409)	81.6
EBITDA margin, %	(7.5)	(3.4)	(402) b.p.

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

Perekrestok excluding Vprok.ru Perekrestok (pre-IFRS 16)

RUB MLN	2021	2020	% CHANGE, Y-O-Y
Revenue	351,100	309,460	13.5
EBITDA	24,213	22,116	9.5
EBITDA margin, %	6.9	7.1	(25) b.p.

Perekrestok's EBITDA margin decreased by 25 b.p. year-on-year in FY 2021 to 6.9% mainly due to higher share of express delivery services and higher allocated corporate overheads.

Corporate Centre (pre-IFRS 16)

RUB MLN	2021	2020	% CHANGE, Y-O-Y
EBITDA	(4,164)	(3,838)	8.5

Corporate expenses increased by 8.5% year-on-year in 2021.

Depreciation, amortisation and impairment costs

Depreciation, amortisation and impairment costs under IFRS 16 in 2021 totalled RUB 150,278 million (RUB 76,665 million pre-IFRS 16), decreasing as a percentage of revenue by 16 b.p. year-on-year to 6.8% (increasing by 2 b.p. to 3.5% pre-IFRS 16). This was mainly due to the optimisation of the refurbishment plan partially offset by increasing impairment.

Analysis of non-operating gains and losses

Net finance costs under IFRS 16 in 2021 amounted to RUB 57,229 million, a 1.0% increase from 2020 (RUB 16,569 million, a 0.3% decrease from 2020 pre-IFRS 16) driven by the increase in interest on lease liabilities.

The decrease under pre-IFRS 16 is driven by the reduced weighted average effective interest rate on X5's total debt from 6.78% for 2020 to 6.56% for 2021 as a result of declining interest rates in Russian capital markets, the solid credit quality of X5 Group and actions taken to minimise interest expenses.

The net FX result reflects the volatility of the rouble exchange rate, mainly due to revaluation of lease liabilities denominated in foreign currency (IFRS 16) and payables for imported goods (IFRS 16 and pre-IFRS 16).

Income tax expenses under IFRS 16 increased by 3.9% in 2021, reflecting business growth. In 2021, X5's effective tax rate under IFRS 16 decreased to 29.6% from 37.9% in 2020 (decreased to 28.6% from 33.8% in 2020 pre-IFRS 16), driven by the high base effect of the previous year.

Net profit in 2021 under IFRS 16 included one-off adjustments totalling RUB 1,875 million (RUB 1,810 million pre-IFRS 16) related to the Karusel transformation (mainly due to impairment of non-current assets).

Non-operating gains and losses

RUB MLN	IFRS 16			PRE-IFRS 16		
	2021	2020	% CHANGE, Y-O-Y	2021	2020	% CHANGE, Y-O-Y
Operating profit	117,572	105,717	11.2	84,359	76,785	9.9
Operating profit margin, %	5.3	5.3	(1) b.p.	3.8	3.9	(6) b.p.
Net finance costs	(57,229)	(56,636)	1.0	(16,569)	(16,627)	(0.3)
Share of profit of associates	-	(20)	-	-	(20)	-
Net FX result	399	(3,391)	n/a	175	(913)	n/a
Profit before tax	60,742	45,670	33.0	67,965	59,225	14.8
Income tax expense	(18,004)	(17,326)	3.9	(19,452)	(20,045)	(3.0)
Net profit	42,738	28,344	50.8	48,513	39,180	23.8
Net profit margin, %	1.9	1.4	51 b.p.	2.2	2.0	22 b.p.
Effect of Karusel transformation and tax accrual related to X5's reorganisation in previous periods	1,875	7,484	(74.9)	1,810	7,683	(76.4)
% of revenue	0.1	0.4	(29) b.p.	0.1	0.4	(31) b.p.
Adj. net profit	44,613	35,828	24.5	50,323	46,863	7.4
Adj. net profit margin, %	2.0	1.8	21 b.p.	2.3	2.4	(9) b.p.

Cash flow analysis

In 2021, the Company's net cash from operating activities before changes in working capital under IFRS 16 increased by RUB 24,727 million, or 10.3%, year-on-year, totalling RUB 265,528 million (increased by RUB 17,075 million, or 11.8%, totalling RUB 161,387 million pre-IFRS 16) and reflecting the overall growth of the business. Changes in working capital under IFRS 16 totalled 32,415 million in 2021 compared with RUB 2,247 million in 2020. Under pre-IFRS 16, changes in working capital in 2021 totalled RUB 32,244 million compared with RUB 1,261 million in 2020. The positive change in working capital was driven by an increase in accounts payable due to increasing sales, measures taken to increase the efficiency of working capital and calendarisation.

Net interest and income tax paid under IFRS 16 in 2021 decreased year-on-year by RUB 13,007 million, or 15.6%, totalling RUB 70,481 million (decreased by RUB 13,651 million, or 31.3%, totalling RUB 29,919 million pre-IFRS 16), a refund of advance income tax payments in Q3 2021.

Liquidity analysis

As of 31 December 2021, the Company's total debt pre-IFRS 16 amounted to RUB 294,338 million, 29.8% of which was short-term debt and 70.2% was long-term debt. The Company's debt is 100% denominated in Russian roubles. As of 31 December 2021, the majority of X5's debt had fixed interest rates.

As of 31 December 2021, the Company had access to RUB 482,263 million in available credit limits with major Russian and international banks. In addition, the Company has short-term deposit in the amount of RUB 50 billion as of 31 December 2021.

¹ EBITDA shall be adjusted (decreased) by the amount that would have been recognised as operating lease, other store costs, third-party services and other expenses payable during the period, but which is not recognised as such under IFRS 16, as well as the amount of the net effect from the decrease in the scope of the lease and terminations of lease agreements and adjustment of gain/loss from sale of asset under sale and leaseback operations for the proportion of the rights retained recognised under IFRS 16.

As a result, in 2021 net cash flows generated from operating activities increased to RUB 227,462 million under IFRS 16 (RUB 163,712 million pre-IFRS 16), compared with RUB 159,560 million under IFRS 16 (RUB 102,003 million pre-IFRS 16) for the same period in 2020.

Adj. net cash used in investing activities under IFRS 16, which generally consists of payments for property, plant and equipment, totalled RUB 89,435 million in 2021, compared with RUB 84,314 million (RUB 90,295 in 2021 compared with RUB 84,314 million in 2020 under pre-IFRS 16) in 2020. In addition, the Company made a short-term RUB 50,000 million cash deposit in Q4 2021.

Net cash used in financing activities under IFRS 16 totalled RUB 81,890 million (RUB 17,280 million pre-IFRS 16) in 2021, compared with RUB 73,805 million under IFRS 16 (RUB 16,248 million pre-IFRS 16) in 2020.

Dividends

The dividend policy was approved by the X5 Supervisory Board in September 2017 and amended in November 2020. When considering a dividend recommendation to the General Meeting of Shareholders, the Supervisory Board is guided by a target consolidated net debt/adjusted EBITDA¹ ratio of below 2.0x, in line with the Company's financing strategy, and by the operating cash flow against the Company's investment requirements for the upcoming calendar year.

The Company's Supervisory Board has made a recommendation not to pay the final dividend for 2021. The total dividend for the year will amount to RUB 20 billion, or RUB 73.65 per GDR (compared with RUB 50 billion / RUB 184.13 per GDR in 2020), which represents 46.8% of X5 Group's 2021 net profit (176.4% in 2020).

Consolidated cash flow

RUB MLN	IFRS 16			PRE-IFRS 16		
	2021	2020	% CHANGE, Y-O-Y	2021	2020	% CHANGE, Y-O-Y
Net cash from operating activities before changes in working capital	265,528	240,801	10.3	161,387	144,312	11.8
Change in working capital	32,415	2,247	1,342.6	32,244	1,261	2,457.0
Net interest and income tax paid	(70,481)	(83,488)	(15.6)	(29,919)	(43,570)	(31.3)
Net cash flows generated from operating activities	227,462	159,560	42.6	163,712	102,003	60.5
Adj. net cash used in investment activities	(89,435)	(84,314)	6.1	(90,295)	(84,314)	7.1
Short-term financial investments	(50,000)	-	n/m	(50,000)	-	n/m
Net cash used in financing activities	(81,890)	(73,805)	11.0	(17,280)	(16,248)	6.4
Effect of exchange rate changes on cash and cash equivalents	(83)	(35)	137.1	(83)	(35)	137.1
Net increase/(decrease) in cash and cash equivalents	6,054	1,406	330.6	6,054	1,406	330.6

Liquidity update

RUB MLN	31-DEC-21	% OF TOTAL	31-DEC-20	% OF TOTAL	31-DEC-19	% OF TOTAL
Total financial debt	294,338		261,947		227,933	
Short-term borrowings	87,767	29.8	77,026	29.4	74,755	32.8
Long-term borrowings	206,571	70.2	184,921	70.6	153,178	67.2
Net debt (pre-IFRS 16)	268,276		241,939		209,331	
Net debt/EBITDA (pre-IFRS 16)	1.67x		1.67x		1.71x	
Adj. net debt (pre-IFRS 16)	218,184		241,939		209,331	
Adj. net debt/EBITDA (pre-IFRS 16)	1.35x		1.67x		1.71x	
Lease liabilities (IFRS 16)	577,363		548,501		484,795	
Net debt/EBITDA (IFRS 16)	3.16x		3.24x		3.28x	
Adj. net debt/EBITDA (IFRS 16)	2.97x		3.24x		3.28x	

Information on alternative performance measures

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

EBITDA (including EBITDA margin)

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

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
RUB MLN				
Operating profit	117,572	105,717	84,359	76,785
Depreciation, amortisation and impairment	150,278	137,905	76,665	68,352
EBITDA	267,850	243,622	161,024	145,137

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
RUB MLN				
Revenue	2,204,819	1,978,026	2,204,819	1,978,026
EBITDA	267,850	243,622	161,024	145,137
EBITDA margin, %	12.1	12.3	7.3	7.3

Adjusted EBITDA (including adjusted EBITDA margin)

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

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
RUB MLN				
EBITDA	267,850	243,622	161,024	145,137
Adjustments:				
LTI, share-based payments and other one-off remuneration payments expense and SSC	3,011	345	3,011	345
Effect of Karusel transformation	162	534	162	534
Adj. EBITDA	271,023	244,501	164,197	146,016

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
RUB MLN				
Revenue	2,204,819	1,978,026	2,204,819	1,978,026
Adj. EBITDA	271,023	244,501	164,197	146,016
Adj. EBITDA margin, %	12.3	12.4	7.4	7.4

Adjusted net profit (including adjusted net profit margin)

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

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
RUB MLN				
Net profit	42,738	28,344	48,513	39,180
Adjustments:				
Effect of Karusel transformation and tax accrual related to X5's reorganisation in previous periods	1,875	7,484	1,810	7,683
Adj. net profit	44,613	35,828	50,323	46,863

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
RUB MLN				
Revenue	2,204,819	1,978,026	2,204,819	1,978,026
Adj. net profit	44,613	35,828	50,323	46,863
Adj. net profit margin, %	2.0	1.8	2.3	2.4

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

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

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
RUB MLN				
SG&A	467,468	406,389	490,043	426,069
Adjustments:				
LTI, share-based payments and other one-off remuneration payments expense and SSC	(3,011)	(345)	(3,011)	(345)
Effect of Karusel transformation	(162)	(534)	(162)	(534)
Depreciation, amortisation and impairment	(150,278)	(137,905)	(76,665)	(68,352)
Adjusted SG&A	314,017	267,605	410,205	356,838

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
RUB MLN				
Revenue	2,204,819	1,978,026	2,204,819	1,978,026
Adjusted SG&A	314,017	267,605	410,205	356,838
Adjusted SG&A expenses as % of revenue	14.2	13.5	18.6	18.0

Adjusted net cash used in investing activities

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

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
RUB MLN				
Net cash used in investing activities	139,435	84,314	140,295	84,314
Adjustments:				
Short-term financial investments	(50,000)	-	(50,000)	-
Adjusted net cash used in investing activities	89,435	84,314	90,295	84,314

Adjusted FCF

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

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
RUB MLN				
FCF	88,027	75,246	23,417	17,689
Adjustments:				
Investments in short-term financial instruments	50,000	-	50,000	-
Adjusted FCF	138,027	75,246	73,417	17,689

ROIC

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

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
NOPAT	82,724	65,611	60,215	50,797
Invested capital (average equity + net debt)	884,229	847,982	384,793	386,524
ROIC	9.4%	7.7%	15.6%	13.1%

Adjusted ROIC

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

	IFRS 16		PRE-IFRS 16	
	2021	2020	2021	2020
NOPAT	82,724	65,611	60,215	50,797
Adjustments:				
Effect of Karusel transformation, tax on investments and tax accrual related to X5's reorganisation in previous periods	7,739	17,647	5,439	11,412
Adjusted NOPAT	90,462	83,257	65,654	62,209
Invested capital (average equity + net debt)	884,229	847,982	384,793	386,524
Adjusted ROIC	10.2%	9.8%	17.1%	16.1%

Net debt/EBITDA

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

RUB MLN	IFRS 16		PRE-IFRS 16	
	31-DEC-21	31-DEC-20	31-DEC-21	31-DEC-20
Total debt, incl.:	294,338	261,947	294,338	261,947
Short-term borrowings	87,767	77,026	87,767	77,026
Long-term borrowings	206,571	184,921	206,571	184,921
Lease liabilities	577,363	548,501	-	-
Cash and cash equivalents	26,062	20,008	26,062	20,008
Net debt	845,639	790,440	268,276	241,939
EBITDA	267,850	243,622	161,024	145,137
Net debt/EBITDA	3.16×	3.24×	1.67×	1.67×

Adjusted 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 and financial investments, divided by EBITDA. X5 Group reports adjusted net debt/EBITDA, which excludes the effect of short-term financial investments. X5 believes that showing adjusted net debt/EBITDA provides a more accurate reflection of the Company's debt burden.

RUB MLN	IFRS 16		PRE-IFRS 16	
	31-DEC-21	31-DEC-20	31-DEC-21	31-DEC-20
Net debt	845,639	790,440	268,276	241,939
Adjustments:				
Short-term financial investments	(50,092)	-	(50,092)	-
Adjusted net debt	795,547	790,440	218,184	241,939
EBITDA	267,850	243,622	161,024	145,137
Adjusted net debt/EBITDA	2.97×	3.24×	1.35×	1.67×

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 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	2021	2020
Revenue	2,204,819	1,978,026
Adjustments:		
Revenue from wholesale operations and other services	(10,335)	(4,675)
Revenue from franchise services	(7)	(5)
Net retail sales	2,194,477	1,973,346

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.

%	2021	2020
Net retail sales growth	11.2	14.2
Less contribution from an increase in selling space	6.1	8.7
LFL	5.1	5.5

Pyaterochka Logistics

Pyaterochka's logistics operations, which includes 38 DCs, were serving the 17,972 stores operating in 67 Russian regions as of 31 December 2021.

One of the main priorities in 2021 was to maintain service levels in stores despite global labour and transport shortages. Our product availability rate was 91.1% in 2021, reaching 93.8% in December 2021.

Developing efficient and robust business processes

- A pilot for avocado ripening was successfully conducted at our Podolsk banana ripening station. Plans are in place to expand this process to cover all ripening stations in 2022
- An external banana ripening station was launched in the Southern macro-region
- Vegetable storehouses in the North-Western and Ural macro-regions were opened, doubling storage volumes vs 2020 to 6,000 tonnes

Other key 2021 highlights

- In an Advantage study, we moved up one position to second place in an integrated supplier assessment and for the sixth year in a row, we ranked first in terms of supply chain management
- In 2021, the Supply Chains team developed integrated planning tools both for suppliers and for X5's internal use: 15 of our most mature suppliers were connected to a CPFR (collaborative planning, forecasting and replenishment) tool and to a joint sales forecasting tool
- An end-to-end stock model and sales and operations planning process were launched in conjunction with RVI (X5 importing legal entity), helping to make imported goods more affordable as well as optimising inventory throughout the supply chain
- Six new facilities were added to the warehouse infrastructure: two new distribution centres in Kursk and Krasnoyarsk, as well as four 3PL sites (in Orenburg, Ekaterinburg, Izhevsk and Moscow)

Expanding digitalisation

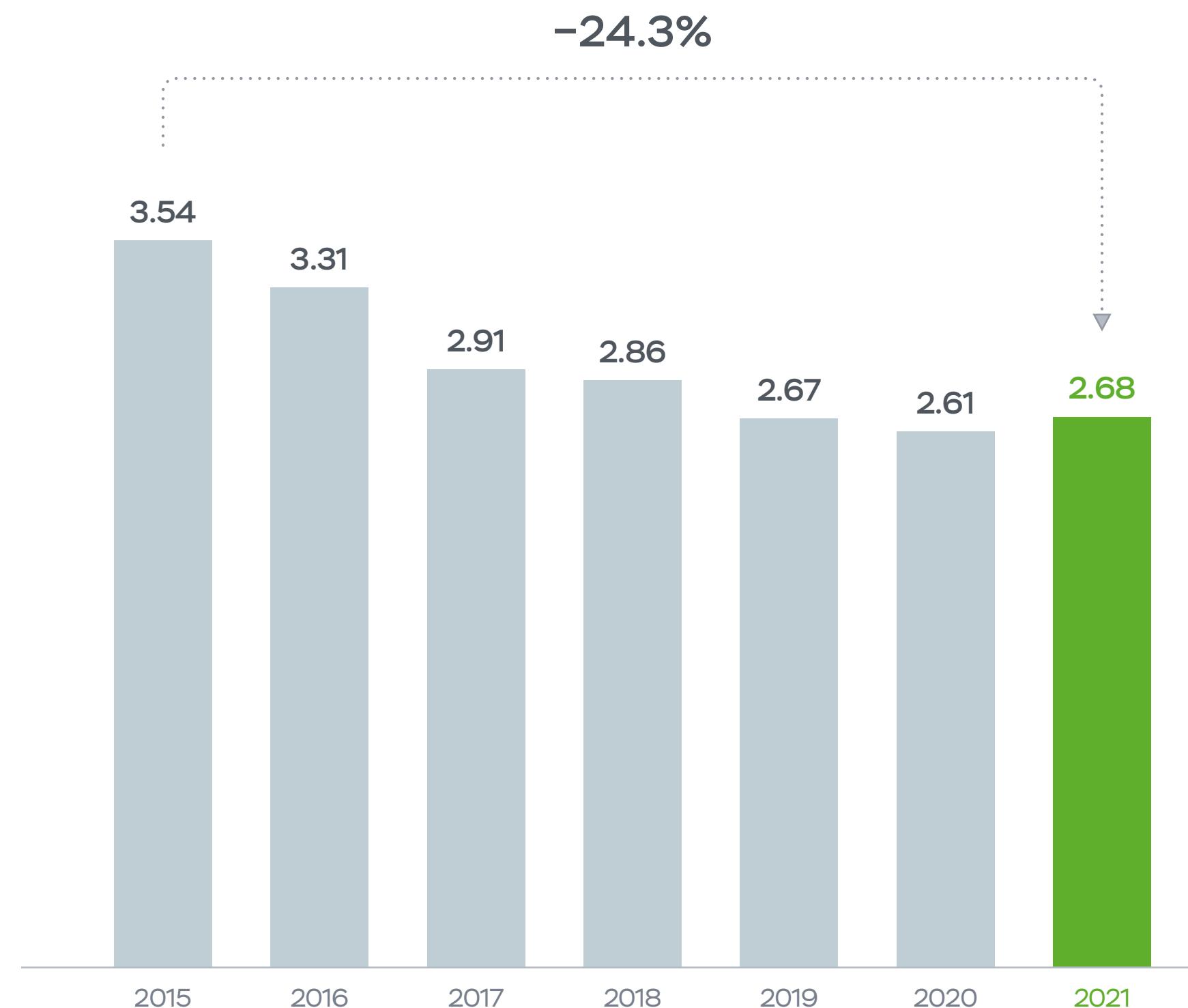
- Added seven new DCs to the rollout of the Manhattan target warehouse management system, bringing the total number to 12
- The warehouse mobile app gained additional modules for "placement and storage" as well as "dispatch"
- Rollout of the JDA Distribution Centre and Store Restocking project continued, which supports the end-to-end process for the movement of goods from distribution centres to stores as well as automation of the restocking processes
- Microservices that work with both the existing and new restocking systems such as Orchard were introduced. Orchard is an automatic tool for restocking DCs with fruits and vegetables that provides access to data directly from WMS systems, while also enabling the monitoring of goods in the supply chain on an hourly basis
- Machine learning-based regular sales forecasting is being rolled out. The solution has already been implemented in three macro-regions for four out of five product categories



Operational efficiency gains

- We took measures that offset most of the increased cost investments in warehouse and transport personnel aimed at ensuring guaranteed service for operations in a tight labour market
- Key warehouse efficiency metrics in terms of DC throughput and overall warehouse performance remained at a consistently high level

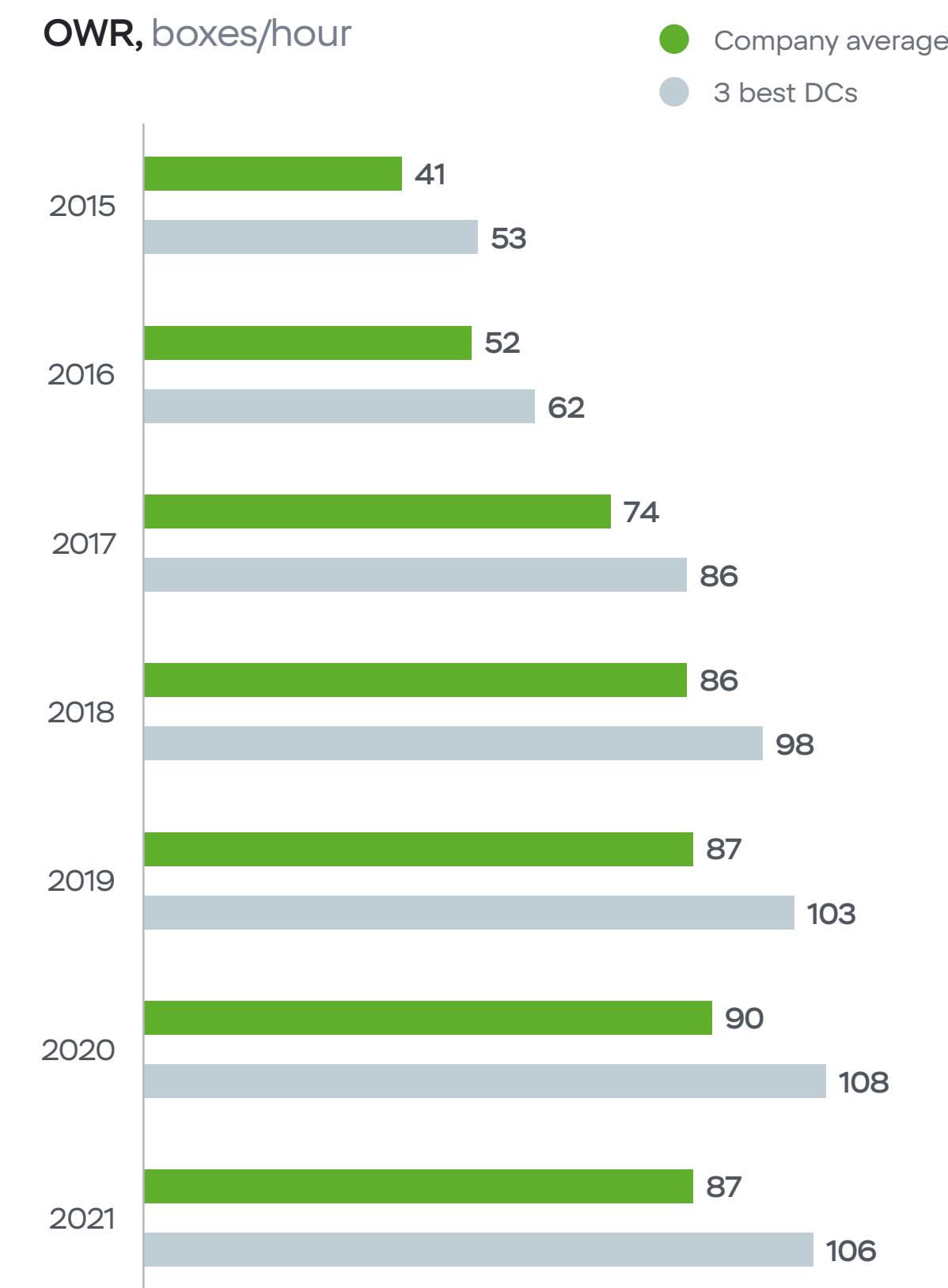
Storage and transport costs (excl. pickup, incl. recyclable materials), % of sales



+99%
3 best DCs
2015–2021

- The positive effect of efficiency projects totalled RUB 387 mln in 2021
- The availability of top-5 SKUs in each category increased by 0.3% y-o-y

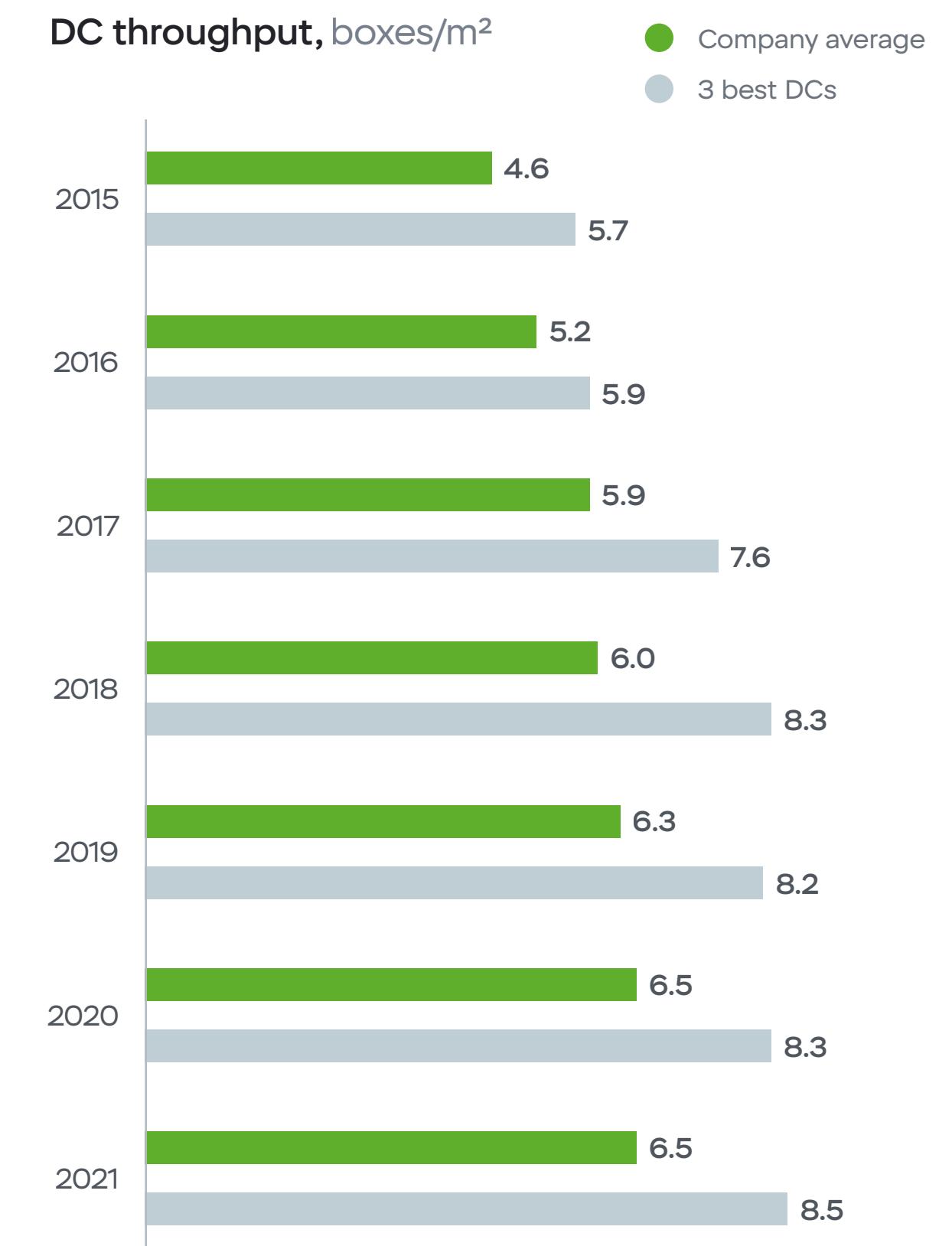
OWR, boxes/hour



+113%
Company average
2015–2021

- The increase in the forecast accuracy was achieved by the introduction of a demand forecasting model that allows to predict the demand for goods at the store-item-day level within a 16 weeks horizon. The forecast accuracy increased by 9.4 p.p.

DC throughput, boxes/m²



+49%
3 best DCs
2015–2021

+42%
Company average
2015–2021

Process maturity

- Pyaterochka was selected as the winner in the "Best Mentor" category at the Izotov Cup national competition
- Supply Chain Management Division won the top prize in X5's Idea Challenge corporate innovation competition. The division's "Axe Load" project was the clear winner among the competition finalists
- Pyaterochka became a special partner for the "Strong Link: Student League" interuniversity competition, with the aim of being strengthening the Company's pool of potential candidates
- In 2021, supply chains participated for the first time in the annual Top 100 Dialog supplier conference, where they shared their experience and expertise at around a dozen specialised discussion forums and conferences

Achieving sustainability goals



Underwent preparations for Pyaterochka DCs to receive ISO 14001 environmental management certification, including an assessment of business processes, energy efficiency, waste management and other factors



Implemented the "Comfortable DC" project for the second year in a row, including the development of meals based on employee feedback and the creation of fitness areas at all Pyaterochka DCs that are accessible outside of working hours



Ran an awareness-raising session to reduce the risks of COVID-19 infection and offered on-site vaccination clinics at DCs

Plans for 2022

- Main focus is on ensuring the business continuity
- Continue implementation of Manhattan warehouse management system
- Continue rollout of the JDA Distribution Centre and Store Restocking project
- Continue rollout of the Machine learning-based Regular Sales Forecasting



Donated 8,254 LEGO sets to orphanages in December 2021



"Children's Days" are held every year at Pyaterochka DCs



Completed an assessment for ISO 45001 occupational health and safety certification and held training sessions for employees



Perekrestok Logistics

Perekrestok's logistics operations serve its own supermarkets and Karusel hypermarkets. Throughout 2021, we implemented changes to further improve the efficiency, quality and digitalisation of our operations.

Perekrestok's logistics operations included 9 DCs as of 31 December 2021, which helped to support the operations of 990 supermarkets and 33 Karusel hypermarkets across 19 regions of Russia.

Planning

- Inventories decreased by 1.9 days year-on-year, as a result of greater accuracy in promo forecasting, efficient management of assortment matrices and the introduction of best global practices for insurance inventory planning
- Availability decreased by 0.9% year-on-year to 93.9% due to transport shortages for replenishment in the first half of 2021 and a 2% year-on-year decline in service levels from suppliers due to global problems with import supplies
- Launched end-to-end integrated planning process with RVI for vegetable/fruit and liquor categories to ensure uninterrupted supply during the hot season
- Significant year-on-year increase in forecast quality (+7% in promo, +0.8% in regular) due to the development of the Forecast digital transformation product

Key 2021 highlights

- To support product availability, freshness and quality based on regional characteristics, operational logistics were decentralised to speed up decision-making and flexibility
- To ensure a high level of shelf availability, a single planning function was established, with responsibility for end-to-end forecasting, planning and replenishment processes from the supplier to the store shelf
- To improve management efficiency and the availability of transport despite labour and vehicle shortages, a centralised transport management centre was created
- To support strategic infrastructure development, as well as implementation of strategic transformational efficiency projects and to lead the digitalisation of the supply chain, a new strategic supply chain development function was established

Physical logistics

- Decreased logistics costs as a share of retail turnover by 0.03% due to efficiencies in warehousing and transport logistics as well as handling of returnable tare
- DC operations achieved an average 4% year-on-year increase in productivity thanks to the warehouse logistics operational efficiency project
- Improved the cost efficiency of transport due to a 2.2% year-on-year increase in the average box per trip
- Migrated to trusted receiving processes at five DCs, which reduced resources required at stores for accepting goods from DCs
- Improved the quality of fruits and vegetables through implementation of remote quality acceptance at registration centres
- Ensured fresh product quality by introducing automatic temperature monitoring sensors for all DCs
- Procured additional transport to manage risks of vehicle shortages
- Secured Perekrestok's entry into new territories (Murmansk, Apatity)
- Supported supply chain operations for Chizhik and 5Post



Plans for 2022



Opening of Voronezh DC



Launch of Implant programme with top suppliers to improve availability and reduce losses



Implementation of logistical solutions together with suppliers to reduce the cost of the supply chain from production facility to store shelf



Further optimisation through implementation of a digital replenishment product



Improve the freshness and quality of products on shelves through the implementation of the Freshness digital product and infrastructure projects to maintain target temperature levels in cold chains



Launch of Lean DC programme to improve efficiencies in warehouse logistics



Increasing vehicle turnaround and routing automation for more efficient transport logistics



Centralisation of recyclables as an additional source of revenue for the network



New WMS implementation project launched



Automation of forecasting and replenishment processes (hands-free planning)



Implementation of global safety culture practices on all DCs



Launch of Supply Chain Academy for management staff and qualification centres for CP line staff

X5 Transport

Our logistics network is the most efficient and best way for us to transport goods from suppliers to our store shelves, where customers can rely on the quality and availability of our assortment.

Efficient and reliable transport operations are key to multiple aspects of our strategy, from strengthening existing operations by reducing costs to supporting the development of new businesses that use our transport capacity to offer services like last-mile delivery.

Our transport operations are also important to achieving our sustainability goals, with ongoing efforts to reduce the CO2 emissions of our fleet, ensure the safety of our drivers and ensure we can preserve the freshness of our growing assortment of fresh produce and fruits and vegetables across the more than 19,000 stores we operate.

As of 31 Dec 2021

4,654

Handled about 70%
of our deliveries
during the year

Trucks in X5 Transport's fleet



Key achievements in 2021

One of the key challenges we faced in 2021 was the scarcity of labour. In response, we increased our investment in human resources considerably, improving X5 Transport's appeal as an employer for drivers. We also continued taking steps to improve working conditions for drivers and other employees, with portals providing personal payroll services introduced for drivers, renovation of break rooms for drivers to offer them modern and comfortable facilities, as well as joint programmes with equipment manufacturers on safe and efficient driving. In order to support further training and education for our drivers, instructors and mentors were added as permanent positions.

We continue to develop our own fleet and purchased 692 new trucks during 2021 to upgrade and expand our in-house operations. In order to ensure the necessary flexibility and scalability, we have also updated the way we work with external carriers in order to provide more stable terms for doing business.

In 2021, many of our suppliers faced a shortage of vehicles for deliveries. In helping resolve our partners' problems, X5 actively developed a service for suppliers for self-pickup and commercial deliveries. This service expanded by about 30% vs 2020.

To support the development of the regional network, new cross-docking centres were opened in Murmansk, Irkutsk, Salekhard and Izhevsk.

X5 Transport's unified digital platform continued to develop. We have expanded the use of big data to power artificial intelligence systems to improve transport efficiency, and we continue to scale up services and solutions for planning and monitoring X5's fleet and hired transport. Progress continues to be made in electronic document management: in 2021, we began using electronic consignment documents for internal shipments undertaken by our own fleet (more than 60% of the total number of trips).

The X5 Transport electronic data interchange system facilitated payments for the purchase of spare parts, consumables and services. We also piloted an exchange of electronic documents with fuel companies, developed an electronic service for truck insurance and introduced personal accounts for drivers.

We also introduced the innovative Antison system in 2021. Antison makes it possible to monitor a driver's physical condition behind the wheel, to monitor the road and to track the driver's condition while in transit.

Thanks to the introduction of gas-diesel engines and other technical solutions, atmospheric greenhouse gas emissions decreased by 10% year-on-year. In 2021, monitoring and reporting on our work involving industrial waste from our transport-related business processes improved.



Plans for 2022

- Further develop the X5 Transport unified digital platform: speeding up processes through automation, expanding channels for fulfilling orders using our own fleet and a rental fleet, adding convenient services to the app for drivers
- Develop electronic document management and convert the remaining transport documentation into a digital format
- Continue to test and incorporate equipment that operates on gas and alternative fuels
- Expand our delivery coverage, open up new cross-docking centres for our retail formats and develop international deliveries
- Launch strategic partnerships with major transport companies in the market for city-based and intracompany transport
- Improve the efficiency of our own maintenance depots due to the lack of external service centres for servicing equipment
- Focus on ESG: reduction of empty runs and responsible consumption of resources (water, energy, waste)

Direct imports

Key achievements in 2021

We continued to develop our own Infrastructure with the opening of a hub in Ekaterinburg. This new operational site will help to improve the delivery of direct imports to the Urals and Siberia regions as the geography of our business continues to grow. We have also been able to support further development of private label goods through our direct import infrastructure.

In order to enable greater flexibility during peak seasons for key imported goods, we have diversified the modes of transport and methods of transhipment we are able to use for citrus fruits, which now include deliveries through a hub, cross-docking at a port and deliveries by rail to various regions).

As we seek to continuously improve the efficiency of our operations, we developed an IT platform that makes it possible collect offers and conduct online bidding with import suppliers of fruit and vegetables.

As a result of continued business growth and progress on developing our operations, X5 Group's direct imports increased by 17.5% year-on-year, with significant growth year-on-year in categories such as drinks (up 158%), non-food products (up 91.8%) and groceries (up 45%).

In order to support the further development of X5 Group's online businesses, we also launched a sorting line to handle 5Post shipments.

As of the end of 2021,
the Imports business unit
was operating four hubs:

	2020	2021
TOTAL SHARE OF DIRECT IMPORTS	5.3 %	5.7 %



Plans for 2022



Development of imports

from the countries of Central Asia (stone fruits, melons, cabbages, onions, nuts)



Expansion of warehouse infrastructure

expansion of the Bogorodsk hub to increase direct import supply of drinks, grocery and non-food



Focus on improving procurement efficiency

by conducting bidding in the fruits and vegetables category on our IT platform, sourcing new countries and suppliers, and concluding direct contracts with import producers



Improving the timeliness

of deliveries of direct imports

X5 Technologies

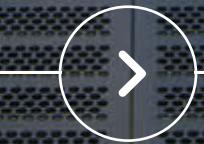
The operations of X5's retail formats are the Company's backbone, and X5 Technologies is the main technology partner for all of the Group's business units.

Our retail formats continue to develop services aimed at improving the quality of service and the freshness of produce as well as optimising internal processes. This enables us to use innovative technologies such as artificial intelligence, analytical platforms based on big data, algorithms for managing business processes and cloud infrastructure. In order to increase the speed at which we incorporate new solutions, proprietary innovations are becoming our main priority.

In 2021, X5 Technologies took part in 417 business initiatives on behalf of X5's retail formats and business units, and we plan to increase this number in 2022.

X5 Technologies took part in

417 BUSINESS INITIATIVES



X5 Technologies infrastructure

The flexible application of state-of-the-art development practices, a product-based approach and product teams are at the core of X5 Technologies' work.

>3.5 THS

Employees

10.0

Petabytes of storage in a big data cluster

>1.4 THS

Physical servers

368

Information systems in operation

IT and development

One of the division's priorities is to ensure a high degree of availability and a high level of performance on the part of its IT systems, which are essential to X5's core business processes. A separate team created to develop and support root systems has launched projects aimed at taking the development of ERP, checkout software, document management and other root systems to a new level.

99.87 %

IT service availability in 2021

The unit enabled the entire X5 team to work remotely throughout the year, quickly anticipating and resolving issues raised by staff. The unit also introduced a system for managing IT service status and assessments of the impact of IT on business processes. Access management processes were automated, meaning that staff did not have to be present in order to be granted access, and the unit began sending hardware to new hires through 5Post parcel lockers located at nearby Pyaterochka stores.

In 2021, X5 Technologies launched the first A/B testing platform for retail. The system is able to automatically collect the results of experiments at all Group stores, as well as analyse the effectiveness of operational processes in all of the Group's business units. The A/B testing system helps with decision-making based on raw data: on a daily basis, information about purchases is systematised, analysed and used to formulate conclusions regarding each of hundreds of hypotheses put forward. The main goal of the project is to accelerate the growth of X5's business by increasing the number of ongoing experiments. The system processes all of X5's stored data – tens of millions of records every day. The platform is currently testing and finalising a number of modules, and we are planning to evaluate over a 1,000 experiments a year.

The Company attaches great importance to the development of a data-driven culture and the engagement of young employees. In-house schools have been launched covering every major area of development, and a school for analysts has been restarted. In the summer of 2021, we launched a business analysis school and a systems analysis school, where more than 100 X5 Technologies employees completed training over a period six months.

