X5 RETAIL GROUP

X5 REPORTS 14.3% REVENUE GROWTH IN Q2 2019
ADJUSTED EBITDA MARGIN UNDER IAS 17 REACHES 8.4%

- ✓ X5 delivered revenue growth of 14.3% year-on-year (y-o-y) on the back of positive like-for-like (LFL) sales and selling space expansion.
- ✓ Gross margin under IAS 17 improved by 105 b.p. y-o-y to 25.0% (25.4% under IFRS 16) in Q2 2019, mainly driven by decreasing shrinkage and improved logistics efficiency.
- ✓ SG&A expenses under IAS 17 (excl. D&A&I, LTI and share-based payments) increased by 36 b.p. y-o-y to 17.3% as a percentage of revenue, mainly due to higher staff costs and other expenses.
- ✓ Adjusted EBITDA(1) under IAS 17 increased by 24.2% y-o-y in Q2 2019, reflecting gross margin expansion, while the adjusted EBITDA margin under IAS 17 rose by 67 b.p. to 8.4% (13.3% under IFRS 16).
- ✓ Net profit under IAS 17 increased by 55.5% y-o-y in Q2 2019. Net profit margin under IAS 17 increased by 82 b.p. to 3.1% (2.7% under IFRS 16).
- ✓ The net debt/EBITDA ratio under IAS 17 was 1.59x as of 30 June 2019.

Amsterdam, 15 August 2019 - X5 Retail Group N.V. ("X5" or the "Company"), a leading Russian food retailer (LSE and MOEX ticker: FIVE), today released its interim report for the three months (Q2) and six months (H1) ended 30 June 2019, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The interim report has been reviewed by the independent auditor and has not been audited.

X5 Chief Executive Officer Igor Shekhterman said:

"In the continuing tough consumer demand environment I am pleased with the progress X5 is making. Our business is competing strongly, growing market share through increasing customer traffic and balanced network expansion, while delivering improving returns to investors and taking important steps to evolve into a digital-driven omnichannel retailer. On the back of improved profitability and reduced selling space growth, we continued to keep debt at comfortable levels after distributing dividends for the second year.

"Our performance in the second quarter was the result of ongoing efforts by the management team to improve operational efficiency through a number of initiatives involving new technological solutions and innovations. As an example, at our proximity format, shrinkage has declined due to new business processes and additional quality controls introduced by the new management team, while staff productivity has improved and staff turnover declined through adjustments to the compensation and motivation schemes.

"In addition to strong performance at our bricks-and-mortar business, we continue to develop X5's online and omnichannel offerings. Our parcel locker and pickup point network continues to grow by utilising our logistics and transport network to deliver third-party goods ordered online. Our own online supermarket, Perekrestok.ru, handled 266 thousand orders in Q2 2019, which is more than four times higher year-on-year and keeps us on track to become Russia's leading online food retailer by the end of next year.

"We paid RUB 25 billion FY 2018 in dividends in June, which represents an 87.3% payout ratio. I believe that our performance in the first half of 2019 has built a solid base for the next dividend, which we plan to pay out next year."

Note: The financial measures under IAS 17 are used in this financial results press-release as upon adoption of IFRS 16 management continued to apply IAS 17 for leases for the performance assessment mainly due to the absence of comparatives under IFRS 16. The reconciliation of IAS 17 and IFRS 16 figures is presented further in Section "Effect of IFRS 16 on X5 Retail Group's financial statements".

(1) Adjusted EBITDA is EBITDA before costs related to the LTI programme, share-based payments and other one-off remuneration payments expense.

X5 RETAIL GROUP

Profit and loss statement highlights[2]

Russian Rouble (RUB), million (mln)	IFRS 16 Q2 2019	IFRS 16 Impact on Q2 2019*	IAS 17 Q2 2019	IAS 17 Q2 2018	IAS 17 change, y-o-y, %	IFRS 16 H1 2019	IFRS 16 Impact on H1 2019*	IAS 17 H1 2019	IAS 17 H1 2018	IAS 17 change, y-o-y, %
Revenue	**437,311**	**-**	**437,311**	**382,559**	***14.3***	**843,175**	**-**	**843,175**	**734,077**	***14.9***
incl. net retail sales[3]	435,588	-	435,588	380,852	*14.4*	839,704	-	839,704	731,198	*14.8*
Pyaterochka	349,395	-	349,395	302,265	*15.6*	664,669	-	664,669	573,313	*15.9*
Perekrestok	65,125	-	65,125	55,158	*18.1*	131,570	-	131,570	110,408	*19.2*
Karusel	21,068	-	21,068	21,858	*(3.6)*	42,985	-	42,985	44,076	*(2.5)*
Gross profit	**111,181**	**1,681**	**109,500**	**91,788**	***19.3***	**213,346**	**3,282**	**210,064**	**175,458**	***19.7***
Gross profit margin, %	*25.4*	*38 b.p.*	*25.0*	*24.0*	*105 b.p.*	*25.3*	*39 b.p.*	*24.9*	*23.9*	*101 b.p.*
Adj. EBITDA	**58,078**	**21,479**	**36,599**	**29,464**	***24.2***	**108,831**	**42,759**	**66,072**	**51,697**	***27.8***
Adj. EBITDA margin, %	*13.3*	*491 b.p.*	*8.4*	*7.7*	*67 b.p.*	*12.9*	*507 b.p.*	*7.8*	*7.0*	*79 b.p.*
Operating profit	**29,446**	**7,114**	**22,332**	**16,235**	***37.6***	**52,712**	**13,873**	**38,839**	**27,471**	***41.4***
Operating profit margin, %	*6.7*	*163 b.p.*	*5.1*	*4.2*	*86 b.p.*	*6.3*	*165 b.p.*	*4.6*	*3.7*	*86 b.p.*
Net profit	**11,977**	**(1,531)**	**13,508**	**8,685**	***55.5***	**20,312**	**(2,493)**	**22,805**	**14,313**	***59.3***
Net profit margin, %	*2.7*	*(35) b.p.*	*3.1*	*2.3*	*82 b.p.*	*2.4*	*(30) b.p.*	*2.7*	*1.9*	*75 b.p.*

* For more details on IFRS 16 impact please refer to page 8.

Net retail sales

Total net retail sales growth reached 14.4% y-o-y in Q2 2019, driven by:

- 5.0% increase in LFL[4] sales; and
- 9.4% y-o-y increase in net retail sales from net new space, resulting from a 14.1% y-o-y rise in selling space.