Domain approach

To improve the efficiency of working with X5's retail formats, the Company continued to take a domain approach in 2021, where digital specialists are embedded within business units.

During the year, one of the main objectives was the comprehensive development of investment initiatives in the early stages.

2021

A technological concept was developed for stores in 2023. The time needed to authorise cashiers at checkouts was reduced by 80% – this operation now takes no more than eight seconds

We moved employees' personal accounts to a single digital platform, which made it possible to prepare the rollout of the portal at Perekrestok over several weeks

We launched our first corporate portals using the low-code content management platform WordPress. These solutions are now being further developed without the involvement of IT specialists

More than 5,000 business trips have already been processed using the new portal

More than 3.5 million financial documents are signed by stores electronically on the new platform

As a result, more than 300 different ideas were analysed, 60% of which showed excellent potential and were submitted for further development.

In terms of the impact on the Group's customers, employees and partners, the following are worth noting:

PLANS FOR 2022

Decrease the time needed to update checkout and back-office systems, reduce the cost of maintaining store operations, increase staff productivity, and improve the customer experience and the quality of our labour-enhancing IT services

Develop a platform approach for other solutions, including corporate training and employee development systems

Apply the low-code / no-code approach to other solutions, including mobile applications, in order to reduce overall costs and decrease the time to market for new products

Increase this figure to 65,000 and fully digitalise this routine process

Considerably improve the quality of the user experience in respect of the Group's other electronic document management solutions

Data management and data products for customers

X5 is actively developing a data-driven approach to decision-making. The penetration of analytical solutions increased by 18%, and 2,390 employees were added to the Company's BI platform, an increase of 78% year-on-year.

The Company is working hard to incorporate this analytical platform into its work. Last year, dozens of projects involving BI analytics were implemented, with special attention paid to the development of self-service analytics in Russia's regions.

We introduced a data catalogue – a single entry point into the world of X5 data, where one can find the data and reports they need, gain access to said data and reports, request assistance from co-workers and much more. Today, more than 3,000 employees of the Company's business units use the system every month. The data community is being actively developed, and its membership has doubled. The growth of the data community is also one of the priority areas for the development of a data-driven culture.

This year, we managed to complete the rollout of our single customer sign-on platform, X5.ID, across 15 communication channels. Over 14 million customers are currently active users of the platform. The service makes it possible to quickly integrate existing X5 services, thus considerably improving the customer experience. The platform is an example of X5's new, state-of-the-art, high-load, cloud-based architecture, which ensures excellent availability and enables rapid modifications. The Company's solution received a CIO Global award as the best e-commerce/retail project.

In October 2021, X5 announced the launch of a pilot subscription service. The project's MVP, completed in September, showed an increase in retail turnover and traffic at our retail formats, and it also contributed to the creation of new customer streams. People in every age group have shown interest in the subscription service.

Based on the results of assumption testing, three subscription formats were identified, which the Company piloted from November to December 2021. The format of each subscription differs in terms of its anchor offer and the available option packages. A combined subscription with the working title "Bundle" combines discounts on goods in a single check, loyalty programme upgrades, free services and gifts. The monthly cost is RUB 199, RUB 249 or RUB 299 depending on the service package. By December 2021, more than 100,000 customers had signed up for a Bundle subscription.

Bundle subscriptions are based on X5's single customer sign-on, X5.ID, which creates a so-called golden record that stores all data on customers' shopping habits at all X5 Group business units and retail formats. Thanks to CDP technology, X5.ID is able to incorporate the use of cookies with user, profiles which makes it possible not only to build an end-to-end marketing funnel for subsequent analytics but also to enable personalised automated media and CRM communications. The Dialog.X5 platform has a significant role to play in the project, as it provided the data and analytics that made it possible to increase subscriber conversion through communications with niche audience segments.

X5 Cloud

In 2021, X5 worked hard to develop its X5 Cloud dynamic infrastructure project. The main objective of the project is to provide high-quality, state-of-the-art service to internal customers (project and product teams) and for results-based work.

A new X5 Cloud development strategy was drafted and approved, which foresees the transformation of X5 Cloud into a full-fledged cloud platform that includes infrastructure (IaaS) and platform (PaaS) services, as well as a new model for processes related to project onboarding, financial accounting, information security and standardisation of business activities within X5 Technologies.

From using off-the-shelf integrated solutions from one vendor, we are moving to a best-of-breed approach, where the main focus is on open-source solutions and products. For commodity components such as the platform's infrastructure core, we use off-the-shelf solutions in the form of a service with a high SLA, while products unique to X5, such as a platform orchestrator, billing, portals, and so on, are developed in-house.

As part of our new X5 Cloud strategy, we plan to implement hybrid scenarios with external public cloud providers for disaster recovery, cloud burst for cloud-native applications and the use of specialised environments – for example, with super-fast storage systems or GPUs.

In the autumn of 2021, we introduced a new role: customer success manager, whose purpose is to help projects and products resolve organisational, commercial and technical issues at all stages of their life cycle. The customer success manager acts as a one-stop shop, promptly connecting the needed resources from X5 Cloud to resolve specific project- and product-related issues and tasks on an individual basis.

In 2022, the Company plans to start the process of cloud-native transformation, which will involve the migration of a large number of information systems from various sources. For this purpose, we plan to launch a centralised migration service in 2022: the main focus will be on migrating from OpenShift and the old version of X5 Cloud, but preparatory processes and planning for migration from other sources will also get underway.

Human capital management

For X5 to achieve tech leadership and high-quality automation of the Company's business processes, one of X5 Technologies' key focuses remains working with employees.

1,400

New employees joined the X5 Technologies team in 2021

With the increase in the number of business initiatives, the staff of X5 Technologies has also been growing. Recruiting personnel in Russia's highly competitive IT market is becoming more difficult every year; to ensure success, X5's HR team uses a set of tools from classic recruitment and career sites to their own events, games, and training and retraining programmes. This combination and systematic work on the Company's IT HR brand have driven our success in hiring highly qualified employees and meeting our extensive staffing needs.

In 2021, we built IT talent management processes (IT resource planning, evaluation, recruitment, development, etc.) around a single competency model. Employees completed more than 300 training programmes. In terms of ESG initiatives, X5 Technologies launched a project on intellectual volunteering in 2021.

We will focus on the following in 2022: career development based on equal opportunities for all employees, automating HR solutions to improve the employee experience, high-quality IT talent management and organisational efficiency, working with employee engagement and developing our employer brand.



Innovations

Innovations

X5 Group systematically develops innovations to improve the efficiency of in-house processes and the quality of customer service. Having achieved numerous breakthroughs in recent years, the Company has become a leading innovator.

Since X5's Innovations department was established three years ago, its staff have studied more than 15 thousand different retail solutions, covering nearly the entire range of existing technological practices. Our main objective now is to monitor the emergence of tech innovations in real time while also keeping abreast of any solutions that are of interest but that require further development or a cost reduction. In this context, the Company's main source of breakthrough ideas is its employees, who have free rein within X5's in-house accelerator to propose innovative projects of all sorts. The Company also considers it important to work with students in developing innovations.

In 2021, 28 new pilot projects were launched, and 16 pilots were completed with statistically significant results. Ten of the 16 were declared successful and cost-effective. Five of them have already been rolled out or are at the rollout stage. The other five are undergoing tech refinements in preparation for rollout.

In 2021, X5's Innovations department began working more closely with the customer experience unit in order to include the development and analysis of a customer journey map in our projects. This led to a better understanding of customer needs and a better formulation of value propositions.

The introduction and scaling of innovations added RUB 865 million to the Company's EBITDA in 2021.

In addition, X5's innovations received numerous awards last year, including Popai Russia Awards, IT Stars, Retail Week Awards, Loyalty Awards, etc.

External innovations

External sources of innovation are an important element of X5's work. Ideas for scouting are developed in collaboration with X5's retail formats, business units and functional divisions. Problem interviews are conducted with managers at all levels of every function. This enables us to look at pain points from all sides and to properly prioritise and organise an effective search for tech solutions that we can incorporate. To begin with, we search for solutions in response to those needs where we see the greatest potential economic impact.

In 2021, our scouting team evaluated just over 1,500 innovative solutions – both Russian and international. Plug & Play provided an overview of European, US and Brazilian solutions, and the Axis accelerator and Israel's trade mission to Russia provided an in-depth study of Israeli solutions. Invest India conducted scouting in India, while tech from Singapore was studied in conjunction with Enterprise Singapore. Although extensive scouting was carried out in China, it proved ineffective.

PLUGANDPLAY

For the third year in a row, X5 was an anchor partner (on the retail track) for the world's largest accelerator, Plug & Play.

Plug & Play holds closed pitch sessions for X5, including in response to needs that are raised during workshops.

In 2022, X5 also became a Plug & Play partner on the sustainability track. The partnership in this area involves searching for innovative solutions to achieve the goals of lowering CO₂ emissions, reducing food waste and developing sustainable packaging.

Joint innovation activities

The launch of Russia's first partnership involving collaborative innovations in retail for the exchange of best business practices and experiences piloting and implementing tech solutions and joint scouting in Russia and abroad bore fruit in 2021.

In the context of the Retail Innovation Tech Alliance (RITA), 14 joint events were held in 2021:

4 PARTNERS MEETINGS

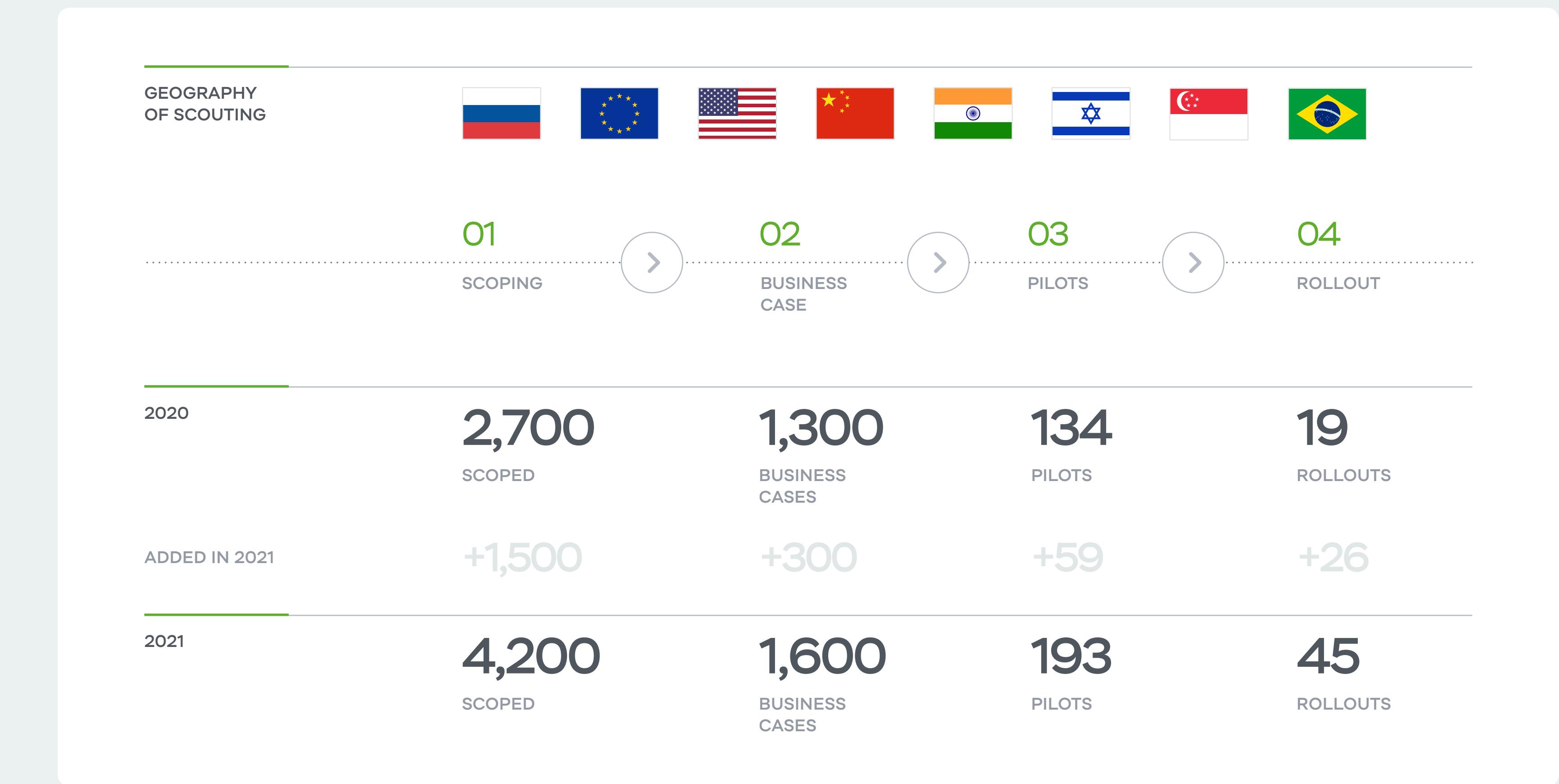
Meetings where the partners discussed companies' pilot projects, outlining who worked with which startups and what the results were

4 CASE STUDY CLUBS

Introductory meetings where companies' business functions discussed the exchange of experience in implementing projects and improving the efficiency of their processes

6 PITCH SESSIONS

On 15 startups selected from a long list



✓ In 2021, the Alliance companies (X5, Hoff, M.Video-Eldorado Group, Beeline) jointly scoped 900 startups, evaluated 80 use cases and launched 21 pilots

✓ In 2021, RITA added another ecosystem partner, the Kazakhstani food retailer Magnum. RITA also added three technology partners: SAP, Microsoft and Nvidia

✓ RITA's general funnel includes 1,276 companies from more than 40 countries. Twenty-one projects have completed piloting or are currently at the pilot stage (for all partners, not only X5)

✓ The Alliance's Russian scouting programme is run by GoTech

✓ Plug & Play and Axis have traditionally helped with the European funnel. The Israeli programme is led by Axis

✓ RITA is operated by GoTech, which coordinates all partners

Development of intrapreneurship and work with students

In February 2021, X5 and the Graduate School of Business of the Higher School of Economics National Research University entered into a strategic agreement on long-term cooperation in the area of education. The partners began their collaboration with the launch of an applied programme called "Innovations in Retail" for students from the Higher School of Economics and other universities.

Twenty-four students completed the programme, some of whom received job offers from X5 or were given an opportunity to implement their own ideas.

The programme was taught not only by staff from the Graduate School of Business but also by practitioners and innovation specialists from X5 Group, including Pyaterochka and Perekrestok, as well as leading Russian and global companies (the Internet Initiatives Development Fund, Plug & Play and others).

The programme lasted three months. As a result of the training, each project team created a concept for an innovative product or service that can be incorporated into X5 infrastructure.

In April 2021, X5 Group established a multifunctional auditorium at the Graduate School of Business. The auditorium hosts lectures and seminars for the Innovations in Retail programme, applied workshops and scouting sessions for solutions developed by students, as well as industry meetings with leading Russian and global companies. The Higher School of Economics and X5 plan to conduct joint research and to publish scientific and educational materials related to the retail industry and new technological solutions.

In 2021, X5 launched a comprehensive corporate entrepreneurship programme. During the two phases of the programme, 588 different ideas were collected that were aimed at improving business efficiency, creating new tools to increase sales and improving the customer experience. Ninety-six teams were selected for the main programme of the intensive startup workshop, where they received training on everything from presentations to financial modelling.

A dedicated unit was created within the Innovations department for the implementation of corporate entrepreneurship programmes.

11

Pilots launched in the first wave

>1 RUB BLN

Expected to be added per year to the Company's EBITDA

Thirty-nine teams advanced to the budget defence portion

11

In logistics



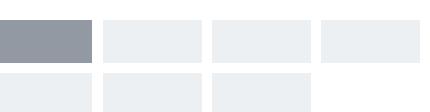
3

In online



1

In commerce



5

In HR



4

In operations



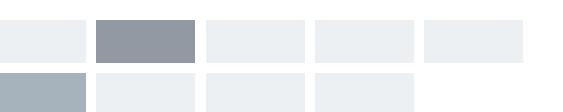
4

In marketing



1

In maintenance



The second wave of the corporate entrepreneurship programme

60 %

More ideas were collected



40 %

More teams entered the programme



68 %

Share of the ideas coming from regions beyond Moscow and St Petersburg.
The regional component expanded



~33 %

Share of the participants in the second wave are already participating a second time



Examples of innovative solutions

Remote monitoring of baked goods

The introduction of remote technology to monitor the on-shelf availability of fresh baked goods, the assortment of baked goods and culinary business processes enabled us to increase turnover and reduce losses in the category, as well as to increase customer satisfaction (NPS).

The pilot was carried out at 30 supermarkets, resulting in a 6.5% increase in turnover in the category. A decision was made to roll out the solution in 130 stores. The tech uses a neural network that enables a single operator to process three times as many stores as operators not using the tech.



Anti-sleep tech

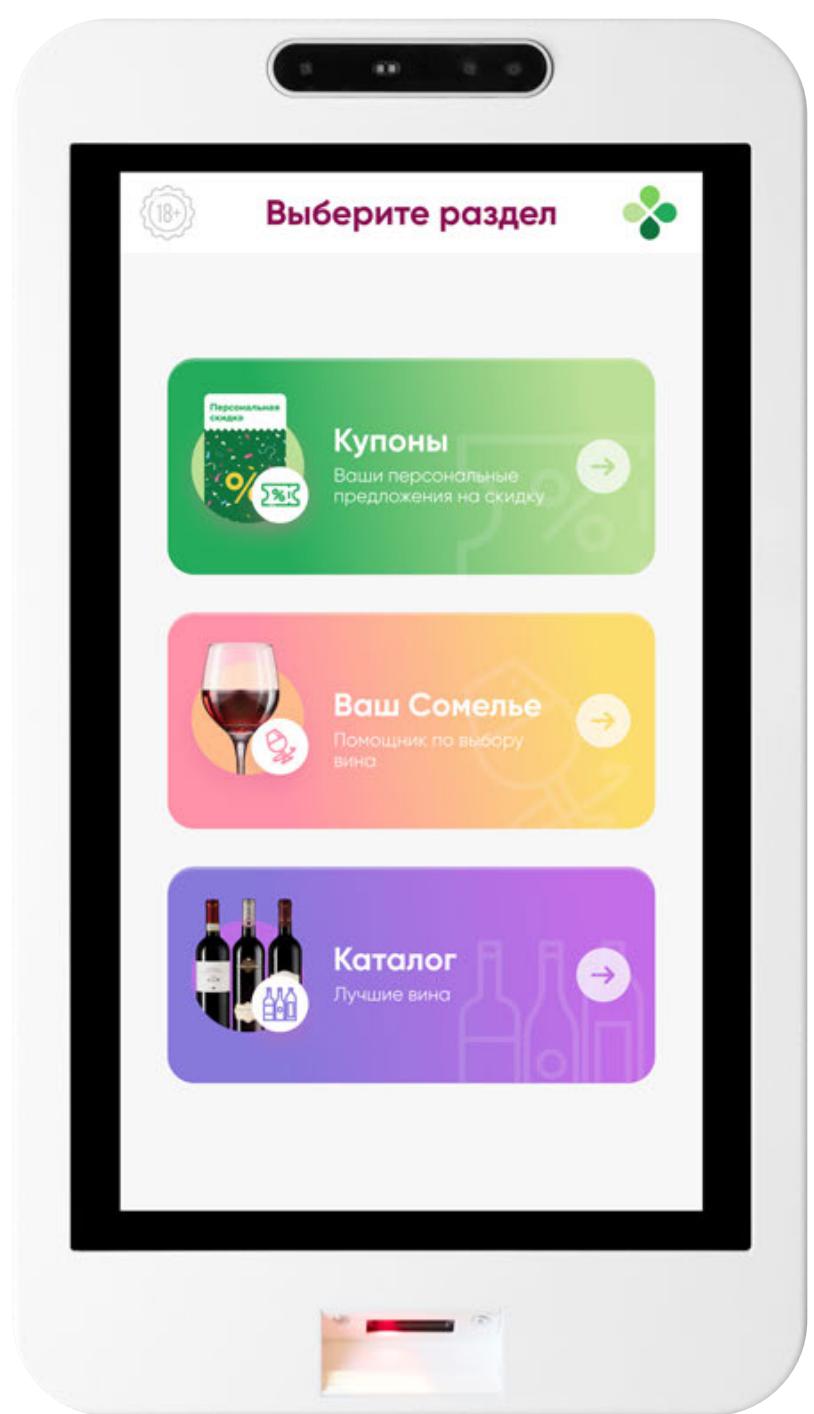
A neural network-based technology that monitors a driver's condition and prevents accidents due to asleep onset, fatigue, the use of devices and distracted driving. The pilot, which was carried out on 50 vehicles from the Vidnoe transport company, confirmed the efficacy of the solution, as the accident rate at the pilot transport site was reduced considerably.



Adding a rear-view camera to the tech resulted in a 99% reduction in damages from accidents. It was decided to install the tech in 2,778 vehicles and to include it as a standard part of new vehicles.

Sommelier

As a result of a study of the customer experience when purchasing wine, 37% of customers said they found it difficult to choose wine. In response, X5's Innovation Lab developed an e-sommelier technology. For the convenience of customers, the solution has been integrated into ViVino, a popular resource that provides ratings of selected wines. Integration with electronic price tags makes it easier for users to search for selected wines on shelves: a blinking LED on the electronic price tag lets them know where the product they are looking for is located. The pilot project was carried out at 30 supermarkets. Based on the results, a decision was made to integrate the sommelier into Perekrestok's existing wine club and to roll out the tech at an additional 30 stores.



Smart scales

The Innovation Lab developed a smart scale, a device that automatically recognises items sold by weight, including fruits, vegetables and sweets.



The innovation decreases the time needed to process items sold by weight at checkout counters at Pyaterochka stores and increases the throughput capacity of each checkout by about 5%.

This high degree of precision was made possible thanks to the neural network used in the computer vision system, which is constantly learning and thus becoming more efficient.

Improving staff efficiency

This technology is a combination system that uses facial recognition for employee attendance and timekeeping and reads employee badges outfitted with RFID tags to monitor their movements to ensure that they are in a useful part of the store.

The pilot project was carried out at 10 supermarkets in Moscow involving the participation of 650 employees. The system's facial recognition and geo-locator functions achieved a recognition accuracy rate of above 99%. In addition to a nearly 5% increase in employee productivity, the pilot revealed that staff were more disciplined in terms of ensuring that they were located in a useful part of the store, depending on their position.



Proprietary self-scan

X5's Innovation Lab developed a proprietary technology that enables customers to scan items themselves using hand-held scanners and then to pay at self-service checkouts.

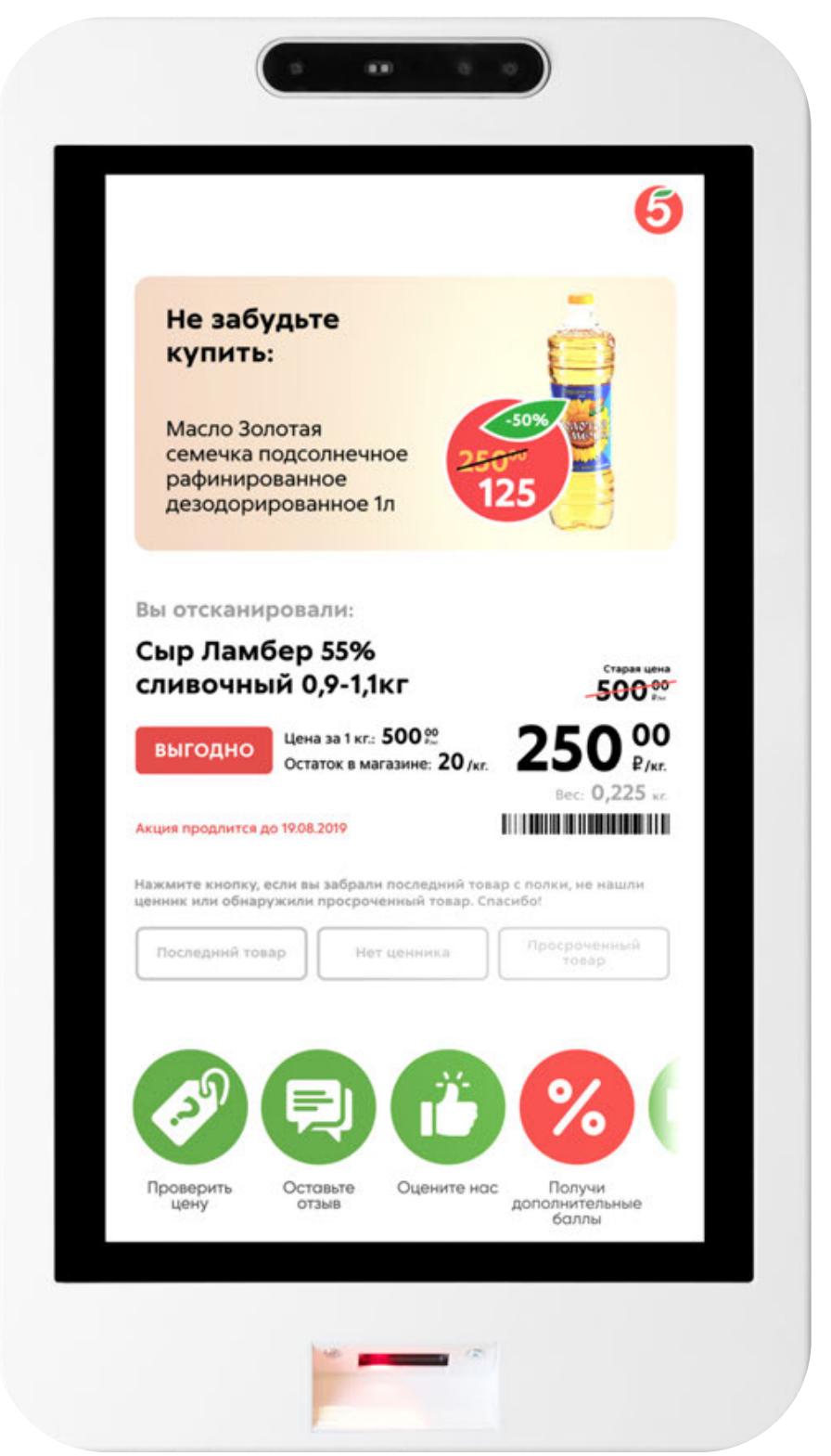
The piloting and development of the tech also involved an in-depth study of the customer experience, which resulted in a substantial increase in the percentage of customers using the solution.

The pilot project showed that a self-scanning service is something that customers want, and a decision was made to roll out the tech in new stores.



Touchscreen price checker

The Innovation Lab developed a new device to replace standard price checkers. With wide-ranging functionality, the device does much more than simply providing the prices of scanned products. As part of the pilot project, the following functions were tested: product information, in-store stock on hand, product evaluation, store evaluation, promotion catalogue, personal coupons when scanning a loyalty card, comments and offers, store information, job application, facial recognition attendance and timekeeping, and staff training.



Our sustainability goals

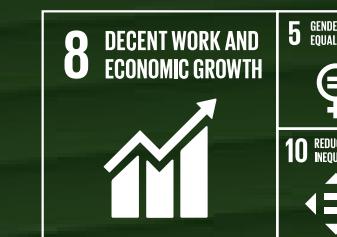
In 2021, we continued our momentum towards achieving our sustainable development targets as outlined in our Sustainable Development Strategy, based on the 17 Sustainable Development Goals (SDGs) adopted by the United Nations in 2015.

We are working toward our 30×30 goals, which include a 30% reduction in GHG emissions, 30% share of renewable energy used in X5 operations and a 30% reduction in the ratio of waste generated to retail sales, all by 2030. We also aim to increase the share of solid waste from our operations that is recycled to 95% by 2023, we are actively working towards achieving carbon neutrality by 2050.

Reaching these ambitious goals requires accountability and collaboration at all levels. We have already published our first Sustainability Report under GRI Standards, and we expect to publish our second report in the first half of 2022. We also established a Sustainable Development and Innovation Committee at the Supervisory Board level and hosted the Growing Sustainable Conference, the first conference on sustainable retail, which was attended by 70 people offline and more than 1,000 people online.

The following section provides an overview of our key goals and achievements in 2021. Additional information, including an ESG databook, can be found at <https://esg.x5.ru>.

UN SDGs¹



Key goals for X5

100 %

Share of Pyaterochka stores participation in the Liza Alert programme to help people who are lost or disoriented by 2023



Increase share of SMEs among X5 suppliers



Double the number of people who receive food aid as part of the Basket of Kindness programme by 2023

UP TO

50 %

Increase share of fresh and F&V products by 2023

75 %

Increase employee engagement by 2023



Entire Company to meet designated occupational health and safety standards by 2023

- 10 %

Reduction in GHG emissions (Scope 1 and Scope 2) per sqm of selling space by 2023 vs 2019

UP TO

95 %

Share of recyclable waste sent for recycling by 2023

> 50 %

Share of private label goods in sustainable packaging by 2023

UP TO

40 %

Share of non-expired food waste sent for reprocessing by 2023

Stakeholder engagement

Maintaining a regular dialogue with our stakeholders is essential to growing our business in a sustainable and profitable way while creating value.

Our key stakeholders include customers, employees, shareholders and investors, suppliers, local communities, as well as regulators and government officials. On this and the following pages are highlights of our stakeholder engagement activities and an overview of how and why we engage with our stakeholders. Highlights of what we did in 2021 will also be available in our 2021 Sustainability Report.

How we interact



Customers

- Make more informed decisions about customer demand through use of big data analytics of consumer transactions
- Maintain a variety of channels for interaction with customers, ranging from chatbots in messenger apps to a telephone hotline
- Monitor our apps' feedback and rating tools to collect data and develop analysis of customer preferences
- Conduct a country-wide Net Promoter Score (NPS) assessment to determine customer satisfaction levels



Employees

- In addition to providing meaningful career opportunities, ensure competitive, fair and transparent salaries plus motivation schemes
- Upgraded and expanded channels for employee feedback to hone our strategy more effectively in areas such as working conditions, compensation, management and corporate culture
- Training, skills assessment and overall career growth are linked via digital tools for a seamless employee experience
- The X5 Digital Academy and other professional learning programmes support and enable employee growth and development consistent with our strategic priorities
- Uphold our human rights policy, provide employees with the freedoms they are entitled to
- Implement strict occupational health and safety policies and inform employees about workplace health and safety requirements
- Support employees in crisis, such as due to long-term illness or accidents, bereavement or loss of property
- Notable contributions to the Company's performance are recognised
- Employees are encouraged to engage with our social responsibility agenda and make a positive social impact

How we interact



Shareholders/investors

- Proactively communicate updates and shifts in X5 strategic priorities
- Ongoing improvement of our ESG disclosure practices based on globally recognised best practices
- Outline our corporate view of the food market and competitive environment, plus how it will develop
- Corporate governance systems are aligned with global best practice
- Regularly publish timely, accurate and relevant information about Company performance via our investor website, including but not limited to annual reports, sustainability reports, financial statements, press releases and presentations
- Directly engage with stakeholders and investors via: virtual and in-person roadshows, via virtual and in-person investor conferences, conference calls, and group meetings with analysts and investors



Suppliers and business partners

- Provide suppliers with access to comprehensive insights about consumer demand and trends through the use of big data-powered tools
- Ensure business relationships meet high standards of trust and respect while collaborating with suppliers to develop quality responses to customer ratings and complaints
- Increase the share of local goods offered across our formats through education and outreach to regional producers
- Ensure access for both large federal and smaller local suppliers to our transport and logistics infrastructure, and train suppliers on how to work with said infrastructure effectively
- Gather supplier feedback via regular surveys and other engagement activities



Society and local communities

- Continued expansion of community wellness initiatives such as the Basket of Kindness food bank and Liza Alert search-and-rescue operations
- Collaborate with municipal, regional and federal governments on initiatives to support historically disadvantaged groups, such as pensioners
- Prioritise programmes that encourage our customers to donate to good causes together with X5
- Host local community improvement events such as tree planting, green-up days and Victory Day celebrations
- Ensure X5 operations are compliant with environmental regulations
- Measure and communicate our sustainable development progress, and educate the community about X5 initiatives that successfully reduce emissions, consumption and waste



Government/regulators

- Represent the interests of retailers with regard to regulation and legislation via active involvement in leadership of relevant associations
- Highlight how X5 creates jobs and supports local producers by engaging with relevant government officials at key events such as DC openings
- Participate in working groups at federal and regional levels
- Test technological changes such as labelling for various categories of goods, electronic document exchange and electronic signatures
- Maintain an open dialogue with the industry association AKORT and provide X5's position on vital industry topics such as environmental and sanitary legislation

Compliance and business ethics

When conducting business, X5 Group is committed to a corporate culture of shared values based on ethical standards, mutual respect and compliance with applicable laws and regulations.

The values and standards of conduct common to all X5 divisions are reflected in the Code of Business Conduct and Ethics and in the policies developed on the basis thereof. These documents serve to help employees act in accordance with the law and to follow ethical principles in the performance of their work duties. The above-mentioned documents are published on the Company's website and/or intranet, thus enabling all employees 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.

Principal documents

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

Policy highlights



CODE OF BUSINESS CONDUCT AND ETHICS

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

The Code covers areas such as fair competition, fighting bribery and corruption, care for the environment, protection of personal data and Company assets, avoiding conflicts of interest, and equal opportunities for employees and safe working conditions; it also establishes principles for interaction with customers, suppliers and competitors. Furthermore, the Code contains provisions on how to report violations of the Code.

The Code applies to all employees regardless of their position or function, and during the course of regular training, its provisions are also examined from a practical point of view based on examples and real-life case studies.

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

A special email for reporting to the Compliance Officer is available: compliance@x5.ru. Anyone who writes to the indicated address will receive advice on any issue related to the application of the Code of Business Conduct and Ethics.

Certain individual issues governed by the Code are covered in additional documents described on the following pages.



DECLARATION ON HUMAN RIGHTS PROTECTION

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

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

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

Policy highlights



INSIDE INFORMATION AND DEALING CODE

X5's Inside Information and Dealing Code aims to ensure that X5 employees do not abuse, and do not place themselves under suspicion of abusing, inside information and that they 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 and stakeholders, as well as internal standards and rules on business conduct and ethics, X5 has adopted a Compliance Policy in accordance with ISO standards on GRC and management systems.

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



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 anti-fraud legislation, legislation on the quality of products and services, and legislation on environmental protection and occupational health and safety, communication standards, information protection, prevention of conflicts of interest, etc. Violations of the Code of Interaction with Business Partners are handled by X5's Conciliation Commission.



POLICY ON COUNTERING MISCONDUCT INCLUDING FRAUD AND CORRUPTION

X5 and its divisions are committed to conducting business in an ethically responsible manner and complying with all applicable laws and regulations relating to anti-corruption and bribery.

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

Compliance and ethics systems



ETHICS COMMITTEE

The Ethics Committee is responsible for:

- Objective review of disputes related to alleged violations of the Code of Business Conduct and Ethics and the Anti-Corruption Policy;
- Resolving conflicts of interest;
- Taking measures to combat corruption and fraud.

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



REPORTING VIOLATIONS AND WHISTLE-BLOWING

Employees are encouraged to report any actual or suspected violations of the Code of Business Conduct and Ethics or labour laws. An ethics hotline is in place for this purpose. Various communication channels are available to employees and other whistle-blowers for reporting violations: reports can be made by e-mail as well as through the Company's website and intranet.

Responsible staff are required to review all reports and follow up in accordance with internal procedures. Reports via the ethics hotline can be made anonymously; moreover, provided that reports are made in good faith, employees can contact the ethics hotline without fear of retaliation even if an investigation does not confirm that a violation took place. The Company guarantees the confidentiality of all reports submitted.

In 2021, there were no substantiated reports of significant financial reporting or accounting violations, fraud or other ethical violations.



CONFLICTS OF INTEREST

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

The Compliance Department is responsible for the effectiveness of the process involved in declaring conflicts of interest.

Additional information regarding X5's corporate governance systems and mechanisms for managing conflicts of interest is provided on page 146 of the Corporate Governance report.

In addition to the whistle-blowing channels for employees, the Company operates a reporting channel for business partners and other third parties. Violations of the Code of Interaction with Business Partners are handled by X5's Conciliation Commission, which serves as a corporate arbitrator in disputes with business partners. Reports of violations may be submitted through the Company's website.

Compliance and ethics systems



TRAINING

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

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

More detailed information on the Company's performance in the areas of compliance and business ethics in 2021 will be published in X5 Group's Sustainability Report.



Local communities

X5 Group's key forms of interaction with local communities are its charitable and social projects.

The general principles and rules for charitable activities are set out in X5's Charity Policy, which also specifies the roles and responsibilities of employees involved in the implementation of charitable programmes. The Policy applies to all X5 Group business divisions.

The Company has identified the following priority areas for charitable activities:

- food assistance
- the creation of a comfortable and safe environment
- health and healthy lifestyles, physical education and children's sports

In order to maximise its contribution, the Company promotes and develops corporate volunteer activities by encouraging employees to take part in charitable and volunteer projects.

The key groups of beneficiaries are children, the elderly, people in difficult life situations and local communities.

Upon the completion of each project, we receive feedback from the non-profit organisations we work with.

Since its founding, X5 Group has been committed to playing a role in ensuring the health and well-being of the people in the regions where it operates. We will continue to engage in such activities in accordance with our sustainable development strategy, which is focused on achieving the UN SDGs aimed at ending hunger and ensuring good health and well-being. The community-focused projects that we implement have been developed based on our understanding of the priority areas where we can make a significant contribution to ensuring the health and well-being of local communities.

In our activities, we are also guided by Russia's National Development Goals to 2030, the opinions of civil society experts and international best practices. X5's corporate brand division, the marketing division for the Company's retail formats and Pyaterochka's transformation office are responsible for the implementation of charitable programmes.

In 2021, the Company conducted a comprehensive assessment that included a calculation of the impact of its charitable programmes on various aspects of the life of local communities. As a result of these efforts, a monitoring system and a regulation on the conduct of regular assessments were developed.

Long-term 30x30 goals

Local communities

UP TO

30 %

Annual increase in the number of families receiving support through the Basket of Kindness project by 2023

Medium-term goals for 2023

100 %

Increase compared with 2019 in the number of families receiving support through the Basket of Kindness project by 2023



The participation of all stores by 2023 in a programme aimed at finding missing people



Food assistance

FOOD COLLECTION

In August 2015, X5, together with Foodbank Rus, launched the Basket of Kindness national project to collect and distribute food to those in need.

In 2021, 3,769 stores took part in the project. Some 355.7 tonnes of food was collected and distributed to the elderly, families with children and people with disabilities. No fewer than 9,817 volunteers were involved in the project. More than 184,900 people received assistance.

In 2021, X5 Group launched a new means of providing assistance: charitable food cards. Some 2,940 families from 15 cities received cards for shopping at Perekrestok stores, and Foodbank Rus adds RUB 1,000 to the balance every month.

HELP PROJECT

In 2021, Perekrestok supported the Help project run by the Here to Help Foundation. The retail format invests in the development of the project's digital platform and is a general partner in the grocery retailer category. In 2021, the Company donated about RUB 31 million to the project. Thanks to our cooperation with the Foundation, 1,216 beneficiaries in 26 Russian cities receive monthly food assistance in the form of a selection of 33 items weighing 20 kg and valued at RUB 3.5 thousand.

Health

CANDIES OF KINDNESS PROJECT

Through this project, customers 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 beneficiaries

Comfortable and safe environment

SAFE SPACE

In 2021, store employees and volunteer rescuers from the Liza Alert search-and-rescue team helped 1,370 people, including 68 children, return home. The Safe Space project was launched in the spring of 2019 at more than 2,600 Pyaterochka stores in Moscow and the Moscow region, and that autumn it was expanded to every Pyaterochka store in the 66 regions where the retail format operates.

Perekrestok stores also joined the project in November 2020. Safe spaces are special areas in stores marked by distinctive signage in the form of an orange geolocation pin, which acts as a reference point for anyone who is lost or disoriented. Anyone in such a situation can enter a Pyaterochka or Perekrestok store and make contact with a store employee or wait until help is offered.

PREVENTION OF CHILD ABANDONMENT

With the support of X5, SOS Children's Villages arrange individual consultations according to a plan specially developed for each needy family as well as a variety of events, workshops, training courses, educational assistance and comprehensive support for family members. In 2021, 447 families (578 children and 747 adults) benefitted from the programme.

of the Life Line Foundation. In 2021, the project raised almost RUB 10 million for the treatment of 45 seriously ill children.

Plans for 2022

UP TO

30 %

Increase in the number of families receiving food assistance through the Basket of Kindness project

100 %

Share of Pyaterochka and Perekrestok stores that continue to support the operation of the Safe Spaces programme to help lost or disoriented people



Develop programmes focused on local communities



Piloting of foodsharing in several regions



Rational consumption of resources

Under the sustainable development strategy approved in December 2019, we continue to implement measures aimed at supporting UN SDG 12 – responsible consumption and production – which we have identified as a priority for X5.

In order to continue to improve our performance in this area, we are also piloting and introducing new and innovative ways to optimise our own resource consumption and further encourage our customers to reduce, reuse and recycle.

At the end of 2021, X5 affirmed its commitment to sustainable development by introducing a Decarbonisation Plan and setting an ambitious goal of reaching carbon neutrality by 2050. Our target will be reviewed against science-based criteria¹ over 2022 to ensure that we are on track to meet the goals of the Paris Agreement. We are also investing considerable efforts into meeting our target of achieving a 30% reduction in greenhouse gas (GHG) emissions intensity per square metre of retail space by 2030.

First, we began a process of calculating indirect GHG emissions, which covers most of our value chain processes.² Moreover, X5 conducts climate risk assessment and scenario analysis.³

Long-term 30×30 goals



Protecting the planet

30 %

Reduction in GHG emissions (Scope 1 + Scope 2) per square metre of retail space vs 2019

30 %

Share of energy from renewable sources for in-house operations

30 %

Reduction in ratio of waste generation to retail sales

Medium-term goals for 2023



Sustainable supply chain

20 %

Share of suppliers to develop sustainable packaging⁴

>50 %

Share of private labels sustainably packaged



Promote sustainable sourcing programmes and principles across the supply chain



UP TO 10 %

Reduction in GHG emissions per square metre of retail space

UP TO 95 %

Share of recyclable waste⁵ from X5 operations to be sent for recycling by 2023



Use of renewable energy in X5 operations

UP TO 40 %

Share of non-expired food waste to be reprocessed by 2023

Please refer to the section "How We Manage Risk" in this Report and our forthcoming 2021 Sustainability Report for further details.

An assessment of Scope 3 GHG emissions was carried out for the first time in 2020, resulting in an increase in reported gross emissions in 2020 compared with 2019. The inclusion of Scope 3 emissions in our calculations ensures the integrity of our approach to assessing our level of emissions, which is important for monitoring the attainment of our climate targets.

¹ X5 announced its commitment to the Science Based Target initiative (SBTi) in December 2020.

² X5 disclosed its direct (Scope 1) and indirect (Scope 2) GHG emissions in 2020.

³ X5 uses the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for the assessment of climate-related risks.

⁴ In line with X5 Retail Group recommendations for suppliers.

⁵ Recyclable solid waste: plastic, cardboard, wrapping film, banana boxes, wooden pallets, tires, scrap metal, etc.

Promoting responsible consumption and use of resources

X5 consistently works to optimise our use of resources. In 2021, X5 converted 11 DCs to low-carbon energy sources. Now, all X5-owned Pyaterochka DCs have moved to low-carbon energy sources. In 2022, Pyaterochka and Perekrestok will continue their shift to green energy sources at their stores and DCs. Initiatives include the installation of solar panels and the use of alternative-fuel vehicles for transportation.

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

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



Perekrestok

1.

Thirty-nine stores were connected to our smart store system, reducing energy consumption by 12% on average. In total, 416 stores have been connected, with plans in place to connect 100 more in 2022.

2.

The refrigeration system was integrated into the smart store system at 189 stores, reducing the cost of electricity by 4%.

3.

Since 2021, Perekrestok has been outfitting its refrigerated display cabinets at 86 stores with thermopane glass, which will reduce stores' energy consumption by 11%; the thermopane glass was purchased in 2021, and installation is well underway.



Pyaterochka

1.

In 2021, Pyaterochka signed an agreement to switch its stores in the Karelia Region to renewable energy sources. 17% of total energy consumption in Pyaterochka's stores in the region now constitutes green energy.

2.

Pyaterochka is piloting a transition to more environmentally friendly CO2 refrigerants (the Podolsk DC is the first to pilot the new refrigerants).

3.

In 2021 four of our Pyaterochka shops installed solar panels.



Waste management



IMPROVING INTERNAL WASTE MANAGEMENT PROCESSES

Improving waste management is a key priority of X5. The Company's retail formats have been working hard to evaluate and advance their waste management processes and to educate their employees in this direction.

Pyaterochka has improved its waste management processes – for example, by setting standards for the generation of recyclable materials for each store depending on its turnover, improving the system for monitoring the volume of recyclable materials being transferred from stores to DCs, equipping DCs with scales and screening incoming materials in order to check actual amounts against the established standards.



PREVENTING WASTE GENERATION

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

We continue to manage waste generation by reducing waste through big data-driven demand modelling, more frequent product deliveries, better adaptation of the product mix to customer needs, smaller minimum orders negotiated with suppliers and strict compliance with temperature requirements during transportation.

We are piloting new solutions that help prevent waste: in 2021, Perekrestok launched a pilot of irrigated shelves to extend the shelf life of greens.

Doing away with printed receipts

Both Pyaterochka and Perekrestok now enable customers to choose electronic receipts instead of printed ones, thereby reducing wastepaper. Customers can choose this option in each retail format's mobile app.



RECYCLING OF WASTE GENERATED BY X5

Vprok.ru Perekrestok continued collecting delivery plastic bags for further recycling. Customers can return plastic bags used during delivery to the courier.

X5 continued projects with Unilever and Henkel, collecting used plastic and aluminium containers via reverse vending machines installed in our stores.

We continued to expand our refilling project for household chemical containers with BioMio by installing refilling stations at Perekrestok stores. Containers for collecting clothes were installed at Perekrestok. We added a range of interchangeable soft containers produced with 50% less plastic. In partnership with Henkel, 343 Perekrestok supermarkets installed containers for collecting plastic caps, the recycled plastic from which will be used to create special ramps that will be installed at the entrance to the format's supermarkets in various regions.

In an effort to expand the reuse of materials in its logistics operations, Pyaterochka began repairing pallets at DCs so that they can be reused.



FOOD WASTE

As a food retailer, we are committed to minimising food waste and the impact of its disposal.

All food waste generated by X5 stores is sent to third parties for landfilling or recycling. We are looking for opportunities and piloting technological solutions to transfer food waste for further processing. As noted above, in 2020, Pyaterochka and Perekrestok launched an initiative to increase deliveries of unsold food for recycling into animal feed; in 2021, Vprok.ru Perekrestok joined the initiative as well. Since the project was launched in 2020, we have increased deliveries fivefold.

Reducing consumption of disposable plastic

We are implementing a project to promote reusable bags and weighing sacks for fruits and vegetables. Pyaterochka encourages its customers to buy eco-bags made of raw cotton and to use reusable weighing sacks for fruits and vegetables by crediting double bonus points to their loyalty cards. This is the first such circular economy initiative in Russia.

Pyaterochka and Perekrestok updated the requirements for all plastic bags sold at their checkout counters, making it compulsory to use a high percentage of recycled materials. All of Pyaterochka's new-concept stores have started using shopping baskets made of recycled plastics, and all new-concept stores will use such baskets from 2020 onwards. Perekrestok's transition to similar baskets is in progress. Using recycled plastic in baskets is now a mandatory requirement for manufacturers engaged by all our retail chains.

In addition to introducing reusable sacks for weighing fruits and vegetables and lamps made from recycled materials, Pyaterochka has launched a marketing campaign conducted in tandem with the Russian pop singer the Russian pop singer Glukoza called "Going Green Is Easier than It Seems" – the campaign encourages the purchase of eco-products, such as food containers made from recycled plastic as well as water bottles.

Developing a responsible supply chain

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

The recommendations do the following:

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

In 2021, X5 published detailed recommendations on sustainable packaging for 13 product categories; we worked on the recommendations with manufacturers, suppliers, industry associations and the expert community, and we received feedback from 23 partners and 16 experts in total. We also held an open discussion of the project that was attended by over 100 stakeholder representatives. The document includes specific examples of both the most and least preferred raw materials for packaging. We continue to work on refining the recommendations and are open to dialogue with all partners in order to share our experience for the benefit of the entire market.

X5 updated its procurement policies in line with its sustainability recommendations for suppliers. In August, we developed a special training course on the topic of sustainable development for X5's suppliers, which is publicly available on the Company's website.

X5 Group will keep a record of suppliers that follow its sustainability recommendations via a dedicated survey on its Supplier Portal (the Company's official interface for supplier relations) and will also focus on raising supplier awareness and improving feedback collection in relation to sustainability. Going forward, the Company plans to verify suppliers' ESG performance on a selective basis by reviewing their public reporting and interacting directly with suppliers. In addition, X5's sustainability recommendations are being incorporated into joint marketing programmes with suppliers.

We also added mandatory sustainability fields to our Supplier Portal. The fields contain information on packaging as well as voluntary certification.

Plans for 2022

In 2022, Pyaterochka will continue to use the smart store system in its new stores while upgrading existing stores and improving its monitoring of heat and electricity consumption. In addition, we will start using a more environmentally friendly refrigerant that is slated to replace refrigerants based on hydrofluorocarbons (HFCs). In terms of energy generation, we are going to prepare a feasibility study for the installation of biogas generators at DCs and a number of large supermarkets, and we are also going to continue developing the use of alternative energy sources, including the installation of solar panels.

We continue to look for ways to introduce greener transportation methods across X5. We are converting vehicles to natural gas alternatives based on infrastructure capacity. We have begun a pilot programme of electric and hydrogen-powered trucks, and we have started purchasing light trucks in line with our Decarbonisation Plan aimed at reducing GHG emissions.

Concerning waste management, Pyaterochka will continue to automate its monitoring of food waste while also reducing the overall volume of food waste by increasing the amount of non-expired food sent for recycling by 15% year-on-year. In addition, we will promote recycling among customers by carrying out eco-projects in our stores. We will also continue using bags made of at least 35% recycled plastic and carrying out our work to introduce sustainable/recyclable packaging for private label products.

Perekrestok will also continue its pilot project to convert non-expired food into animal feed. The recycling of store waste through DCs will continue, and we have already introduced a mandatory requirement for all suppliers to use recycled plastic for bags.

In March 2021, after the announcement of sustainable packaging guidelines, we began work to introduce these guidelines for our private label goods and promote them among suppliers. In 2022, we will continue working in this direction.

For consumers, the further rollout of reverse vending machines, containers and battery collection points will facilitate recycling.

In 2022, we will continue to educate and enlighten our customers about eco-friendly habits. Perekrestok will introduce a single collection platform at its stores, as well as bins for sorting waste at 400 Perekrestok supermarkets. In addition to promoting eco-friendly habits, we plan to launch programmes to develop food sharing together with partners. Food sharing will support X5's waste reduction and waste management efforts and offers a sustainable solution to saving unsold food.

Looking ahead, we remain committed to expanding the use of renewable energy sources in our operations and continuing work with partners to reduce Scope 3 GHG emissions.

Health

In line with our sustainable development strategy, promoting healthy lifestyles has become a key part of our retail formats' CVPs.

This includes increasing the share of healthy foods in our assortment and implementing specific measures to attract customers' attention to healthy options in stores. These initiatives are described in greater detail in the Pyaterochka and Perekrestok performance review sections (pages 51–57 and 58–64, respectively) and will be included in X5 Group's 2021 Sustainability Report.

2021 highlights



Perekrestok expanded its Green Line by 121 items. The Green Line range offers products that help customers lead a healthy lifestyle with foods like gluten-free bread and meat alternatives.



We promoted healthy lifestyles to customers during our Healthy Lifestyle Festival, where we introduced customers to a variety of products in the healthy lifestyle category.



Healthy corners and healthy shelves can be found at both Perekrestok and Pyaterochka stores.

Medium-term goals for 2023

UP TO

50 %

Share of fresh products and fruits and vegetables



Expansion of the healthy lifestyle assortment¹

Long-term 30x30 goals



Promote responsible programmes and principles across the supply chain



Expand the healthy lifestyle assortment

¹ The healthy lifestyle assortment includes gluten-free, sugar-free, organic, farm-based, natural, high-protein, low-calorie and vegan products



People review

Supporting change

X5 Group celebrated its 15th anniversary in 2021, which was another year of transformation and renewal. Emphasising its transition from retail to food, the Company updated its name and changed its logo as an indication of the importance of sustainability and caring for the community. The well-being of staff – health and safety, improved working conditions, development and career growth – remains a priority for management and HR, in addition to supporting the transformation of the organisation's management model.

The Company is focused on bolstering collaboration and synergies among its divisions, improving internal efficiency and creating an entrepreneurial environment through the expansion of powers and responsibilities at all levels of management. Digital tools, ongoing automation and advanced HR analytics increased the organization's flexibility and speed in decision-making and supported the personalisation of X5's interaction with each group of employees – run, change and disrupt.

X5's HR processes are focused on managing the employee experience: by identifying needs, providing feedback, conducting research and testing hypotheses, we are moving towards the high-quality results our workforce expects.

By taking a systematic, integrated approach to team management, applying best Russian and international practices and paying careful attention to our people and their needs, X5 has become an HR trendsetter and is on its way to becoming the best-possible employer for its staff.

2021 highlights

82.5 %

Employee engagement
compared with 77.7% in 2020

29.2 %

Net promoter score (eNPS)
in 2021
rose from 25.4% in 2020

This means that there are more people in the Company who see it as a good place to work compared with those who are not prepared to recommend the Company as a potential employer.

36 %

Staff turnover
decreased by 2 p.p.



X5 Group fully adapted its processes in line with COVID-19-related working conditions.



Measures to ensure the safety of employees evolved into comprehensive support for the health and well-being of staff. The Company has a system in place for monitoring the health of employees: a set of processes that enables it to receive rapid updates about sick employees and their condition in every business, region and site. In 2021, vaccination data was added to this.



Thanks to a large-scale vaccination campaign, the percentage of X5 staff vaccinated against COVID-19 continues to grow. By taking a proactive approach to the health of its workforce, X5 was able to achieve a lower rate of COVID-19 infection among its employees than in the country as a whole.



The transition to a new management operating model continued to improve the speed and precision of operational decisions, both at the level of X5 as a whole and in the Group's individual assets.



X5's HR function supported the Company's expansion through successful staff acquisition and retention in the face of growing competition for talent and the restructuring of the labour market. In line with its strategy, the Company established the new businesses X5 Media and X5 Bank, transitioned Chizhik from a project to a retail format and integrated Mnogo Lososya into its operations.



All X5 assets are systematically improving working conditions and constantly monitoring market wages for line personnel in order to ensure that X5's offer remains competitive. Flexible systems of incentives are being developed for various categories of employees, and a wide range of benefits are available to staff. For example, the retail staff of the Pyaterochka and Perekrestok retail formats have access to a new benefit: telemedicine.

2021 highlights

71 %

Share of vacant
management-level positions
within X5 Group that were
filled by internal candidates
in 2021

43 %

Share of X5 managers
who are women

men and women follow the same paths
in terms of career progression

In accordance with its [Equal Opportunities Policy](#), X5 guarantees employees equal treatment regardless of gender.



A pilot programme encouraging entrepreneurship was launched for the managers of Pyaterochka and Perekrestok stores. The development of an entrepreneurial approach aligns the potential and interests of store managers with X5 Group's development goals.



A single methodology concerning X5's talent pool was put in place for personnel committees. Its introduction enables the Company to enhance the internal exchange of promising employees and to bring to light the potential of top talent within X5 Group.



HR analytics is becoming more diverse and in-depth both at the Group level and across divisions. This is helping us improve the quality and impact of our decisions. For example, our HR monitoring product – a payroll management system based on real-time data on the labour market – has been incorporated at both Pyaterochka and Perekrestok. Analytical tools are being made available to more and more managers. For example, our Clue product (data-driven personnel management) is already available at 100% of Perekrestok stores.



X5's methodology for succession and talent development was updated.



The Company is making a systematic effort to improve the efficiency of the HR function: it is automating and simplifying processes, switching to electronic personnel document management, transferring HR services to a digital format and providing platforms and mobile applications, and making services available to every employee.



A joint educational programme called "Innovations in Retail" was launched by the National Research University Higher School of Economics and X5 Group; X5 opened a Retail Data Analysis Department in the Phystech School of Applied Mathematics and Informatics at the Moscow Institute of Physics and Technology.



To support internal career growth, a page showing all vacancies open to X5 Group employees was launched on the X5 corporate portal, and programmes for the development of a candidates pool for all personnel categories continued.



The Company is putting in place a tech-based HR platform that makes it possible to quickly reuse developments and services from various Group divisions. This is how we are creating a single digital space with solutions available to functions and employees.



In 2021, the Company was, according to Forbes, one of 11 platinum employers in Russia; it was also among the top 20 most attractive companies for IT specialists in the Changellenge rating, and in the top 30 employers in the "Best of the Best" rating by Future Today. X5 Group, Pyaterochka and Perekrestok took first, second and third place, respectively, among grocery retailers in HeadHunter's rating of the best employers in Russia.

Management model

Every X5 business has its own HR function, which reports directly to the respective managing director. The work of new businesses is supported by the business partnership model. In addition to recruitment and onboarding, evaluations, compensation and benefits management, as well as personnel training and development, the HR function is responsible for organisational design, HR brand development and internal communications.

The central offices of X5's retail formats carry out strategic management of HR processes and shape key HR planning for their businesses. In 2021, the Company continued the trend towards augmenting the powers of regional divisions by expanding the range of HR processes in their area of responsibility.

- The HR function supports the Company's transition to a new management operating model: X5's Business Support department set up a dedicated Legal Support Centre and established an HR unit, a finance unit and a non-commercial procurement management unit; the centralisation of HR processes at the multifunctional shared service centre in Nizhny Novgorod is ongoing.

Corporate culture and values

In support of the Group's strategy, the Company's management model is evolving towards a less hierarchical one that provides more freedom and authority to X5's businesses. Based on a common strategy, mission and values, X5's corporate culture supports the Company's evolution. In 2021, the agenda for development, incentives, training and entertainment programmes and activities included the issues of partnership, the quality of collaboration between the Group's divisions, entrepreneurship and operating efficiency.

- X5 supports a systematic approach to communicating with and informing staff about changes and the Company's operations through all available channels. In 2021, COVID-19 vaccination as well as support for the transformation of X5's management operating model were key topics of communication.

- During the year, the Company conducted a communications campaign dedicated to X5 Group's 15th anniversary, called "The First 15". Mindful of working in a pandemic, it focused on the health and well-being of staff, as the health of the business depends on employees' energy and engagement. Another theme of the anniversary year was the recognition of employees who have spent at least 15 years working for X5.

The X5 Home Office programme for remote and hybrid work is being developed: a tool for organising remote work on the part of MS teams was launched, as was a service for reserving workplaces and meeting rooms. The Company began delivering equipment and souvenirs to employees from its online store to parcel lockers through its 5Post logistics service. The hybrid online-offline format opened up new opportunities to engage more employees in X5's traditional operations.

Code of Business Conduct and Ethics

The Company is building a corporate culture based on shared values, adherence to ethical standards, mutual respect and compliance with legal requirements. Our corporate values are respect, customer-centricity, honesty and integrity, as well as a commitment to excellent performance. These values and principles are reflected in the Code of Business Conduct and Ethics (the "Code"), related policies and procedures, as well as training, evaluation and development programmes. The Code of Business Conduct and Ethics sets standards of conduct that employees are expected to strictly observe in relations with customers, suppliers and other employees, as well as a set of basic principles that guide our business practices.

Declaration on Human Rights Protection

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

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

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

Incentives, fair remuneration and working conditions

X5 Group has a remuneration and incentives system in place that outlines general corporate rules; at the same time, the system takes into account the specifics of the Company's retail formats, digital businesses and developing assets.

In the context of our Equal Opportunities Policy, we are committed to always ensuring that employees are treated equally as well as to providing fair remuneration in accordance with qualifications, skills, effort and time spent, the complexity of the work performed, and the quantity and quality of labour invested. Compensation does not depend on age, gender, race, religious beliefs, sexual orientation or physical abilities. Company-wide guidelines and approaches to staff remuneration are set out in the X5 Policy on Remuneration.

In 2021, X5's retail formats began developing entrepreneurial incentive programmes for store managers. Entrepreneurial managers have more authority and greater opportunities in terms of how they manage standard processes. The incentive component, which calls for additional remuneration in the event the respective store's financial results exceed targets, applies to both entrepreneurial managers and store employees. The development of an entrepreneurial approach aligns the potential and interests of store managers with X5 Group's development goals.

Plans for 2022

In 2022, the Company will continue to transform its management model, including by developing its Board of Directors, amending the powers of its collegial management bodies and expanding the powers of on-site managers.

X5 will improve its business management flexibility, process adaptability and service personalisation for both customers and employees. In 2022, the HR function will focus on the development of flexible resource planning tools, including work with shift schedules for various employee groups, the ongoing transition to electronic document management, the digitalisation of services and process automation, and the enhancement of HR analytics.

Retaining staff and increasing their engagement through comprehensive work in all HR areas, from improving working conditions to personalised onboarding and training programmes, will remain a priority for the function. Work will continue on staff well-being as part of the Company's efforts to look after its employees and their health. Career opportunities will be expanded within various X5 assets by means of internal transfers.



Occupational health and safety

Occupational health and safety is one of the most challenging and most important aspects of creating a healthy workforce, since the average employee spends eight hours a day at work.

Approach to occupational health and safety

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

1

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

2

Identify dangers: we seek to identify hazards, regularly assess occupational risks and analyse the causes of and circumstances surrounding accidents.

3

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

4

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

5

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

6

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

7

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

8

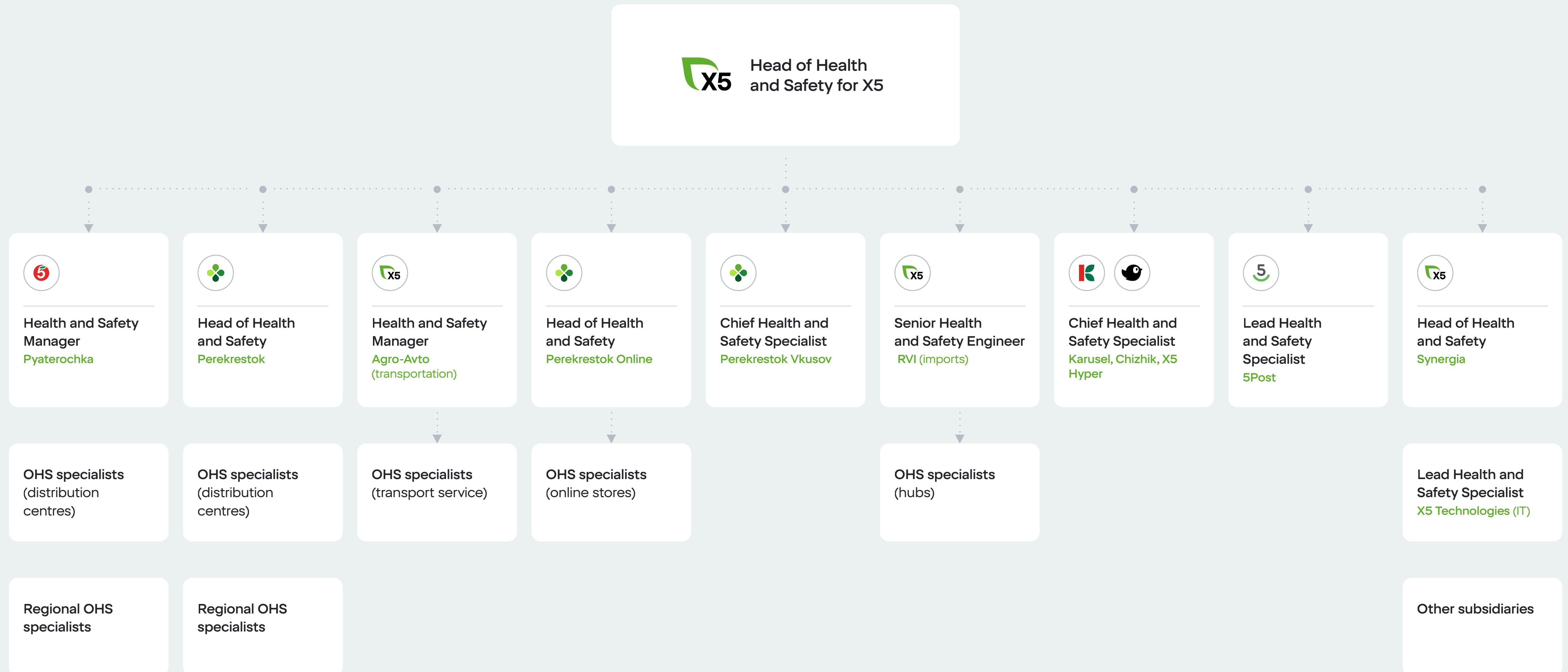
Focus on safety: our employees behave responsibly in respect of their own life and health and the life and health of those around them in the workplace.

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

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

- complying with legal requirements
- prioritising the life and the health of employees
- continuously developing a culture of safety
- creating and ensuring a safe working environment for suppliers

X5's OHS organisational chart



Our main OHS-related activities include:

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

Improving OHS qualifications

We have a duty to arrange OHS training in order to improve the relevant qualifications of our employees. Training employees in OHS standards is one of our strategic preventive measures aimed at avoiding workplace injuries and occupational diseases.

Upon being hired, every employee receives an e-mail about the need to take part in OHS training, along with a link to an interactive training course.

Monitoring compliance

Continuous preventive monitoring of working conditions and compliance with OHS standards in the workplace – one of the most effective means of preventing accidents, workplace injuries and occupational diseases – is carried out through internal audits, as a result of which deviations from OHS

regulations are identified, and the necessary measures to address those deviations are promptly taken.

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

Protecting the health of employees

Since a healthy workforce is an important prerequisite for household incomes, productivity and economic development, restoring and maintaining the capacity to work is an important function. Maintaining the health of employees is an integral part of X5's OHS Policy.

The main measures that X5 takes to protect the health of its employees include arranging safe working conditions, conducting regular medical examinations, providing first-aid training and developing a health-conscious culture in the workplace.

Managing occupational risks

Occupational risk management is at the foundation of our OHS management system. Identifying occupational risk factors, determining safe and harmful exposure levels related to such risk factors, monitoring workplace health and safety, analysing the causes of accidents and occupational diseases.

and a number of other issues are included in the range of tasks involved in assessing and managing occupational risks. Our policy, which is aimed at improving working conditions, establishes a risk register and stipulates analysis (assessment) of the risks inherent in employees' work.

Safety management for external contractors

The main goals of OHS management in relations with external contractors are to coordinate efforts and achieve consistent results based on trust, while systematically monitoring the implementation of OHS requirements on the part of the contractor's personnel.

All employees of contractors working on X5 property take part in a mandatory briefing on occupational health and safety for third-party organisations.

Preventing workplace injuries

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

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

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

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

2021 OHS highlights



The successful functioning of the OHS management system, including the following:

- A special assessment of working conditions was conducted covering 100% of positions in accordance with approved schedules.
- OHS briefings were carried out in accordance with the approved procedure for OHS training and at the established intervals.
- OHS training was provided at licensed training centres and business commissions in accordance with the established schedule and at the established intervals.
- Internal audits (including gemba walks) were completed in order to identify and prevent OHS violations in accordance with the approved schedules.



X5's business divisions took part in a programme to cover injury prevention expenses through the Social Insurance Fund, which helped the Company save about RUB 18 million in 2021.



Thanks to X5's compliance with OHS requirements and health standards, no cases of occupational diseases were reported.



A number of functions were updated and improved as part of an automated programme to ensure that employees undergo medical examinations.



Key OHS managers at X5's business divisions took part in an OHS exhibition in Moscow, which enabled them to improve their knowledge and exchange experiences in resolving pressing issues with counterparts from other organisations.



Pyaterochka

Pyaterochka launched a visualisation tool to assess the quality of goods delivered to stores, which reduced injuries caused by pallets that are not properly stacked.

As part of a questionnaire in the system, employees evaluated the quality of wrapping and packaging; feedback is sent to logistics, where corrective actions are taken.



Perekrestok

Routine OHS processes were transferred to the shared services centre, which made it possible to improve them and reduce the time needed for their implementation.

OHS priorities for 2022

1.

Development of leadership and a culture of safety

2.

Prevention of workplace injuries and occupational diseases

3.

Dissemination of best Russian and international practices in terms of improving working conditions and occupational health and safety

4.

Review of by-laws in connection with amendments to the Labour Code of the Russian Federation and amendments to OHS laws

5.

Transition to electronic document management in the following areas of occupational health and safety: OHS training and special assessments of working conditions

6.

Implementation of a project to automate record-keeping related to medical examinations (a medical examinations portal) for all X5 business units (four business units planned for 2022)

7.

Launch of a project to automate record-keeping concerning the issuance of protective clothing at Pyaterochka and 5Post

8.

Implementation of action plans to improve OHS conditions within business units

9.

Plans to describe OHS processes within Pyaterochka working groups in an effort to optimise them



Perekrestok

The introduction of the fundamental rules on occupational health and safety at distribution centres and a focus on safe operations at distribution centres

(a number of events are planned to train the management of distribution centres on the fundamental rules and to ensure that workers are familiar with them)





Governance structure	142
How we manage risk	150
Supervisory and Management Boards	159
Report of the Supervisory Board	161
Remuneration Report	167

Corporate governance



Corporate governance report

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

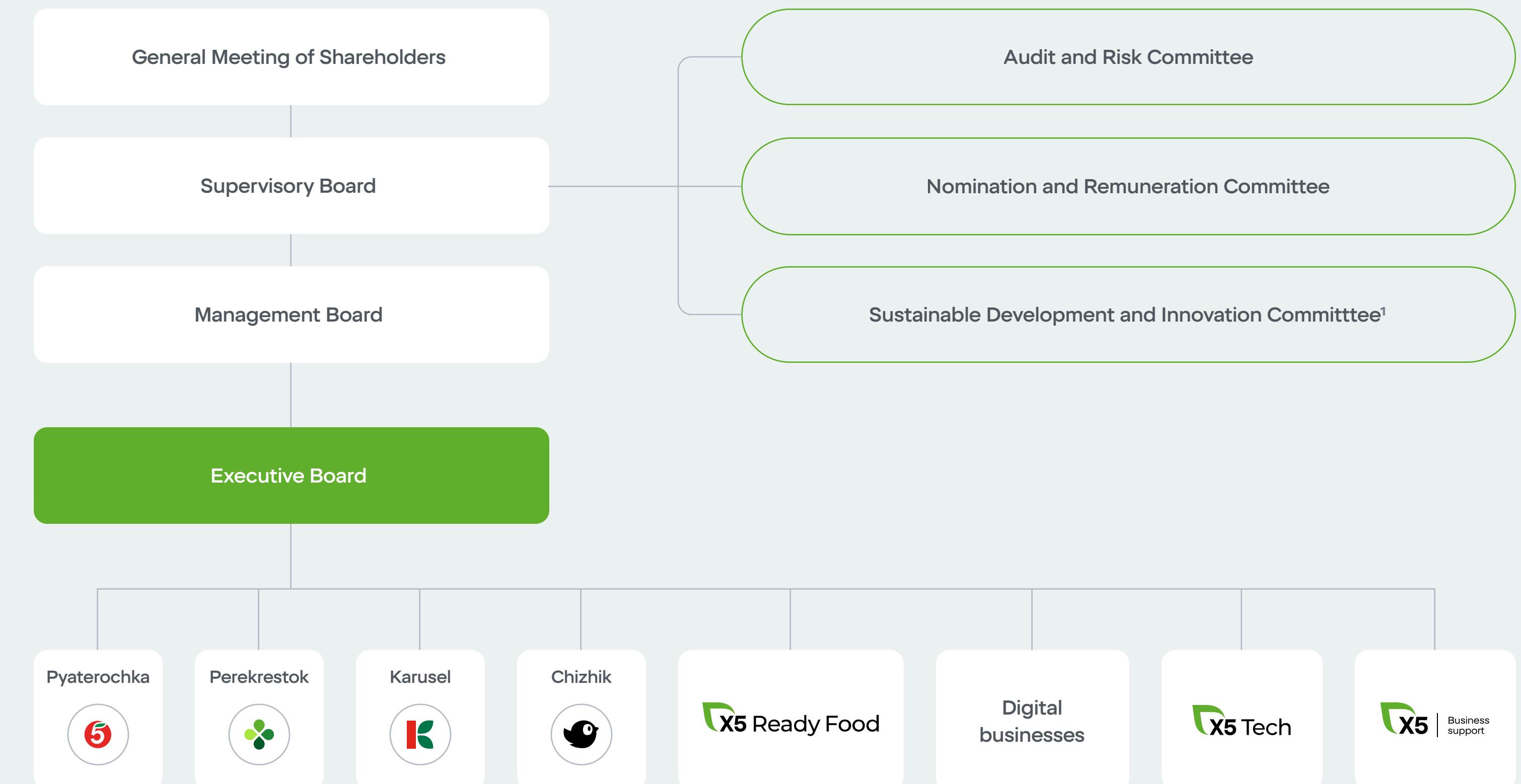
In accordance with the Code, a broad outline of the Company's corporate governance structure is presented in this section, including any deviations from the Code's principles and best practices. X5 aspires to high standards of corporate governance and is committed to a corporate governance structure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

Following Brexit, X5 Retail Group N.V., as a Dutch company whose shares are listed on the London Stock Exchange, is as of 1 January 2021 no longer considered to be a listed company whose securities are admitted to trading on an EU-regulated market. This report will reflect the changes in our regulatory framework following Brexit.

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.



¹ Given the composition of the Supervisory Board following recent events, the duties and responsibilities of the Sustainable Development and Innovation Committee will be included in the remit of the full Supervisory Board as of 16 March 2022.

Management Board

The Management Board has ultimate responsibility for the overall management of the Company and oversees all corporate governance activities. It is accountable for the Company's pursuit and achievement of corporate goals and objectives, its strategies and policies.

The Management Board is responsible for complying with all relevant laws and regulations, for managing the risks associated with the Company's activities and for financing and external communication.

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

The current members of the statutory Management Board and the Executive Board (the broader management team that handles day-to-day strategic, operational and financial issues), including their biographies, are presented on pages 48–50 and 161.

In 2021, the Management Board conducted a self-assessment by means of a questionnaire. Items that were assessed and discussed included the composition of the Management Board, its role versus that of the Supervisory Board and Executive Board, its tasks and duties as well as remuneration. The results of the evaluation will be taken into account in 2022.

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. X5's Supervisory Board currently consists of four members, with a majority of three independent members. The current members, including their biographies, are presented on page 159.

The Supervisory Board has prepared a profile of its size and composition, taking account of the nature of the Company's business and its activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board evaluates its profile and composition annually. The results of the evaluation in 2021, along with the Board's profile and skill matrix, will be taken into account in future Board nominations. For further details, please refer to the Supervisory Board Report on pages 161–166.

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

Composition and reappointment schedule of the Management Board

NAME	YEAR OF BIRTH	YEAR OF FIRST APPOINTMENT	END OF CURRENT TERM OF APPOINTMENT
Igor Shekhterman	1970	2015	2023
Frank Lhoëst	1962	2007	2023
Quinten Peer	1974	2019	2023

Composition and reappointment schedule of the Supervisory Board

NAME	YEAR OF BIRTH	YEAR OF FIRST APPOINTMENT	YEAR OF POSSIBLE REAPPOINTMENT
Peter Demchenkov (Chairman)	1973	2015	2023
Nadia Shouraboura ¹	1970	2018	2022
Marat Atnashev	1977	2020	2023
Alexander Tynkovan ²	1967	2021	2024
Karl-Heinz Holland ³	1967	2018	–
Stephan DuCharme ³	1964	2015	–
Mikhail Fridman ^{3,4}	1964	2006	–
Richard Brasher ^{2,3}	1961	2021	–
Geoff King ³	1965	2015	–
Michael Kuchment ³	1973	2015	–

¹ The terms of Nadia Shouraboura will expire in 2022.

² Richard Brasher and Alexander Tynkovan were appointed on 12 May 2021.

³ Karl-Heinz Holland stepped down as of 12 May 2021. Stephan DuCharme and Mikhail Fridman stepped down as of 1 March 2022. Richard Brasher stepped down as of 4 March 2022. Geoff King stepped down as of 11 March 2022. Michael Kuchment stepped down as of 25 March 2022.

⁴ 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 the Dutch Corporate Governance Code" in this report).

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 Sustainable Development and Innovation 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. In September 2021, the Innovation and Technology Committee was renamed the Sustainable Development and Innovation Committee to strengthen the focus of the Supervisory Board on ESG matters.

Audit and Risk Committee

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

Composition of the Supervisory Board Committees

NAME	AUDIT AND RISK COMMITTEE	NOMINATION AND REMUNERATION COMMITTEE	SUSTAINABLE DEVELOPMENT AND INNOVATION COMMITTEE ¹
Peter Demchenkov	Member	Chairman	
Nadia Shouraboura			Chair
Marat Atnashev	Member	Member	
Alexander Tynkovan		Member	Member

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.

Sustainable Development and Innovation Committee

The Sustainable Development and Innovation Committee assists the Supervisory Board in its responsibility to advise on the Company's long-term vision on sustainability, strategy and target setting, monitor the Company's performance on sustainability targets and oversee X5's e-commerce activities and initiatives in the area of technical and commercial innovation.

¹ Given the composition of the Supervisory Board following recent events, the duties and responsibilities of the Sustainable Development and Innovation Committee will be included in the remit of the full Supervisory Board as of 16 March 2022.

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 2021 evaluation of the Supervisory Board and the Management Board are described in the Supervisory Board Report on page 163.

While the Management and Supervisory Boards are currently not balanced with regard to gender, X5 recognises the benefits of gender diversity and of the importance that is attached to achieving this. We feel that gender is only one part of diversity, and future members of the Management Board and Supervisory Board will continue to be selected on the basis of specific experience, background, skills, knowledge and insights. X5 recognises the importance of diversity, including gender, at all levels of the Group and has a very strong track record of developing a critical executive layer of female business leaders. Across all of the Group's operations, specific diversity targets are taken into account in recruitment, talent development, appointments, retention of employees, mentoring and coaching programmes, succession planning, training and development.

Appointment, suspension and dismissal

The General Meeting of Shareholders appoints the members of the Management Board and Supervisory Board based on binding nominations made by the Supervisory Board. The recommended candidate is appointed by the General Meeting of Shareholders unless the nomination is deprived of its binding character by a qualified majority vote of at least two-thirds of the votes cast, representing more than one-half of the issued share capital of the Company.

Members of the Supervisory Board may in principle serve for a maximum term of four years from the date of their appointment or a shorter period if determined upon their appointment by the General Meeting of Shareholders or as per the Supervisory Board's rotation schedule. A Supervisory Board member can be reappointed after their first term of four years for one additional term of four years, followed by two additional terms of two years. Starting in 2020, the Supervisory Board resolved to reduce the term of (re-)appointment for Supervisory Board members to a maximum of three years, to promote agility and diversity and to create more flexibility in view of rapidly changing skill requirements at the Supervisory Board level.

A Supervisory Board member may not serve more than 12 years. A Supervisory Board member who directly or indirectly holds at least 10% of the shares in the issued share capital of the Company may hold office for more than 12 years and is eligible for reappointment after that term (see "Compliance with the Dutch Corporate Governance Code" in this report).

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

In line with the current remuneration policy, as adopted by the 2021 Annual General Meeting of Shareholders, the remuneration of the individual members of the Management Board will be decided by the Supervisory Board upon the recommendation of its Nomination and Remuneration Committee.

The remuneration policy for the members of the Supervisory Board was adopted by the 2020 Annual General Meeting of Shareholders. The remuneration policies can be found on the Company's website.

Reporting on conflicts of interest

A member of the Management Board or Supervisory Board is required to immediately report and provide all relevant information to the Chairman of the Supervisory Board (and to the other members of the Management Board if it concerns a member of that board) on any conflict of interest, or potential conflict of interest, that they may have with the Company and that may be of material significance to them or the Company.

If a member of the Supervisory Board or a member of the Management Board has a conflict of interest with the Company, that member may not participate in the discussions or decision-making process on subjects or transactions relating to the conflict of interest. A decision taken by X5 to enter into a transaction involving a conflict of interest with a member of the Management Board or a member of the Supervisory Board that is of material significance to them or the Company requires the approval of the Supervisory Board. The Audit and Risk Committee advises the Supervisory Board on handling and deciding on (potential) conflicts of interest and prepares resolutions of the Supervisory Board in relation thereto.

In 2021, the Supervisory Board approved a new conflict of interest protocol to identify and handle conflicts of interest involving Supervisory Board members, in addition to the existing conflict of interest provisions in the Board's Rules of Procedure. The reason for the new protocol is the increased risk of conflicts of interest involving Supervisory Board members, as the scope of activities of the Group is becoming broader while it increasingly operates as an omnichannel retailer.

Shareholders and their rights

General Meeting of Shareholders

X5 Retail Group N.V. is required to hold a General Meeting of Shareholders within six months after the end of the financial year in order to, among other things, adopt the financial statements, decide on any proposal concerning profit allocation and discharge the members of the Management Board and Supervisory Board from their responsibility for the performance of their respective duties for the previous financial year.