Selling space by format, square meters (sq. m)

	As at 30-Jun-19	As at 31-Dec-18	*change vs 31-Dec-18, %*	As at 30-Jun-18	*change vs 30-Jun-18, %*
Pyaterochka	5,607,228	5,291,421	*6.0*	4,841,148	*15.8*
Perekrestok	814,808	781,538	*4.3*	705,316	*15.5*
Karusel	364,028	382,024	*(4.7)*	386,271	*(5.8)*
X5 Retail Group	**6,786,064**	**6,463,735**	***5.0***	**5,946,170**	***14.1***

Q2 & H1 2019 LFL store performance by format, % change y-o-y

In Q2 2019, LFL sales performance remained strong at 5.0% y-o-y.

	Q2 2019			H1 2019		
	Sales	Traffic	Basket	Sales	Traffic	Basket
Pyaterochka	*4.8*	*3.2*	*1.6*	*4.8*	*2.7*	*2.0*
Perekrestok	*7.7*	*6.3*	*1.3*	*8.1*	*7.1*	*1.0*
Karusel	*0.4*	*(3.5)*	*4.1*	*1.2*	*(3.0)*	*4.3*
X5 Retail Group[4]	***5.0***	***3.3***	***1.6***	***5.0***	***3.0***	***2.0***

For more details on net retail sales growth please refer to X5's Q2 2019 Trading Update.

(2) Please note that in this and other tables, and in the text of this press release, immaterial deviations in the calculation of % changes, subtotals and totals are due to rounding.

(3) Net retail sales represent revenue from the operations of X5-managed stores net of VAT. This number differs from revenue, which includes proceeds from wholesale operations, direct franchisees (royalty payments) and other revenue.

(4) LFL comparisons of retail sales between two periods are comparisons of retail sales in local currency (including VAT) generated by the relevant stores. The stores that are included in LFL comparisons are those that have operated for at least 12 full months. Their sales are included in 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.

Gross profit margin

The gross profit margin under IAS 17 increased by 105 b.p. y-o-y to 25.0% in Q2 2019. The increase was driven primarily by successful measures to decrease shrinkage levels and better logistics efficiency, while the commercial margin remained flat y-o-y due to balanced promo activity.

Selling, general and administrative (SG&A) expenses (excl. D&A&I)

	IFRS 16		IAS 17			IFRS 16		IAS 17		
Russian Rouble (RUB), million (mln)	**Q2 2019**	**Impact on Q2 2019***	**Q2 2019**	**Q2 2018**	***change, y-o-y, %***	**H1 2019**	**Impact on H1 2019***	**H1 2019**	**H1 2018**	***change, y-o-y, %***
Staff costs	**(34,360)**	**-**	**(34,360)**	**(29,064)**	***18.2***	**(67,611)**	**-**	**(67,611)**	**(57,594)**	***17.4***
% of Revenue	*7.9*	*-*	*7.9*	*7.6*	*26 b.p.*	*8.0*	*-*	*8.0*	*7.8*	*17 b.p.*
incl. LTI and share-based payments	(464)	**-**	(464)	(598)	*(22.4)*	(921)	**-**	(921)	(1,560)	*(41.0)*
staff costs excl. LTI % of Revenue	*7.8*	*-*	*7.8*	*7.4*	*31 b.p.*	*7.9*	*-*	*7.9*	*7.6*	*28 b.p.*
Lease expenses	**(2,622)**	**18,558**	**(21,180)**	**(18,657)**	***13.5***	**(3,949)**	**37,998**	**(41,947)**	**(36,459)**	***15.1***
% of Revenue	*0.6*	*(424) b.p.*	*4.8*	*4.9*	*(3) b.p.*	*0.5*	*(451) b.p.*	*5.0*	*5.0*	*1 b.p.*
Utilities	**(8,264)**	**-**	**(8,264)**	**(7,376)**	***12.0***	**(18,119)**	**-**	**(18,119)**	**(15,620)**	***16.0***
% of Revenue	*1.9*	*-*	*1.9*	*1.9*	*(4) b.p.*	*2.1*	*-*	*2.1*	*2.1*	*2 b.p.*
Other store costs	**(4,479)**	**231**	**(4,710)**	**(4,250)**	***10.8***	**(8,693)**	**462**	**(9,155)**	**(8,395)**	***9.1***
% of Revenue	*1.0*	*(5) b.p.*	*1.1*	*1.1*	*(3) b.p.*	*1.0*	*(5) b.p.*	*1.1*	*1.1*	*(6) b.p.*
Third party services	**(3,277)**	**(173)**	**(3,104)**	**(2,688)**	***15.5***	**(5,949)**	**(171)**	**(5,778)**	**(5,128)**	***12.7***
% of Revenue	*0.7*	*4 b.p.*	*0.7*	*0.7*	*1 b.p.*	*0.7*	*2 b.p.*	*0.7*	*0.7*	*(1) b.p.*
Other expenses(5)	**(3,439)**	**1,012**	**(4,451)**	**(3,339)**	***33.3***	**(7,287)**	**1,018**	**(8,305)**	**(6,941)**	***19.7***
% of Revenue	*0.8*	*(23) b.p.*	*1.0*	*0.9*	*15 b.p.*	*0.9*	*(12) b.p.*	*1.0*	*0.9*	*4 b.p.*
SG&A (excl. D&A&I)	**(56,441)**	**19,628**	**(76,069)**	**(65,374)**	***16.4***	**(111,608)**	**39,307**	**(150,915)**	**(130,138)**	***16.0***
% of Revenue	*12.9*	*(449) b.p.*	*17.4*	*17.1*	*31 b.p.*	*13.2*	*(466) b.p.*	*17.9*	*17.7*	*17 b.p.*
SG&A (excl. D&A&I, LTI and share-based payments)	**(55,977)**	**19,628**	**(75,605)**	**(64,776)**	***16.7***	**(110,687)**	**39,307**	**(149,994)**	**(128,578)**	***16.7***
% of Revenue	*12.8*	*(449) b.p.*	*17.3*	*16.9*	*36 b.p.*	*13.1*	*(466) b.p.*	*17.8*	*17.5*	*27 b.p.*

* For more details on IFRS 16 impact please refer to page 8.

In Q2 2019, SG&A expenses excluding D&A&I, LTI and share-based payments under IAS 17 as a percentage of revenue increased by 36 b.p. to 17.3%, mainly due to increased staff costs and other expenses.

Staff costs (excluding LTI and share-based payments) as a percent of revenue increased by 31 b.p. y-o-y in Q2 2019 to 7.8%, mainly due to initiatives to decrease staff turnover in order to improve service level in stores by aligning in-store personnel compensation to market benchmarks at the end of 2018, primarily at Pyaterochka.

LTI and share-based payments expenses amounted to RUB 464 mln in Q2 2019.

Lease expenses under IAS 17 as a percentage of revenue in Q2 2019 decreased by 3 b.p. y-o-y. The impact of a growing share of leased space in X5's total real estate portfolio was offset by a positive operating leverage effect from strong LFL store sales growth.

Utilities costs as a percentage of revenue in Q2 2019 decreased by 4 b.p. y-o-y to 1.9% due to strong LFL growth offsetting utility cost inflation.

(5) The Company made a decision to reclassify income from sale of recyclable materials from other expenses (SG&A) to lease/sublease and other income as of 1 January 2019. Other expenses include acquiring and encashment costs, property tax, travel costs, etc.

Other expenses under IAS 17 as a percentage of revenue in Q2 2019 increased by 15 b.p. y-o-y to 1.0% due to the reclassification as of 1 January 2019 of proceeds from sale of recyclable materials to other income and an increase in acquiring costs driven by increasing penetration of card payments.

In H1 2019, SG&A expenses excluding D&A&I, LTI and share-based payments under IAS 17 as a percentage of revenue increased by 27 b.p. to 17.8%, mainly due to increased staff costs and other expenses.

Lease/sublease and other income

As a percentage of revenue, the Company's income from lease, sublease and other operations under IAS 17 totalled 0.6%, a decrease of 6 b.p. y-o-y in Q2 2019, supported by the reclassification of income from sale of recyclable materials from SG&A expenses[5].

EBITDA and EBITDA margin

Russian Rouble (RUB), million (mln)	*IFRS 16*		*IAS 17*			*IFRS 16*		*IAS 17*		
	Q2 2019	**Impact on Q2 2019***	**Q2 2019**	**Q2 2018**	***change, y-o-y, %***	**H1 2019**	**Impact on H1 2019***	**H1 2019**	**H1 2018**	***change, y-o-y, %***
Gross profit	**111,181**	**1,681**	**109,500**	**91,788**	***19.3***	**213,346**	**3,282**	**210,064**	**175,458**	***19.7***
Gross profit margin, %	*25.4*	*38 b.p.*	*25.0*	*24.0*	*105 b.p.*	*25.3*	*39 b.p.*	*24.9*	*23.9*	*101 b.p.*
SG&A (excl. D&A&I and LTI and share-based payments)	**(55,977)**	**19,628**	**(75,605)**	**(64,776)**	***16.7***	**(110,687)**	**39,307**	**(149,994)**	**(128,578)**	***16.7***
% of Revenue	*12.8*	*(449) b.p.*	*17.3*	*16.9*	*36 b.p.*	*13.1*	*(466) b.p.*	*17.8*	*17.5*	*27 b.p.*
Net impairment losses on financial assets	**(94)**	**-**	**(94)**	**(216)**	***(56.5)***	**(102)**	**-**	**(102)**	**(275)**	***(62.9)***
% of Revenue	*0.02*	*-*	*0.021*	*0.056*	*(3) b.p.*	*0.01*	*-*	*0.01*	*0.04*	*(3) b.p.*
Lease/sublease and other income	**2,968**	**170**	**2,798**	**2,668**	***4.9***	**6,274**	**170**	**6,104**	**5,092**	***19.9***
% of Revenue	*0.7*	*4 b.p.*	*0.6*	*0.7*	*(6) b.p.*	*0.7*	*2 b.p.*	*0.7*	*0.7*	*3 b.p.*
Adj. EBITDA	**58,078**	**21,479**	**36,599**	**29,464**	***24.2***	**108,831**	**42,759**	**66,072**	**51,697**	***27.8***
Adj. EBITDA margin, %	*13.3*	*491 b.p.*	*8.4*	*7.7*	*67 b.p.*	*12.9*	*507 b.p.*	*7.8*	*7.0*	*79 b.p.*
LTI, share-based payments and other one-off remuneration payments expense and SSC	(464)	-	(464)	(598)	(22.4)	(921)	-	(921)	(1,560)	(41.0)
% of Revenue	*(0.1)*	*-*	*(0.1)*	*(0.2)*	*5 b.p.*	*(0.1)*	*-*	*(0.1)*	*(0.2)*	*10 b.p.*
EBITDA	**57,614**	**21,479**	**36,135**	**28,866**	***25.2***	**107,910**	**42,759**	**65,151**	**50,137**	***29.9***
EBITDA margin, %	*13.2*	*491 b.p.*	*8.3*	*7.5*	*72 b.p.*	*12.8*	*507 b.p.*	*7.7*	*6.8*	*90 b.p.*

* For more details on IFRS 16 impact please refer to page 8.

Segment reporting (under IAS 17)

RUB mln	H1 2019	H1 2018	*change, y-o-y, %*
Proximity (Pyaterochka)			
Revenue	666,300	574,275	*16.0*
EBITDA	56,500	43,683	*29.3*
EBITDA margin, %	*8.5*	*7.6*	*87 b.p.*
Supermarkets (Perekrestok), incl. online			
Revenue	132,668	111,015	*19.5*
EBITDA	9,323	6,975	*33.7*
EBITDA margin, %	*7.0*	*6.3*	*74 b.p.*
Hypermarkets (Karusel)			
Revenue	43,523	44,723	*(2.7)*
EBITDA	1,865	2,041	*(8.6)*
EBITDA margin, %	*4.3*	*4.6*	*(28) b.p.*
Other segments			
Revenue	684	4,064	*(83.2)*
EBITDA	16	(275)	*n/a*
EBITDA margin, %	*2.3*	*(6.8)*	*911 b.p.*
Corporate			
EBITDA	(2,553)	(2,287)	*11.6*

Upon adoption of IFRS 16 the Management Board continued assessment of the performance of the operating segments based on a measure of sales and adjusted EBITDA under IAS 17.

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

In H1 2019, Pyaterochka's EBITDA margin under IAS 17 increased by 87 b.p. y-o-y to 8.5%, driven primarily by gross margin expansion due to successful measures to decrease shrinkage levels and better logistics efficiency.

Perekrestok's EBITDA margin under IAS 17 increased by 74 b.p. y-o-y in H1 2019 to 7.0%, mainly due to positive operating leverage effect, in particular deceleration of staff costs and lease and other expenses as a percentage of revenue.