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

The powers of the General Meeting of Shareholders are specified in the Articles of Association. Apart from the decisions taken at the Annual General Meeting of Shareholders, the main powers of the General Meeting of Shareholders are to appoint (subject to the Supervisory Board's right to make binding nominations), suspend and dismiss members of the Management Board and Supervisory Board; to appoint the external auditor; to adopt amendments to the Articles of Association; to issue shares and grant subscriptions for shares; to authorise the Management Board or the Supervisory Board to issue shares and grant subscriptions for shares; to authorise the Management Board or the Supervisory Board to restrict or exclude pre-emptive rights of shareholders upon the issuance of shares; to authorise the Management Board to repurchase outstanding shares in the Company; to adopt the remuneration policy of the Management Board; to determine the remuneration of members of the Supervisory Board; and to merge, demerge or dissolve the Company.

The notice for a General Meeting of Shareholders needs to be published no later than 42 days prior to the day of the meeting. The mandatory record date, establishing which shareholders are entitled to attend and vote at the General Meeting of Shareholders, is set at least 28 days prior to the date of the meeting.

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

All shareholders and other persons who, pursuant to Dutch law or the Articles of Association, are entitled to attend and/or vote at a General Meeting of Shareholders are entitled to address the General Meeting of Shareholders. X5 uses the Bank of New York Mellon, the depositary for X5's GDR facility (the "Depositary"), to enable GDR holders to exercise their voting rights represented by the shares underlying the GDRs. As described in the "Terms and Conditions of the Global Depositary Receipts", holders of GDRs may instruct the Depositary with regard to the exercise of the voting rights connected to the shares underlying their GDRs. Alternatively, upon request of the holders of such depositary receipts, the Depositary will grant a proxy to such holders who wish to vote in person at a General Meeting of Shareholders. Persons who hold a written proxy may represent shareholders at a General Meeting of Shareholders. The written proxy must be duly executed and legalised in accordance with the applicable laws and may be submitted electronically.

Voting rights

Each share confers the right to cast one vote at the General Meeting of Shareholders. There are no restrictions, either under Dutch law or in the Articles of Association, on the right of non-residents of the Netherlands or foreign owners to hold shares or to vote, other than those also imposed on residents of the Netherlands. Resolutions of the General Meeting of Shareholders are passed by a simple majority of the votes cast in a meeting where more than 25% of the issued share capital is present or represented. If 25% or less of the issued share capital is present or represented, a second meeting should be convened no later than four weeks following the first meeting. At the second meeting, no quorum requirement will apply. However, the General Meeting of Shareholders can only resolve on (i) a merger or demerger, (ii) the authorisation to limit or exclude pre-emptive rights and (iii) cancellation of shares with a majority of at least two-thirds of the votes cast if less than 50% of the issued capital is represented in that meeting.

Dividend rights

Any distribution of profits to shareholders will be made after the adoption by the General Meeting of Shareholders of the annual accounts of the Company from which it appears that such distribution is permitted. The Company may only declare profit distributions insofar as its net assets exceed the sum of its issued share capital plus any legal reserves required to be maintained pursuant to Dutch law. A loss may only be applied against such reserves to the extent permitted by Dutch law. On a proposal of the Supervisory Board, the General Meeting of Shareholders will determine which part of the profits will be added to the reserves and the allocation of the remaining profits.

On a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to pay an interim dividend insofar as X5's net assets exceed the sum of its issued share capital and the reserves that are required to be maintained pursuant to Dutch law, as evidenced by an interim financial statement prepared and signed by all the members of the Management Board. In addition, on a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to make distributions to the shareholders out of any reserves that need not be maintained pursuant to Dutch law.

The Company's dividend policy was approved in 2017 and amended in 2020. The Company intends to pay a full-year dividend per share that will remain stable or grow over time in absolute Russian rouble-denominated terms. The dividend payout will be based on operating cash flow and a target consolidated net debt¹/adjusted EBITDA² ratio of below 2.0x as of the end of the year for which the dividend is proposed, taking into account considerations including but not limited to the Company's growth profile, capital requirements and return on capital. Starting in 2020, X5 is committed to semi-annual dividend payments. The interim dividend will be announced following the release of the third-quarter results.

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

Substantial shareholdings

According to the Disclosure Guidance and Transparency Rules, any person or legal entity who, directly or indirectly, acquires or disposes of an interest in X5's capital and/or voting rights must immediately give written notice to the Company and the Financial Conduct Authority (FCA) if the acquisition or disposal causes the percentage of outstanding capital interest and/or voting rights held by that person or legal entity to reach, exceed or fall below any of the following thresholds: 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75%.

The following table lists the shareholders on record on 19 May 2022 in the FCA's public register that hold an interest of 5% or more in the share capital of the Company:

SHAREHOLDER	DATE OF DISCLOSURE ³	CAPITAL INTEREST ⁴	VOTING RIGHTS ⁴
CTF Holdings S.A.	01.01.2021	47.86%	47.86%
The Axon Trust	01.01.2021	11.43%	11.43%

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 FCA of X5 securities and voting rights at their disposal. These positions can be viewed in the FCA's public register.

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

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

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

⁴ 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 FCA. Further details can be obtained at www.fca.org.uk.

Repurchase by the Company of its own shares

The Company may acquire fully paid shares, or GDRs thereof, in its capital for a consideration only following authorisation by the General Meeting of Shareholders and subject to certain provisions of Dutch law and the Company's Articles of Association if:

- Shareholders' equity minus the purchase price is not less than the sum of X5's issued and fully paid-in capital plus any reserves required to be maintained by Dutch law
- X5 and its subsidiaries would not, as a result, hold shares or GDRs thereof with an aggregate nominal value exceeding half of the issued share capital

In 2021, the Management Board was authorised to acquire up to 10% of the Company's shares or GDRs thereof. This authorisation is valid through 12 November 2022. 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.

Shares or GDRs thereof held by X5 or a subsidiary may not be voted on and are not taken into account for determining whether quorum requirements, if any, are satisfied.

In order to fulfil the Company's obligations under the Restricted Stock Unit Plan, the Company from time to time acquires GDRs under a restricted buyback programme pursuant to an authorisation of the General Meeting of Shareholders in accordance with Article 9 of the Company's Articles of Association. The Company did not repurchase any GDRs in 2021.

Issue of new shares and pre-emptive rights

Shares in X5 may be issued, and rights to subscribe for shares may be granted, pursuant to a resolution of the General Meeting of Shareholders or another X5 corporate body to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. In 2021, the General Meeting of Shareholders approved a delegation of this authority to the Supervisory Board relating to the issuance and/or granting of rights to acquire up to 6,789,322 shares (10% of the issued share capital) through 12 November 2022.

Upon the issue of new shares, holders of X5'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 X5 corporate body to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. The General Meeting of Shareholders has delegated the authority to restrict or exclude the pre-emptive rights of shareholders upon the issue of shares and/or the granting of rights to subscribe for shares to the Supervisory Board through 12 November 2022.

Articles of Association

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

Amending the Company's Articles of Association requires a resolution of the General Meeting of Shareholders. A proposal to amend the Articles of Association, including the text of the proposed amendment, must be made available to the holders of shares 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.

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

Auditor

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

On 12 May 2021, the General Meeting of Shareholders reappointed Ernst & Young Accountants LLP as external auditor for the 2021 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- Independence of the Supervisory Board and Its Members

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

Supervisory Board members Mikhail Fridman and Marat Atnashev are both affiliated with CTF Holdings S.A., which has a capital interest of 47.86% in X5. Stephan DuCharme serves as Managing Partner of L1 Retail, part of the LetterOne investment group, which is partially controlled by the ultimate shareholders of CTF Holdings S.A. Therefore, Mikhail Fridman, Marat Atnashev and Stephan DuCharme are not independent in the sense of the Dutch Corporate Governance Code¹.

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 benefit to X5 and its shareholders.

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

2.3.2 Supervisory Board Committees

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

2.2.2 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 2021, he was reappointed for a fifth term, thus exceeding the maximum of 12 years prescribed by the Code¹.

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.

2.3.4 Composition of the Committees

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

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

The Code prescribes that Supervisory Board members may not be awarded remuneration in the form of shares and/or rights to shares. Members of the Supervisory Board of the Company are entitled to restricted stock units (RSUs). The number of annual RSU awards equals 100% of a Supervisory Board member's fixed base fee in the year of the award, divided by the average market value of an X5 GDR on the relevant award date. RSU awards to members of the Supervisory Board are not subject to performance criteria.

X5 acknowledges that the award of shares to members of the Supervisory Board constitutes a deviation from the Code. However, in order to attract and reward experienced individuals with a track record that is of specific relevance to the Company, X5 believes it is necessary to allow members of the Supervisory Board to participate in the Company's equity-based remuneration plan. This structure aligns the interests of Supervisory Board members with those of shareholders and strengthens their commitment to and confidence in the future of the Company.

The equity-based awards to members of the Supervisory Board are computed with respect to the fixed board fee of each member and are therefore not performance-based. X5 believes that the level and structure of the remuneration of the Supervisory Board members safeguard their independence of judgement and thought, and adequately reflect the time spent and responsibilities of their role. All equity awards to Supervisory Board members are determined by the General Meeting of Shareholders.

Moreover, with a three-year vesting followed by a two-year lock-up, the equity award programme is in line with the spirit of the Dutch Corporate Governance Code, which states that shares held by Supervisory Board members should be long-term investments.

¹ Mikhail Fridman and Stephan DuCharme resigned from the Supervisory Board on 1 March 2022.

How we manage risk

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

Risk management

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

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

Throughout the year, the Risk Management team reviews X5's risks and develops action plans to mitigate risks and allocate appropriate resources for risk mitigation. The results of the risk mitigation actions are monitored and reported to the Audit and Risk Committee on a quarterly basis. Attention is paid to strengthening the design and effectiveness of the risk management and internal control systems, ensuring that:

- a comprehensive review of both internal and external risks is carried out at least annually
- set up and confirmations of risk appetite
- key risk indicators are reviewed
- risks for both our strategic and short-term objectives are assessed
- emerging risks are continuously monitored
- required risk responses and risk mitigating activities are put in place
- reporting is accurate and reliable
- full compliance with relevant laws and regulations

In addition, specifically in 2021, the Company was resilient in handling the risks associated with the COVID-19 pandemic and demonstrated the ability to quickly adapt to changes in the market and its business.

Risk appetite

X5's risk appetite is defined by the Management Board and approved by the Supervisory Board, and is integrated into the businesses through our strategy, Group policies, procedures, controls and budgets. Our appetite for each risk is determined by considering key opportunities and potential threats to achieving our strategic objectives and can be categorised as reflected in the table below.

RISK CATEGORY				
STRATEGY				Open
OPERATIONS				Cautious
COMPLIANCE	Averse	Minimal		
REPORTING AND FINANCING				
	Averse Risks are unacceptable in any case despite mitigating factors and considerable potential reward.	Minimal Potential losses from these risks should be calculated and planned in advance, provisions should be created or insurance contracts should be in place, and necessary controls should be in effect.	Cautious The maximum potential impact from these risks should be lower or equal to the minimal return. The necessary mitigation actions and controls should prevent losses.	Open The risk impact may exceed the potential level of return; compensating factors may partly mitigate this impact.

X5 applies a "three lines of defence" model to ensure the effectiveness and completeness of the Company's risk management and internal control system:

FIRST LINE	SECOND LINE	THIRD LINE
Business unit / risk owners	Risk Management, Internal Control and Compliance	Internal Audit
Manage risks on a daily basis and provide assurance regarding the effectiveness of controls	Steer, monitor and support line management in (1) managing risks and (2) developing and maintaining an adequate framework for control and compliance	Conduct audits and test the internal control and compliance framework for assurance of the effectiveness of control

Monitoring and assurance

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

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

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

Ethics and compliance

We recognise that ethics and integrity are key components in the fulfilment of X5's sustainable health and long-term value creation.

Our Code of Business Conduct and Ethics reflects our values and principles, which, together with underlying policies and procedures, are promoted and implemented across the group through learning and training programmes.

Further information on these objectives can be found in the sections "Compliance and Business Ethics" on page 120 and "Risk Profile" below

Climate change

X5 Group acknowledges the urgency of acting on climate change, especially in light of COP26 and the latest IPCC report findings. Cognisant of the fact that the climate agenda will only become more important over time, X5 closely monitors changes in international and local climate regulation and stakeholder engagement. Likewise, it continues to monitor and manage climate-related risks, implementing multiple initiatives to achieve carbon neutrality by 2050.

X5 Group's management and Management Board are responsible for effectively monitoring and managing risks and opportunities associated with climate change. Thus, in 2021 a climate risk and opportunity assessment was conducted following TCFD recommendations to test the Group's resilience and business strategy regarding the consequences of climate change.

We recognise that, as the world shifts to a low-carbon economy, joining the SBTi and verifying our climate targets are steps we must take in order to decarbonise and improve X5's global sustainability profile. In 2021, X5 developed a decarbonisation plan and road map for all stages of its value chain. We are already sourcing sustainable power for some of our distribution centres, and we are exploring the feasibility of using solar energy for our logistics operations. Among other sustainability goals, X5 aims to increase the share of renewable energy used in its operations to 30% by 2030.

The Company's principal risks

X5's principal risks – those that may impede the achievement of X5's objectives on strategy, operations, compliance and reporting – are addressed below. It should be noted that there are additional risks which management considers immaterial or common to companies in the same industry. Risks and corresponding management actions following sanctions, imposed on Russia, and credit rating downgrades by foreign credit rating agencies are additionally covered in the section below since the negative consequences for the Russian economy, retail industry and X5 are significant.

The Company's principal risks

PRINCIPAL RISKS	RISK MOVEMENT	KEY CONTROLS AND MITIGATING FACTORS
Strategy		
Market and macroeconomics Major changes in the economic environment may challenge the existing business strategy or have a material impact on financial performance.	Macroeconomic and regulatory factors became increasingly important for the food market in 2021, as food supplies, labour and other resources became more scarce and caused prices to rise. This was partly a result and compounded by the ongoing impact of the COVID-19 pandemic. Sanctions imposed on Russia will significantly worsen macroeconomic environment. Currently it is too early to anticipate all the details but in general unemployment and inflation will rise, GDP and personal income level will fall.	<ul style="list-style-type: none">• We constantly monitor and forecast the economic environment and make adjustments to our strategy as needed.• We are developing a hard discounter format (Chizhik) and taking other steps to address the pressure on personal income.
Competitive environment Actions taken by competitors or new entrants to the market affect the Company's competitive advantage and performance.	During 2021, the rapid growth of hard discounters and specialist chains caused additional competitive threats to our businesses. The pandemic and continued digitalisation of the economy, with an increasing number of omnichannel participants in the retail landscape, are driving rapid growth of online services, especially in larger cities across Russia. Sanctions, imposed on Russia, can probably change the competitive landscape in retail.	<ul style="list-style-type: none">• We constantly analyse customer behaviour and adjust our strategy accordingly.• We continue to roll out new concepts and CVPs in our proximity and supermarket formats.• We sustain our lead over traditional and new competitors by creating a digital infrastructure around the core business that covers all stages of the customer journey in food and complementary categories.• We are developing a new hard discounter format (Chizhik).
Business development investments Insufficient return from investments in new business lines, and capital costs for the development of our retail formats.	–	<ul style="list-style-type: none">• We adhere to strong investment control procedures. All new business initiatives are subject to pilot validation.• For non-performing stores, we implement action plans to increase their efficiency and profitability.• We decreased our plans for capital expenditure in growth, development and certain digital products for 2022 following imposed sanction on Russia and downgrades of credit ratings

The Company's principal risks

PRINCIPAL RISKS	RISK MOVEMENT	KEY CONTROLS AND MITIGATING FACTORS
Operations		
Retail and customer service Non-effective and inconsistent operational management may affect X5's ability to provide its customers with an attractive shopping experience.	–	<ul style="list-style-type: none">• We use commercial and research data to assess our performance in meeting customer priorities and expectations regarding prices, product range, availability and service.• Every year we assess and where required strengthen regional management teams to ensure our stores are well supported across all locations.
Supply chain Insufficiencies in our retail operations infrastructure and inventory management may lead to an inability to maintain effective inventory management and ensure a reliable supply of goods for our customers while minimising shrinkage and excessive stock.	In 2021, many of our suppliers faced a shortage of vehicles for deliveries. X5's active development of services for suppliers kept this risk at a medium level. Sanctions imposed on Russia have material impact on cross border supply chains and import of goods, spare parts and etc.	<ul style="list-style-type: none">• We run comprehensive supply chain operations with a decentralised logistics function, which allows our retail formats to effectively manage inventory across the supply chain.• We strengthened our supply chain in order to fulfil the elevated demand for social goods in February 2022.• We continue to develop X5's direct import business to diversify and reduce dependency on local distributors and move up the value chain to optimise the balance of demand and supply and shift focus from quality control to quality assurance.• We are also optimising operations across the supply chain and constantly reviewing ways to further leverage X5 Group's purchasing power and the scale of its infrastructure.
		<p>Also see "Retail infrastructure" on pages 98-116.</p>
Human resources Failure to recruit, retain and develop people with the required skills and to instil a culture that reflects our values could impact business performance. Failure to meet the necessary standards to protect the health and safety of personnel may impact operations and lead to adverse financial and reputational consequences. This risk became imminent as a result of the COVID-19 pandemic.	One of the key challenges we faced in 2021 was the increasing labour shortage because of the decrease in migration and the significant increase in demand for labour from the growing construction, retail and e-grocery segments. New waves of the COVID-19 pandemic made it more important to ensure that the necessary quantities of vaccines were available. Decrease of production, increase of unemployment should increase the supply and decrease demand for labour.	<ul style="list-style-type: none">• We monitor the labour market and regularly assess X5's employer value proposition to ensure that we offer employee benefits in line with the market.• We have a system for employee onboarding, training and development in place, along with a talent pool.• We create a culture that enables us to recruit, retain and promote the best professionals in the industry, and to promote an environment that stimulates professional growth, collaboration and accountability together with safety and flexibility.• We have made vaccines widely available in all regions of the Russian Federation to protect the health of our personnel.• We have a health and safety policy in place to cover workplaces across various functional divisions. We are committed to promoting the highest health and safety standards by implementing advanced safety technologies and techniques and through ongoing risk monitoring, analysis and mitigation.

The Company's principal risks

PRINCIPAL RISKS	RISK MOVEMENT	KEY CONTROLS AND MITIGATING FACTORS
Operations		
Business continuity performance Interruptions in business processes due to crisis situations and emergencies. Disruptions of business continuity due to emergencies may lead to a situation where core business operations and resources are unavailable.	In 2021, no new significant risk factors were identified. Sanctions imposed on Russia and other consequences have material impact on our IT. A significant number of vendors, producers of equipment are freezing their operations or exiting the Russian market. This will bring additional challenges for stability of our IT infrastructure.	<ul style="list-style-type: none">• We constantly monitor and control business processes.• We implement business continuity plans for our key business processes and disaster recovery plans for our critical IT systems. <p>Also see "X5 Technologies" on pages 106–109.</p>
IT Inability to implement and develop state-of-the-art IT solutions on a timely basis. Lack of infrastructure capacity to maintain the required level of service.	In 2021, no new significant risk factors were identified. Sanctions imposed on Russia and other consequences have material impact on our IT. A significant number of vendors, producers of equipment are freezing their operations or exiting the Russian market. This will bring additional challenges for stability of our IT infrastructure.	<ul style="list-style-type: none">• We are developing existing controls to maintain the integrity and efficiency of our IT systems, including detailed recovery and contingency plans. This is our key priority.• We manage the capacity of our IT systems in order to ensure that our IT resources are able to meet current and future business requirements in a cost-effective manner.
Cybersecurity External and internal threats to information security, including cyberattacks, viruses and other malicious actions to, for instance, infiltrate our IT systems or damage data.	–	<ul style="list-style-type: none">• We implement all necessary policies and procedures and use all necessary tools, hardware and software to ensure the confidentiality, integrity and availability of our information assets.• We strengthened our cyber security team to increase our protection in the current environment. <p>Also see "X5 Technologies" on pages 106–109.</p>

The Company's principal risks

PRINCIPAL RISKS	RISK MOVEMENT	KEY CONTROLS AND MITIGATING FACTORS
Compliance		
Fraud and corruption The inability to establish and promote a Company-wide culture of integrity and the failure to detect or prevent corruption and fraud can lead to a decline in economic value and significant reputation damage.	–	<ul style="list-style-type: none">• We uphold a zero-tolerance policy for non-compliance with the principles of business ethics, and continuously provide personnel with training on prevention of bribery and corruption.• We implement automated and manual controls in business processes, and segregate rights to access information systems (SoD).• We require that all employees complete a declaration on conflicts of interest to monitor potential conflicts.
Legislation and litigation Inability to identify, quickly respond to and attempt to modify unfavourable proposed changes to applicable laws. The conclusion of contracts that are unfavourable for the Company and the failure to comply with or monitor contract terms to protect the Company from financial losses.	Risks of state regulation of the retail market in the current macroeconomic and political environment remain significant but not critical. Vaccination requirements in different regions put additional pressure on the Company but haven't been critical for the Company.	<ul style="list-style-type: none">• Our legal team participates in every stage of important business negotiations and analyses business terms and conditions to minimise risk.• Contracts are largely standardised to ensure our rights are consistently and uniformly protected.• We are strongly committed to complying with all applicable laws and regulations.• We have made vaccines widely available in all regions of the Russian Federation to protect the health of our personnel and fulfil regulatory requirements. We haven't experienced any material effect on the business.
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.	–	<ul style="list-style-type: none">• 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.

The Company's principal risks

PRINCIPAL RISKS	RISK MOVEMENT	KEY CONTROLS AND MITIGATING FACTORS
Reporting and financing		
Financial risks X5 could be affected by common financial risks: <ul style="list-style-type: none">• Increases in interest rates and/or banking fees• Significant volatility of foreign exchange rates• Liquidity risk and credit risk	The increasing volatility of the rouble exchange rate and rising interest rates may adversely affect our financial performance.	<ul style="list-style-type: none">• We plan and monitor our budget and performance, and introduce changes where needed to achieve financial targets.• We monitor repayment schedules for long-term and short-term accounts receivable, and oversee the use of short-term lending via available credit lines to manage liquidity.• We manage the effective financing rate as well as undrawn credit limits in banks.
Other principal risks		
Risk of sanctions and credit rating downgrade <ul style="list-style-type: none">• Imposition of new sanctions and downgrades in credit ratings• Credit rating downgrades from foreign credit rating agencies (S&p, Fitch, Moody's)	Different countries impose sanctions on particular sectors of the Russian economy and companies. Foreign credit rating agencies downgrade credit ratings	<ul style="list-style-type: none">• As part of our business continuity process, we develop plans in case of new sanctions and possible legal restrictions or requirements for the Russian retail market. <p>See section below with details of our key risks and corresponding management actions.</p>
Climate change All climate-related risks	Climate change has become a widely acknowledged global emergency.	<ul style="list-style-type: none">• We closely monitor changes in international and local climate regulation and stakeholder engagement.• In 2021, we developed a decarbonisation plan and road map for all stages of our value chain. We are already sourcing sustainable power for some of our distribution centres, and we are exploring the feasibility of using solar energy for our logistics operations.

Risk of sanctions and credit rating downgrade and corresponding Management actions

In response to ongoing geopolitical developments, X5 set up a special-purpose team to collect all key and critical information as well as to propose solutions and take immediate decisions, as necessary. The Company also created a working group focused on mitigating risks, taking strategic decisions and ensuring business stability over a period of three to six months.

X5's new key risks are in the following areas:

- 01** On-shelf availability of goods
- 02** Continuity of payments and financing
- 03** Technological risks
- 04** Information security
- 05** Equipment supplies and other non-commercial procurement
- 06** Human resources
- 07** Audit
- 08** Securities trading

On-shelf availability of goods

Prevention of any disruptions to the supply chain or supplier relationships is our key priority. We're working with our key suppliers to ensure the availability of social goods.

Supply chains, especially those for imported goods, are facing restrictions. In the short term, we are looking for alternative suppliers of domestic goods, and in the medium term for alternative supply routes through other countries (Turkey, Egypt, Azerbaijan, Armenia, etc.). Overall, this is a small fraction of X5's sales (5.7%), and the assortment of our retail chains will be adjusted to the new situation.

Payment continuity and financing

X5 is not subject to any sanctions. All correspondent banks carry out settlements for X5 in foreign currencies. In order to reduce forex risks, X5 is looking for options to avoid settlements in USD and EUR and make direct settlements in other currencies with major importers (Turkey, Egypt, China and etc.).

In any case, the share of imported goods in X5's business is relatively limited, and the bulk of settlements are rouble-denominated.

In terms of our financing needs in roubles, all banks are paying in full and on time. X5's operating cash flow is strong enough for us to service and repay our loans. In the near future, we expect support from the state authorities in terms of offering soft financing to the retail sector.

Technological risks

X5 depends to a certain extent on Western vendors and IT companies. Some of these vendors and IT companies are freezing their supplies to companies under sanctions and to Russian companies. Our IT teams have their action plans in place for the near term, so we do not expect any material impact on our availability to operate.

Information security

We are facing increased cyberattacks. Though X5 is not targeted, our infrastructure is suffering additional strain. Our Information Security Department knows our potential weaknesses and has reallocated resources to ensure sufficient security. As of now, we have not met with any failures or losses resulting from information security risks.

Equipment supplies and other non-commercial procurement

Our Company depends to a certain extent on supplies of imported components for our supply chain, IT and stores. X5 has built up a stock of spare parts and components to ensure business continuity. In the mid-term, we are looking for alternatives or substitutes among domestic and foreign suppliers.

Human resources

Our security service has deployed additional security measures in our stores where the highest threat level is expected.

To the extent our employees may be suffering from stress or fear, we strive to mitigate such risks and provide adequate support to our staff. The risk of staff shortages may increase in certain areas; however, this risk is assessed as not critical.

Audit

The Group may encounter limitations in its ability to engage audit and consultant firms in some jurisdictions due to local formal and informal restrictions for companies operating in a primarily Russian environment.

Securities trading

Trading in X5 securities has been limited in certain jurisdictions. For example, the London Stock Exchange imposed a suspension of trading in securities of a number of companies with operations in Russia, including X5, and this suspension currently remains in place. There is no assurance that this suspension will be lifted, and it is difficult to predict how long this suspension may last.

X5 Group is not subject to any sanctions or restrictions at the moment, and we do not expect any jurisdiction to target X5 Group specifically in the future due to the nature of our business. While X5 is likely to encounter challenges due to sanctions targeting the financial system and certain imports into Russia, it is expected to be able to maintain its work as a going concern.

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 risk management and internal control systems over the course of 2021.

The outcome of this review and analysis has been shared with the Audit and Risk Committee and the Supervisory Board and has been discussed with X5's external auditor.

The Management Board reviewed the effectiveness of X5's internal risk management and control systems based on:

- internal audit reports on reviews performed throughout the year; observations and measures to address issues were discussed with management and the Audit and Risk Committee
- a systematic review of scoping, control execution and control assessments in the context of the internal control strategy
- periodic risk reports provided by the management of corporate functions and the main business segments
- ongoing monitoring of key risk management initiatives aimed at mitigating risks and keeping risks at an acceptable level
- the external auditor's ongoing reflections on the control framework, and the management letter from the external auditor with observations and remarks regarding internal controls; this letter has been discussed with the Audit and Risk Committee and the Supervisory Board

For more information on X5's risk management activities, internal control, risk management systems and key risks, see the section "How we manage risk" above. The purpose of X5's risk management and internal control systems is to adequately and effectively manage the significant risks to which the Company is exposed. Such systems can never provide absolute assurance 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 risk management and internal control 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 risk management and internal control systems provide reasonable assurance that the Company's financial reporting does not contain any material inaccuracies
- there have been no material failings in the effectiveness of X5's risk management and internal control systems
- there are no material risks or uncertainties that could reasonably be expected to have a material adverse effect on the continuity of X5's operations in the coming 12 months
- it is appropriate that the financial reporting is prepared on a going concern basis, based on our review of the strategic plan, the budget 2022 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.

Supervisory and Management Boards

Supervisory Board



Peter Demchenkov

CHAIRMAN OF THE SUPERVISORY BOARD, CHAIRMAN OF THE NOMINATION AND REMUNERATION COMMITTEE

Peter Demchenkov, a Russian citizen (1973), from 2006 till October 2021 was CEO of ALIDI, a leading provider of distribution and logistics services in Russia. From 2004 to 2005, he was Development Director of KIT Finance (JSC), and from 1997 to 2004, Peter worked in Procter & Gamble's Business Development Department in Eastern Europe. Peter graduated from the St. Petersburg Polytechnical University with a degree in Technical Cybernetics.



Nadia Shouraboura

MEMBER OF THE SUPERVISORY BOARD, CHAIR OF THE SUSTAINABLE DEVELOPMENT AND INNOVATION COMMITTEE

Nadia Shouraboura, a US citizen (1970), joined X5 in 2018. She has extensive experience in development of innovative concepts for modern retail, as well as technology and data-driven solutions for consumers. From 2004 to 2012, Nadia served as Technology Vice President for Amazon's global supply chain and fulfilment platforms and was a member of Amazon's management board. Subsequently, she launched her own technology consultancy for the retail industry globally, aimed at combining the best of the online and offline worlds. Nadia is a senior advisor to New Mountain Capital and serves as an independent non-executive director at Ferguson plc, MTS Russia and Ocado Group. Nadia holds a degree in Mathematics and Computer Science from Moscow State University and a PhD in Mathematics from Princeton University.



Marat Atnashev

MEMBER OF THE SUPERVISORY BOARD

Marat Atnashev, a Russian citizen (1977), is the Director of Group Portfolio Management at CTF Consultancy Limited. He is a member of the Boards of Directors of Management Company Rosvodo-kanal, A1 Investment Holding S.A., ABH Holdings S.A., Alfa Bank (Russia) and AlfaStrakhovanie PLC. From 2016 to 2019, Mr Atnashev was Dean of the Skolkovo Moscow School of Management. Before that, he worked at EVRAZ plc as Vice President, Major Projects, Head of the Iron Ore Division; he held the position of Director of the Directorate of Major Projects at JSC Gazprom Neft and worked at TNK-BP in various positions in supply chain management, finance and major project management. Mr Atnashev graduated with honours from the Energy Department of the State University of Management, Moscow, in 1999; in 2003, he received a PhD (Candidate) in Economics. Furthermore, he also holds an MBA from INSEAD, France (2002). In 2008, he graduated from the BP Projects Academy, MIT (USA), and in 2016 he received an MPA from the Harvard Kennedy School (USA).



Alexander Tynkovan

MEMBER OF THE SUPERVISORY BOARD

Alexander Tynkovan, a Russian national (1967), is a returning member of the Supervisory Board of X5 Retail Group N.V., having previously served from 2008 to 2015. He is the founder of M.Video (currently M.Video-Eldorado Group), the leading consumer electronics and home appliance retailer in the Russian Federation. Alexander currently serves as the Chairman of M.Video's Board, focused on digitalisation and increasing the company's online presence. He is also a non-executive Deputy Chairman of the Board of Fix Price Group Ltd., a Russia-based retail chain of discount variety value stores. Alexander graduated summa cum laude from the Moscow Energy Institute, majoring in Aircraft Electric Equipment.

Supervisory and Management Boards

Management Board

**Igor Shekhterman**

X5 CHIEF EXECUTIVE OFFICER, CHAIRMAN
AND MEMBER OF THE MANAGEMENT BOARD

Igor Shekhterman, a Russian national (1970), has served on X5's Supervisory Board since 2013. He was previously the Managing Partner and CEO at RosExpert, which he co-founded in 1996 and subsequently successfully developed into the Russian partner of Korn Ferry International. Igor started his career as Finance Manager at the Russian branch of Beoluna, the Japanese jewellery producer. Igor holds a degree in Economics from the Kaliningrad Technical Institute (1992) and degrees in Business Administration from the Institut d'Administration des Entreprises (France, 1994) and the Danish Management School (1995).

**Frank Lhoëst**

COMPANY SECRETARY, MEMBER OF THE MANAGEMENT BOARD

Frank Lhoëst, a Dutch national (1962), joined X5 in 2007, having previously held several positions at Intertrust Group. Frank graduated from Leiden University in the Netherlands with a degree in Law.

**Quinten Peer**

MEMBER OF THE MANAGEMENT BOARD

Quinten Peer, a Dutch national (1974), joined X5 in 2018. Previously, he worked for Gazprom in the Netherlands, where he managed Gazprom's 50% interest in the Sakhalin-II project. He lived in Russia from 2012 to 2016, where he managed international business development and the expansion of a major capital project as COO for Sakhalin Energy. Quinten holds a degree in Law from the University of Groningen in the Netherlands.

Report of the Supervisory Board

The Supervisory Board is responsible for supervising and advising the Management Board and overseeing the general course of affairs, strategy and operational performance of the Company.

In performing its duties, the Supervisory Board acts in accordance with the interests of the Company and its affiliated businesses, taking into consideration the overall good of the Company and the relevant interests of all its stakeholders. In X5's two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independently of the Management Board.

Composition and profile of the Supervisory Board

X5's Supervisory Board determines the number of its members. The Supervisory Board currently consists of four members, with a majority of three 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.

At the 2021 Annual General Meeting of Shareholders, Richard Brasher and Alexander Tynkovan were appointed as new members of the Supervisory Board. Richard Brasher was appointed in view of his proven track record and leadership experience in the food retail industry, and his strong operational background with functional experience in different roles, including store operations, supply chain, category management, buying and private label, coupled with the ability to think strategically and take a long-term view. Alexander Tynkovan strengthened the Supervisory Board in view of his proven track record and leadership experience in the Russian retail industry, his in-depth knowledge and experience in the fields of digitalisation and e-commerce, and his knowledge of X5, having previously served as a member of the Company's Supervisory Board.

On 12 May 2021, Karl-Heinz Holland resigned as a member of the Supervisory Board in view of his new executive responsibilities outside the Group. The Supervisory Board expresses its sincere appreciation for the strong expertise and support Karl-Heinz provided to the Group.

Also at the 2021 Annual General Meeting of Shareholders, following their nomination in line with the Supervisory Board's rotation schedule, Stephan DuCharme was reappointed for an additional two-year term, and Mikhail Fridman was reappointed for an additional three-year term. The Board deeply regrets that, following unexpected recent developments, Stephan DuCharme and Mikhail Fridman stepped down as of 1 March 2022, and Richard Brasher, Geoff King and Michael Kuchment stepped down as of 4, 11 and 25 March 2022, respectively. The Board thanks each of them for their valuable and significant contribution to the Company.

At the 2022 Annual General Meeting of Shareholders, the terms of Nadia Shouraboura will expire in accordance with the Board's retirement and reappointment schedule. Nadia Shouraboura will not be eligible for reappointment.

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. While the Supervisory Board is currently not balanced with regard to gender, it recognises the benefits of gender diversity, and importance is attached to achieving this. The Board is conscious of the public debate and regulatory developments in this respect, and takes this into account in its succession planning, in line with the Group's Leadership Diversity Policy.

An overview of the current composition of the Supervisory Board and a short biography of each member is presented in the [Corporate Governance Report](#) on page 159.

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 Sustainable Development and Innovation Committee.

In September 2021, the Innovation and Technology Committee was renamed the Sustainable Development and Innovation Committee to strengthen the Supervisory Board's focus on ESG matters.

Following their appointments, Richard Brasher became a member of the Audit and Risk Committee, and Alexander Tynkovan joined the Sustainable Development and Innovation Committee and the Nomination and Remuneration Committee.

In March 2021, the Supervisory Board elected Peter Demchenkov as its Chair, succeeding Stephan DuCharme, who had served as Chairman of the Supervisory Board since November 2015. Peter had served as Vice Chairman of the Supervisory Board since March 2019.

An overview of the current composition of the Supervisory Board and its committees is presented in the [Corporate Governance Report](#).

Induction and ongoing education

Induction and permanent education are key elements of good governance. Following their appointment, new Supervisory Board members go through X5's strategic, financial, legal and reporting affairs with senior executives of the Company. In addition, prior to their appointment, they are invited to meetings of the Supervisory Board and its committees. On an ongoing basis, and together with members of senior management, members of the Supervisory Board visit stores, distribution centres and other operational facilities to gain a more in-depth understanding of local operations, opportunities and challenges.

Same as in 2020, these visits were limited in 2021 due to travel restrictions stemming from the ongoing COVID-19 pandemic.

As an additional source of informal learning, external guest speakers with expert knowledge of topics that are of particular relevance to the Company are invited to plenary Board meetings on a regular basis.

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 2021, the Supervisory Board held four regular meetings and one additional meeting in November to approve the interim dividend. In addition, resolutions in writing were taken when necessary during the year. Each of the four meetings of the Supervisory Board was preceded by meetings of the Audit and Risk Committee, the Nomination and Remuneration Committee and the Sustainable Development and Innovation Committee. Due to ongoing travel restrictions imposed as a result of the pandemic, most Board members attended the meetings by videoconference, which actually enabled effective communication and interaction.

The plenary Supervisory Board meetings also included a half-day strategy session, thus ensuring sufficient time for the meetings and discussions on specific themes, such as operational performance, digital transformation and new businesses, sustainability and management development. In December, the strategy session took a full day partially dedicated to digital development only. The CEO and CFO attended all meetings, and other members of senior management were regularly invited to present.

In 2021, 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 2020 Annual Report and financial statements were recommended for adoption by the Annual General Meeting of Shareholders. In between Supervisory Board meetings, several informal meetings and telephone calls took place among Supervisory Board members and members of the Management Board and other Company management to consult with each other on various topics and to ensure that the Supervisory Board remained well informed about the running of the Company's operations.

The Supervisory Board confirms that all Supervisory Board members have adequate time available to give sufficient attention to the concerns of the Company. In 2021, the attendance rate was 100% for both the Supervisory Board and the committee meetings.

Activities in 2021

Throughout the year, the Supervisory Board focused on a number of key topics. An ongoing point of attention was the COVID-19 pandemic and its impact on the health and safety of employees and customers as well as its impact on the Company's businesses and their supply chains. The Supervisory Board received regular updates from the CEO and other members of the management team and, in the context of the annual strategy update, assessed the impact of the pandemic on the Company's long-term strategy.

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

A key topic during 2021 was the Company's digital strategy, including e-commerce and profitability. With the continued surge of online sales as a result of the pandemic, and resilient customer habits favouring food-at-home consumption, the Supervisory Board had several discussions with management on the impact of these market dynamics on the evolution of the Company's business model. An important dilemma discussed was how to develop the Group's omnichannel capabilities to ensure the right balance between traditional brick-and-mortar operations and e-commerce capabilities, while maintaining a healthy margin. As part of these discussions, the Board extensively reviewed strategic options for the Group's digital businesses, including organic growth, strategic partnerships and/or selective spin-offs.

Meanwhile, the Board continued to review measures and initiatives to strengthen X5's core businesses. The Board closely reviewed opportunities to automate and digitalise key functions and processes inside the Company to increase efficiencies and decrease operational risks. Throughout the year, the Board extensively reviewed the operational performance of its key banners, Pyaterochka and Perekrestok, and in particular measured the Company's success in translating new store concepts and in-store innovations into expanded customer reach and increased traffic and sales. Also, the Board extensively reviewed the performance and development plan of the new hard discounter format Chizhik, and the implementation of the Company's private label strategy across all formats.

The Supervisory Board continued to discuss key trends and opportunities for the Company to improve customer experience and accelerate growth. As part of these discussions, Board members reviewed various initiatives to strengthen X5's position in the Russian food market, including the new Food.ru media platform launched in July, and the acquisition of the Mnogo Lososya 'dark kitchen' chain in support of the Company's offering in the fast-growing ready-to-eat segment. Also, as part of further initiatives to accommodate customers, the Board discussed the introduction of financial services under the 'X5 Bank' brand, allowing the Company to leverage its large customer base to cross-sell financial services in a joint venture with Alfa Bank, in first instance by combining the functionality of the Pyaterochka and Perekrestok loyalty cards with banking services.

Activities in 2021

On various occasions during the year, the Supervisory Board discussed corporate governance requirements to support a culture of agile entrepreneurship in the increasingly competitive omnichannel retail environment. In this context, through the work of its Nomination and Remuneration Committee, the Board reviewed adjustments to the Group's operational model, as well as tailored incentive schemes for key employees across traditional and new businesses alike, ranging from store managers to key executives in the Company's new businesses.

The Board's sustainability oversight took centre stage in 2021. As the Company further developed and refined its sustainability strategy in 2021, the Board enhanced its oversight of environmental, social and governance matters, which was also reflected in the Board's decision to include ESG responsibilities in the work of its renamed Sustainable Development and Innovation Committee. Through the work of this committee, the Board closely monitored X5's progress against the medium- and long-term goals set out in X5's sustainability strategy, encouraging management to set ambitious targets and making sure that these are integrated into the Company's overall business strategy.