In H1 2019, Karusel's EBITDA margin under IAS 17 declined by 28 b.p. y-o-y to 4.3%, as the format continues to suffer from the structural outflow of customers to proximity formats and online shopping options, leading to negative operating leverage in hypermarkets. The transfer of three hypermarkets to Perekrestok in H1 2019 also created pressure on Karusel's margins.

Other segments include Perekrestok Express, which was fully closed in March 2019.

Corporate expenses under IAS 17 rose by 11.6% y-o-y in H1 2019, mainly due to additional costs related to development of HR and security departments.

D&A&I

Depreciation, amortisation and impairment costs under IAS 17 in Q2 2019 totalled RUB 13,803 mln, (RUB 26,312 mln for H1 2019), decreasing as a percentage of revenue by 15 b.p. y-o-y to 3.2% (for H1 2019: down by 3 b.p. to 3.1%). This was due to revenue growth outpacing the growth of gross book value of assets.

Non-operating gains and losses

Russian Rouble (RUB), million (mln)	IFRS 16 Q2 2019	Impact on Q2 2019*	IAS 17 Q2 2019	Q2 2018	change, y-o-y, %	IFRS 16 H1 2019	Impact on H1 2019*	IAS 17 H1 2019	H1 2018	change, y-o-y, %
Operating profit	**29,446**	**7,114**	**22,332**	**16,235**	***37.6***	**52,712**	**13,873**	**38,839**	**27,471**	***41.4***
Net finance costs	(13,480)	(9,326)	(4,154)	(4,444)	*(6.5)*	(27,002)	(18,554)	(8,448)	(8,651)	*(2.3)*
Net FX result	349	281	68	(192)	*n/a*	1,954	1,563	391	(173)	*n/a*
Profit before tax	**16,315**	**(1,931)**	**18,246**	**11,599**	***57.3***	**27,664**	**(3,118)**	**30,782**	**18,647**	***65.1***
Income tax expense	(4,338)	400	(4,738)	(2,914)	*62.6*	(7,352)	625	(7,977)	(4,334)	*84.1*
Net profit	**11,977**	**(1,531)**	**13,508**	**8,685**	***55.5***	**20,312**	**(2,493)**	**22,805**	**14,313**	***59.3***
Net profit margin, %	*2.7*	*(35) b.p.*	*3.1*	*2.3*	*82 b.p.*	*2.4*	*(30) b.p.*	*2.7*	*1.9*	*75 b.p.*

* For more details on IFRS 16 impact please refer to page 8.

Net finance costs under IAS 17 in Q2 2019 decreased by 6.5% y-o-y to RUB 4,154 mln due to lower gross debt and a decrease in the weighted average effective interest rate on X5's total debt from 8.59% for H1 2018 to 8.14% for H1 2019 as a result of declining interest rates in Russian capital markets, as well as actions taken by X5 to minimise interest expenses. In H1 2019, the weighted average effective interest rate was the lowest since X5 started borrowing solely in the Russian ruble.

In Q2 2019 income tax expense under IAS 17 increased by 62.6% y-o-y to RUB 4,738 mln due to the low base of Q2 2018 impacted by an amended tax return. X5's effective tax rate under IAS 17 for the quarter totalled 26.0% (including the accrual of deferred tax on investments associated with potential dividend payments).

Consolidated cash flow statement highlights

Russian Rouble (RUB), million (mln)	IFRS 16 Q2 2019	Impact on Q2 2019*	IAS 17 Q2 2019	Q2 2018	change, y-o-y, %	IFRS 16 H1 2019	Impact on H1 2019*	IAS 17 H1 2019	H1 2018	change, y-o-y, %
Net cash from operating activities before changes in working capital	57,599	21,307	36,292	28,742	*26.3*	107,669	42,586	65,083	50,060	*30.0*
Change in working capital	1,333	(606)	1,939	(8,126)	*n/a*	(1,781)	(544)	(1,237)	(10,014)	*(87.6)*
Net interest and income tax paid	(15,719)	(9,307)	(6,412)	(6,688)	*(4.1)*	(33,330)	(18,515)	(14,815)	(12,414)	*19.3*
Net cash flows generated from operating activities	43,213	11,394	31,819	13,928	*128.5*	72,558	23,527	49,031	27,632	*77.4*
Net cash used in investing activities	(18,186)	-	(18,186)	(23,797)	*(23.6)*	(35,559)	-	(35,559)	(49,453)	*(28.1)*
Net cash generated from/(used in) financing activities	(26,357)	(11,394)	(14,963)	10,729	*n/a*	(44,416)	(23,527)	(20,889)	8,027	*n/a*
Effect of exchange rate changes on cash & cash equivalents	(8)	-	(8)	(21)	*(61.9)*	(8)	-	(8)	(37)	*(78.4)*
Net increase/(decrease) in cash & cash equivalents	**(1,338)**	**-**	**(1,338)**	**839**	***n/a***	**(7,425)**	**-**	**(7,425)**	**(13,831)**	***(46.3)***

* For more details on IFRS 16 impact please refer to page 8.

In Q2 2019, the Company's net cash from operating activities before changes in working capital under IAS 17 increased by RUB 7,550 mln, or 26.3% y-o-y, and totalled RUB 36,292 mln. The positive change in working capital under IAS 17 of RUB 1,939 mln in Q2 2019 compared to negative RUB (8,126) mln in Q2 2018 was mainly due to an increase of accounts payable and lower increase of inventories y-o-y due to better inventory management.

Net interest and income tax paid under IAS 17 in Q2 2019 decreased by RUB 276 mln, or 4.1% y-o-y, and totalled RUB 6,412 mln. The decline in interest paid was in line with the lower level of gross debt and lower effective interest rate y-o-y. Income tax paid under IAS 17 decreased y-o-y due to a one-off tax refund in Q2 2019 following tax overpayment in previous periods.

As a result, in Q2 2019, net cash flows generated from operating activities under IAS 17 totalled RUB 31,819 mln, up 128.5% from RUB 13,928 mln in Q2 2018.

In H1 2019, net cash flows generated from operating activities under IAS 17 totalled RUB 49,032 mln, up 77.4% from RUB 27,632 mln for the same period of 2018.