Furthermore, during its meetings in 2021 the Supervisory Board reviewed reports from its various committees and discussed the following (regular) topics:

- The financial reporting process and in particular the approval of the 2020 Annual Report and Sustainability Report, and review of the 2021 half-yearly and quarterly financial reports
- The agenda and explanatory notes for the Annual General Meeting of Shareholders held in May 2021, including the dividend proposal for the year 2020
- The 2021 interim dividend based on the Q3 financial results
- Reports by the internal and external auditors
- The assessment of the cooperation with the external auditor, based on a report from the Audit and Risk Committee
- The composition of the Executive Board and the evaluation of its individual members, including talent management and succession planning
- The profile and effectiveness of the Supervisory Board in the context of the annual board evaluation, as described in more detail below
- The composition and profile of the Supervisory Board and its committees
- The annual review of the financing strategy
- Updates on X5's risk management and risk appetite, as well as risk mitigation measures and internal controls
- The annual budget for 2022

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.

Under the leadership of the new Chair, the 2021 evaluation was performed by an external party by means of a questionnaire, individual interviews and observation of the Board and committee meetings held in December. Ward Howell was engaged as the external evaluator.

Items assessed and subsequently discussed included: the profile and composition of the Supervisory Board, level of skills and expertise, oversight of business performance, priorities and work processes of the Board, effectiveness in overseeing strategy, 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 and members of the Management Board.

Overall, the Board positively assessed its own functioning and its relationship with management, despite the limited opportunities to meet in person due to the travel restrictions brought on by the pandemic. Board discussions were open and constructive, and good progress was made in striking the right balance between the Board's operational oversight and strategic responsibilities. The Board continued to function as a team where different opinions and perspectives are valued and respected.

The Supervisory Board attaches great value to these evaluations. They ensure continuous focus on the quality of its activities, the composition and functioning of the Supervisory Board and its committees and the Supervisory Board's relationship with the Executive Board. Given the recent geopolitical developments, having immediate impact on composition and profile of the Supervisory Board, the Supervisory Board shall make a thorough reassessment of its composition and profile during 2022.

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 2021, the Audit and Risk Committee consisted of Geoff King (Chairman), Peter Demchenkov, Richard Brasher and Marat Atnashev. In 2021, the Committee held five regular meetings. To allow for a more in-depth review of the broad range of topics covered by the Audit and Risk Committee, meetings were held over the course of two half-day sessions each. In connection with ongoing travel restrictions brought on by the COVID-19 pandemic, certain committee members had to attend all meetings by videoconference. The meeting in August to review the half-yearly results was held entirely by videoconference. As a rule, all meetings were attended by the CFO, the external auditor and the internal audit director, while the CEO was invited to, and attended, all meetings. Other members of the Supervisory Board and senior management were invited when necessary or appropriate. The Committee met once with the external auditor without the presence of management.

The Audit and Risk Committee assists the Supervisory Board in its responsibility to oversee X5's financing, financial statements, financial reporting process and system of internal business controls and risk management.

Throughout the year, the Committee reviewed the Company's annual and interim financial statements, quarterly results and related press releases, as well as the outcomes of the year-end audit. The Committee also periodically reviewed the level of financial provisions, key movements in the balance sheet and any contingent liability movements.

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. As part thereof, the Committee received several updates on the impact of the pandemic on the risk profile of the Company and its financial position. As one of the emerging risks in this respect, the Committee discussed the increasingly tight labour market and inherent impact on operational capacity and personnel costs. The Committee was informed regularly on compliance and reviewed and received regular updates on the Company's whistleblower programmes. Furthermore, the Committee reviewed activities and initiatives relating to detection and prevention of misconduct and irregularities, and risk mitigating measures to protect the Company in these areas.

The Committee also closely monitored the effectiveness of the capital investment process, the appraisal methodology and the safeguarding of core assets. Twice during the year, the Committee reviewed an assessment of the level of returns from recent investments, as well as management actions addressing underperforming stores and assets whose carrying value were impaired.

Each quarter, the agenda included a discussion of current control topics, including internal audit findings and the external auditor's reflections on the control framework. These discussions guided management and Internal Audit to focus on the right priorities throughout the year, to mitigate any significant risks or weaknesses and to build a relevant internal audit plan for 2022.

The Committee also discussed other issues and recurring topics, including the following:

- The external auditor's report with respect to accounting and audit issues and internal control recommendations in respect of their audit of the 2020 consolidated financial statements
- Quarterly interim financial reports and trading updates
- Audit plans of the internal and external auditors, and the approval thereof
- The annual assessment of the functioning and independence of the external auditor
- X5's financing strategy
- Tax matters, including specific attention to the denunciation of the double tax treaty between Russia and the Netherlands, effective as of 1 January 2022, and the implications for the Company
- IT infrastructure, cybersecurity and data protection
- Ethics and compliance, including updates to the Company's whistleblower programmes, as well as activities and initiatives relating to detection and prevention of misconduct and irregularities, and risk mitigating measures to protect the Company in these areas
- Changes in the Company's regulatory and compliance framework as of 1 January 2021, following Brexit

The Audit and Risk Committee and its Chair held several private meetings together with the CFO, the Internal Audit Director and the external independent auditor. During the private sessions with the new CFO, his onboarding and start at the Company were regularly discussed.

With respect to the external auditor's management letter about the 2021 financial year, the Audit and Risk Committee confirmed that the management letter contained no significant items that need to be mentioned in this report.

Related party transactions

The Company operates a Related Party Transaction Policy, which prescribes the internal reporting and approval mechanism for related party transactions. Under this policy, review and approval of related party transactions is delegated to the Audit and Risk Committee, whereby related party transactions exceeding a certain threshold remain subject to the approval of the Supervisory Board. The policy requires that the Audit and Risk Committee or the Supervisory Board approve a related party transaction only if it is agreed on competitive terms which are customary in the market and in the best interest of X5 Group.

During the year, the Audit and Risk Committee reviewed and/or approved related party transactions which, by their nature or materiality, could potentially have constituted a conflict of interest for members of the Supervisory Board and Management Board. In 2021, the following related party transactions were of material significance to the Company and/or members of the Management Board or Supervisory Board:

- service agreement with CTF Holdings S.A.
- commercial relationship agreement with DIA;
- joint venture with Alfa Bank for the establishment of X5 Bank
- foreign exchange agreements, bond issues, revolving credit facilities and other bank products with Alfa Bank
- advertising and marketing agreements with Alfa Bank
- payroll service agreement with Alfa Bank
- insurance services from Alfa Insurance (AlfaStrakhovanie)
- lease agreements with Alfa Capital Holdings Limited

- procurement of goods (for resale) from Borjomi Group
- agreements with Home Interior for the lease of retail and warehouse space
- agreements with VimpelCom for the lease of retail space
- telecommunication services provided by VimpelCom
- agreement for development, purchase and maintenance of online cash registers with VimpelCom
- procurement of goods (for resale) from RusBioTrade
- procurement of goods (for resale) from Alidi-Nord

These transactions were discussed and/or approved by the Audit and Risk Committee and the Supervisory Board with due observance of provisions 2.7.3 to 2.7.5 of the Corporate Governance Code, the Related Party Transactions Policy and the Rules of Procedure of the Supervisory Board, which Rules are available on the Company's website.

While members of the Supervisory Board who have a conflict of interest in relation to a certain matter do not participate in the Supervisory Board's deliberations and decision-making on such matters, the Supervisory Board assessed that, to the extent that any of the listed transactions constituted a conflict of interest for certain members of the Supervisory Board, such conflict did not undermine the independent judgement of these Board members while performing their duties for X5.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is described in its charter, which is available on the Company's website. On 31 December 2021, the Nomination and Remuneration Committee consisted of Peter Demchenkov (Chairman), Geoff King, Alexander Tynkovan and Marat Atnashev. In 2021, the Nomination and Remuneration Committee held six regular meetings, all of which were attended virtually due to COVID-19 travel restrictions. The CEO and the Director of HR and Organisational Development were invited to attend every meeting, and other members of the Supervisory Board and senior management were invited when necessary or appropriate.

The Committee regularly reviews the composition and profile of the Supervisory Board and its committees to ensure they continue to provide informed and constructive support and challenge to the management team. The committee is responsible for identifying and reviewing suitable candidates through a formal and transparent process, ensuring that plans are in place for orderly succession to the Board. Early in the year, the Committee focused on the succession of Karl-Heinz Holland, who informed the Board of his intention to step down at the Annual General Meeting of Shareholders in May 2021. Egon Zehnder assisted the Committee in its search for a successor. Following a rigorous selection process, the Committee recommended the nomination of Richard Brasher as a new member of the Supervisory Board. Furthermore, as successor of Alexander Torbakhov, who stepped down earlier, on 3 July 2020, the Committee recommended the nomination of Alexander Tynkovan in view of his in-depth knowledge and experience in the fields of digitalisation and e-commerce, and his knowledge of X5, having previously served on the Supervisory Board. Finally, the Committee recommended the reappointment of Stephan DuCharme and Mikhail Fridman for a new term, in line with the rotation schedule of the Supervisory Board.

In 2021, 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. Building on previous year discussions, the Committee reviewed the Group's organisational structure in support of the Company's strategic objectives to strengthen its the key formats while growing e-commerce and improving omnichannel productivity.

In November, the Committee dedicated a full meeting to staffing implications resulting from the Company's transformation into omnichannel retailing with new employee requirements based on digital and e-commerce competencies. In particular, the Committee reviewed implications for staff recruitment and retention, training and development, and remuneration benchmarking based on distinct peer groups for the various key positions at senior management level.

Furthermore, as part of its regular review of variable remuneration principles, the Committee reviewed and discussed tailored incentive schemes for key employees across the Group, ranging from store managers to key executives in the Company's new businesses. Meanwhile, taking into account pandemic-related and macroeconomic uncertainties, and their impact on the retail environment, the Committee assessed and evaluated options to restructure the Company's incentive plans for 2022 and beyond.

The Nomination and Remuneration Committee further reviewed and prepared the following items for recommendation or report to the full Supervisory Board as part of its ongoing responsibilities:

Nomination and Remuneration Committee

- Annual assessment of the Executive Board and its individual members, and changes in the composition of the Executive Board
- The proposed reappointment of the CEO for an additional two-year term
- Management changes, including the appointment of Vsevolod Starukhin as CFO and member of the Executive Board, succeeding Svetlana Demyashkevich in May 2021
- Proposals on fixed and variable remuneration of the members of the Executive Board, including adjustments following the annual remuneration benchmarking analysis
- The remuneration policy of the Executive Board adjusted in line with the updated 2021-2023 LTI programme, as proposed to and approved by the Annual General Meeting of Shareholders in May 2021
- The profile and effectiveness of the Supervisory Board in the context of the annual Board evaluation
- Review of X5's Leadership Diversity Policy and diversity levels across the Group

Details of actual remuneration in 2021 can be found in notes 28 and 29 to the consolidated financial statements.

¹ Given the composition of the Supervisory Board following recent events, the duties and responsibilities of the Sustainable Development and Innovation Committee will be included in the remit of the full Supervisory Board as of 16 March 2022.

² Mikhail Fridman and Stephan DuCharme resigned from the Supervisory Board on 1 March 2022.

Sustainable Development and Innovation Committee¹

The role of the Sustainable Development and Innovation Committee is described in its charter, which is available on the Company's website. On 31 December 2021, the Sustainable Development and Innovation Committee consisted of Nadia Shouraboura (Chair), Michael Kuchment and Alexander Tynkovan. The Sustainable Development and Innovation Committee held four meetings in 2021, all of which were attended virtually due to COVID-19 travel restrictions. 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 Sustainable Development and Innovation Committee assists the Supervisory Board in its responsibility to closely monitor X5's progress against the medium- and long-term goals set out in X5's sustainability strategy as well as X5's e-commerce activities and initiatives in the area of technical and commercial innovation.

In 2021, the Committee reviewed and discussed various tech- and/or data-driven processes and initiatives to enhance operational efficiencies, as well as innovative in-store solutions to improve the customer experience. Also, the Committee closely monitored the performance of new activities in the Group's omnichannel offering, including the media platform Food.ru launched in May.

In September, the Innovation and Technology Committee was renamed the Sustainable Development and Innovation Committee to strengthen the Supervisory Board's focus on the Company's ambitious ESG agenda. During the second half of the year, following the release of X5's first Sustainability Report in May, the Committee closely monitored the implementation of X5's sustainability strategy and performance on sustainability targets, also reviewing ways to apply innovations to accelerate the achievement of these targets.

Independence

The Supervisory Board endorses the principle that the composition of the Supervisory Board shall be such that its members are able to act critically and independently of one another and of the Management and Executive Boards and any particular interests. It is Company policy that a majority of the members of the Supervisory Board must be independent at all times. The majority of the members of the Supervisory Board, which currently consists of four members, qualify as independent.

According to best practice provisions 2.1.7 and 2.1.8 of the Dutch Corporate Governance Code, there can only be one Supervisory Board member who can be considered to be affiliated with or representing a shareholder who directly or indirectly holds more than 10% of the shares in the Company.

As of 31 December 2021, Supervisory Board members Mikhail Fridman and Marat Atnashev are both affiliated with CTF Holdings S.A., which has a capital interest of 47.86% in X5. Stephan DuCharme, Chairman of the Board, serves as Managing Partner of L1 Retail, part of the LetterOne investment group, which is partially controlled by the ultimate shareholders of CTF Holdings S.A. Therefore, Mikhail Fridman, Marat Atnashev and Stephan DuCharme are not independent in the sense of the Dutch Corporate Governance Code.²

Remuneration

The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board in accordance with the remuneration policy for members of the Supervisory Board. The remuneration policy for the Supervisory Board was approved by the 2020 Annual General Meeting of Shareholders. The detailed amounts are reflected in the Remuneration Report on page 174, as well as notes 28 and 29 to the consolidated financial statements.

Financial statements

This Annual Report and the 2021 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 page 266.

The Supervisory Board recommends that the shareholders adopt these financial statements. Due to the current geopolitical developments having severe impact on the Russian consumer market and, as a result, the Company's strategic outlook and financial position, the Supervisory Board recommends to exceptionally deviate from the dividend policy and Company guidance by not declaring the final dividend for the year 2021, in addition to the amount of RUB 73.65 per GDR that was paid as interim dividend in December 2021. The Supervisory Board therefore recommends, in the best interest of the Company and as proposed by the Management Board, to add an amount of RUB 22,738 million, representing the remaining amount of the profit in the financial year 2021, to the retained earnings of the Company.

The Supervisory Board furthermore requests that the Annual General Meeting of Shareholders grant discharge to the members of the Management Board for their management and to the members of the Supervisory Board for their supervision in 2021.

The COVID-19 pandemic has had, and is still having, a significant impact on X5's businesses, employees and customers. The continued dedication and efforts of the entire X5 team has ensured the safety of our stores and distribution centres, sustained the strength of our supply chains and helped nourish families and local communities in 66 regions of Russia. The Supervisory Board wishes to thank everyone at X5 for going the extra mile last year to build a stronger business and serve customers better every day.

Remuneration Report

Statement from the Chairman of the Nomination and Remuneration Committee

On behalf of the Nomination and Remuneration Committee, I am pleased to present the Remuneration Report 2021, providing a summary of the remuneration policies for the Management Board and the Supervisory Board, and an account of the implementation of these policies in 2021.

At the 2021 Annual General Meeting of Shareholders, a positive advisory vote was cast for the Remuneration Report 2020. Meanwhile, we took into account feedback received from shareholders and improved our disclosures in this Remuneration Report, creating more transparency in the link between performance and payout. Going forward, we will continue to have an open dialogue with our shareholders and other stakeholders on remuneration principles and remuneration of the Management Board and Supervisory Board.

The year 2021 was another challenging one for X5, as COVID-19 continued to impact our customers, employees and their families. Their health and safety will remain a key focus of our oversight as long as the pandemic is ongoing. In these extraordinary circumstances, X5 continued to serve its vital role in society, as frontline employees did their utmost to meet customer needs and care for people in their communities.

Meanwhile, despite the pandemic and challenging macroeconomic conditions in Russia's food market, with strong competition and inflation putting pressure on consumers, the Company continued to grow in 2021, and maintained profitability margins in line with our strategic targets. Total revenue rose by 11.5% year-on-year, while EBITDA margin for FY 2021 was 7.3% under pre-IFRS 16. In addition, to meet consumer needs in line with e-grocery and ready-to-eat trends, X5 continued to invest in omnichannel solutions for customers, resulting in 140% net growth in online sales year-on-year.

Throughout the year, the Committee continued to reflect on the remuneration policy for the Executive Board to ensure that it continues to support the Company's strategy and long-term growth. The Committee performed its annual remuneration benchmark review and evaluated performance measures under the short- and long-term incentive programmes.

Apart from the Group's key financial measures applied for the 2021 short-term incentive programme, specific business priorities were reflected in additional short-term performance measures to drive business efficiencies and online performance. Furthermore, recognising the strategic importance of our new hard discounter format, Chizik, specific rollout targets were added as an additional performance measure for the CEO. We feel that these performance measures adequately contribute to the Company's success in the short term, while addressing strategic imperatives that contribute to long-term value creation for the Company.

In May, the Annual General Meeting of Shareholders approved the new 2021–2023 long-term incentive (LTI) programme as part of the remuneration policy for the Management Board. The LTI programme is designed to support the Company's goal of strengthening its leadership by enterprise value multiples and market

share, while focusing on revenue, as well as margins to increase profitability, and prudently managing capital spending and expenses. In addition, as the Company has integrated sustainable development goals into its overall business strategy, the LTI programme includes ESG targets supporting the Company's sustainability strategy.

As part of our broader responsibility, we also discussed the remuneration principles for other key staff or divisions within the Group. As such, underlining our customer-centric business model, we reviewed new incentive programmes designed to reward a more entrepreneurial approach on the part of store managers. Also, as we continue to invest in our digital and omnichannel ambitions, we recognised the need for tailored incentive schemes for our new businesses, and various management initiatives in this respect have been reviewed.

Finally, with respect to remuneration of the Supervisory Board, certain technical adjustments and mandatory legal updates to the rules of the Restricted Stock Unit Plan were reviewed in 2021. Although these amendments do not change the remuneration policy for the Supervisory Board, an executive summary of the plan will be submitted to the upcoming 2022 Annual General Meeting of Shareholders.

Looking forward, the Supervisory Board will closely engage with management on a thorough re-assessment of both the short- and long term remuneration principles and targets, taking into account the impact of current developments on the Company's strategic priorities. In doing so, we will continue to collect feedback from shareholders and other stakeholders in order to achieve maximum alignment on our remuneration policies.

Peter Demchenkov
Chair of the Nomination and Remuneration Committee

Remuneration of the Management Board

The Supervisory Board resolved that the remuneration policy for the Management Board serves as a basis for the remuneration policy for the Executive Board. In view of the relative size and composition of both boards, this Remuneration Report refers to the Executive Board unless specific provisions apply to members of the Management Board only, which will be clearly indicated.

Objectives

The remuneration policy for the Management Board is aligned with the Company's strategy and supports the Company's long-term development, while aiming to be effective, transparent and simple. The objective of the remuneration policy is twofold:

- To create a remuneration structure that supports a healthy corporate culture and allows the Company to attract, reward and retain the best-qualified talent to lead the Company towards its strategic objectives
- To provide for a balanced remuneration package that is focused on achieving sustainable financial results, that is aligned with the long-term strategy of the Company and that will foster alignment of the interests of management with those of shareholders and other stakeholders, including customers, employees and wider society

While developing the remuneration policy, the Nomination and Remuneration Committee conducted scenario analyses to determine the risks to which variable remuneration may expose the Company.

Remuneration in context

The table below reflects the total remuneration of each member of the Management Board and the average remuneration of all other X5 employees (on a full-time equivalent basis), set against the Company's performance over the five most recent financial years.

	2017	2018	2019	2020	2021
Company performance					
Revenue, RUB bln	1,295	1,533	1,734	1,978	2,205
Selling space, ths sqm	5,480	6,464	7,239	7,840	8,410
Number of stores	12,121	14,431	16,297	17,707	19,121
Net profit (pre-IFRS 16), RUB bln	31	29	26	39	49
Share price, \$ eop	37.8	24.8	34.5	36.1	26.5
Management Board remuneration (RUB, mln)					
I. Shekhterman	344	347	259	275	358
F. Lhoëst	28	33	35	44	44
Q. Peer	—	—	—	38	40
Average employee remuneration, RUB	659,344	701,192	754,990	782,079	799,555
Internal pay ratio (CEO vs employee remuneration) ¹	174	209	211	198	273

Benchmarking

The remuneration of Executive Board members is benchmarked against the labour market peer group every year. As a company with operations mainly in Russia, the reference group created for the benchmarking is composed of Russian companies equivalent in terms of size of business and complexity of operations, as well as international, non-Russian retail companies. In total, the reference group is composed of 58 companies in various sectors including retail (26%), digital and telecommunications (21%), industrial (19%), financial (10%), FMCG (9%), transportation and logistics (9%) and other (6%).

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.

For the current CEO, the Supervisory Board resolved to make an exception in recognition of the size and complexity of X5. Following his re-appointment for a two-year term at the 2021 AGM, the CEO's total direct compensation was set, in case of on-target performance, at the 90th 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 that of all other employees.

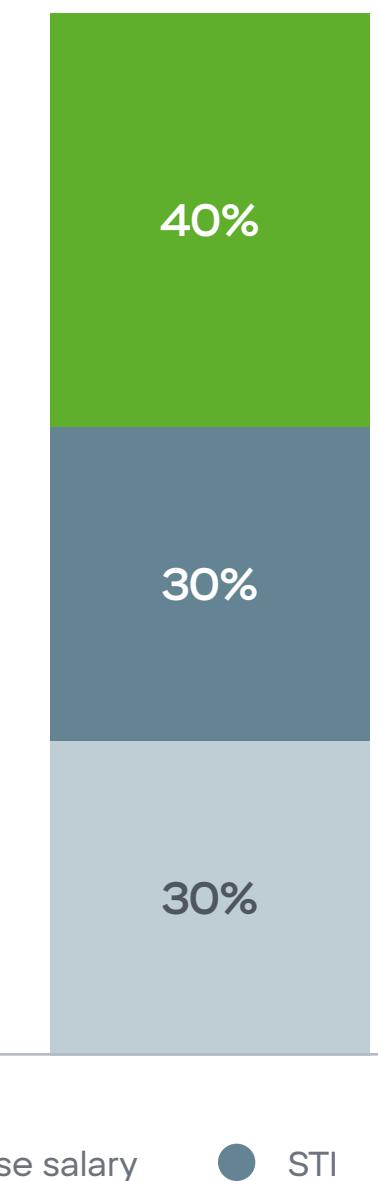
¹ The pay ratio is calculated by dividing the CEO's total remuneration (base salary and short-term incentive) by the average remuneration of all X5 employees. Given the irregular nature of awards under the LTI programme, LTI awards are not included in the pay ratio for fair and consistent presentation purposes. The average remuneration per employee is calculated as the total labour costs derived from note 28 on page 232 divided by the number of employees on an FTE basis. In 2021, the internal pay ratio increased due to the increase in the CEO's base salary upon his reappointment at the 2021 AGM.

Summary of remuneration elements and implementation in 2021

	POLICY SUMMARY	2021 SUMMARY	
Base Salary	Base salaries are in line with compensation levels in peer group companies based on the salary benchmarking survey conducted annually.	Igor Shekhterman	RUB 120,000,000
		Frank Lhoëst	EUR 315,000
		Quinten Peer	EUR 275,000
Short-Term Incentive	<p>Annual cash bonus</p> <p>Target payout for CEO: 100%</p> <p>Target payout for Management Board members based in the Netherlands: 60%</p> <p>Maximum level: 140% of target payout per quantitative target, and 120% of target payout per qualitative target</p> <p>The total STI payout may be adjusted up- or downwards by up to 20% of the target payout at the discretion of the Supervisory Board.</p>	<p>Igor Shekhterman</p> <ul style="list-style-type: none"> Group targets: 100% Actual payout: 86.2% of base salary <p>Frank Lhoëst</p> <ul style="list-style-type: none"> Group targets: 50% Divisional targets: 25% Individual targets: 25% Actual payout: 61.2% of base salary <p>Quinten Peer:</p> <ul style="list-style-type: none"> Group targets: 50% Divisional targets: 25% Individual targets: 25% Actual payout: 63.2% of base salary 	
Long-Term Incentive	<p>Cash incentive programme over a three-year period from 1 January 2021 until 31 December 2023</p> <p>Payout thresholds: EBITDA margin and net debt/EBITDA ratio to ensure business efficiency and retain focus on prudent financial and balance sheet management</p> <p>50% of the total award is paid in 2024 subject to maintaining achieved targets through the end of 2023, while the other 50% is deferred to 2025 with a profitability threshold as a condition for deferred payout.</p>	<p>Igor Shekhterman</p> <p>Targets</p> <ul style="list-style-type: none"> Enterprise value / EBITDA multiple: 50% Market share: 45% Sustainability targets: 5% <p>Frank Lhoëst: N/A</p> <p>Quinten Peer: N/A</p>	

Elements of remuneration

Total Direct Compensation



The remuneration provided to Executive Board members consists of the following fixed and variable components (the “Total Direct Compensation”): a base salary, an annual cash incentive (STI) and a long-term cash incentive (LTI). Both the STI and 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.

The Executive Board’s Total Direct Compensation is equally balanced between the fixed and annual variable remuneration components, and more heavily weighted on the LTI to strengthen the focus on long-term goals. The ratio between fixed and variable pay components for members of the Executive Board is as follows in case of on-target performance.

In addition to the Total Direct Compensation, members of the Executive Board are entitled to other benefits as described below under “Other remuneration components” and “Contractual arrangements”.

2021 Management Board remuneration

The following table provides an overview of the Management Board's remuneration in 2021 (in millions of Russian roubles).

NAME	YEAR	BASE SALARY ¹	SHORT-TERM INCENTIVE ²	LONG-TERM INCENTIVE ³	SOCIAL SECURITY COST ⁴	FIXED VS VARIABLE REMUNERATION	TOTAL
I. Shekhterman	2021	104	88	122	44	33%-67%	358
	2020	74	59	108	34	31%-69%	275
F. Lhoëst	2021	27	16	—	1	63%-37%	44
	2020	27	17	—	—	61%-39%	44
Q. Peer	2021	24	15	—	1	62%-38%	40
	2020	23	15	—	—	61%-39%	38
Total	2021	155	119	122	46	—	442
	2020	124	91	108	34	—	357

Ad (1) Base salary

The base salary of the CEO and the other members of the Management Board is determined by the Supervisory Board and derived from compensation levels in peer group companies based on the salary benchmarking survey conducted annually.

For Igor Shekhterman, the total remuneration in the table includes remuneration paid in the Netherlands and Russia: as a Russia-based member of the Management Board, Igor Shekhterman also has a contract of employment with an operational subsidiary in Russia. Under this contract, 75% of his total base salary as well as variable remuneration components are paid in Russia. No other remuneration has been granted or allocated by subsidiaries or other companies whose financials are consolidated by the Company to members of the Management Board.

Following his re-appointment for a two-year term at the 2021 Annual General Meeting, the CEO's total direct compensation was set, in case of on target performance, at the 90th percentile. The total contractual annual base salary for Igor Shekhterman was increased to RUB 120,000,000 (2020: RUB 70,000,000), in recognition of the rapidly increasing size and complexity of X5. In accordance with Russian labour law, the base salary is adjusted based on the number of days spent on vacation. The amount also includes other fixed benefits not exceeding 2% of the total contractual annual base salary.

The base salaries of Frank Lhoëst and Quinten Peer are set at, respectively, EUR 315,000 and EUR 275,000.

Ad (2) Short-term incentive (STI)

The short-term incentive is an annual cash bonus ensuring focus on the achievement of performance targets over the financial year. It drives behaviour and reflects the key priorities for the year. At the beginning of each financial year, the Supervisory Board determines the performance measures and their relative weight, and the targets to be achieved for each performance measure, based on X5's business priorities for that year. For each measure, performance ranges are set, i.e. the value below which no payout will be made (the threshold), the on-target value and the maximum payout level.

Performance measures are aligned with the Company's objective to deliver sustainable value to shareholders and other stakeholders, and include:

- Financial measures related to the Company's operational performance, consisting of key financial metrics which typically reflect X5's goal of expanding market share while focusing on margins to increase profitability and prudently managing capital spending and expenses
- Measures that reflect specific strategic and key business priorities of the Company. In 2021, these measures consisted of e-commerce performance, the level of digitalisation to achieve business efficiencies, as well as the expansion of the hard discounter format Chizhik launched in 2020

Furthermore, divisional and individual targets may be set for other members of the Management Board and Executive Board. All performance measures contribute to the Company's success in the short term, while also securing the Company's long-term objectives. X5 does not disclose the actual targets as this is considered commercially sensitive information.

The following table reflects the STI achievement and payout for 2021.

Ad (2) Short-term incentive (STI)

	PERFORMANCE MEASURE*	WEIGHT	REALISED PERFORMANCE	RESULTING PAYOUT AS % OF TARGET	ACTUAL BONUS (% OF PAYOUT * WEIGHT)	TOTAL BONUS PAYOUT OF BASE SALARY
Igor Shekhterman	Revenue X5	20%	97.1%	88.6%	17.72%	
Chief Executive Officer	X5 LFL sales	15%	Below threshold	0.0%	0.0%	
	X5 ROI	25%	107.3%	114.7%	28.67%	
	X5 digital channels revenue	10%	87.7%	75.4%	7.54%	
	Digitalisation index	20%	105.6%	111.2%	22.24%	
	Rollout of Chizhik	10%	Achieved	100%	10.00%	
	Total	100%			86.2%	86.20%
Frank Lhoëst	X5 revenue	12.5%	97.1%	88.6%	11.08%	
Company Secretary	X5 LFL sales	10%	Below threshold	0.0%	0.0%	
	X5 ROI	12.5%	107.3%	114.7%	14.34%	
	X5 digital channels revenue	5%	87.7%	75.4%	3.77%	
	Digitalisation index	10%	105.6%	111.2%	11.12%	
	Divisional KPI	25%	118.4%	136.8%	34.21%	
	Individual KPI	25%	110%	110%	27.50%	
	Total	100%			102.0%	61.20%
Quinten Peer	X5 revenue	12.5%	97.1%	88.6%	11.08%	
Chief Operating Officer (X5 Retail Group N.V.)	X5 LFL sales	10%	Below threshold	0.0%	0.0%	
	X5 ROI	12.5%	107.3%	114.7%	14.34%	
	X5 digital channels revenue	5%	87.7%	75.4%	3.77%	
	Digitalisation index	10%	105.6%	111.2%	11.12%	
	Divisional KPI	25%	120%	140%	35.00%	
	Individual KPI	25%	120%	120%	30.00%	
	Total	100%			105.3%	63.20%

The total STI payout may be adjusted up- or downwards by up to 20% of the target payout at the discretion of the Supervisory Board. The target payout as a percentage of base salary is 100% for the CEO and other members of the Executive Board and 60% for Management Board members, contingent on the targets being fully achieved.

For the reporting year 2021, the achievement of performance targets was assessed and determined by the Supervisory Board for each Management Board member individually.

For Igor Shekhterman, the STI opportunities are weighted 100% based on the Group's financial and non-financial performance measures. For 2021, it results in a total payout of 86.2% of the target payout (or base salary).

For Frank Lhoëst and Quinten Peer, the STI targets are weighted at 50% for the Group's financial and non-financial performance measures, 25% for division-related targets and 25% for individual, function-related performance measures, also with revenue and profitability thresholds as a condition for STI payout. For 2021, it results in an aggregate cash payout of 102.0% of the target payout, or 61.2% of the base salary for Frank Lhoëst and 105.3% of the target payout or 63.2% of the base salary for Quinten Peer consequently.

* For each performance measure, a threshold, target and maximum performance level is set with the following STI payout, as a percentage of target payout:

- Threshold performance: varies per performance measure and reflects the level of ambition to achieve it
- Target performance: 100% of target payout
- Maximum performance: 140% of target payout (per quantitative target) and 120% of target payout (per qualitative target)

For each measure, payout in between these performance levels is on a straight-line basis; below threshold performance the payout is zero, whereas beyond maximum performance it is capped at 140% of payout at target.

Ad (3) Long-term incentive (LTI)

The CEO and other members of the Executive Board participate in the Company's long-term incentive programme. Under the LTI programme, performance is calculated and cash awards are paid after a revolving three-year performance period, with a 50% deferred payout subject to maintaining achieved targets in the fourth year, with a profitability threshold as a condition for deferred payout. This creates a focus on long-term goals throughout the programme and provides an effective mechanism for motivating and retaining members of management who are critical to the ongoing success of the Company.

For the CEO, the long-term incentive amount in 2020 represents an accrual-based amount in line with IFRS requirements (see note 28, "Staff costs", on pages 232-237). On 31 December 2020, the 2018-2020 LTI programme came to an end, with targets and thresholds achieved. In recognition of exceptional results and efforts during the period, the LTI reward includes an additional one-off amount of RUB 30,000,000 awarded at the discretion of the Supervisory Board. This additional reward represents a deviation from the remuneration policy and increases the weight of the LTI in the Total Direct Compensation.

The 2021 Annual General Meeting approved the 2021-2023 LTI programme. Performance indicators under the programme have a one- or three-year vesting period.

Targets under the LTI reflect the Company's strategy to achieve leadership in customer recognition through continuously evolving value propositions in the food market, while setting the industry standard in digital transformation and omnichannel growth. Long-term performance measures to support this strategy are sustained leadership in terms of enterprise value multiple and market share, with profitability and net debt/EBITDA thresholds to remain focused on margins, business efficiency and prudent financial and balance sheet management. In addition, the LTI programme includes a non-financial target to support the Company's ESG strategy.

The following table reflects the LTI performance and payout for the CEO (in millions of Russian roubles) for the 2018-2020 LTI programme:

LTI 2018-2020	PERFORMANCE MEASURE	WEIGHT	TARGET PAYOUT %	ACHIEVEMENT	CASH REWARD ¹	50% PAYOUT IN 2021	50% PAYOUT IN 2022 ²
	Revenue	50%	100%	100%	155	77.5	80.3
	EV/EBITDA multiple	50%	100%	100%	155	77.5	80.3

The size of each individual cash award is based on the participant's annual base salary and LTI scale reflecting his/her role and position as well as his/her contribution to meeting the LTI targets at both the individual and team levels, with a maximum of 133% per year of the participant's base salary during the three-year programme.

PERFORMANCE MEASURE	WEIGHT	DEFINITION	THRESHOLDS	LINK TO STRATEGY	PAYOUT
EV/EBITDA multiple	50%	Multiple calculated and accrued on an annual basis.	Net debt/EBITDA EBITDA margin	Long-term shareholder value creation through sustained leadership in the Russian food market, with a 15% share in grocery and a 20% share in e-grocery by the end of 2023.	In 2024 (50%) and 2025 (50%, subject to EBITDA threshold)
Market share	45%	X5 market share relative to competition in the Russian food retail segment throughout the programme, with an annual revenue growth threshold. If the threshold is not achieved in a specific year, one-third of the target payout is not accrued. The minimum payout level is 60%, and the maximum is 140%, depending on achievement level.	Net debt/EBITDA EBITDA margin	Long-term shareholder value creation through sustained leadership in the Russian food market, with a 15% share in grocery and a 20% share in e-grocery by the end of 2023.	In 2024 (50%) and 2025 (50%, subject to EBITDA threshold)
Sustainability	5%	To achieve by the end of 2023: 1. Reduce CO ₂ emissions by 10% 2. Increase the share of recycled solid waste to 95% 3. Increase the share of private label goods in sustainable packaging to >50%	Net debt/EBITDA EBITDA margin	Achievement of ESG targets under X5's "30×30" Sustainability Plan.	In 2024 (50%) and 2025 (50%, subject to EBITDA threshold)

¹ Including an additional one-off amount of RUB 30,000,000 awarded at the discretion of the Supervisory Board.

² The EBITDA threshold as a condition for payout of the deferred LTI component was achieved throughout 2021. According to the LTI programme rules, the deferred payout in 2022 equals 50% of the cash reward increased with 12 months' interest at the Sberbank deposit rate of 3.65% on 31 December 2020.

Ad (4) Social security cost

For the year ended 31 December 2021, the social security costs include statutory pension contributions in the amount of RUB 29 (2020: RUB 22).

Other policy information and contract terms

Other remuneration components

Members of the Executive Board may be offered a number of other arrangements, such as an expense allowance, medical insurance, accident insurance and life insurance, in accordance with Company policy. The Company's policy does not allow personal loans or guarantees to members of the Executive Board, nor does the Company provide pension arrangements for members of the Executive Board.

Legacy arrangements

As disclosed when Mr Shekhterman took office in 2015, he is entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, Mr Shekhterman will be entitled to the difference upon completion of his full term as CEO. Furthermore, Mr Shekhterman is eligible for termination compensation of up to USD 5,000,000 at the discretion of the Supervisory Board, repayable in case of breach of the non-competition obligations as described herein under "Contractual arrangements".

Contractual arrangements

Members of the Management Board are engaged on the basis of a Management Services Agreement with a maximum four-year term, to be extended upon reappointment by the General Meeting of Shareholders. The CEO, as a Russia-based member of the Management Board, also has a contract of employment with an operational subsidiary in Russia. The fixed and variable salary components stipulated in each contract reflect the relevant responsibilities of the CEO in the Netherlands and in Russia.

The severance payment is generally limited to six months' base salary; however, the Supervisory Board may increase this to a maximum of one year's base salary if required under individual circumstances. For the CEO and other members of the Executive Board, the severance pay is structured as a non-competition reward payable in quarterly instalments following contract termination, subject to compliance with non-competition conditions. The non-competition period for the CEO is 12 months and six months for other Executive Board members. In case of breach of the non-competition obligations, the contract provides for a penalty in the amount of two annual base salaries for the CEO and one annual base salary for other Executive Board members. No severance pay will be awarded if the agreement is terminated at the initiative of the Management or Executive Board member, or in the event of seriously culpable or negligent behaviour on his/her part.

Agreements with members of the Management Board may be terminated by either party with a notice period of two months or, in the case of the CEO, three months.

Clawback

The Supervisory Board may recover from the Management Board members all or part of a paid bonus derived from the STI or LTI if such bonus is based on incorrect information regarding the targets or the conditions of the bonus. Furthermore, the Supervisory Board has the discretionary authority to adjust an unpaid bonus to an appropriate amount if payment of the bonus is considered unreasonable or unfair.

Insurance and indemnity arrangements

Members of the Management Board as well as certain senior management members are insured under X5's Directors and Officers Insurance Policy.

Although the insurance policy provides broad coverage, X5's directors and officers may incur uninsured liabilities. Under the Company's Articles of Association, members of the Management Board are indemnified by the Company against any claims arising out of or in connection with the general performance of their duties, provided that such claim is not attributable to gross negligence, wilful misconduct or intentional misrepresentation by the director or officer in question.

Remuneration of the Supervisory Board

Objectives and benchmarking

Supervisory Board fees are set at an appropriate level to attract individuals with the necessary experience, knowledge and ability to make a significant contribution to the Company's strategy, long-term development and sustainability. As such, the remuneration policy supports the long-term development of the Company, while aiming to fulfil all stakeholders' requirements.

The level and structure of remuneration for members of the Supervisory Board is periodically benchmarked against a reference group of Dutch and other European companies that are comparable in size and complexity, as well as leading Russian and international retailers. In order to attract the most talented individuals with the necessary experience, knowledge and ability, the cash allowances for members of the Supervisory Board are set between the 50th and the 75th percentile. For the current Supervisory Board fees, the peer group consisted of 33 mostly non-Russian international companies in various retail sectors, i.e. food retail and wholesale (61%), drug retail (9%), specialty retail and other types of retail (30%).

The Company acknowledges that the awarding of shares to members of the Supervisory Board constitutes a deviation from the Dutch Corporate Governance Code. However, in addition to the cash allowance, X5 believes it is necessary to compensate members of the Supervisory Board in the form of equity to align the interests of Supervisory Board members with the long-term interests of shareholders and to strengthen their commitment to the future of the Company. The equity-based awards paid to members of the Supervisory Board are computed with respect to the fixed board fee of each member and are therefore not performance-based. While the total remuneration including the equity component may exceed the benchmark for the chairman and committee chairs, X5 believes that the level and structure of the remuneration of the Supervisory Board members safeguard their independence of judgement and thought, and adequately reflect the time spent and the responsibilities of their role.

2021 Supervisory Board remuneration

In 2021, the remuneration policy for members of the Supervisory Board was applied.

The following table provides an overview of the Supervisory Board's remuneration that became unconditional in 2021 or at year end (in millions of Russian roubles).

NAME	POSITION	BASE REMUNERATION ¹		SHARE-BASED COMPENSATION ²		TOTAL REMUNERATION ³	
		2021	2020	2021	2020	2021	2020
Peter Demchenkov	Chairman, Nomination and Remuneration Committee	30	22	22	13	52	35
Geoff King ³	Chairman, Audit and Risk Committee	22	21	21	13	43	34
Michael Kuchment ³		10	10	10	6	20	16
Nadia Shouraboura	Chair, Sustainable Development and Innovation Committee	17	12	11	6	28	18
Marat Atnashev ¹		-	-	-	-	-	-
Alexander Tynkovan ²		8	-	2	-	10	-
Karl-Heinz Holland ³		3	8	2	5	5	13
Mikhail Fridman ^{1,3}		-	-	-	-	-	-
Stephan DuCharme ³		12	21	19	20	31	41
Richard Brasher ^{2,3}		7	-	2	-	9	-

¹ Mikhail Fridman and Marat Atnashev, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.

² Richard Brasher and Alexander Tynkovan were appointed on 12 May 2021.

³ Karl-Heinz Holland stepped down as of 12 May 2021. Stephan DuCharme and Mikhail Fridman stepped down as of 1 March 2022. Richard Brasher stepped down as of 4 March 2022. Geoff King stepped down as of 11 March 2022. Michael Kuchment stepped down as of 25 March 2022.

Ad (1) Base remuneration

In 2020, the General Meeting of Shareholders approved the remuneration policy for the Supervisory Board. Annual fees are as follows:

ROLE	FEE (EUR)
Supervisory Board Chair	250,000
Supervisory Board Member	100,000
Additional allowance for:	
Supervisory Board Vice Chair	50,000
Committee Chair	100,000
Committee Member	16,000

Ad (2) Share-based compensation

The share-based compensation reflects the accrued amounts related to the Restricted Stock Unit Plan (see table to the right).

Each remunerated Supervisory Board member is entitled to an annual equity award in the form of restricted stock units (RSUs), for an award value equal to his/her annual cash allowance.

In accordance with the remuneration policy, Supervisory Board members Stephan DuCharme, Peter Demchenkov, Geoff King, Michael Kuchment, Nadia Shouraboura, Richard Brasher and Alexander Tynkovan were awarded a number of RSUs equal to 100% of their gross annual cash allowance in 2021 divided by USD 31.36, the average market value of one GDR as of 20 May 2021¹, the award date. The RSUs awarded in 2021 will vest in 2024, followed by a lock-in period ending in 2026.

Ad (3) Total remuneration

No other remuneration has been granted or allocated by subsidiaries or other companies whose financials are consolidated by the Company to members of the Supervisory Board.

Restricted stock units awarded and outstanding to members of the Supervisory Board

NAME	TRANCHE	RSUs	RSUs	RSUs	RSUs	RSUs	YEAR OF	RSUs	VESTED	GDRs	GDRs	RSUs	RSUs	
		AWARDED	AWARDED	AWARDED	AWARDED	AWARDED	VESTING							
		IN 2017	IN 2018 ⁴	IN 2019 ⁵	IN 2020	IN 2021	DATE ²	TAX	AS OF	LOCK-UP	AS OF	AS OF	OUTSTANDING	OUTSTANDING
S. DuCharme	8	9,631					2020	9,631	21	9,631	9,631	2022		
	9		9,977				2021	9,977	23	9,977	9,977	2023		9,977
	10			9,722			2022					2024	9,722	9,722
	11				9,335		2023					2025	9,335	9,335
	12					5,133	2024					2026	5,133	
G. King	8	8,026					2020	8,026	18	5,433	5,433	2022		
	9		9,977				2021	9,977	23	5,300	5,300	2023		9,977
	10			9,373			2022					2024	9,373	9,373
	11				9,211		2023					2025	9,211	9,211
	12					9,747	2024					2026	9,747	
P. Demchenkov	8	5,618					2020	5,618	12	3,803	3,803	2022		
	9		7,982				2021	7,982	18	4,240	4,240	2023		7,982
	10			8,942			2022					2024	8,942	8,942
	11				9,800		2023					2025	9,800	9,800
	12					13,448	2024					2026	13,448	
M. Kuchment	8	3,210					2020	3,210	7	2,173	2,173	2022		
	9		3,991				2021	3,991	9	3,991	3,991	2023		3,991
	10			4,099			2022					2024	4,099	4,099
	11				4,274		2023					2025	4,274	4,274
	12					4,523	2024					2026	4,523	
K.-H. Holland ⁵	9		1,995				2021	1,995	5	1,304		2023		1,995
	10			3,749			2022	2,498	-	1,633		2024		3,749
	11				3,684		2023	1,228	-	802		2025		3,684
N. Shouraboura	9		1,995				2021	1,995	5	1,502	1,502	2023		1,995
	10			4,099			2022					2024	4,099	4,099
	11				4,274		2023					2025	4,274	4,274
	12					7,798	2024					2026	7,798	
R. Brasher ⁶	12				3,245		2024					2026	3,245	
A. Tynkovan ⁶	12				3,245		2024					2026	3,425	

1 Under the rules of the RSU Plan, the average market value is defined as the volume-weighted average price of a GDR over the 30 calendar days immediately preceding 19 May 2019. The volume-weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange.

2 The vesting date is 19 May of each respective year of vesting. If 19 May falls on a weekend, the vesting date is the immediately following business day (in 2018: 21 May; in 2019: 20 May).

3 The number of GDRs held during the lock-up period is equal to the number of vested RSUs minus GDRs sold to cover taxes, if any.

4 The 2018 RSUs for Karl-Heinz Holland and Nadia Shouraboura were effectively awarded in 2019, as both were appointed as Supervisory Board members after the award date in 2018. The awards were based on a 6/12 pro rata factor.

5 Karl-Heinz Holland stepped down from the Supervisory Board on 12 May 2021. As per the RSU Plan, all of the RSUs awarded in 2019 under tranche 9 (i.e. 1,995 RSUs), two-thirds of the RSUs awarded in 2019 under tranche 10 (i.e. 2,498 RSUs) and one-third of the RSUs awarded in 2020 under tranche 11 (i.e. 1,228 RSUs) vested on 12 May 2021. The lock-up on vested GDRs (i.e. 5,722 RSUs) under tranches 9, 10 and 11 was lifted as of 12 May 2021. After tax, Mr Holland was entitled to the immediate release of 3,739 GDRs relating to awards under tranches 9–11.

6 The awards made under tranche 12 are based on a 9/12 pro rata factor, as both Richard Brasher and Alexander Tynkovan were appointed as Supervisory Board members during 2021.

Other policy information and contract terms

Other items

Supervisory Board members benefit from liability insurance coverage and reimbursement of expenses. The Company does not grant variable remuneration to Supervisory Board members; they do not accrue any pension rights and are not eligible for personal loans or guarantees.

Supervisory Board members do not receive any other benefits or entitlements and are not entitled to any severance payment or benefits upon termination of their appointment. Supervisory Board members are appointed and reappointed based on the provisions of the law and Articles of Association of the Company.

No clawback or change-in-control arrangements are in place for Supervisory Board members.

Legacy arrangements

Mr King was appointed as a member of the Supervisory Board by the General Meeting of Shareholders on 7 May 2015 and, as of the same date, he was appointed by the Board as Chairman of both the Audit and Risk Committee and the Related Party Committee, with an annual base fee of EUR 250,000. In December 2019, the Board resolved to dissolve the Related Party Committee as of 1 January 2020, integrating its responsibilities into the overall remit of the Audit and Risk Committee. In view of the additional tasks assumed by Mr King as Chairman of the Audit and Risk Committee, and his membership of the Nomination and Remuneration Committee as of 18 March 2020, Mr King's annual fee remained unchanged.

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

NAME	2017	2018	2019	2020	2021
Peter Demchenkov	20	24	31	35	52
Mikhail Fridman ^{1,2}	-	-	-	-	-
Geoff King ²	34	35	36	34	43
Stephan DuCharme ²	34	39	40	41	31
Michael Kuchment ²	24	13	15	16	20
Karl-Heinz Holland ²	-	4	11	13	5
Nadia Shouraboura	-	4	12	18	28
Marat Atnashev ¹	-	-	-	-	-
Richard Brasher ^{2,3}	-	-	-	-	9
Alexander Tynkovan ³	-	-	-	-	10

Other information

Total remuneration

The annual remuneration for Management Board and Supervisory Board members during 2021 amounted to RUB 640 mln (2020: RUB 519 mln).

Other arrangements

No (personal) loans were granted to the members of the Management Board or of the Supervisory Board, and no guarantees or the like were granted in favour of any of the members of the Management Board or of the Supervisory Board. No severance payments were granted to members of the Management Board or of the Supervisory Board in 2021, and no variable remuneration was clawed back.

Shareholder voting

This Remuneration Report will be submitted to the 2022 Annual General Meeting of Shareholders for an advisory vote.

The Supervisory Board
19 May 2022

¹ Mikhail Fridman and Marat Atnashev, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.

² Karl-Heinz Holland stepped down as of 12 May 2021. Stephan DuCharme and Mikhail Fridman stepped down as of 1 March 2022. Richard Brasher stepped down as of 4 March 2022. Geoff King stepped down as of 11 March 2022. Michael Kuchment stepped down as of 25 March 2022.

³ Richard Brasher and Alexander Tynkovan were appointed on 12 May 2021.



Consolidated Financial Statements	179
Notes to the Consolidated Financial Statements	184
Company Financial Statements	250
Notes to the Company Financial Statements	252
Other information	265

Financial Statements

A large, stylized white number '2013' is positioned in the bottom right corner of the page, partially overlapping the green background.

Contents

Consolidated Financial Statements

Consolidated Statement of Financial Position	179
Consolidated Statement of Profit or Loss	180
Consolidated Statement of Comprehensive Income	181
Consolidated Statement of Cash Flows	182
Consolidated Statement of Changes In Equity	183

Notes to the Consolidated Financial Statements

1 Principal activities and the Group structure	184
2 Summary of significant accounting policies	185
3 Critical accounting estimates and judgements in applying accounting policies	195
4 Adoption of new and revised standards and interpretations and new accounting pronouncements	198
5 Segment reporting	199
6 Subsidiaries	201
7 Acquisition of businesses	202
8 Related party transactions	204
9 Cash and cash equivalents, short-term financial investments	205
10 Property, plant and equipment	206
11 Leases	209
12 Investment properties	211
13 Goodwill	212
14 Other intangible assets	214
15 Inventories	215
16 Financial instruments by category	216
17 Trade, other accounts receivable and prepayments	217

Company Financial Statements

Company Statement of Financial Position	250
Company Statement of Profit or Loss	251

Notes to the Company Financial Statements

37 Accounting principles	252
38 Financial fixed assets	253
39 Shareholders' equity	255
40 Loans from group companies	256
41 Share-based payments	257
42 General and administrative expenses	258
43 Income tax expense	259
44 Staff numbers and employee expenses	261
45 Contingent rights and liabilities	262
46 Related party transactions	263
47 Subsequent events for the Company	264

X5 RETAIL GROUP N.V.

Consolidated Statement of Financial Position

at 31 December 2021

(expressed in millions of Russian Roubles, unless otherwise stated)

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
19 May 2022

Vsevolod Starukhin
CHIEF FINANCIAL OFFICER
19 May 2022

NOTE	31 DECEMBER 2021	31 DECEMBER 2020
Assets		
Non-current assets		
Property, plant and equipment	10	332,144
Right-of-use assets	11	502,325
Investment properties	12	4,461
Goodwill	13	105,028
Other intangible assets	14	39,006
Investments in associates and joint ventures	8	50
Other non-current assets		4,209
Deferred tax assets	30	23,047
		1,010,270
		966,945
Current assets		
Inventories	15	166,840
Indemnification asset	7	435
Trade, other accounts receivable and prepayments	17	20,190
Current income tax receivable		4,057
VAT and other taxes receivable	18	8,802
Short-term financial investments	9	50,092
Cash and cash equivalents	9	26,062
		276,478
		206,284
	TOTAL ASSETS	1,286,748
		1,173,229

NOTE	31 DECEMBER 2021	31 DECEMBER 2020
Equity and liabilities		
Equity attributable to equity holders of the parent		
Share capital	22	2,458
Share premium		46,127
Retained earnings		38,926
Share-based payment reserve	29	118
		87,629
		94,842
	TOTAL EQUITY	87,629
		94,842
Non-current liabilities		
Long-term borrowings	21	206,571
Long-term lease liabilities	11	507,099
Deferred tax liabilities	30	928
Other non-current liabilities		1,670
		716,268
		669,703
Current liabilities		
Trade accounts payable		212,949
Short-term borrowings	21	87,767
Interest accrued		1,792
Short-term lease liabilities	11	70,264
Short-term contract liabilities	20	2,392
Current income tax payable		3,014
Provisions and other liabilities	19	104,673
		482,851
		408,684
	TOTAL LIABILITIES	1,199,119
		1,078,387
TOTAL EQUITY AND LIABILITIES		
	1,286,748	1,173,229

X5 RETAIL GROUP N.V.

Consolidated Statement of Profit or Loss

for the year ended 31 December 2021

(expressed in millions of Russian Roubles, unless otherwise stated)

	NOTE	2021	2020
Revenue	24	2,204,819	1,978,026
Cost of sales	25	(1,643,502)	(1,483,406)
Gross profit		561,317	494,620
Selling, general and administrative expenses	25	(467,468)	(406,389)
Net impairment losses on financial assets	17	(154)	(251)
Lease/sublease and other income	26	23,877	17,737
Operating profit		117,572	105,717
Finance costs	27	(57,815)	(56,686)
Finance income	27	586	50
Share of loss of associates and joint ventures		-	(20)
Net foreign exchange gain/(loss)		399	(3,391)
Profit before tax		60,742	45,670
Income tax expense	30	(18,004)	(17,326)
Profit for the year		42,738	28,344
Profit for the year attributable to:			
Equity holders of the parent		42,738	28,344
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	629.55	417.54
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	629.54	417.52

Igor Shekhterman

CHIEF EXECUTIVE OFFICER

19 May 2022

Vsevolod Starukhin

CHIEF FINANCIAL OFFICER

19 May 2022

X5 RETAIL GROUP N.V.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2021

(expressed in millions of Russian Roubles, unless otherwise stated)

	2021	2020
Profit for the year	42,738	28,344
Total comprehensive income for the year, net of tax	42,738	28,344
Total comprehensive income for the year attributable to:		
Equity holders of the parent	42,738	28,344

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
19 May 2022

Vsevolod Starukhin
CHIEF FINANCIAL OFFICER
19 May 2022

X5 RETAIL GROUP N.V.

Consolidated Statement of Cash Flows

for the year ended 31 December 20

(expressed in millions of Russian Roubles, unless otherwise stated)

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
19 May 2022

Vsevolod Starukhin

CHIEF FINANCIAL OFFICER

	NOTE	2021	2020		NOTE	2021	2020
Profit before tax		60,742	45,670	Cash flows from investing activities			
Adjustments for:				Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets		(76,574)	(73,427)
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment properties, other intangible assets and goodwill	25	150,278	137,905	Acquisition of businesses, net of cash acquired	7	(1,771)	(3,138)
Gain on disposal of property plant and equipment, investment properties and intangible assets and gain on derecognition of right-of-use assets		(3,345)	(3,705)	Proceeds from disposal of property, plant and equipment, investment properties and intangible assets		4,392	4,365
Finance costs, net	27	57,229	56,636	Purchase of other intangible assets		(15,482)	(12,084)
Net impairment losses on financial assets	17	154	251	Acquisition of interest in associates and joint ventures		-	(150)
Impairment of prepayments	17	221	237	Proceeds from sale of interest in associates and joint ventures		-	120
Share-based compensation expense	29	89	60	Payments for financial investments	9	(50,000)	-
Net foreign exchange (gain)/loss		(399)	3,391	Net cash flows used in investing activities		(139,435)	(84,314)
Share of loss of associates and joint ventures		-	20	Cash flows from financing activities			
Other non-cash items		559	336	Proceeds from loans	21	132,345	203,046
Net cash from operating activities before changes in working capital		265,528	240,801	Repayment of loans	21	(99,585)	(169,175)
Increase in trade, other accounts receivable and prepayments and VAT and other taxes receivable		(1,198)	(2,119)	Purchase of treasury shares		(34)	(126)
Increase in inventories		(22,447)	(16,931)	Payments of principal portion of lease liabilities	11	(64,610)	(57,557)
Increase in trade payable		42,108	10,491	Dividends paid to equity holders of the parent	22	(50,006)	(49,993)
Increase in other accounts payable and contract liabilities		13,952	10,806	Net cash flows used in financing activities		(81,890)	(73,805)
Net cash flows from operations		297,943	243,048	Effect of exchange rate changes on cash and cash equivalents		(83)	(35)
Interest paid		(56,561)	(55,461)	Net increase in cash and cash equivalents		6,054	1,406
Interest received		60	44	Movements in cash and cash equivalents			
Income tax paid		(13,980)	(28,071)	Cash and cash equivalents at the beginning of the year	9	20,008	18,602
Net cash flows from operating activities		227,462	159,560	Net increase in cash and cash equivalents		6,054	1,406
				Cash and cash equivalents at the end of the year	9	26,062	20,008

X5 RETAIL GROUP N.V.

Consolidated Statement of Changes In Equity

for the year ended 31 December 2021

(expressed in millions of Russian Roubles, unless otherwise stated)

ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	NOTE	NUMBER OF SHARES	SHARE CAPITAL	SHARE PREMIUM	SHARE-BASED PAYMENT RESERVE	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY	TOTAL
Balance as at 1 January 2020		67,890,054	2,458	46,150	105	67,843	116,556	116,556
Profit for the period		–	–	–	–	28,344	28,344	28,344
Total comprehensive income for the period		–	–	–	–	28,344	28,344	28,344
Acquisition of treasury shares		(12,870)	–	(107)	–	–	(107)	(107)
Dividends	22	–	–	–	–	(49,993)	(49,993)	(49,993)
Share-based payment compensation	29	–	–	–	60	–	60	60
Transfer and waiving of vested equity rights	29	5,260	–	43	(61)	–	(18)	(18)
Balance as at 31 December 2020		67,882,444	2,458	46,086	104	46,194	94,842	94,842
Balance as at 1 January 2021		67,882,444	2,458	46,086	104	46,194	94,842	94,842
Profit for the period		–	–	–	–	42,738	42,738	42,738
Total comprehensive income for the period		–	–	–	–	42,738	42,738	42,738
Dividends	22	–	–	–	–	(50,006)	(50,006)	(50,006)
Share-based payment compensation	29	–	–	–	89	–	89	89
Transfer and waiving of vested equity rights	29	6,252	–	41	(75)	–	(34)	(34)
Balance as at 31 December 2021		67,888,696	2,458	46,127	118	38,926	87,629	87,629

Igor Shekhterman

CHIEF EXECUTIVE OFFICER

19 May 2022

Vsevolod Starukhin

CHIEF FINANCIAL OFFICER

19 May 2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

01

Principal activities and the Group structure

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

X5 Retail Group N.V. is a joint stock limited liability company established in August 1975 under the laws of the Netherlands. The principal activity of the Company is to act as a holding company for a group of companies that operate retail grocery stores. The Company's address and tax domicile is Zuidplein 196, 1077 XV Amsterdam, the Netherlands.

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2021 the Group operated a retail chain of 19,121 proximity stores, supermarket, hypermarket, hard discounter, online hypermarket stores and dark kitchens under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Chizhik", "Perekrestok Vprok" and "Mnogo Lososya" (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 2020: 17,707 proximity stores, supermarket, hypermarket, hard discounter and online hypermarket stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Chizhik" and "Perekrestok Vprok"), with the number of stores as presented in the table.

As at 31 December 2021 and 31 December 2020 the principal shareholder exerting significant influence over the Company was CTF Holdings S.A. ("CTF"). As at 31 December 2021 and 31 December 2020 CTF directly owned 47.86% of total issued shares in the Company. As at 31 December 2021 and 31 December 2020 the Company's shares were listed on the London and Moscow Stock Exchanges in the form of Global Depositary Receipts (GDRs) with each GDR representing an interest of 0.25 in an ordinary share (Note 22).

	31 DEC 2021	31 DEC 2020	31 DEC 2021	31 DEC 2020																																																													
"Perekrestok" – Supermarket																																																																	
Central FD	552	519	Central FD	21																																																													
North-Western FD	151	129	Volga FD	7																																																													
Volga FD	142	144	North-Western FD	3																																																													
Ural FD	76	75	Southern FD	1																																																													
Southern FD	60	56	Northern Caucasus	1																																																													
Northern Caucasus	9	10	Ural FD	–																																																													
TOTAL	990	933	TOTAL	33																																																													
"Pyaterochka" – Proximity store																																																																	
Central FD	6,489	6,147	"Perekrestok Vprok" – Online hypermarket																																																														
Volga FD	4,745	4,462	Southern FD	1,890	1,660	Central FD	4	North-Western FD	1,838	1,772	Volga FD	1	Ural FD	1,596	1,459	North-Western FD	1	Siberian FD	1,036	886	TOTAL	6	Northern Caucasus	378	323	"Chizhik" – Hard discounter		TOTAL	17,972	16,709	Central FD	72	4	Central FD	43	TOTAL	72	4	North-Western FD	5	"Mnogo Lososya" – Dark kitchen			TOTAL	48	Central FD	43	–	TOTAL STORES	19,121	North-Western FD	5	–			TOTAL	48	–							
Southern FD	1,890	1,660	Central FD	4																																																													
North-Western FD	1,838	1,772	Volga FD	1																																																													
Ural FD	1,596	1,459	North-Western FD	1																																																													
Siberian FD	1,036	886	TOTAL	6																																																													
Northern Caucasus	378	323	"Chizhik" – Hard discounter																																																														
TOTAL	17,972	16,709	Central FD	72	4	Central FD	43	TOTAL	72	4	North-Western FD	5	"Mnogo Lososya" – Dark kitchen			TOTAL	48	Central FD	43	–	TOTAL STORES	19,121	North-Western FD	5	–			TOTAL	48	–																																			
Central FD	72	4	Central FD	43																																																													
TOTAL	72	4	North-Western FD	5																																																													
"Mnogo Lososya" – Dark kitchen			TOTAL	48																																																													
Central FD	43	–	TOTAL STORES	19,121																																																													
North-Western FD	5	–																																																															
TOTAL	48	–																																																															

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

02

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 2021 have been prepared in accordance with and comply with International Financial Reporting Standards as adopted by the European Union and with Part 9 Book 2 of the Dutch Civil Code.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities (including derivative instruments) that have been measured at fair value. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3. Management prepared these consolidated financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of

operations, access to financial resources (Note 31) and the potential impact of COVID-19 and the sanctions being imposed against certain entities and individuals in Russia (Note 36). On 19 May 2022, the Management Board authorised the consolidated financial statements for issue. Publication is on 19 May 2022.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

02

Summary of significant accounting policies

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

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

operating decision-maker. The chief operating decision-maker has been identified as the Management Board. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Group identifies retail chains of each format and dark kitchens (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment, where required. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment are capitalised and the replaced parts are retired. Capitalised costs are depreciated over the remaining useful life of the property, plant and equipment or part's estimated useful life whichever is sooner.

Leasehold improvements are capitalised when it is probable that future economic benefits associated with the improvements will flow to the Group and the cost can be measured reliably.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment including construction in progress.

If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a favourable change in circumstances affecting estimates used to determine the asset's value in use or fair value less costs of disposal.

Gains and losses on disposals determined by comparing the proceeds with the carrying amount are recognised in profit or loss.

Land and assets under construction are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Buildings are divided into foundation and frame with a depreciation period of 40-50 years and other parts of 7-8 years. Other parts mainly include fixtures and fitting.

The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

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

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted prospectively if appropriate, at each reporting date.

2.6 Investment properties

Investment properties consist of buildings held by the Group to earn rental income or for capital appreciation, or both, and which are not occupied by the Group. The Group recognises the part of owned shopping centres that are leased to third party retailers as investment properties, unless they represent insignificant portions of the property and are used primarily to provide auxiliary services to retail customers not provided by the Group rather than to earn rental income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

02

Summary of significant accounting policies

2.6 Investment properties (continued)

After purchase or construction of the building the Group assesses the main purpose of its use and, if the main purpose is to earn rental income or for capital appreciation, or both, the building is classified as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs of disposal. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Transfers are made to (or from) investment properties only when there is a change in use. Transfers between investment property and owner occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Depreciation on items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are 40-50 years.

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Fair value determined for the disclosure purposes (Note 12) represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The measurement is classified in level 3 of the fair value hierarchy.

2.7 Intangible assets

(a) Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill represents the excess of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date over the fair value of the net assets of the acquired subsidiary at the date of exchange. Goodwill is not deductible for tax purposes.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is tested on the operating segment level.

(b) Brand and private labels

Brand and private labels acquired in a business combination are recognised initially at fair value. Private labels are amortised using the straight-line method over their useful lives. The useful life of "Pyaterochka" brand is estimated to be indefinite-lived as there is no foreseeable limit to the period over which the brand is expected to generate net cash inflows for the Group. In 2021 the Group revised the useful life of brand "Karusel" and determined that the useful life of 5 years fairly reflects the period over which the Group expects net cash inflows from the asset. Change in estimate was based on the demonstration of the brands' ability to survive changes in the economic environment and Karusel reorganisation.

USEFUL LIVES	
Brand "Karusel"	5 years
Private labels	1-8 years

(c) Software and other intangible assets

Expenditure on acquired patents, licenses and software development is capitalised and amortised using the straight-line method over their useful lives ranging from 1 to 10 years (5 on average).

Research costs related to software development are expensed as incurred. Software development expenditures on an individual project are recognised as an intangible asset when the following criteria are met:

- It is technically feasible to complete the intangible asset so that the asset will be available for use or sale;
- The Group intends to complete the asset and use or sell it;
- There is an ability to use or sell the asset;
- It can be demonstrated how the asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available;
- The expenditure attributable to the asset during its development can be reliably measured.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is ready for use.

(d) Impairment of intangible assets

Where an indication of impairment exists, the recoverable amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount. Goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever impairment indicators exist.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

02

Summary of significant accounting policies

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.

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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.

Sale and leaseback

When the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer, such an operation is treated as sale and leaseback transaction. A sale occurs when control of the underlying asset passes to the buyer. A lease liability is recognised, the associated non-current asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the rights retained. Any gain or loss arising relates to the rights transferred to the buyer.

Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of assets other than land and buildings (i.e., those leases that have a lease

term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

GROUP AS A LESSOR

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in Lease/sublease and other income in the consolidated statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rent is recognised as income in the period in which it is earned.

2.9 Inventories

Inventories at distribution centres and retail outlets are stated at the lower of cost and net realisable value. Cost comprises direct costs of goods, transportation and handling costs. Cost is determined by the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

02

Summary of significant accounting policies

2.9 Inventories (continued)

The Group provides for estimated inventory losses (shrinkage) between physical inventory counts on the basis of a percentage of cost of sales. The provision is adjusted to actual shrinkage based on regular inventory counts. The provision is recorded as a component of cost of sales. The Group also provides for aged stock provision where the net realisable value is below cost.

2.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Financial assets

Initial recognition and measurement

The Group classifies its financial assets as those to be measured subsequently at amortised cost, fair value through other comprehensive income or fair value through profit and loss. The classification depends on the financial asset's contractual cash flow characteristics and the business model for managing the financial assets.

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

02

Summary of significant accounting policies

2.10 Financial instruments (continued)

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

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

02

Summary of significant accounting policies

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.

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

02

Summary of significant accounting policies

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

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

02

Summary of significant accounting policies

2.23 Fair value measurement (continued)

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 the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

02

Summary of significant accounting policies

2.26 Impairment of non-current assets other than goodwill

The Group periodically assesses whether there is any indication that non-current assets may be impaired. If any such indicators exist, the Group estimates the recoverable amount of the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which it belongs. Individual stores are considered separate cash-generating units for impairment testing purposes. Impairment loss is recognised whenever the carrying amount of an asset or the related cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of profit or loss. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.27 Fair value of assets and liabilities at the acquisition date

A primary valuation of assets and liabilities of acquired companies was performed on a provisional basis. Once the valuation is finalised, any adjustments arising are recognised retrospectively.

2.28 Indemnification asset

The indemnification asset equivalent to the fair value of the indemnified liabilities is included in net assets acquired in the business combination if the selling shareholders of the acquiree agreed to compensate possible claims or contingencies. Subsequent measurement of the indemnification asset and contingent liability does not have any impact on future earnings, unless the indemnification asset becomes impaired.

2.29 Offsetting of financial assets and financial liabilities

Accounts receivable and accounts payable are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

2.30 Long-term employee benefits

The Group recognises the liability and respective expenses in relation to long-term employee benefits when there is a present obligation as a result of past events and a reliable estimate of the obligation can be made. The Group recognises the net total of the following amounts in profit or loss:

- Service cost;
- Net interest on the net defined benefit liability;
- Remeasurements of the net defined benefit liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

03

Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include:

IMPAIRMENT OF GOODWILL

The Group tests goodwill for impairment at least annually. The recoverable amount of a cash-generating unit has been determined based on the higher of fair value less costs to sell or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 13.

IDENTIFYING A BUSINESS COMBINATION

The Group enters into transactions to acquire integrated set of assets and operations of retail stores. The Group determines whether such transactions represent a business combination or assets acquisitions. The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs. All acquisitions of assets and operations of retail stores occurred in 2021 and 2020 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 2021 the Group recognised an impairment loss in the amount of RUB 3,105 (year ended 31 December 2020: a net impairment loss in the amount of RUB 4,010).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

03

Critical accounting estimates and judgements in applying accounting policies

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 2021 the Group recognised a net impairment gain in the amount of RUB 343 (year ended 31 December 2020: a net impairment gain in the amount of RUB 50).

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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 2021 the Group recognised a net impairment loss in the amount of RUB 630 (year ended 31 December 2020: a net impairment gain in the amount of RUB 350).

INVENTORIES PROVISIONS

The Group provides for estimated inventory shrinkage on the basis of historical shrinkage as a percentage of cost of sales. This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results. The Group also provides for aged stock where the net realisable value is below cost (Note 15).

REVENUErecognition – 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 2021, the estimated liability for unredeemed points was RUB 2,146 (31 December 2020: RUB 1,955).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

03

Critical accounting estimates and judgements in applying accounting policies

PROVISION FOR EXPECTED CREDIT LOSSES OF TRADE AND OTHER RECEIVABLES (CONTINUED)

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables is disclosed in Note 17.

BRAND AND PRIVATE LABELS

The Group periodically assesses whether there is any indication that brand and private labels may be impaired. The Group performs assets impairment testing of brands with indefinite useful lives at least annually (Note 14). The Group estimates the recoverable amount of the asset and if it is less than the carrying amount an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2021 the Group did not recognise any impairment of brand and private labels (year ended 31 December 2020: impairment loss in amount of RUB 885).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

04

Adoption of new and revised standards and interpretations and new accounting pronouncements

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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 2021. Standards, Interpretations and amendments effective 1 January 2021 did not have a material impact on the financial position or performance of the Group.

As a result of the amendments the Group changed its accounting policy for determination of whether an acquisition is an acquisition of business. The amendments did not have material impact on the financial position of the Group.

The following other new standards and amendments to IFRSs effective for the financial year beginning on or after 1 January 2021 do not have a material impact on the Group and do not result in change of the Group's accounting policy:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2;
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9;
- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021.

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
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023*
Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1 January 2023*
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023*
Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020	1 January 2022
IFRS 17 Insurance Contracts including Amendments to IFRS 17	1 January 2023

* Subject to EU endorsement.

The Group expects that the adoption of other pronouncements listed above will not have a significant impact on the Group's results of operations and financial positions in the period of initial application except for amendments to IAS 12 Income Taxes.

The amendments to IAS 12 Income Taxes may require to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The impact for the Group would be the recognition of additional deferred tax assets and liabilities attributable to right-of-use assets and lease liabilities. The Group is currently assessing the potential effect of the amendments to IAS 12 on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

05

Segment reporting

The Group identifies retail chains of each format and (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8.

The following significant operating functions are decentralised by formats:

- Category management, including purchasing, pricing, assortment management, promotion management;
- Distribution centres logistics;
- Development function.

The formats' general managers are determined as segment managers in accordance with IFRS 8. The chief operating decision-maker has been determined as the Management Board. The Management Board reviews each format's internal reporting in order to assess performance and allocate resources.

Upon adoption of IFRS 16 the Management Board started to assess the performance of the operating segments based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment pre-IFRS 16 (EBITDA pre-IFRS 16). EBITDA pre-IFRS 16 is calculated by adjusting EBITDA to include fixed lease expenses, fixed non-lease components of lease contracts, exclude gain on derecognition of right-of-use assets and lease liabilities and exclude adjustment of gain/loss from sale of asset under sale and leaseback operations for the proportion of the rights retained. Adjusted capital expenditures include additions of property, plant and equipment, investment properties and intangible assets adjusted to replace capitalised depreciation of right-of-use assets with capitalisation of fixed lease expenses, acquisitions of property, plant and equipment, investment properties and intangible assets through business combinations as well as goodwill acquired through such business combinations.

The accounting policies used for segments are the same as accounting policies applied for these consolidated financial statements. In 2021 a new methodology of overhead expenses allocation was used for more accurate measurements of segments' performance. The comparative figures for earlier periods have been adjusted in order to provide meaningful comparative information.

The segment information for the year ended 31 December 2021, comparative figures for earlier periods and reconciliation of EBITDA pre-IFRS 16 to profit for the year is provided as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

05

Segment reporting

YEAR ENDED 31 DECEMBER 2021	PYATEROCHKA	PEREKRESTOK	OTHER SEGMENTS	CORPORATE CENTRE	TOTAL
Revenue (Note 24)	1,795,018	351,100	58,701	-	2,204,819
EBITDA pre-IFRS 16	145,350	24,213	(4,375)	(4,164)	161,024
Fixed lease expenses and fixed non-lease components of lease contracts					104,141
Gain on derecognition of right-of-use assets and lease liabilities					2,940
Reversal of adjustment for the proportion of the rights retained under sale and leaseback operations (Note 11)					(255)
Depreciation, amortisation and impairment					(150,278)
Operating profit					117,572
Finance cost, net					(57,229)
Net foreign exchange result					399
Profit before income tax					60,742
Income tax expense					(18,004)
Profit for the year					42,738
Adjusted capital expenditure	72,079	18,656	7,189	-	97,924
31 December 2021					
Inventories	137,489	25,638	3,713	-	166,840

YEAR ENDED 31 DECEMBER 2020	PYATEROCHKA	PEREKRESTOK	OTHER SEGMENTS	CORPORATE CENTRE	TOTAL
Revenue (Note 24)	1,598,315	309,460	70,251	-	1,978,026
EBITDA pre-IFRS 16		129,268	22,116	(2,409)	(3,838) 145,137
Fixed lease expenses and fixed non-lease components of lease contracts					96,630
Gain on derecognition of right-of-use assets and lease liabilities					1,855
Depreciation, amortisation and impairment					(137,905)
Operating profit					105,717
Share of loss of associates and joint ventures					(20)
Finance cost, net					(56,636)
Net foreign exchange result					(3,391)
Profit before income tax					45,670
Income tax expense					(17,326)
Profit for the year					28,344
Adjusted capital expenditure	66,895	17,588	5,444	3	89,930
31 December 2020					
Inventories	115,674	23,963	4,756	-	144,393

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

06

Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2021 and 31 December 2020 were as follows:

COMPANY	COUNTRY	NATURE OF OPERATIONS	OWNERSHIP (%) 31 DECEMBER 2021	OWNERSHIP (%) 31 DECEMBER 2020
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
PEREKRIOSTOK-2000 LLC	Russia	Assets holding company	100	100
Beta Estate LLC	Russia	Assets holding company	100	100
X5 FINANSE LLC	Russia	Bond issuer	100	100
Agro-Avto LLC	Russia	Assets holding company	100	100
X5 Corporate Center LLC	Russia	Assets holding company	100	100

* In 2021 Perekrestok Holdings B.V. was reorganised by merger with X5 Retail Group N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

07

Acquisition of businesses

ACQUISITIONS IN 2021

In 2021 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2021 the acquired businesses contributed revenue of RUB 5,996 from the date of acquisition. As the businesses were not acquired as separate legal entities, it is impracticable to disclose net profit from the date of acquisition. These businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2021 as though the acquisition date had been the beginning of that period.

Details of assets and liabilities of acquired businesses and the related goodwill are as follows:

	PROVISIONAL FAIR VALUES AT THE ACQUISITION DATE
Other intangible assets (Note 14)	10
Right-of-use assets (Note 11)	3,928
Deferred tax assets (Note 30)	244
Indemnification asset	6
Trade, other accounts receivable and prepayments	22
Lease liabilities (Note 11)	(3,928)
Current income tax payable	(34)
Provisions and other liabilities	(80)
Net assets acquired	168
Goodwill (Note 13)	1,118
Purchase consideration	1,286
Net cash outflow arising from the acquisition	1,021

The Group assigned provisional fair values to net assets acquired. The Group will finalise the purchase price allocation within a 12-month period from the acquisition date which is not yet finished at the date of approval of these consolidated financial statements.

The purchase consideration for the reporting period comprised consideration paid in cash of RUB 1,021 and RUB 265 as deferred consideration measured at fair value.

The goodwill recognised was attributable to:
i) the business concentration in the Russian regions;
ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka segment in amount of RUB 1,063, Perekrestok segment in amount of RUB 35 and other segment in amount of RUB 20.

During the 12 months ended 31 December 2021 the Group transferred RUB 750 as deferred payments for the prior periods acquisitions.

ACQUISITIONS IN 2020

During 2020 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2020 the acquired businesses contributed revenue of RUB 8,137 from the date of acquisition. As the businesses were not acquired as separate legal entities, it is impracticable to disclose net profit from the date of acquisition. These businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2020 as though the acquisition date had been the beginning of that period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

07

Acquisition of businesses

At 31 December 2020 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2021 the Group completed the purchase price allocation, which resulted in the following changes in fair values at the acquisition date:

	PROVISIONAL FAIR VALUES AT THE ACQUISITION DATE	FINALISED FAIR VALUES AT THE ACQUISITION DATE	EFFECT OF CHANGE IN PURCHASE PRICE ALLOCATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021
Indemnification asset	–	258	258
Right-of-use assets (Note 11)	8,507	8,507	–
Deferred tax assets (Note 30)	575	575	–
Cash and cash equivalents	55	55	–
Lease liabilities (Note 11)	(8,505)	(8,505)	–
Current income tax payable	–	(79)	(79)
Provisions and other liabilities	–	(179)	(179)
Net assets acquired	632	632	–
Goodwill (Note 13)	2,963	2,963	–
Purchase consideration	3,595	3,595	–
Net cash outflow arising from the acquisition	2,699	2,699	–

The purchase consideration for the reporting period comprised consideration paid in cash of RUB 2,754 and RUB 841 as deferred consideration measured at fair value.

The goodwill recognised was attributable to:

- i) the business concentration in the Russian regions;
- ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka segment in amount of RUB 1,142, Perekrestok segment in amount of RUB 1,158 and other segments in amount of RUB 663.

During the 12 months ended 31 December 2020 the Group transferred RUB 439 as deferred payments for the prior periods' acquisitions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

08

Related party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2021 and at 31 December 2020 are provided below. The ownership structure is disclosed in Note 1.

During 2021 the Group together with ALFA-BANK JSC and Alfa Investments LLC formed associate company X5 FINANCIAL SOLUTIONS LLC. The company is to launch and develop financial services under the X5 Bank brand. The Group has a 49.99% interest in X5 FINANCIAL SOLUTIONS LLC with Group's share in equity amounted to RUB 50 at 31 December 2021.

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

The following transactions were carried out with related parties:

RELATIONSHIP	2021	2020
CTF Holdings S.A.	Entity with significant influence over the Company	
Management services received	113	125
Other	Under control by the entity with significant influence over the Company	
Purchases from related parties	4,122	3,826
Other operating expenses	1	-
Bonuses from related parties	201	185
Other	Other	
Other operating expenses	44	39

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

RELATIONSHIP	31 DEC 2021	31 DEC 2020
CTF Holdings S.A.	Entity with significant influence over the Company	
Other accounts payable	27	-
Other	Under control by the entity with significant influence over the Company	
Other receivables from related parties	45	-
Trade accounts payable	759	757
Trade accounts receivable	23	24
Other accounts payable	50	-
Other	Other, including associates	
Advances	26	-
Other accounts payable	4	12

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 2021 and 31 December 2020, the Group did not record any material expected credit loss provisions for trade and other receivables nor did it recognise any impairment provisions for prepayments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

09

Cash and cash equivalents, short-term financial investments

	31 DECEMBER 2021	31 DECEMBER 2020
Bank current account – Roubles	2,733	528
Bank current account – other currencies	49	2
Cash in transit – Roubles	14,997	12,590
Cash in hand – Roubles	8,278	6,888
Deposits – Roubles	5	–
TOTAL	26,062	20,008

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.

Short-term financial investments at 31 December 2021 represent irrevocable bank deposits in Russian Roubles with maturity not more than a year that earned interest income at the rates in the range of 8.0% – 9.0% per annum.