Net cash used in investing activities under IAS 17, which generally consists of payments for property, plant and equipment, decreased to RUB 18,187 mln in Q2 2019 from RUB 23,797 mln in Q2 2018, reflecting slower pace of openings and more discipline in capex allocation. For H1 2019, net cash used in investing activities under IAS 17 decreased to RUB 35,559 mln from RUB 49,453 mln in H1 2018.

Net cash used in financing activities under IAS 17 totalled RUB 14,963 mln in Q2 2019 compared to net cash generated from financing activities of RUB 10,729 mln in Q2 2018.

Liquidity update

RUB mln	30-Jun-19	*% in total*	31-Dec-18	*% in total*	30-Jun-18	*% in total*
Total debt	**212,055**		**207,764**		**224,164**	
Short-term debt	59,852	*28.2*	60,435	*29.1*	63,392	*28.3*
Long-term debt	152,203	*71.8*	147,329	*70.9*	160,772	*71.7*
Net debt	**195,112**		**183,396**		**210,390**	
Net debt/ EBITDA	**1.59**		**1.70**		**2.18**	
Lease liabilities (IFRS 16)	**448,114**					

As of 30 June 2019, the Company's total debt under IAS 17 amounted to RUB 212,055 mln and comprised 28.2% short-term debt and 71.8% long-term debt. The Company's net debt/EBITDA ratio under IAS 17 was 1.59x as of 30 June 2019.

The Company's debt is 100% denominated in Russian Roubles.

As of 30 June 2019, the Company had access to RUB 341,073 million in available credit limits with major Russian and international banks.

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

Effect on gross profit

Gross profit and gross margin are higher by RUB 1,681 mln and 38 b.p. under IFRS 16 compared to IAS 17 in Q2 2019 (RUB 3,282 mln and 39 b.p. in H1 2019), respectively, due to the lease for distribution centers, which was previously part of cost of sales, but has been excluded from the gross profit calculation.

Effect on EBITDA, operating profit and finance costs

Lease expenses, other store costs, third party services and other expenses in the total amount of RUB 19,628 mln have been excluded from SG&A expenses in Q2 2019 (RUB 39,307 mln in H1 2019) under the new standard. Additional depreciation of RUB 14,365 mln related to leased assets has been added under operating costs in Q2 2019 (RUB 28,886 mln in H1 2019) under IFRS 16.

Financial costs increased by RUB 9,326 mln under the new standard compared to IAS 17 due to the interest expense on lease liabilities in Q2 2019 (RUB 18,554 mln in H1 2019).

The implementation of IFRS 16 increases the Company's EBITDA significantly, as lease expenditure previously recognised in the income statement is excluded. Adjusted EBITDA margin is 491 b.p. higher under the new standard compared to IAS 17 in Q2 2019 (507 b.p. in H1 2019). Interest expense on liability is recognised in finance costs, below the EBITDA level.

Effect on net profit

The net FX result is RUB 281 mln higher under IFRS 16 compared to IAS 17 in Q2 2019 (RUB 1,563 mln in H1 2019) due to revaluation of foreign currency liabilities resulting from lease contracts denominated in foreign currencies.

IFRS 16 resulted in lower income tax expense due to lower profit before tax. The effective tax rate under the new standard is 26.6% in Q2 2019 and H1 2019.

Net profit and net profit margin are impacted by the IFRS 16 standard as a result of additional depreciation and interest, and are lower by RUB 1,531 mln and 35 b.p. under the new standard compared to IAS 17 in Q2 2019 (RUB 2,493 mln and 30 b.p. in H1 2019).

Effect on cash flow statement

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

Related Party Transactions

For a description of the related party transactions entered into by the Company, please refer to note 7 of the consolidated condensed interim financial statements.

Risks and Uncertainties

X5's risk management programme provides executive management with a periodic in-depth understanding of X5's key business risks and the risk management systems and internal controls in place to mitigate these risks. For a detailed description of key risks that the Company faces, please refer to the 2018 Annual Report. It should be noted that there are additional risks that management believe are immaterial or otherwise common to most companies, or that management is currently unaware of. The Company has assessed the risks for the first half of 2019 and believes that the risks identified are in line with those presented in the 2018 Annual Report. For a description of the financial risks faced by the Company, please refer to note 30 of the audited consolidated financial statements and the Company's 2018 Annual Report.

Interim report

The interim report, including the full set of reviewed IFRS condensed consolidated interim financial statements and notes thereto, is available on X5's corporate website at:
https://www.x5.ru/en/Pages/Investors/ResultsCenter.aspx

Information on Alternative Performance Measures

For more information on Alternative Performance Measures, which provide readers with a more detailed and accurate understanding of the Company's financial and operating performance, please refer to pages 122-125 of the Annual Report 2018.

Note to Editors:

X5 Retail Group N.V. (LSE and MOEX: FIVE, Fitch – 'BB+', Moody's – 'Ba1', S&P – 'BB', RAEX – 'ruAA') is a leading Russian food retailer. The Company operates several retail formats: the chain of proximity stores under the Pyaterochka brand, the supermarket chain under the Perekrestok brand and the hypermarket chain under the Karusel brand.

As of 30 June 2019, X5 had 15,260 Company-operated stores. It has the leading market position in both Moscow and St Petersburg and a significant presence in the European part of Russia. Its store base includes 14,385 Pyaterochka proximity stores, 785 Perekrestok supermarkets and 90 Karusel hypermarkets. The Company operates 42 DCs and 3,952 Company-owned trucks across the Russian Federation.

For the full year 2018, revenue totalled RUB 1,532,537 mln (USD 24,439 mln), Adjusted EBITDA reached RUB 109,871 mln (USD 1,752 mln), and net profit for the period amounted to RUB 28,642 mln (USD 457 mln). In H1 2019, revenue totalled RUB 843,175 mln (USD 12,905 mln), adjusted EBITDA reached RUB 66,072 mln (USD 1,011 mln), and net profit amounted to RUB 22,805 mln (USD 349 mln).

X5's Shareholder structure is as follows: CTF Holdings S.A. – 47.86%, Intertrust Trustees Ltd (Axon Trust) – 11.43%, X5 Directors – 0.08%, treasury shares – 0.01%, Shareholders with less than 3% – 40.62%.

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X5 Retail Group N.V.

Condensed Consolidated Interim Financial Statements

Six months ended 30 June 2019

Provided under IAS 34 as adopted by the EU

Contents

This report contains the half-yearly condensed consolidated financial statements of X5 Retail Group N.V. (the "Company") for the six months ended 30 June 2019 and the responsibility statement by the Company's Management Board (the "Management Board"), which have been reviewed by the independent auditor and are not audited.