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 and short-term financial investments balances are summarised as follows:

BANK	MOODY'S	FITCH	S&P	31 DECEMBER 2021	31 DECEMBER 2020
Cash and cash equivalents					
Alfa-Bank	Ba1	BBB-	BBB-	1,559	263
Sberbank	Baa3	BBB	–	1,025	11
Gazprombank	Ba1	BBB-	BBB-	31	25
GPB International S.A.	–	–	BBB-	5	–
Vneshtorgbank	Baa3	–	BBB-	108	181
Other banks				59	50
Cash in transit and in hand				23,275	19,478
TOTAL				26,062	20,008
Short-term financial investments					
GPB International S.A.	–	–	BBB-	50,092	–
TOTAL				50,092	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

10

Property, plant and equipment

	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	REFRIGERATING EQUIPMENT	VEHICLES	OTHER	CONSTRUCTION IN PROGRESS*	TOTAL
Cost							
At 1 January 2020	299,815	55,317	64,657	25,547	52,428	4,637	502,401
Additions	–	–	–	–	–	74,275	74,275
Transfers	30,216	15,585	12,077	1,142	12,499	(71,519)	–
Disposals	(13,486)	(4,915)	(4,006)	(1,016)	(5,837)	(119)	(29,379)
At 31 December 2020	316,545	65,987	72,728	25,673	59,090	7,274	547,297
Additions	–	–	–	–	–	79,716	79,716
Transfers	31,764	16,375	11,208	5,795	13,140	(78,282)	–
Disposals	(7,360)	(5,536)	(4,098)	(921)	(3,835)	(282)	(22,032)
At 31 December 2021	340,949	76,826	79,838	30,547	68,395	8,426	604,981

* This category also includes machinery and equipment, refrigerating equipment, vehicles and other items of property, plant and equipment not yet available for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

10

Property, plant and equipment

	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	REFRIGERATING EQUIPMENT	VEHICLES	OTHER	CONSTRUCTION IN PROGRESS*	TOTAL
Accumulated depreciation and impairment							
At 1 January 2020	(96,152)	(24,221)	(26,319)	(8,847)	(31,384)	(221)	(187,144)
Depreciation charge	(27,764)	(9,171)	(8,668)	(3,636)	(10,484)	–	(59,723)
Impairment charge	(3,151)	(1,096)	(884)	(5)	(385)	(58)	(5,579)
Reversal of impairment	1,508	–	–	61	–	–	1,569
Disposals	10,884	4,700	3,897	914	5,773	119	26,287
At 31 December 2020	(114,675)	(29,788)	(31,974)	(11,513)	(36,480)	(160)	(224,590)
Depreciation charge	(28,408)	(10,709)	(9,513)	(4,044)	(10,865)	–	(63,539)
Impairment charge	(3,160)	(872)	(585)	(27)	(196)	(131)	(4,971)
Reversal of impairment	1,829	9	4	22	2	–	1,866
Disposals	4,539	5,161	3,946	808	3,745	198	18,397
At 31 December 2021	(139,875)	(36,199)	(38,122)	(14,754)	(43,794)	(93)	(272,837)
Net book value at 31 December 2021	201,074	40,627	41,716	15,793	24,601	8,333	332,144
Net book value at 31 December 2020	201,870	36,199	40,754	14,160	22,610	7,114	322,707
Net book value at 1 January 2020	203,663	31,096	38,338	16,700	21,044	4,416	315,257

* This category also includes machinery and equipment, refrigerating equipment, vehicles and other items of property, plant and equipment not yet available for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10

Property, plant and equipment

Depreciation charge, impairment charge and reversal of impairment were included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2021 and 31 December 2020.

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 2021.

IMPAIRMENT TEST

At the end of 2021 management performed an impairment test of property, plant and equipment, right-of-use assets, other intangible assets and investment property. The approach for determination of the recoverable amount of an asset was different for each class of property, plant and equipment, right-of-use assets, other intangible assets and investment property.

The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally at the individual store/unit level (cash generating unit –

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

CGU). The variability of these factors depends on a number of conditions, including uncertainty about future events and changes in demand.

The impairment review has been carried out by comparing recoverable amount of the individual store/unit with their carrying values. The recoverable amount of store/unit is determined as the higher of fair value less cost of disposal or value in use.

The resulting impairment charge arose primarily from underperforming stores and Karusel transformation. At the same time the Group recognised the reversal of previously recorded impairment charges due to improved performance of certain stores. Due to the great number of CGUs being tested for impairment it is considered impracticable to disclose detailed information for each individual CGU.

The Group analysed external and internal sources of information including the potential impact of COVID-19 pandemic on the Group itself and on the macro economic environment and identified that COVID-19 caused lower traffic in certain stores located in shopping malls which however was partly compensated by improved performance of other stores and segments.

Fair value of land and buildings and construction in progress is determined by management internal specialists by reference to current observable prices on an active market subsequently adjusted for specific characteristics of respective assets. The fair value measurement of these assets is classified at level 3 of the fair value hierarchy.

Value in use

For property, plant and equipment, right-of-use assets, other intangible assets and investment property the discounted future cash flow approach is applied and covers a 10-year period from 2022 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan is extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4.00% to 7.86% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2020: 4.00% to 6.78%). For the years beyond the forecast period the long-term consumer price index forecast of 4.00% at 31 December 2021 is used (31 December 2020: 4.00%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 13.39% (31 December 2020: 12.14%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions. If the revised estimated discount rate consistently applied to the discounted cash flows had been 200 b.p. higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment, right-of-use assets, investment property and intangible assets by RUB 1,544 (31 December 2020: RUB 2,216), if 200 b.p. lower – increase by RUB 1,198 (31 December 2020: RUB 1,487). 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 809 (31 December 2020: RUB 619), lower – decrease by RUB 1,026 (31 December 2020: RUB 705).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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		RIGHT-OF-USE ASSETS (LAND AND BUILDINGS)	LEASE LIABILITIES
At 1 January 2021	480,511	(548,501)	At 1 January 2020	428,166	(484,795)
Additions	96,964	(96,555)	Additions	115,529	(114,970)
Acquisition of businesses (Note 7)	3,928	(3,928)	Acquisition of businesses (Note 7)	8,507	(8,505)
Depreciation expense	(74,601)	–	Depreciation expense	(69,206)	–
Impairment charge	(1,596)	–	Impairment charge	(1,806)	–
Reversal of impairment	966	–	Reversal of impairment	2,156	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(3,847)	6,787	Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(2,835)	4,690
Interest accrued	–	(40,572)	Interest accrued	–	(39,996)
Payments	–	105,182	Payments	–	97,553
Effect of changes in foreign exchange rates	–	224	Effect of changes in foreign exchange rates	–	(2,478)
At 31 December 2021	502,325	(577,363)	At 31 December 2020	480,511	(548,501)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11

Leases

The expenses related to short-term leases for the year ended 31 December 2021 amounted to RUB 97 (31 December 2020: 15). The expense related to variable lease payments not included in the measurement of lease liabilities for the year ended 31 December 2021 amounted to RUB 14,444 (31 December 2020: 11,271). Variable lease payments are mainly linked to sales generated from a store. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base.

The total cash outflow for leases for the year ended 31 December 2021 amounted to RUB 119,238 (2020: RUB 108,737).

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

As at 31 December 2021 potential future cash outflows of RUB 3,134 (undiscounted) (31 December 2020: 3,057) have not been included in the lease liability because it was assessed reasonably certain that the leases will be terminated.

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

In an ordinary course of the business the Group constantly arranges for leases of new premises and land. As at 31 December 2021 and 31 December 2020 the Group had a certain number of leases to which the Group was committed but the lease did not commence. The Group assesses that the amount of future cash outflows to which the lessee is potentially exposed is not significant.

In 2021 the Group completed a sale and leaseback transaction in respect of a store located in Saint-Petersburg. The cash proceeds amounted to RUB 594 recognised in the consolidated statement of cash flows and gain amounted to RUB 124 recognised in the consolidated statement of profit or loss for the year ended 31 December 2021. When measuring the lease liability, the Group included fixed lease payments per lease agreement and the estimate of variable payments calculated as a percentage of the expected revenue generated from the leased asset. The lease term of the leaseback was 12 years.

GROUP AS A LESSOR

The lease arrangements are operating leases, the majority of which are short-term. The future minimum lease and sublease payments receivable under operating leases were as follows:

	31 DECEMBER 2021	31 DECEMBER 2020
Within 1 year	2,928	2,863
Between 1 and 2 years	403	984
Between 2 and 3 years	329	733
Between 3 and 4 years	272	571
Between 4 and 5 years	138	397
Later than 5 years	418	773
TOTAL	4,488	6,321

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2021 amounted to RUB 7,007 (2020: RUB 6,284) (Note 26). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2021 amounted to RUB 202 (2020: 276).

Income from subleasing right-of-use assets under operating lease agreement for the year ended 31 December 2021 amounted to RUB 2,618 (2020: RUB 2,464).

Impairment test

At the end of 2021 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

12

Investment properties

Depreciation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2021 and 31 December 2020.

The Group's investment properties consist of land and buildings. Rental income from investment property amounted to RUB 1,140 (2020: RUB 1,235). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 796 (2020: RUB 821). 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 2021 amounted to RUB 6,700 (31 December 2020: RUB 7,666). 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 2021 management performed an impairment test of investment property. The evaluation performed and reasons for it are consistent with the approach for impairment testing of Property, Plant and Equipment (Note 10).

The Group held the following investment properties at 31 December 2021 and 31 December 2020:

Cost	2021	2020
Cost at 1 January	8,356	9,383
Disposals	(447)	(1,027)
Cost at 31 December	7,909	8,356
Accumulated depreciation and impairment		
Accumulated depreciation and impairment at 1 January	(3,854)	(3,819)
Depreciation charge	(169)	(188)
Impairment charge	(65)	(16)
Reversal of impairment	408	66
Disposals	232	103
Accumulated depreciation and impairment at 31 December	(3,448)	(3,854)
Net book value at 31 December	4,461	4,502
Net book value at 1 January	4,502	5,564

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

13

Goodwill

GOODWILL IMPAIRMENT TEST

For the purposes of impairment testing, goodwill is allocated to groups of cash-generating units (groups of CGUs) being store chains of each format and dark kitchens. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The group of CGUs to which goodwill has been allocated is tested for impairment annually or more frequently if there are indications that the particular group of CGUs might be impaired. Goodwill is tested for impairment at the group of CGUs level by comparing carrying values of particular group of CGU assets including allocated goodwill to their value in use. The Karusel group of CGUs started reorganisation in 2019. The reorganisation is expected to be finalised in 2023. The reorganisation resulted in a transfer of goodwill to Perekrestok group of CGUs in amount of RUB 644 and impairment charge for the year ended 31 December 2021 in amount of RUB 980.

The Group analysed the potential impacts and effects of the COVID-19 pandemic, including the estimated impact on the macro economic environment. COVID-19 pandemic did not negatively affect the overall Group's performance during the reporting period as demand for food products remains stable.

Movements in goodwill arising on the acquisition of businesses at 31 December 2021 and 31 December 2020 are:

Cost	2021	2020
Gross book value at 1 January	171,202	168,239
Acquisition of businesses (Note 7)	1,118	2,963
Disposal	(221)	-
Gross book value at 31 December	172,099	171,202
Accumulated impairment losses		
Accumulated impairment losses at 1 January	(66,312)	(66,312)
Impairment charge	(980)	-
Disposal	221	-
Accumulated impairment losses at 31 December	(67,071)	(66,312)
Carrying amount at 1 January	104,890	101,927
Carrying amount at 31 December	105,028	104,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

13

Goodwill

GOODWILL IMPAIRMENT TEST (CONTINUED)

Value in use

For items of land, buildings and construction in progress the discounted future cash flow approach is applied and covers a 10-year period from 2021 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4.00% to 7.86% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2020: 4.00% to 6.78%). For the years beyond the forecast period the long-term consumer price index forecast of 4.00% at 31 December 2021 is used (31 December 2020: 4.00%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average

cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 13.39% (31 December 2020: 12.14%). 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 2021 (year ended 31 December 2020: Nil).

The allocation of carrying amounts of goodwill to each group of CGUs was as follows:

	PYATEROCHKA	PEREKRESTOK	OTHER	TOTAL
31 December 2021				
Goodwill	80,756	23,334	938	105,028
31 December 2020				
Goodwill	79,693	22,655	2,542	104,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14

Other intangible assets

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

The majority of additions of software are represented with internally generated development costs. Brand and private labels includes brand "Pyaterochka" with the carrying amount of RUB 4,029 (31 December 2020: RUB 4,029) and brand "Karusel" with the carrying amount of RUB 298 (31 December 2020: RUB 373). In 2021 the Group revised the useful life of the brand "Karusel" to finite terms and started to amortise it (Note 2.7), in 2020 the brand "Karusel" was impaired in amount of RUB 885.

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 2021 and 31 December 2020.

Impairment test

At the end of 2021 management performed an impairment test of brands.

For private labels the evaluation performed and reasons for it are consistent with the approach for impairment testing of property, plant and equipment (Note 10). For brands, which are tested annually for impairment, evaluation performed is consistent with the approach for goodwill (Note 13).

Also the Group recognised an impairment of software which was no longer used.

Other intangible assets comprise the following:

	BRAND AND PRIVATE LABELS	SOFTWARE AND OTHER	TOTAL
Cost			
At 1 January 2020	16,843	30,504	47,347
Additions	–	12,160	12,160
Disposals	–	(362)	(362)
At 31 December 2020	16,843	42,302	59,145
Additions	–	16,520	16,520
Acquisition of businesses (Note 7)	–	10	10
Disposals	–	(415)	(415)
At 31 December 2021	16,843	58,417	75,260
Accumulated amortisation and impairment			
At 1 January 2020	(11,554)	(11,455)	(23,009)
Amortisation charge	–	(4,323)	(4,323)
Impairment charge	(885)	(533)	(1,418)
Disposals	–	362	362
At 31 December 2020	(12,439)	(15,949)	(28,388)
Amortisation charge	(76)	(7,846)	(7,922)
Impairment charge	–	(352)	(352)
Disposals	–	408	408
At 31 December 2021	(12,515)	(23,739)	(36,254)
Net book value at 31 December 2021	4,328	34,678	39,006
Net book value at 31 December 2020	4,404	26,353	30,757
Net book value at 1 January 2020	5,289	19,049	24,338

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

15

Inventories

At 31 December 2021 inventories in the amount of RUB 166,840 were accounted at the lower of cost and net realisable value (31 December 2020: RUB 144,393). Write-off of inventory to net realisable value at 31 December 2021 amounted to RUB 3,021 (31 December 2020: RUB 2,590). At 31 December 2021 and 31 December 2020 inventories consisted mainly of goods for resale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

16

Financial instruments by category

FINANCIAL ASSETS AT AMORTISED COST		
	31 DECEMBER 2021	31 DECEMBER 2020
Assets as per consolidated statement of financial position		
Short-term financial investments	50,092	—
Trade and other receivables excluding prepayments	15,338	16,626
Cash and cash equivalents	26,062	20,008
TOTAL	91,492	36,634

FINANCIAL LIABILITIES AT AMORTISED COST		
	31 DECEMBER 2021	31 DECEMBER 2020
Liabilities as per consolidated statement of financial position		
Lease liabilities	577,363	548,501
Borrowings	294,338	261,947
Interest accrued	1,792	1,380
Trade, other current and non-current payables excluding statutory liabilities and advances	290,074	236,863
TOTAL	1,163,567	1,048,691

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTSfor the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

17

Trade, other accounts
receivable and
prepayments

	31 DECEMBER 2021	31 DECEMBER 2020
Trade accounts receivable	11,499	13,828
Other receivables	4,658	3,879
Allowance for expected credit losses of trade and other receivables	(819)	(1,081)
TOTAL TRADE AND OTHER ACCOUNTS RECEIVABLE	15,338	16,626
Prepayments	4,327	2,452
Advances made to trade suppliers	1,086	699
Allowance for impairment of prepayments and advances	(561)	(500)
TOTAL PREPAYMENTS	4,852	2,651
TOTAL	20,190	19,277

The carrying amounts of the Group's trade and other receivables were primarily denominated in Russian Roubles. Trade receivables and other receivables are non-interest bearing and are generally on terms of 30 to 90 days.

During the year ended 2021 the Group made a detailed analysis of coronavirus influence on the expected credit losses and did not identify significant effects. In general, COVID-19 did not negatively affect the Group's main debtors mostly being food suppliers, as well as other receivables turnover except for minor debtors, so there was no need for the revision of the provision matrix for expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

17

Trade, other accounts receivable and prepayments

TRADE RECEIVABLES

Trade receivables are mainly bonuses from suppliers of goods for resale with a low historic default rate. The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable. The Group did not hold any collateral as security.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	EXPECTED CREDIT LOSS RATE AT 31 DECEMBER 2021	ESTIMATED TOTAL GROSS CARRYING AMOUNT AT DEFAULT 31 DECEMBER 2021	EXPECTED CREDIT LOSS 31 DECEMBER 2021	EXPECTED CREDIT LOSS RATE AT 31 DECEMBER 2020	ESTIMATED TOTAL GROSS CARRYING AMOUNT AT DEFAULT 31 DECEMBER 2020	EXPECTED CREDIT LOSS 31 DECEMBER 2020
Not overdue – 1 month	0.28%	11,018	31	0.18%	13,116	24
1-6 months	3.91%	256	10	7.37%	190	14
6-12 months	45.16%	62	28	29.41%	34	10
Over 1 year	71.17%	163	116	86.89%	488	424
TOTAL		11,499	185		13,828	472

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

	2021	2020
At 1 January	(472)	(451)
Addition of allowance for expected credit losses	(110)	(77)
Release of allowance for expected credit losses	104	29
Trade receivables written off as uncollectable	293	27
At 31 December	(185)	(472)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

17

Trade, other accounts receivable and prepayments

OTHER RECEIVABLES

The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable. The Group did not hold any collateral as security.

Set out below is the information about the credit risk exposure on the Group's other receivables using a provision matrix:

	EXPECTED CREDIT LOSS RATE AT 31 DECEMBER 2021	ESTIMATED TOTAL GROSS CARRYING AMOUNT AT DEFAULT 31 DECEMBER 2021	EXPECTED CREDIT LOSS 31 DECEMBER 2021	EXPECTED CREDIT LOSS RATE AT 31 DECEMBER 2020	ESTIMATED TOTAL GROSS CARRYING AMOUNT AT DEFAULT 31 DECEMBER 2020	EXPECTED CREDIT LOSS 31 DECEMBER 2020
Not overdue – 1 month	1.50%	1,538	23	1.15%	2,606	30
1-6 months	3.53%	1,896	67	15.51%	690	107
6-12 months	44.12%	204	90	68.42%	190	130
Over 1 year	44.51%	1,020	454	87.02%	393	342
TOTAL	4,658	634			3,879	609

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

	2021	2020
At 1 January	(609)	(608)
Addition of allowance for expected credit losses	(356)	(440)
Release of allowance for expected credit losses	208	237
Other receivables written off as uncollectable	123	202
At 31 December	(634)	(609)

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.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

17

Trade, other accounts receivable and prepayments

PREPAYMENTS AND ADVANCES MADE TO TRADE SUPPLIERS

Movements on the allowance for impairment of prepayments and advances made to trade suppliers were as follows:

	2021	2020
At 1 January	(500)	(492)
Addition of allowance for prepayments and advances to trade suppliers impairment	(372)	(312)
Release of allowance for prepayments and advances to trade suppliers impairment	151	75
Prepayments and advances to trade suppliers written off as uncollectable	160	229
At 31 December	(561)	(500)

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.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

18**VAT and other
taxes receivable**

	31 DECEMBER 2021	31 DECEMBER 2020
VAT receivable	8,462	8,216
Other taxes receivable	340	2,100
TOTAL	8,802	10,316

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTSfor the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

19

Provisions
and other
liabilities

	31 DECEMBER 2021	31 DECEMBER 2020
Other accounts payable and accruals	31,896	26,604
Accrued salaries and bonuses	26,153	23,318
Accounts payable for property, plant and equipment	16,191	13,264
Taxes other than income tax	21,261	15,689
Advances received	1,680	1,844
Payables to landlords	1,443	1,055
Provisions and liabilities for tax uncertainties (Note 35)	6,049	4,202
TOTAL	104,673	85,976

There were no significant amounts of other payables to foreign counterparties as at 31 December 2021 and 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

20

Contract liabilities

	31 DECEMBER 2021	31 DECEMBER 2020
Short-term contract liabilities		
Short-term contract liabilities related to loyalty programmes	2,146	1,955
Advances received from wholesale customers	40	32
Advances received from other customers	206	211
TOTAL	2,392	2,198

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

	2021	2020
At 1 January		
At 1 January	1,955	1,836
Deferred during the year	2,146	1,955
Recognised as revenue during the year	(1,955)	(1,836)
At 31 December	2,146	1,955

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

21

Borrowings

In September 2021 the Group passed the put-option on the exchange-registered corporate bonds series BO-05 in the amount of RUB 390 and bought back RUB 381 from the issue. For the remaining RUB 9 the new annual rate for the next 3 semi-annual coupon periods was fixed at 0.01%.

In September 2021 the Group issued RUB 10,000 exchange-registered corporate bonds series 002P-01 with 7.60% coupon rate with put-option in 3 years.

The weighted average effective interest rate on X5's total borrowings for the year ended 31 December 2021 comprised 6.56% per annum (year ended 31 December 2020: 6.78%).

All borrowings at 31 December 2021 are shown net of related transaction costs of RUB 119 which are amortised over the term of the loans using the effective interest method (31 December 2020: RUB 98). Borrowing costs capitalised for the year ended 31 December 2021 amounted to RUB 24 (for year ended 31 December 2020: RUB 25). 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.

The Group had the following borrowings at 31 December 2021 and 31 December 2020:

CURRENT	FINAL MATURITY YEAR*	FAIR VALUE		CARRYING VALUE	
		2021	2020	2021	2020
RUB Bonds X5 FINANSE LLC series BO-05		–	386	–	390
RUB Bonds X5 FINANSE LLC series BO-04	2022	2,091	–	2,150	–
RUB Bonds X5 FINANSE LLC series BO-06	2022	1,201	–	1,201	–
RUB Bonds X5 FINANSE LLC series BO-07	2022	5,023	–	5,000	–
RUB Bonds X5 FINANSE LLC series 001P-04		–	5,115	–	4,998
RUB Bonds X5 FINANSE LLC series 001P-05	2022	5,017	–	4,999	–
RUB Bonds X5 FINANSE LLC series 001P-06	2022	9,920	–	9,999	–
RUB Bonds X5 FINANSE LLC series 001P-07	2022	4,967	–	4,999	–
RUB Bonds X5 FINANSE LLC series 001P-08	2022	4,915	–	4,998	–
RUB Bonds X5 FINANSE LLC series 001P-09	2022	4,915	–	4,998	–
RUB Bonds X5 FINANSE LLC series 001P-10	2022	9,875	–	9,998	–
RUB Bonds X5 FINANSE LLC series 001P-11	2022	9,726	–	9,994	–
RUB Bilateral Loans	2022	29,431	71,638	29,431	71,638
TOTAL CURRENT BORROWINGS		87,081	77,139	87,767	77,026

* In case of the Group's Bonds – the next put-option date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21

Borrowings

Change in total borrowings in amount of RUB 32,391 in 2021 equals to the proceeds from borrowings in amount of RUB 132,345, repayment of borrowings in amount of RUB 99,585 (the Consolidated Statement of Cash Flows) and other non-cash movements in amount of RUB 447 plus amortisation of transaction costs in amount of RUB 78. Changes in lease liabilities which also form liabilities arising from financing activities are disclosed in the Note 11.

Change in total borrowings in amount of RUB 34,014 in 2020 equals to the proceeds from borrowings in amount of RUB 203,046, repayment of borrowings in amount of RUB 169,175 (the Consolidated Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 143. Changes in lease liabilities which also form liabilities arising from financing activities are disclosed in the Note 11.

In accordance with a few loan agreements, the Group maintains an optimal leverage ratio by tracking covenant: the maximum level of Net Debt/EBITDA pre-IFRS 16 (4.00/4.25 during 2 quarters after acquisition). At 31 December 2021 the Group complied with this covenant and Net Debt/EBITDA pre-IFRS 16 was equal to 1.67 (31 December 2020: 1.67). Metric EBITDA specified in all loan agreements is equal to EBITDA pre-IFRS 16 (for calculation please refer to Note 5).

The Group had the following borrowings at 31 December 2021 and 31 December 2020:

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

NON-CURRENT	FINAL MATURITY YEAR*	FAIR VALUE		CARRYING VALUE	
		2021	2020	2021	2020
RUB Bonds X5 FINANSE LLC series BO-04		-	2,134	-	2,149
RUB Bonds X5 FINANSE LLC series BO-05	2023	8	-	9	-
RUB Bonds X5 FINANSE LLC series BO-06		-	1,330	-	1,201
RUB Bonds X5 FINANSE LLC series BO-07		-	5,188	-	4,998
RUB Bonds X5 FINANSE LLC series 001P-01	2023	98	99	96	96
RUB Bonds X5 FINANSE LLC series 001P-02	2023	7	8	8	8
RUB Bonds X5 FINANSE LLC series 001P-03	2023	43	42	48	48
RUB Bonds X5 FINANSE LLC series 001P-05		-	5,163	-	4,997
RUB Bonds X5 FINANSE LLC series 001P-06		-	10,245	-	9,993
RUB Bonds X5 FINANSE LLC series 001P-07		-	5,080	-	4,996
RUB Bonds X5 FINANSE LLC series 001P-08		-	5,100	-	4,996
RUB Bonds X5 FINANSE LLC series 001P-09		-	5,100	-	4,996
RUB Bonds X5 FINANSE LLC series 001P-10		-	10,215	-	9,990
RUB Bonds X5 FINANSE LLC series 001P-11		-	10,025	-	9,998
RUB Bonds X5 FINANSE LLC series 001P-12	2023	9,609	9,991	9,989	9,999
RUB Bonds X5 FINANSE LLC series 002P-01	2024	9,951	-	9,998	-
RUB Bilateral Loans	2024	179,255	116,536	186,423	116,456
TOTAL NON-CURRENT BORROWINGS		198,971	186,256	206,571	184,921
TOTAL BORROWINGS		286,052	263,395	294,338	261,947

* In case of the Group's Bonds – the next put-option date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

22

Share capital

As at 31 December 2021 the Group had 190,000,000 authorised ordinary shares (31 December 2020: 190,000,000) of which 67,888,696 ordinary shares were outstanding (31 December 2020: 67,882,444) and 4,521 ordinary shares in amount of RUB 41 were held as treasury stock (31 December 2020: 10,774 ordinary shares in amount of RUB 92). The nominal par value of each ordinary share is EUR 1.

Dividends approved for distribution at the General Meeting in May 2020 have been paid in the amount of RUB 29,996 during the year ended 31 December 2020 (RUB 441.88 per share).

In December 2020 interim dividends proposed by the Supervisory Board for the nine months ended 30 September 2020 have been paid in amount of RUB 19,997 (RUB 294.58 per share).

Dividends approved for distribution at the General Meeting in May 2021 have been paid in the amount of RUB 30,006 during the year ended 31 December 2021 (RUB 441.99 per share).

In December 2021 interim dividends proposed by the Supervisory Board for the nine months ended 30 September 2021 have been paid in amount of RUB 20,000 (RUB 294.60 per share).

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTSfor the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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:

	2021	2020
Profit attributable to equity holders of the parent	42,738	28,344
Weighted average number of ordinary shares in issue	67,886,315	67,883,361
Effect of share options granted to employees, number of shares	1,801	3,135
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,888,116	67,886,496
Basic earnings per share for profit (expressed in RUB per share)	629.55	417.54
Diluted earnings per share for profit (expressed in RUB per share)	629.54	417.52

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

24

Revenue

	2021			
	PYATEROCHKA	PEREKRESTOK	OTHER SEGMENTS	
	TOTAL			
Revenue from sale of goods through own stores (at a point of time)	1,770,731	348,553	51,858	2,171,142
Revenue from sale of goods through franchisees (at a point of time)	22,946	389	—	23,335
Revenue from wholesale of goods (at a point of time)	372	1,596	3,558	5,526
Revenue from other services (over time)	969	562	3,285	4,816
TOTAL	1,795,018	351,100	58,701	2,204,819

	2020			
	PYATEROCHKA	PEREKRESTOK	OTHER SEGMENTS	
	TOTAL			
Revenue from sale of goods through own stores (at a point of time)	1,581,157	307,292	68,441	1,956,890
Revenue from sale of goods through franchisees (at a point of time)	16,017	438	—	16,455
Revenue from wholesale of goods (at a point of time)	215	1,156	963	2,334
Revenue from other services (over time)	926	574	847	2,347
TOTAL	1,598,315	309,460	70,251	1,978,026

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

25

Expenses by nature

	2021	2020
Cost of goods sold	1,580,063	1,427,974
Staff costs (Note 28)	218,948	188,863
Lease expenses (Note 11)	14,541	11,286
Depreciation, amortisation	145,554	132,877
Impairment of non-current assets	4,724	5,028
Other store costs	31,430	29,664
Utilities	47,935	41,940
Net impairment losses on financial assets	154	251
Other	67,775	52,163
TOTAL	2,111,124	1,890,046

Other expenses included impairment of prepayments in amount to RUB 221 in 2021 (2020: RUB 237).

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):

	2021	2020
Statutory audit of financial statements performed by Ernst & Young Accountants LLP	26	26
Statutory audit of financial statements performed by Other EY Network	44	46
Other assurance services performed by Other EY Network	7	–
Non-audit services by Other EY Network	43	40
TOTAL	120	112

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.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTSfor the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

26

Lease/sublease
and other income

	2021	2020
Lease/sublease income (Note 11)	7,007	6,284
Income from sales of waste	8,412	3,820
Other	8,458	7,633
TOTAL	23,877	17,737

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTSfor the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

27

Finance income
and costs

	2021	2020
Interest expense on lease liabilities	40,562	39,916
Interest expense on borrowings	16,412	15,191
Interest income	(154)	(44)
Other finance costs, net	409	1,573
TOTAL	57,229	56,636

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

28

Staff costs

Wages and salaries in 2021 included expenses of RUB 2,535 related to the long-term incentive programme (LTI) for key employees, including members of the Management Board, other key management and other key employees (2020: RUB 247).

Social security costs in 2021 included pension contributions amounted to RUB 32,052 (2020: RUB 28,024).

The number of employees as at 31 December 2021 amounted to 340,928 (31 December 2020: 339,716).

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 2021 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.

	2021	2020
Wages and salaries	171,225	147,148
Social security costs	47,634	41,655
Share-based payments expense	89	60
TOTAL	218,948	188,863

Total compensation of key management personnel:

	2021	2020
Management Board and Executive Board	1,558	1,543
Supervisory Board	198	162
TOTAL	1,756	1,705

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28

Staff costs

REMUNERATION OF THE MANAGEMENT BOARD

Service agreements with individual Management Board members

Igor Shekhterman

In 2021 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. The 2021 Annual General Meeting approved the re-appointment of Igor Shekhterman, for another two-year term, until the annual General Meeting of Shareholders in 2023, whereby his annual base salary was increased from RUB 70 million to RUB 120 million. The target pay-out 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 100% of base salary per year for the period of the implementation of the long-term incentive plan. As disclosed when Mr. Shekhterman took office in 2015, he is entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, Mr. Shekhterman shall be entitled to the difference upon completion of his full term as CEO. Furthermore, Mr. Shekhterman is eligible to a termination compensation of up to USD 5,000,000 at the discretion of the Supervisory Board. Upon contract termination and subsequent compliance with non-competition obligations, Igor Shekhterman shall be entitled to an amount equal to the net annual base salary under his contract, payable in four quarterly

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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 2021, the Company provided Frank Lhoëst with an annual base salary and participation in the annual cash incentive plan. Frank Lhoëst was re-appointed in 2019 for another four-year term, until the annual General Meeting of Shareholders in 2023. His annual base salary is EUR 315,000. The target pay-out 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 2021, 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. His annual base salary amounts to EUR 275,000. The target pay-out under the annual cash incentive plan is 60% of base salary and is capped at 120% in the event of above-target performance. The agreement with Quinten Peer provides for a severance payment of six month's base salary and may be terminated by either party with a notice period of two months.

Expenses recognised for remuneration of the members of the Management Board:

NAME	YEAR	BASE SALARY ¹	SHORT-TERM INCENTIVE ²	LONG-TERM INCENTIVE ³	SOCIAL SECURITY COST ⁴	TOTAL
I. Shekhterman	2021	104	88	122	44	358
	2020	74	59	108	34	275
F. Lhoëst	2021	27	16	—	1	44
	2020	27	17	—	—	44
Q. Peer	2021	24	15	—	1	40
	2020	23	15	—	—	38
Total		155	119	122	46	442
		124	91	108	34	357

1 The table reflects actual base salary amounts, including adjustments based on number of days spent on vacation, in accordance with Russian labour law.

2 Short-term incentives are based on results achieved in 2021 and payable in 2022. The short-term incentive levels are based on achievement of individual and group targets, resulting in payouts of 86.2% of base salary for Mr. Shekhterman (31 December 2020: 85.3%), 61.2% of base salary for Mr. Lhoëst (31 December 2020: 61.1%) and 63.2% of base salary for Mr. Peer (31 December 2020: 61.1%).

3 For Igor Shekhterman the expense recognised in 2021 for the long-term incentive award is based on the deferred payout under the 2018-2020 LTI programme and an accrual based on the probability of achieving the targets under the 2021-2023 LTI programme.

4 For the year ended 31 December 2021 statutory pension contributions amounted to RUB 29 (2020: RUB 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28

Staff costs

REMUNERATION OF THE EXECUTIVE BOARD ('OTHER KEY MANAGEMENT PERSONNEL')

Other key management personnel comprises all members of the Executive Board excluding the CEO. In 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):

NAME	YEAR	BASE SALARY ¹	SHORT-TERM INCENTIVE ²	LONG-TERM INCENTIVE ³	EXIT PAYMENT	NON-COMPETITION REWARD ⁴	SOCIAL SECURITY COST ⁵	TOTAL
Other key management personnel	2021	314	236	416	–	–	150	1,116
Other key management personnel	2020	296	218	446	70	3	153	1,186

1 Base salary remuneration reflects the increase in salary for some key management personnel, as well as fluctuation in base salary due to the number of days spent on vacation, in accordance with Russian labor law.

2 Short-term incentive for performance in the year 2021 (2020) paid in cash in 2022 (2021).

3 The expense recognised in 2021 for the long-term incentive award is based on the deferred payout under the 2018-2020 LTI programme and an accrual based on the probability of achieving the targets under the 2021-2023 LTI programme.

4 For other key management personnel the severance payment is structured as a non-competition reward payable in two equal installments after the expiry of the period of three months from the Termination Date and after the expiry of the period of six months from the Termination Date following contract termination, subject to compliance with non-competition conditions. The non-competition period for other key management personnel is six months.

5 For the year ended 31 December 2021 statutory pension contributions amounted to RUB 98 (2020: RUB 100).

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

REMUNERATION OF THE SUPERVISORY BOARD

The table to the right specifies the remuneration of the members of the Supervisory Board. Details on Supervisory Board remuneration in 2021 are reflected in the Remuneration Report on pages 167-176.

In accordance with the remuneration policy for the Supervisory Board, as approved by the Annual General Meeting of Shareholders held on 12 May 2021, members of the Supervisory Board receive remuneration in cash and an annual award of Restricted Stock Units (RSUs).

Expenses recognised for remuneration of the members of the Supervisory Board:

	BASE REMUNERATION ¹		SHARE-BASED COMPENSATION ²	
	2021	2020	2021	2020
P. Demchenkov	30	22	22	13
G. King	22	21	21	13
S. DuCharme	12	21	19	20
N. Shouraboura	17	12	11	6
M. Kuchment	10	10	10	6
R. Brasher ³	7	–	2	–
A. Tynkovan ³	8	–	2	–
K.-H. Holland ⁴	3	8	2	5
A. Torbakhov ⁴	–	8	–	(3)
M. Fridman ¹	–	–	–	–
A. Elinson ¹	–	–	–	–
TOTAL	109	102	89	60

1 The annual membership allowance for remunerated Supervisory Board members is determined and paid in Euro, as follows: chairman EUR 250,000; members EUR 100,000; additional fee for vice-chair EUR 50,000; members chairing a committee EUR 100,000 and committee members EUR 16,000 per committee. Mikhail Fridman, Andrei Elinson and Marat Atnashev, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.

2 Based on 100% of the board member's fixed annual remuneration, divided by the average market value of a GDR on the relevant award date. RSU awards are subject to a three-year vesting period and a further two-year lock-in period. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders. The share-based compensation reflects the accrued amounts related to the Restricted Stock Unit Plan and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

3 Richard Brasher and Alexander Tynkovan were appointed as members of the Supervisory Board on 12 May 2021.

4 Andrei Elinson stepped down as member of the Supervisory Board on 12 May 2020, Alexander Torbakhov stepped down on 3 July 2020, Karl-Heinz Holland stepped down on 12 May 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

28

Staff costs

RESTRICTED STOCK UNITS

Furthermore, in 2021 the Annual General Meeting of Shareholders approved the RSU awards under tranche 12, meaning that the Supervisory Board members Stephan DuCharme, Petr Demchenkov, Geoff King, Mikhail Kuchment, Nadia Shouraboura, Richard Brasher

and Alexander Tynkovan were awarded a number of RSUs with award date 19 May 2021, equal to 100% of the gross annual remuneration of the relevant Supervisory Director in 2021, divided by USD 31.36, the volume weighted average closing market price of one GDR over the thirty immediately preceding calendar days of 19 May 2021. The RSUs awarded under tranche 12 will vest on 19

May 2024, followed by a lock-in period ending on 19 May 2026.

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	RSUs	RSUs	RSUs	RSUs	YEAR OF	RSUs	VALUE ON	VESTED	GDRs	RSUs OUT-	RSUs OUT-
		AWARDED IN 2017	AWARDED IN 2018 ³	AWARDED IN 2019 ⁴	AWARDED IN 2020	AWARDED IN 2021	VESTING DATE ¹				LOCKED-UP AS PER 31 DECEMBER 2021 ²		
S. DuCharme	8	9,631	–	–	–	–	2020	9,631	21	9,631	9,631	2022	–
	9	–	9,977	–	–	–	2021	9,977	23	9,977	9,977	2023	– 9,977
	10	–	–	9,722	–	–	2022	–	–	–	–	2024	9,722 9,722
	11	–	–	–	9,335	–	2023	–	–	–	–	2025	9,335 9,335
	12	–	–	–	–	5,133	2024	–	–	–	–	2026	5,133 –
G. King	8	8,026	–	–	–	–	2020	8,026	18	5,433	5,433	2022	–
	9	–	9,977	–	–	–	2021	9,977	23	5,300	5,300	2023	– 9,977
	10	–	–	9,373	–	–	2022	–	–	–	–	2024	9,373 9,373
	11	–	–	–	9,211	–	2023	–	–	–	–	2025	9,211 9,211
	12	–	–	–	–	9,747	2024	–	–	–	–	2026	9,747 –

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.

2 Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.

3 2018 RSUs for Karl-Heinz Holland and Nadia Shouraboura were effectively awarded on in 2019, as both were appointed as Supervisory Board member after the award date in 2018. The awards were based on a 6/12 pro rata factor.

4 Karl Heinz Holland stepped down from the Supervisory Board on 12 May 2021. As per the RSU Plan rules all of the RSUs awarded in 2019 under tranche 9 (i.e. 1,995 RSUs), two third of the RSUs awarded in 2019 under tranche 10 (i.e. 2,499 RSUs), one third of the RSUs awarded in 2020 under tranche 11 (i.e. 1,228 RSUs) vested on 12 May 2021. The lock-up on vested GDRs (i.e. 5,722 RSUs) under tranches 9,10 and 11 has been lifted as per 12 May 2021. After tax, Mr. Holland was entitled to immediate release of 3,739 GDRs relating to awards under tranches 9-11.

5 The awards made under tranche 12 are based on a 9/12 pro rata factor, as both Richard Brasher and Alexander Tynkovan were appointed as Supervisory Board member during 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

28

Staff costs

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.

2 Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.

3 2018 RSUs for Karl-Heinz Holland and Nadia Shouraboura were effectively awarded on in 2019, as both were appointed as Supervisory Board member after the award date in 2018. The awards were based on a 6/12 pro rata factor.

4 Karl Heinz Holland stepped down from the Supervisory Board on 12 May 2021. As per the RSU Plan rules all of the RSUs awarded in 2019 under tranche 9 (i.e. 1,995 RSUs), two third of the RSUs awarded in 2019 under tranche 10 (i.e. 2,499 RSUs), one third of the RSUs awarded in 2020 under tranche 11 (i.e. 1,228 RSUs) vested on 12 May 2021. The lock-up on vested GDRs (i.e. 5,722 RSUs) under tranches 9,10 and 11 has been lifted as per 12 May 2021. After tax, Mr. Holland was entitled to immediate release of 3,739 GDRs relating to awards under tranches 9-11.

5 The awards made under tranche 12 are based on a 9/12 pro rata factor, as both Richard Brasher and Alexander Tynkovan were appointed as Supervisory Board member during 2021.

REMUNERATION OF THE SUPERVISORY BOARD RESTRICTED STOCK UNITS

	TRANCHE	RSUs AWARDED IN 2017	RSUs AWARDED IN 2018 ³	RSUs AWARDED IN 2019 ⁴	RSUs AWARDED IN 2020	RSUs AWARDED IN 2021	YEAR OF VESTING	RSUs VESTED	VALUE ON VESTING DATE ¹	VESTED GDRs AFTER TAX	GDRs LOCKED-UP AS PER 31 DECEMBER 2021 ²	RSUs OUT- STANDING AS PER 31 DECEMBER 2021	RSUs OUT- STANDING AS PER 31 DECEMBER 2020
											END OF LOCK-UP PERIOD		
P. Demchenkov	8	5,618	–	–	–	–	2020	5,618	12	3,803	3,803	2022	–
	9	–	7,982	–	–	–	2021	7,982	18	4,240	4,240	2023	– 7,982
	10	–	–	8,942	–	–	2022	–	–	–	–	2024	8,942 8,942
	11	–	–	–	9,800	–	2023	–	–	–	–	2025	9,800 9,800
	12	–	–	–	–	13,448	2024	–	–	–	–	2026	13,448 –
M. Kuchment	8	3,210	–	–	–	–	2020	3,210	7	2,173	2,173	2022	–
	9	–	3,991	–	–	–	2021	3,991	9	3,991	3,991	2023	– 3,991
	10	–	–	4,099	–	–	2022	–	–	–	–	2024	4,099 4,099
	11	–	–	–	4,274	–	2023	–	–	–	–	2025	4,274 4,274
	12	–	–	–	–	4,523	2024	–	–	–	–	2026	4,523 –
K.-H. Holland⁴	9	–	1,995	–	–	–	2021	1,995	5	1,304	–	2023	– 1,995
	10	–	–	3,749	–	–	2022	2,498	–	1,633	–	2024	– 3,749
	11	–	–	–	3,684	–	2023	1,228	–	802	–	2025	– 3,684

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

28

Staff costs

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.

2 Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.

3 2018 RSUs for Karl-Heinz Holland and Nadia Shouraboura were effectively awarded on in 2019, as both were appointed as Supervisory Board member after the award date in 2018. The awards were based on a 6/12 pro rata factor.

4 Karl Heinz Holland stepped down from the Supervisory Board on 12 May 2021. As per the RSU Plan rules all of the RSUs awarded in 2019 under tranche 9 (i.e. 1,995 RSUs), two third of the RSUs awarded in 2019 under tranche 10 (i.e. 2,499 RSUs), one third of the RSUs awarded in 2020 under tranche 11 (i.e. 1,228 RSUs) vested on 12 May 2021. The lock-up on vested GDRs (i.e. 5,722 RSUs) under tranches 9,10 and 11 has been lifted as per 12 May 2021. After tax, Mr. Holland was entitled to immediate release of 3,739 GDRs relating to awards under tranches 9-11.

5 The awards made under tranche 12 are based on a 9/12 pro rata factor, as both Richard Brasher and Alexander Tynkovan were appointed as Supervisory Board member during 2021.

REMUNERATION OF THE SUPERVISORY BOARD RESTRICTED STOCK UNITS

	TRANCHE	RSUs AWARDED IN 2017	RSUs AWARDED IN 2018 ³	RSUs AWARDED IN 2019 ⁴	RSUs AWARDED IN 2020	RSUs AWARDED IN 2021	YEAR OF VESTING	RSUs VESTED	VALUE ON VESTING DATE ¹	VESTED GDRs AFTER TAX	GDRs LOCKED-UP AS PER 31 DECEMBER 2021 ²	RSUs OUT- STANDING AS PER 31 DECEMBER 2021	RSUs OUT- STANDING AS PER 31 DECEMBER 2020	
											END OF LOCK-UP PERIOD			
N. Shouraboura	9	–	1,995	–	–	–	2021	1,995	5	1,502	1,502	2023	–	1,995
	10	–	–	4,099	–	–	2022	–	–	–	–	2024	4,099	4,099
	11	–	–	–	4,274	–	2023	–	–	–	–	2025	4,274	4,274
	12	–	–	–	–	7,798	2024	–	–	–	–	2026	7,798	–
R. Brasher⁵	12	–	–	–	–	3,245	2024	–	–	–	–	2026	3,245	–
A. Tynkovan⁵	12	–	–	–	–	3,425	2024	–	–	–	–	2026	3,425	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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 2021, a total number of 47,319 RSUs were awarded under tranche 12 of the RSU Plan and will vest in 2024. In 2021 39,643 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 2021 the Group recognised expense related to the RSU Plan in the amount of RUB 89 (expense during the year ended 31 December 2020: RUB 60). At 31 December 2021 the equity component was RUB 118 (31 December 2020: RUB 104). 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:

	2021		2020	
	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	116,479	2,025.96	109,751	1,987.74
Awarded during the period	47,319	2,243.40	48,536	2,185.02
Vested during the period	(39,643)	1,878.34	(28,940)	2,105.86
Forfeited during the period	(3,707)	2,127.76	(12,868)	2,120.24
Outstanding at the end of the period	120,448	2,156.84	116,479	2,025.96

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

30

Income tax

As at 31 December 2021 37 Russian subsidiaries of the Group were the members of the CGT (consolidated group of taxpayers) with X5 Corporate Center LLC acting as a responsible CGT member.

	2021	2020
Current income tax charge	22,190	23,463
Deferred income tax benefit	(4,186)	(6,137)
Income tax charge for the year	18,004	17,326

The theoretical and effective tax rates are reconciled as follows:

	2021	2020
Profit before taxation	60,742	45,670
Theoretical tax at the effective statutory rate*	12,148	9,134
Tax effect of items which are not deductible or assessable for taxation purposes		
Current tax on dividends distributed by the Group's subsidiaries	5,305	5,087
Change in deferred tax liability associated with investments in subsidiaries	(1,580)	(2,451)
Expenses on inventory shortage	337	215
Unrecognised tax loss carry forwards for the year	153	338
Effect of income taxable at rates different from standard statutory rates	14	(138)
Other non-deductible expense	1,627	5,141
Income tax charge for the year	18,004	17,326

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

30

Income tax

DEFERRED INCOME TAX

At 31 December 2021 unrecognised deferred tax liability on unremitted earnings of certain subsidiaries amounted to RUB Nil for which the deferred tax liability was not recognised (2020: RUB 3,834).

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 5,369 recognised at 31 December 2021 for the carry forward of unused tax losses (31 December 2020: RUB 5,487).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards at 31 December 2021 of RUB 3,206 (31 December 2020: RUB 2,949). At 31 December 2021 these unused tax losses have no time restrictions for carry forward. At 31 December 2020 unused tax losses in the amount of 905 were available for carry forward for a period not less than two years, unused tax losses in the amount of 2,044 had no time restrictions for carry forward.

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were attributable to the following items for the year ended 31 December 2021:

	1 JANUARY 2021	CREDITED/ (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	31 DECEMBER 2021	1 JANUARY 2021	CREDITED/ (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	31 DECEMBER 2021
Tax effects of deductible temporary differences and tax loss carry forwards								
Tax losses available for carry forward	5,487	(118)	–	5,369	Right-of-use assets and lease liabilities	(11)	(42)	– (53)
Right-of-use assets and lease liabilities	18,506	1,365	244	20,115	Property, plant and equipment and Investment property	(9,559)	1,155	– (8,404)
Property, plant and equipment and Investment property	276	57	–	333	Investments into subsidiary	(1,580)	1,580	–
Other intangible assets	52	1	–	53	Other intangible assets	(4,880)	(1,926)	– (6,806)
Inventories	2,293	133	–	2,426	Accounts receivable	(1,149)	(549)	– (1,698)
Accounts receivable	27	4	–	31	Accounts payable	(4)	2	– (2)
Accounts payable	7,997	2,490	–	10,487	Other	(162)	(7)	– (169)
Other	396	41	–	437	Gross deferred tax liabilities	(17,345)	213	– (17,132)
Gross deferred tax assets	35,034	3,973	244	39,251	Less offsetting with deferred tax assets	14,576	1,628	– 16,204
Less offsetting with deferred tax liabilities	(14,576)	(1,628)	–	(16,204)	Recognised deferred tax liabilities	(2,769)	1,841	– (928)
Recognised deferred tax assets	20,458	2,345	244	23,047				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

30

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 2020:

	1 JANUARY 2020	CREDITED / (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	31 DECEMBER 2020	1 JANUARY 2020	CREDITED / (DEBITED) TO PROFIT AND LOSS	DEFERRED TAX ON BUSINESS COMBINATIONS (NOTE 7)	31 DECEMBER 2020
Tax effects of deductible temporary differences and tax loss carry forwards								
Tax losses available for carry forward	5,537	(50)	–	5,487	Right-of-use assets and lease liabilities	(40)	29	– (11)
Right-of-use assets and lease liabilities	15,442	2,489	575	18,506	Property, plant and equipment and Investment property	(11,125)	1,566	– (9,559)
Property, plant and equipment and Investment property	402	(126)	–	276	Investments into subsidiary	(4,031)	2,451	– (1,580)
Other intangible assets	121	(69)	–	52	Other intangible assets	(3,293)	(1,587)	– (4,880)
Inventories	2,107	186	–	2,293	Accounts receivable	(849)	(300)	– (1,149)
Accounts receivable	11	16	–	27	Accounts payable	(3)	(1)	– (4)
Accounts payable	6,621	1,376	–	7,997	Other	(298)	136	– (162)
Other	375	21	–	396	Gross deferred tax liabilities	(19,639)	2,294	– (17,345)
Gross deferred tax assets	30,616	3,843	575	35,034	Less offsetting with deferred tax assets	14,138	438	– 14,576
Less offsetting with deferred tax liabilities	(14,138)	(438)	–	(14,576)	Recognised deferred tax liabilities	(5,501)	2,732	– (2,769)
Recognised deferred tax assets	16,478	3,405	575	20,458				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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

Group is exposed to foreign exchange risk arising from foreign currency denominated assets and liabilities with respect to import purchases and lease liabilities mainly in USD and EUR. As at 31 December 2021 the Group had trade accounts payable denominated in USD in the amount of RUB 7,827 and in EUR in the amount of RUB 2,163 (31 December 2020: denominated in USD in the amount of RUB 4,762 and in EUR in the amount of RUB 1,574) and leases denominated in USD in the amount of RUB 7,028 and in EUR in the amount of RUB 3,506 (31 December 2020: denominated in USD in the amount of RUB 9,855 and in EUR in the amount of RUB 4,794). As at 31 December 2021 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 2021 the Group had no floating interest-bearing assets (31 December 2020: Nil), but had 16% (31 December 2020: 28%) share of borrowings with floating interest rates based on the Key rate of the Central Bank of the Russian Federation. As at 31 December 2020, additionally to the borrowings with floating interest rates the Group had financial

instruments limiting the corridor of rate fluctuations for share of borrowings.

If the Key rate had been 100 b.p. higher the profit before tax for the year ended 31 December 2021 had been RUB 398 lower. If the Key rate had been 100 b.p. lower the profit before tax for the year ended 31 December 2021 had been RUB 398 higher. The Group's income and operating cash inflows were largely independent of changes in market interest rates but part of The Group's interest expenses was marginally exposed to changes in market interest rates.

(b) Credit risk

Financial assets, which are potentially subject to credit risk, consisted principally of cash and cash equivalents and short-term financial investments held in banks, trade and other receivables (Note 9 and Note 17). Due to the nature of its main activities (retail sales to individual customers) the Group had no significant concentration of credit risk. Cash was placed in financial institutions which were considered at the time of deposit to have low risk of default (Note 9).

The Group has policies in place to ensure that in case of credit sales of products and services to wholesale customers and reverse franchise schemes only those counterparties with an appropriate credit history are selected. Although collection of receivables could be

influenced by economic factors, management believes that there was no significant risk of loss to the Group beyond the allowance already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits were continually monitored and no individual exposure was considered significant.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by the Corporate Finance Department.

The Group finances its operations by a combination of cash flows from operating activities and long-term and short-term debt. The objective is to ensure continuity of funding on the best available market terms. The policy is to keep the Group's credit portfolio diversified structure, continue to improve the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn available bank lines/limits, and a strong credit rating so that maturing debt may be refinanced as it falls due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31

Financial risk management

(c) Liquidity risk (continued)

At 31 December 2021 the Group had net current liabilities of RUB 206,373 (31 December 2020: RUB 202,400) including short-term borrowings of RUB 87,767 (31 December 2020: RUB 77,026). At 31 December 2021 the Group had available bank credit lines of RUB 482,263 (31 December 2020: RUB 457,086). At 31 December 2021 the Group had RUB registered bonds programme available for issue on MOEX of RUB 190,000 (31 December 2020: RUB 200,000).

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.

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

The Group's capital expenditure programme is highly discretionary. The Group optimises its cash outflows by managing the speed of execution of current capex projects and by delaying future capital extensive programmes, if required.

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

The Group has assessed the impact of climate related matters on its financial statements as not material.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities as at the reporting date at spot foreign exchange rates:

YEAR ENDED 31 DECEMBER 2021	DURING 1 YEAR	IN 1 TO 5 YEARS	OVER 5 YEARS
Lease liabilities	111,953	389,062	289,176
Borrowings	107,339	223,397	-
Trade payables	212,949	-	-
Other financial liabilities	75,683	1,442	-
TOTAL	507,924	613,901	289,176

YEAR ENDED 31 DECEMBER 2020	DURING 1 YEAR	IN 1 TO 5 YEARS	OVER 5 YEARS
Lease liabilities	105,141	369,835	260,555
Borrowings	90,435	197,530	-
Trade payables	170,909	-	-
Other financial liabilities	64,627	1,935	-
TOTAL	431,112	569,300	260,555

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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 COVID-19 worldwide outbreak was also increasing uncertainties. Mobility restrictions, quarantines and similar lockdown measures implemented in Russia to cope with the pandemic affected the operations of the Group leading to less frequent customer visits to stores but larger purchases and shift towards digitalisation. From the beginning of COVID-19 pandemic the Group has taken necessary measures to avoid direct impact of the pandemic on its operations with a special focus on protection of the health of employees and customers and uninterrupted business processes. The Group introduced measures such as mandatory body temperature checks for all employees entering its premises, provided masks and disposable gloves to operational personnel, introduced additional disinfection hours daily for all stores as well as additional disinfection in stores and other premises. The

Group has assessed a potential impact of the COVID-19 outbreak on its going concern (Note 2), impairment of non-current assets (Notes 10, 13) and allowance for expected credit losses (Note 17). There have been no modifications to financial liability contracts and covenants.

The future stability of the Russian economy is largely dependent upon the impact and span of the COVID-19 and the impact of the sanctions being imposed as result of the events subsequent to the reporting date (Note 36). Should the economy be in a long-term recession after the pandemic and the sanctions, that may affect the Group's financial position, cash flows and results of operations.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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 pre-IFRS 16 (4.00/4.25 during two quarters after acquisition). Net debt is calculated as the sum of short-term and long-term borrowings less cash and cash equivalents. Reconciliation of EBITDA pre-IFRS 16 to operating profit is performed in Note 5. This ratio is included as covenants into some of Group's loan agreements (Note 21). At 31 December 2021 the Group complied with the requirements under the loan facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

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 77,366 at 31 December 2021 (31 December 2020: RUB 75,221). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 78,484 at 31 December 2021 (31 December 2020: RUB 73,853) (Note 21). The fair value of long-term borrowings amounted to RUB 179,255 at 31 December 2021 (31 December 2020: RUB 116,536). 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 2,470 at 31 December 2021 (31 December 2020: RUB 1,273). The fair value of short-term borrowings was not materially different from their carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

35

Commitments and contingencies

CAPITAL EXPENDITURE COMMITMENTS

At 31 December 2021 the Group contracted for capital expenditure for the acquisition of property, plant and equipment and intangible assets of RUB 7,659 (net of VAT) (31 December 2020: RUB 7,144).

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 2021.

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 2021 Russian legislative authorities performed further update of state taxation system and continue to diligently collaborate with foreign tax authorities in the framework of an international tax information exchange which makes corporate operations more transparent. After the speech of the Russian President in 2020 about the intention to increase withholding tax rate on dividends and interest paid from Russia to the so-called "offshore jurisdictions" it is generally known that the Russian Ministry of Finance sent letters to finance ministries of some foreign jurisdictions regarding proposed changes to the current tax rates provided in Double Tax Treaties (DTTs), including Cyprus, Luxembourg, Malta and the Netherlands.

In the second half of 2020 it was officially announced by the Russian Ministry of Finance, Russia signed a Protocol to amend the double tax treaties with Cyprus, Luxembourg and Malta. The parties agreed to raise the basic tax rate on dividends and interest to 15% with exceptions for public companies for which the rate stays 5%. The changes related to DTTs with Cyprus and Malta come into force from 1 January 2021, with Luxembourg from 1 January 2022 and would not apply retrospectively. In May 2021 the Federal law of denunciation the DTT

with the Netherlands was adopted, as a result respective DTT expires starting from 2022. These changes would not apply retrospectively to income paid prior to 2022. Besides that, the Russian Ministry of Finance plans to change tax agreements with Hong Kong, Singapore and Switzerland.

The Russian transfer pricing legislation is to the large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. Starting from 1 January 2019, a significant number of domestic transactions was excluded from the transfer pricing control in Russia. Only transactions between Russian companies that apply different tax rates on profits or special tax regimes are subject to the rules, and only if income from those transactions exceeds RUB 1 billion per year. Moreover, starting from 1 January 2019, a threshold of RUB 60 million applies for cross-border transactions to be classified as controlled for transfer pricing purposes.

The amendments described above as well as recent trends of interpretation and application of particular provisions of the Russian tax legislation highlight the fact that tax authorities can enter the more rigid position with regards to the interpretation of the legislation and tax calculations. Therefore, tax authorities can dispute lawfulness of transactions and accounting methods that were previously out of question. As a result, material additional taxes, penalties and fines can be charged. It is impossible to forecast the amount of potential claims and to evaluate the probability of an unfavourable outcome. Generally, tax audits can cover three calendar years preceding the year in which the decision on the performance of audit is adopted. In certain circumstances a tax audit can cover earlier tax periods.

MLI standards came into effect on 1 January 2021. The MLI requires the setting of minimum standards – rules that must be observed in order to benefit from reduced rates under a tax treaty. The Russian Federation adopted the following standards:

- The principal purpose test (PPT); and
- Simplified limitation on benefits (sLoB).

The principal purpose test means that tax treaty benefits may not be applied if obtaining them was the principal purpose of a transaction.

The simplified limitation on benefits means that reduced rates under a tax treaty may be enjoyed only by "qualified persons" (individuals, a state or political subdivision thereof, public companies, pension funds, non-profit organizations, etc.) and other persons who are not "qualified persons" if they carry on "active business" and the income received is connected to that business. The term "active business" does not include activities of holding companies, intra-group financing, making or managing investments (except for professional participants in the market), etc.

It follows from the above that where income is paid to a foreign company which qualifies for reduced rates or exemption from taxation only on the basis of the provisions of a tax treaty with a specific state, it is essential to ensure compliance both with local law and with the provisions of the MLI as a document that regulates the application of DTTs between specific countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

35

Commitments and contingencies

TAX CONTINGENCIES, COMMITMENTS AND RISKS (CONTINUED)

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies not only for the periods open for tax audit but also for which the three years' tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist.

Management estimates that possible exposure in relation to the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times more than accrued liabilities and provisions reflected on the statement of financial position at that date. This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability.

In 2021 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 3,076 including net accrual of non-income tax provision of RUB 1,891, income tax provision of RUB 914 and net accrual of indemnification asset of RUB 271.

In 2020 the Group made net accrual of provisions and liabilities for tax uncertainties attributable to income tax and non-income tax risks in amount of RUB 5,286 including net accrual of non-income tax provision of RUB 1,882, income tax provision of RUB 3,373 and net accrual of indemnification asset of RUB 31.

At the same time management has recorded liabilities for income taxes in the amount of RUB 2,443 (31 December 2020: RUB 2,384) and provisions for taxes other than income taxes in the amount of RUB 6,049 at 31 December 2021 (31 December 2020: RUB 4,202) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2020	2,738
Release of provision	(431)
Accrual of provision	5,717
Offset of provision	(1,438)
Balance at 31 December 2020	6,586
Release of provision	(982)
Accrual of provision	4,058
Offset of provision	(1,170)
Balance at 31 December 2021	8,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

36

Subsequent events for the Group

Since late February 2022 a number of countries (including the US, UK and EU) imposed new sanctions against certain entities and individuals in Russia as a result of the official recognition of the Donetsk People Republic and Lugansk People Republic by the Russian Federation. Announcements of potential additional sanctions have been made following military operations initiated on 24 February 2022. Such sanctions can directly impact the sanctioned entities and individuals, and entities under their control. The Group is not subject to any sanctions or restrictions at the moment, but is likely to encounter challenges due to sanctions on financial system and certain imports into Russia. For the management considerations of the potential risks arisen from recent geopolitical changes please refer to the section "How we manage risk" of the Annual report.

X5 RETAIL GROUP N.V.

Company Statement of Financial Position

at 31 December 2021

(expressed in millions of Russian Roubles,
unless otherwise stated)

Igor Shekhterman
CHIEF EXECUTIVE OFFICER
19 May 2022

Vsevolod Starukhin
CHIEF FINANCIAL OFFICER
19 May 2022

The financial statements are unaudited

NOTE	31 DECEMBER 2021	31 DECEMBER 2020	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
Assets					
Non-current assets					
Financial fixed assets	38	75,516	125,231		
Other non-current assets		9	-		
Deferred tax assets	43	379	569		
		75,904	125,800		
Current assets					
Amounts due from group companies		3,549	2,945		
Prepaid expenses		8	6		
Other receivables		50,627	470		
Short-term financial investments	9	50,092	-		
Other		535	470		
Cash and cash equivalents		5	1		
		54,189	3,422		
TOTAL ASSETS		130,093	129,222		
Equity and liabilities					
Paid up and called up share capital	39	5,707	6,156		
Share premium account	39	46,127	46,086		
Share-based payment reserve	39,41	118	104		
Translation reserve	39	(3,249)	(3,698)		
Retained earnings	39	-	17,850		
Undistributed profit for the year	39	38,926	28,344		
TOTAL EQUITY		87,629	94,842		
Provisions					
Deferred tax liabilities	43	-	395		
		-	395		
Non-current liabilities					
Loans from group companies	40	1,829	1,175		
		1,829	1,175		
Current liabilities					
Loans from group companies	40	446	-		
Amounts due to group companies		40,025	32,294		
Accrued expenses and other liabilities		164	516		
		40,635	32,810		
TOTAL LIABILITIES		42,464	34,380		
TOTAL EQUITY AND LIABILITIES		130,093	129,222		

X5 RETAIL GROUP N.V.

Company Statement of Profit or Loss

at 31 December 2021

(expressed in millions of Russian Roubles,
unless otherwise stated)

Igor Shekhterman

CHIEF EXECUTIVE OFFICER

19 May 2022

Vsevolod Starukhin

CHIEF FINANCIAL OFFICER

19 May 2022

	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
Other income		877	903
General and administrative expenses	42	(817)	(745)
Operating profit		60	158
Finance costs		(347)	(3,959)
Finance income		885	1,156
Net foreign exchange loss		(5)	(616)
Gain/(loss) before tax		593	(3,261)
Withholding tax	43	(4,097)	(1,272)
Income tax benefit	43	1,967	4,205
Income on participating interest after tax	38	44,275	28,672
Profit for the year		42,738	28,344

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

37

Accounting principles

The Company was incorporated as a limited liability Company under the laws of The Netherlands on 13 August 1975 and has its statutory seat in Amsterdam. The Company is publicly owned. The principal activity of the Company is to act as holding company for retail chains operating mainly in Russia. The Company is registered with the Amsterdam Chamber of Commerce under number 33143036.

BASIS OF PRESENTATION

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands, in accordance with Part 9 of Book 2 of the Dutch Civil Code (section 362.8).

ACCOUNTING PRINCIPLES

Unless stated otherwise below, the accounting principles applied for the Company accounts are similar to those used in the IFRS Consolidated Financial Statements (refer to Note 2.1 to the Consolidated Financial Statements). The consolidated accounts of companies publicly listed in the European Union must be prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and adopted by the European Commission.

As the Company mainly exploits Russian grocery stores, the functional currency of the Company is the Russian Rouble as this is the currency of its primary business environment and reflects the economic reality. Unless stated otherwise all amounts are in millions of Russian Rouble ("RUB").

INVESTMENTS IN GROUP COMPANIES

Investments in group companies are entities (including intermediate subsidiaries and special purpose entities) over which the Company has control, because the Company (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. Group companies are recognised from the date on which control is transferred to the Company or its intermediate holding entities. They are derecognised from the date that control ceases.

The Company applies the acquisition method to account for acquired group companies, consistent with the approach identified in the consolidated financial statements. Investments in group companies are presented in accordance with the net asset value method. When an acquisition of an investment in a group company is achieved in stages, any previously held equity interest is remeasured to fair value on the date of acquisition. The measurement against the book value is accounted for in the statement of profit or loss.

When the Company ceases to have control over a group company, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the statement of profit or loss. When parts of investments in group companies are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognised in equity.

When the Company's share of losses in an investment in a group company equals or exceeds its interest in the investment (including separately presented goodwill or any other unsecured non-current receivables being part of the net investment), the Company does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case the Company recognises a provision.

AMOUNTS DUE FROM GROUP COMPANIES

Amounts due from group companies are stated initially at fair value and subsequently at amortised cost. Amortised cost is determined using the effective interest rate.

To avoid the difference between equity in the Consolidated and the Company's Financial Statements any expected credit losses on intercompany receivables recognised in the Company's statement of Profit or Loss are eliminated (reversed) through the respective intercompany receivable account.

FINANCIAL GUARANTEE

At initial recognition the financial guarantees contracts are measured at the fair value.

On subsequent measurement financial guarantees contracts are measured at the 'higher of': The expected credit losses allowance as defined above, and the amount initially recognised (i.e. fair value) less any cumulative amount of income amortisation recognised.

For intercompany financial guarantees issued by the Company, the expected default is not significant and therefore the financial guarantees are not recognised.

SHAREHOLDERS' EQUITY

Issued and paid-up share capital, which is denominated in Euro, is restated into Russian Rouble ("RUB") at the official exchange rate of the Central Bank of the Russian Federation as at reporting date in accordance with section 2:373.5 of the Dutch Civil Code. The difference is settled in the translation reserve.

**NOTES TO THE COMPANY
FINANCIAL STATEMENTS**

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

38

Financial fixed assets

The list of significant group companies was disclosed in the consolidated financial statements
(please refer to Note 6 of the consolidated financial statements).

	31 DECEMBER 2021	31 DECEMBER 2020
a. Movements in the interests in group companies have been as follows		
Opening balance	114,141	183,481
Acquisitions/capital contribution	9,002	100
Deinvestment of Group company	(404)	(199)
Change in equity of a subsidiary as part of common control transaction	(6,583)	–
Change in equity of a subsidiary in the course of merge with parent	18,824	–
Change in equity of a subsidiary due to dividend distributions	(104,301)	(97,913)
Profit from group companies for the year	44,275	28,672
Closing balance	74,954	114,141
b. Movements in the loans to group companies were as follows		
Opening balance	11,090	21,586
Additions	287	9,619
Settlement/repayment	(395)	(20,154)
Offset as a part of merge with subsidiary*	(10,404)	–
Foreign exchange differences	(16)	39
Closing balance	562	11,090
Non-current financial assets	75,516	125,231
TOTAL FINANCIAL FIXED ASSETS	75,516	125,231

* In October 2021 the Company merge with its subsidiary Perekrestok Holdings B.V.

NOTES TO THE COMPANY
FINANCIAL STATEMENTSfor the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

38

Financial fixed assets

31 DECEMBER 2021	CARRYING VALUE	INTEREST RATE, % P.A.	MATURITY DATE
Borrowing group company			
RUB loans to group companies	105	7%	December 2024
RUB loans to group companies	283	8.5%	December 2024
RUB loans to group companies	1	10.50%	December 2023
RUB loans to group companies	173	10.50%	December 2024
TOTAL LOANS TO GROUP COMPANIES	562		
31 DECEMBER 2020	CARRYING VALUE	INTEREST RATE, % P.A.	MATURITY DATE
Borrowing group company			
RUB loans to group companies	10,654	10.50%	December 2022
RUB loans to group companies	105	6.50%	December 2024
USD loans to group companies	203	11%	December 2022
EUR loans to group companies	18	11%	December 2022
EUR loans to group companies	110	10%	December 2022
TOTAL LOANS TO GROUP COMPANIES	11,090		

The total amount of loans provided to group companies was RUB 562 (2020: RUB 11,090) and it approximated the fair value. The loans have not been secured.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

39

Shareholders' equity

As at 31 December 2021 total equity included the reserve for capitalised IT development costs in the amount of RUB 26,122 (31 December 2020: RUB 17,116). As at 31 December 2021 equity available for distribution of dividends to shareholders comprised RUB 56,151 (31 December 2020: RUB 71,466).

Share capital issued

As at 31 December 2021 the Company had 190,000,000 authorised ordinary shares (31 December 2019: 190,000,000) of which 67,888,696 ordinary shares were outstanding (31 December 2020: 67,882,444) and 4,521 ordinary shares held as treasury stock (31 December 2020: 10,774). The nominal value of each ordinary share is EUR 1.

Statutory profit appropriation

On 12 May 2021, in addition to interim dividend RUB 19,997 (RUB 294.58 per share) that was declared and paid in 2020, the General Meeting of Shareholders approved the dividend for 2020 in the amount of RUB 30,006 (RUB 441.99 per share). The total amount of dividend for the full year 2020 was RUB 49,997 (RUB 736.52 per share).

On 25 November 2021, the Company announced the interim dividend for 2021 in the amount of RUB 20,000 (RUB 294.60 per share), which was paid to shareholders in December 2021.

	SHARE CAPITAL*	SHARE PREMIUM	SHARE-BASED PAYMENT (EQUITY)	RETAINED EARNINGS	UNDISTRIBUTED PROFIT FOR THE YEAR	TRANSLATION RESERVE	TOTAL
Balance as at 1 January 2020	4,708	46,150	105	48,336	19,507	(2,250)	116,556
Acquisition of treasury shares	–	(107)	–	–	–	–	(107)
Value of employee services	–	–	60	–	–	–	60
Transfer	–	–	–	19,507	(19,507)	–	–
Currency translation	1,448	–	–	–	–	(1,448)	–
Transfer of vested and waived equity rights (Note 29)	–	43	(61)	–	–	–	(18)
Profit for the year	–	–	–	–	28,344	–	28,344
Dividends	–	–	–	(49,993)	–	–	(49,993)
Balance as at 1 January 2021	6,156	46,086	104	17,850	28,344	(3,698)	94,842
Value of employee services	–	–	89	–	–	–	89
Transfer	–	–	–	28,344	(28,344)	–	–
Currency translation	(449)	–	–	–	–	449	–
Transfer of vested and waived equity rights (Note 29)	–	41	(75)	–	–	–	(34)
Profit for the year	–	–	–	–	42,738	–	42,738
Dividends	–	–	–	(46,194)	(3,812)	–	(50,006)
Balance as at 31 December 2021	5,707	46,127	118	–	38,926	(3,249)	87,629

* Share capital translated at the year-end exchange rate EUR/RUB of 84.0695 (2020: 90.6824)

**NOTES TO THE COMPANY
FINANCIAL STATEMENTS**

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

40

Loans from group companies

NON-CURRENT	31 DECEMBER 2021	INTEREST RATE, % P.A.	FINAL MATURITY DATE
RUB loans to group companies	1,829	6.5%	December 2023
TOTAL	1,829		

NON-CURRENT	31 DECEMBER 2021	INTEREST RATE, % P.A.	FINAL MATURITY DATE
RUB loans from group companies*	135	6.5%	December 2022
RUB loans from group companies	311	4%	December 2022
TOTAL	446		

NON-CURRENT	31 DECEMBER 2020	INTEREST RATE, % P.A.	FINAL MATURITY DATE
RUB loans from group companies*	1,175	6%	December 2022
TOTAL	1,175		

* During 2021 the Company partly repaid the loan, interest rate was increased from 6% to 6.5%.

**NOTES TO THE COMPANY
FINANCIAL STATEMENTS**

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

41

**Share-based
payments**

X5 Retail Group N.V. operates equity settled share-based compensation plan in the form of its Restricted Stock Unit Plan.

Members of the Supervisory Board receive an annual award of Restricted Stock Units (RSUs). For the annual award of RSU's for members of the Supervisory Board, please refer to Note 28 in the consolidated financial statements, which are deemed incorporated and repeated herein by reference.

The receivable or expense is accounted for at the fair value determined in accordance with the policy on share-based payments as included in the consolidated financial statements, including the related liability for cash settled plans or as equity increase for equity settled plans (Note 29).

The following is included in the Company's accounts for the Restricted Stock Unit Plan:

	2021	2020
Share-based payment reserve as at 31 December	118	104
Expenses for the year ended 31 December	89	60

**NOTES TO THE COMPANY
FINANCIAL STATEMENTS**

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

42

General and administrative expenses

Total fees as referred to in section 2:382a Dutch Civil Code, paid to audit firm Ernst & Young Accountants LLP amounted to RUB 26 (2020: RUB 26).

	2021	2020
Other expenses	702	659
Audit expenses	26	26
RSU	89	60
TOTAL	817	745

**NOTES TO THE COMPANY
FINANCIAL STATEMENTS**

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

43

Income tax expense

	2021	2020
Current tax on dividends distributed by the Company's subsidiaries*	3,784	1,272
Deferred income tax benefit	(1,654)	(4,205)
Income tax charge/(benefit) for the year	2,130	(2,933)

* During 2021 the Company received dividends of RUB 105,493 from Russian subsidiary (gross amount including current tax on dividends distributed by the Group's subsidiaries of RUB 5,305 (Note 30)). During 2020 the Company received dividends of RUB 101,728 from Russian subsidiary (gross amount including current tax on dividends distributed by the Group's subsidiaries of RUB 5,087 (Note 30)).

Theoretical and effective tax rates are reconciled as follows:

	2021	2020
Gain/(loss) before taxation	593	(3,261)
Theoretical tax at the effective statutory rate**	148	(815)
Tax effect of items which are not deductible or assessable for taxation purposes		
Change in deferred tax liability associated with investments in subsidiaries	(1,844)	(3,636)
Deferred tax benefit arising from the recovery of the deferred tax assets unrecognised in previous periods	-	(648)
Current tax on dividends distributed by the Group's subsidiaries	3,784	1,272
Unrecognised tax loss carry forwards for the year	-	759
Other non-deductible expense	54	135
Effect of change in tax rate on deferred taxes**	(12)	-
Income tax charge/(benefit) for the year	2,130	(2,933)

** Profit before taxation on operations in Netherlands is assessed based on the statutory rate of 25%. Starting from 2022 profit before taxation on operations in Netherlands is to be assessed based on the statutory rate of 25.8%.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

43

Income tax expense

Deferred income tax

The Company estimated the temporary differences related to unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 2,604 (2020: RUB 2,282) and unused tax credits of RUB 4,996 (2020: RUB 5,051).

At 31 December 2021 temporary differences related to unrecognised potential deferred tax assets and unused tax credits had no time restrictions for carry forward.

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

Deferred tax assets and liabilities and the deferred tax charge/(benefit) in the company statement of profit or loss were attributable to the following items for the year ended 31 December 2021:

	1 JANUARY 2021	BALANCE ACQUIRED IN THE COURSE OF MERGE WITH SUBSIDIARY	CREDITED / (DEBITED) TO PROFIT AND LOSS	31 DECEMBER 2021
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	569	–	(190)	379
Gross deferred tax assets	569	–	(190)	379
Recognised deferred tax assets	569	–	(190)	379
Tax effects of taxable temporary differences				
Investments into subsidiary	(395)	(1,449)	1,844	–
Gross deferred tax liabilities	(395)	(1,449)	1,844	–
Recognised deferred tax liabilities	(395)	(1,449)	1,844	–

Deferred tax assets, deferred tax liabilities and the deferred tax benefit in the Company statement of profit or loss were attributable to the following items for the year ended 31 December 2020:

	1 JANUARY 2020	CREDITED / (DEBITED) TO PROFIT AND LOSS	31 DECEMBER 2020
Tax effects of deductible temporary differences and tax loss carry forwards			
Tax losses available for carry forward	–	569	569
Gross deferred tax assets	–	569	569
Recognised deferred tax assets	–	569	569
Tax effects of taxable temporary differences			
Investments into subsidiary	(4,031)	3,636	(395)
Gross deferred tax liabilities	(4,031)	3,636	(395)
Recognised deferred tax liabilities	(4,031)	3,636	(395)

**NOTES TO THE COMPANY
FINANCIAL STATEMENTS**

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

44

**Staff numbers
and employee
expenses**

At 31 December the number of persons (excluding members of the Management board and the Supervisory board) having an employment contract with the Company is nine. For the remuneration of members of the Management Board and the Supervisory Board, please refer to Note 28 in the consolidated financial statements, which are deemed incorporated and repeated herein by reference. Incurred wages, salaries and related social security charges in relation to the other employees comprise RUB 46 (included former employee) (2020: RUB 33, included former employee).

NOTES TO THE COMPANY
FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

45

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 2021	31 DECEMBER 2020
Irrevocable offer to holders of X5 FINANSE LLC bonds	79,534	74,848
TOTAL	79,534	74,848

The guarantees issued mature as follows:

	31 DECEMBER 2021	31 DECEMBER 2020
Not later than 1 year	59,129	8,967
Later than 1 year and no later than 5 years	20,405	65,881
TOTAL	79,534	74,848

**NOTES TO THE COMPANY
FINANCIAL STATEMENTS**

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

46

Related party transactions

Please refer to Note 8 of the consolidated financial statements; all group companies are also considered related parties. During 2020 and 2021 there were no transactions with related parties outside the normal course of business.

STATUTORY DIRECTOR'S COMPENSATION

The Company has a Management Board and a Supervisory Board. The total remuneration of all Board members as well as other key management personnel is disclosed in Note 28 and Note 29 of the Consolidated Financial Statements.

LOANS TO GROUP COMPANIES

For loans issued to and interest income from group companies please refer to Note 38.

LOANS FROM GROUP COMPANIES

For loans received from and interest expenses to group companies please refer to Note 40.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2021
(expressed in millions of Russian Roubles,
unless otherwise stated)

47

Subsequent events for the company

Since late February 2022 a number of countries (including the US, UK and EU) imposed new sanctions against certain entities and individuals in Russia as a result of the official recognition of the Donetsk People Republic and Lugansk People Republic by the Russian Federation. Announcements of potential additional sanctions have been made following military operations initiated on 24 February 2022. Such sanctions can

directly impact the sanctioned entities and individuals, and entities under their control. The Company and its subsidiaries are not subject to any sanctions or restrictions at the moment, but is likely to encounter challenges due to sanctions on financial system and certain imports into Russia. For the management considerations of the potential risks arisen from recent geopolitical changes please refer to the section "How we manage risk" of the Annual report.

Amsterdam, 19 May 2022

Management Board:

Frank Lhoëst
Igor Shekhterman
Quinten Peer

Supervisory Board:

Peter Demchenkov
Marat Atnashev
Nadia Shouraboura
Alexander Tynkovan

X5 RETAIL GROUP N.V.

Other information

STATUTORY PROFIT APPROPRIATION

In Article 30 of the Company's Articles of Association the following has been stated concerning the appropriation of result:

On proposal of the Supervisory Board, the General Meeting shall determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits.

SUBSEQUENT EVENTS

For subsequent events, please refer to Notes 36 and 47 of the financial statements.

EXPLANATION ON THE ABSENCE OF THE INDEPENDENT AUDITOR'S REPORT

In connection with the ongoing conflict between Russia and Ukraine, X5's external auditor, Ernst & Young Netherlands ('EY'), suspended their audit services for X5 for an indefinite period while evaluating their ability to audit the financial statements of non-sanctioned clients with significant Russian operations.

The Group believes that there are no circumstances preventing the issuance of the auditor's report on the Group consolidated and Company financial statements for the year 2021, and that these financial statements give a true and fair view of the financial position and results of the Group. Therefore, for transparency purposes, and pending EY's internal analysis regarding its ability to issue the required auditor's report, the Company has decided to submit the 2021 Annual Report including the 2021 Consolidated Financial Statements, albeit without the auditor's report. If and when the independent auditor's report is received, the Group will issue the 2021 Annual Report including the 2021 Financial Statements with the independent auditor's report included.