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the review report, is made with a view to distinguishing the respective responsibilities of the Management Board and those of the independent auditors in relation to the condensed consolidated interim financial statements of X5 Retail Group N.V. and its subsidiaries (the "Group").

The Management Board is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group at 30 June 2019, and the results of its operations, cash flows and changes in shareholders' equity for the six months then ended, in compliance with International Accounting Standard 34 *Interim Financial Reporting*.

In preparing the condensed consolidated interim financial statements, the Management Board is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS issued by the International Accounting Standards Board and adopted by the European Union have been followed, subject to any material departures disclosed and explained in the condensed consolidated interim financial statements; and
- Preparing the condensed consolidated interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

The Management Board is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the condensed consolidated interim financial statements of the Group comply with International Accounting Standard 34 *Interim Financial Reporting*;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The Management Board hereby declares that to the best of their knowledge, the half-yearly financial statements included in this interim report, which have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the half-yearly management report includes a fair review of the information required pursuant to section 5:25d (8)/(9) of the Dutch Financial Markets Supervision Act *(Wet op het financieel toezicht)*.

Igor Shekhterman	Svetlana Demyashkevich
Chief Executive Officer	Chief Financial Officer
14 August 2019	14 August 2019

Building a better
working world

Review report

To: the Supervisory Board and Shareholders of
X5 Retail Group N.V.

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of X5 Retail Group N.V., Amsterdam, which comprise the condensed consolidated interim statement of financial position as at 30 June 2019, the condensed consolidated interim statements of profit or loss, comprehensive income, cash flows and changes in equity for the six-month period then ended, and the notes, comprising a summary of the significant accounting policies and other explanatory information.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope

We conducted our review in accordance with Dutch law including Standard 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements for the six-month period ended 30 June 2019 are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*, as adopted by the European Union.

Amsterdam, 14 August 2019

Ernst & Young Accountants LLP

signed by G.A. Arnold

(expressed in millions of Russian Roubles, unless otherwise stated)

	Note	30 June 2019	31 December 2018*
Assets			
Non-current assets			
Property, plant and equipment	8	309,555	303,802
Right-of-use assets	4	397,369	–
Investment property		6,085	6,173
Goodwill	9	98,040	94,627
Other intangible assets	8	20,257	22,126
Investments in associates and joint ventures		200	203
Other non-current assets	4	2,368	8,015
Deferred tax assets		15,262	5,013
		849,136	**439,959**
Current assets			
Inventories		103,686	115,990
Indemnification asset	6	121	–
Trade, other accounts receivable and prepayments	10	11,389	14,172
Current income tax receivable		5,858	6,167
VAT and other taxes receivable		10,229	10,143
Cash and cash equivalents		16,943	24,368
		148,226	**170,840**
Total assets		**997,362**	**610,799**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	14	2,458	2,458
Share premium		46,139	46,192
Retained earnings		68,648	116,707
Share-based payment reserve	19	92	118
		117,337	**165,475**
Total equity		**117,337**	**165,475**
Non-current liabilities			
Long-term borrowings	13	152,203	147,329
Long-term lease liabilities	4	394,204	–
Deferred tax liabilities		5,254	6,166
Other non-current liabilities		1,188	626
		552,849	**154,121**
Current liabilities			
Trade accounts payable		138,732	154,873
Short-term borrowings	13	59,852	60,435
Interest accrued		1,873	1,770
Short-term lease liabilities	4	53,910	–
Short-term contract liabilities	12	1,638	1,664
Current income tax payable		611	725
Provisions and other liabilities	11	70,560	71,736
		327,176	**291,203**
Total liabilities		**880,025**	**445,324**
Total equity and liabilities		**997,362**	**610,799**

* The Group made a transition to IFRS 16 using the modified retrospective approach under which the comparative information was not restated (refer to Note 4).

Igor Shekhterman
Chief Executive Officer

14 August 2019

Svetlana Demyashkevich
Chief Financial Officer

14 August 2019

(expressed in millions of Russian Roubles, unless otherwise stated)

		Six months ended 30 June	
	Note	**2019**	**2018***
Revenue	5, 16	843,175	734,077
Cost of sales		(629,829)	(558,619)
Gross profit		**213,346**	**175,458**
Selling, general and administrative expenses	17	(166,806)	(152,804)
Net impairment losses on financial assets		(102)	(275)
Lease/sublease and other income	17	6,274	5,092
Operating profit		**52,712**	**27,471**
Finance costs	18	(27,035)	(8,748)
Finance income	18	33	97
Net foreign exchange gain/(loss)		1,954	(173)
Profit before tax		**27,664**	**18,647**
Income tax expense	20	(7,352)	(4,334)
Profit for the period		**20,312**	**14,313**
Profit for the period attributable to:			
Equity holders of the parent		20,312	14,313
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	15	299.19	210.83
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	15	299.19	210.81

* The Group made a transition to IFRS 16 using the modified retrospective approach under which the comparative information was not restated (refer to Note 4).

Igor Shekhterman
Chief Executive Officer

14 August 2019

Svetlana Demyashkevich
Chief Financial Officer

14 August 2019

(expressed in millions of Russian Roubles, unless otherwise stated)

	Six months ended 30 June	
	2019	**2018***
Profit for the period	20,312	14,313
Total comprehensive income for the period, net of tax	**20,312**	**14,313**
Total comprehensive income for the period attributable to:		
Equity holders of the parent	20,312	14,313

* The Group made a transition to IFRS 16 using the modified retrospective approach under which the comparative information was not restated (refer to Note 4).

Igor Shekhterman
Chief Executive Officer

14 August 2019

Svetlana Demyashkevich
Chief Financial Officer

14 August 2019

(expressed in millions of Russian Roubles, unless otherwise stated)

	Note	Six months ended 30 June 2019	Six months ended 30 June 2018*
Profit before tax		**27,664**	**18,647**
Adjustments for:			
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment property and intangible assets		55,198	22,666
Gain on disposal of property plant and equipment, right-of-use assets, investment property and intangible assets		(201)	(120)
Finance costs, net	18	27,002	8,651
Net impairment losses on financial assets		102	275
(Reversal of impairment) / impairment of prepayments		(77)	29
Share-based compensation expense	19	39	49
Net foreign exchange (gain)/loss		(1,954)	173
Other non-cash items		(104)	(310)
Net cash from operating activities before changes in working capital		**107,669**	**50,060**
Decrease in trade, other accounts receivable and prepayments		692	7,191
Decrease/(increase) in inventories		12,304	(3,647)
Decrease in trade payable		(16,121)	(12,711)
Increase/(decrease) in other accounts payable and contract liabilities		1,344	(847)
Net cash flows from operations		**105,888**	**40,046**
Interest paid		(26,598)	(8,117)
Interest received		29	48
Income tax paid		(6,761)	(4,345)
Net cash flows generated from operating activities		**72,558**	**27,632**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets		(28,452)	(35,869)
Acquisition of businesses, net of cash acquired	6	(3,182)	(11,586)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		325	289
Purchase of other intangible assets		(4,253)	(2,287)
Proceeds from sale of interest in associates and joint ventures		3	–
Net cash flows used in investing activities		**(35,559)**	**(49,453)**
Cash flows from financing activities			
Proceeds from loans		49,828	114,205
Repayment of loans		(45,598)	(84,500)
Purchase of treasury shares		(118)	(88)
Payments of principal portion of lease liabilities		(23,528)	–
Dividends paid to equity holders of the parent	14	(25,000)	(21,590)
Net cash flows (used in) / generated from financing activities		**(44,416)**	**8,027**
Effect of exchange rate changes on cash and cash equivalents		(8)	(37)
Net decrease in cash and cash equivalents		**(7,425)**	**(13,831)**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		24,368	27,605
Net decrease in cash and cash equivalents		(7,425)	(13,831)
Cash and cash equivalents at the end of the period		**16,943**	**13,774**

* The Group made a transition to IFRS 16 using the modified retrospective approach under which the comparative information was not restated (refer to Note 4).

Igor Shekhterman
Chief Executive Officer

14 August 2019

Svetlana Demyashkevich
Chief Financial Officer

14 August 2019

(expressed in millions of Russian Roubles, unless otherwise stated)

	Attributable to equity holders of the parent						
	Number of shares	**Share capital**	**Share premium**	**Share-based payment reserve**	**Retained earnings**	**Total shareholders' equity**	**Total**
Balance as at 1 January 2018	**67,886,748**	**2,458**	**46,212**	**117**	**109,655**	**158,442**	**158,442**
Profit for the period	–	–	–	–	14,313	14,313	14,313
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**14,313**	**14,313**	**14,313**
Dividends (Note 14)	–	–	–	–	(21,590)	(21,590)	(21,590)
Share-based payment compensation (Note 19)	–	–	–	49	–	49	49
Transfer and waiving of vested equity rights (Note 19)	3,701	–	(18)	(70)	–	(88)	(88)
Balance as at 30 June 2018	**67,890,449**	**2,458**	**46,194**	**96**	**102,378**	**151,126**	**151,126**
Balance as at 1 January 2019	**67,890,099**	**2,458**	**46,192**	**118**	**116,707**	**165,475**	**165,475**
Effect of adoption of new accounting standards (Note 4)	–	–	–	–	(43,371)	(43,371)	(43,371)
Balance as at 1 January 2019 Restated	**67,890,099**	**2,458**	**46,192**	**118**	**73,336**	**122,104**	**122,104**
Profit for the period	–	–	–	–	20,312	20,312	20,312
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**20,312**	**20,312**	**20,312**
Acquisition of treasury shares	(11,719)	–	(75)	–	–	(75)	(75)
Dividends (Note 14)	–	–	–	–	(25,000)	(25,000)	(25,000)
Share-based payment compensation (Note 19)	–	–	–	39	–	39	39
Transfer and waiving of vested equity rights (Note 19)	7,566	–	22	(65)	–	(43)	(43)
Balance as at 30 June 2019	**67,885,946**	**2,458**	**46,139**	**92**	**68,648**	**117,337**	**117,337**

Igor Shekhterman
Chief Executive Officer

14 August 2019

Svetlana Demyashkevich
Chief Financial Officer

14 August 2019

1 PRINCIPAL ACTIVITIES AND THE GROUP STRUCTURE

These condensed consolidated interim financial statements are for the economic entity comprising X5 Retail Group N.V. (the "Company") and its subsidiaries (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 Parkstraat 20, 2514 JK The Hague, the Netherlands.

The main activity of the Group is the development and operation of grocery retail stores. As at 30 June 2019 the Group operated a retail chain of 15,260 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express" (each representing separate format) in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg (31 December 2018: 14,431 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express"). The Group's multiformat store network comprises 14,385 proximity stores under "Pyaterochka" brand 785 supermarkets under "Perekrestok" brand, 90 hypermarkets under "Karusel" brand (31 December 2018: 13,522 proximity stores under "Pyaterochka" brand, 760 supermarkets under "Perekrestok" brand, 94 hypermarkets under "Karusel" brand, 55 express stores).

As at 30 June 2019 the principal shareholder exerting significant influence over the Company is CTF Holdings S.A. ("CTF"). CTF owns 47.86% of total issued shares in the Company, indirectly through Luxaro Retail Holding S.a.r.l. As at 30 June 2019 the Company's shares were listed on the London and Moscow Stock Exchanges in the form of Global Depositary Receipts (GDRs) with each GDR representing an interest of 0.25 in an ordinary share (Note 15).

In 2019 X5 Retail Group N.V. has issued a liability statement as mentioned in article 403 sub 2 of Book 2 of the Dutch Civil Code regarding its subsidiary X5 Finance B.V. In compliance with these and other conditions as included in article 403, the financial statements of the X5 Finance B.V. for the year ended 31 December 2018 have been prepared on a condensed basis and have not been audited.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2018 which have been prepared in accordance with IFRS as adopted by the European Union.

The accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2018 except for the adoption of new Standards that are mandatory for financial annual periods beginning on 1 January 2019. Management prepared these condensed consolidated interim financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations and access to financial resources (Note 22).

On 14 August 2019, the Management Board authorised the condensed consolidated interim financial statements for issue. Publication is on 15 August 2019. The condensed consolidated interim financial statements have been reviewed, not audited.

2.2 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 condensed consolidated interim financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currency translation and transactions (continued)

(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.

2.3 Taxes

Taxes on income in the interim periods are accrued using the tax rate that is expected to be applicable to total annual profit or loss.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

Judgements that have the most significant effect on the amounts recognised in the condensed consolidated interim financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include:

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 24).

Property, plant and equipment, Right-of-use assets, Investment property and Goodwill

The Group performs the impairment test for non-current assets where there is any indicator of impairment. The Group estimates the recoverable amount of the asset or cash generating unit and groups of cash-generating units (for the purposes of impairment testing of goodwill) and if it is less than the carrying amount of an asset or cash generating unit and group of cash-generating units an impairment loss is recognised in the consolidated statement of profit or loss. For the six months ended 30 June 2019 the Group recognised an impairment loss in the amount of RUB 1,317 (six months ended 30 June 2018: RUB 1,040) and reversed the impairment loss previously recognised in the amount of RUB 23 (six months ended 30 June 2018: RUB nil) based on the actual results.

Lease term of contracts with extension options and termination options

In determining the lease term the Group considers the extension options that are reasonably certain to be executed and termination options that are reasonably certain not to be executed. When considering those options, management takes into account the Group's investment strategy, relevant investment decisions, the residual useful life of the related major leasehold improvements and costs relating to the termination of the lease.

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.

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the preparation of the condensed consolidated interim financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the consolidated financial statements for year ended 31 December 2018 except for the adoption of new Standards that are mandatory for financial annual periods beginning on 1 January 2019.

IFRS 16 *Leases*

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The Group has adopted IFRS 16 using the modified retrospective approach with the date of initial application of 1 January 2019. Under this approach the Group has not restated comparatives for the 2018 reporting period. The reclassifications and the adjustments arising from the new leasing rules were therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16 the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases*. The Group measured these lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8.58%.

For leases previously classified as operating leases applying IAS 17 the Group at the date of transition to IFRS 16 measured right-of-use assets on a lease-by-lease basis at either:

(i) Its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the Group's applicable incremental borrowing rate at the date of transition to IFRS 16; or

(ii) An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of transition to IFRS 16.

The Group has elected to use the following practical expedients proposed by the standard:

- On initial application initial direct costs excluded from the measurement of the right-of-use asset;
- On initial application IFRS 16 was only applied to contracts that were previously classified as leases;
- For all classes of underlying assets each lease component and any associated non-lease components were accounted as a single lease component;
- Lease payments for contracts with a lease term of 12 months or less for the classes of underlying assets other than land and buildings continue to be expensed to the statement of profit or loss on a straight-line basis over the lease term.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of RUB 386,903 and lease liabilities of RUB 433,813 were recognised and presented separately in the statement of financial position;
- Prepayments of RUB 7,697 (included previously to other non-current assets and trade, other receivable and prepayments) related to previous operating leases were derecognised and added to the carrying amounts of the relevant right-of-use assets;
- Property, plant and equipment and Investment property increased by RUB 3,888 and RUB 24 respectively due to the effect of reallocation of certain part of impairment provision at transition date to right-of-use assets;
- Lease rights of RUB 4,186 (included previously in other intangible assets) were derecognised and in the part, which arose as a result of previous business combinations of RUB 2,512, were added to the carrying amount of the relevant right-of-use assets;

(expressed in millions of Russian Roubles, unless otherwise stated)

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)

IFRS 16 *Leases* (continued)

- Deferred tax assets increased by RUB 9,270 and deferred tax liabilities decreased by 1,485 because of the deferred tax impact of the changes in assets and liabilities;
- There were no changes in classification of subleases as a result of IFRS 16 adoption. All sublease agreements continue to qualify for recognition as operating leases;
- The net effect of these adjustments had been adjusted to retained earnings of RUB 43,371.

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019

	1 January 2019
Assets	
Property, plant and equipment	3,888
Right-of-use assets	386,903
Investment property	24
Other intangible assets	(4,186)
Other non-current assets	(6,484)
Deferred tax assets	9,270
Trade, other accounts receivable and prepayments	(1,213)
VAT and other taxes receivable	185
Total assets	**388,387**
Equity	
Retained earnings	(43,371)
Total equity	**(43,371)**
Liabilities	
Lease liabilities	433,813
Deferred tax liabilities	(1,485)
Provisions and other liabilities	(570)
Total liabilities	**431,758**
Total equity and liabilities	**388,387**

As 31 December 2018 the Group’s outstanding short and long-term lease agreements were cancellable. IAS 17 requires disclosing operating lease commitments only for non-cancellable leases, while under IFRS 16 the Group is also required to include in lease term periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Due to this the Group does not provide a reconciliation between lease commitment disclosure at 31 December 2018 and the lease liabilities recognised as a result IFRS 16 adoption at 1 January 2019.

Amounts recognised in the statement of financial position and profit or loss

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 liability
At 1 January 2019	**386,903**	**(433,813)**
Additions	32,275	(32,103)
Acquisition of businesses (Note 6)	10,839	(10,817)
Depreciation expense	(29,279)	–
Disposals	(3,369)	3,528
Interest accrued	–	(18,771)
Payments	–	42,299
Effect of changes in foreign exchange rates	–	1,563
At 30 June 2019	**397,369**	**(448,114)**

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)

IFRS 16 *Leases* (continued)

The expenses related to short-term leases and expenses related to variable lease payments are disclosed in the Note 17.

Maturity analysis of the lease liabilities is disclosed in the Note 22.

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

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. Right-of-use assets are subject to impairment.

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.

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 condensed consolidated interim statement of cash flows payments of principal portion of lease liabilities are recognised as cash outflows related to financing activities, payments of interest portion of the lease liabilities are recognised within operating cash flows.

Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of assets other than land and buildings (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

The following other new standards and amendments to IFRSs effective for the financial year beginning 1 January 2019 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 *Prepayment Features with Negative Compensation*;
- IFRIC 23 *Uncertainty over Income Tax Treatments*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Annual Improvements to IFRS Standards 2015-2017 cycle (IFRS 3 *Business Combination*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs*).

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective:

Standards issued but not yet effective in the European Union	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020*
Amendment to IFRS 3 *Business Combinations*	1 January 2020*
Amendments to IAS 1 and IAS 8 *Definition of Material*	1 January 2020*
IFRS 17 *Insurance Contracts*	1 January 2021*

* Subject to EU endorsement.

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

5 SEGMENT REPORTING

The Group identifies retail chains of each format (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8.

The following significant operating functions are decentralised by formats:

- Category management, including purchasing, pricing, assortment management, promotion management;
- Distribution centres logistics;
- Development function.

The formats' general managers are determined as segment managers in accordance with IFRS 8. The chief operating decision-maker has been determined as the Management Board. The Management Board reviews each format's internal reporting in order to assess performance and allocate resources.

Upon adoption of IFRS 16 the Management Board continued assessment of the performance of the operating segments based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment (EBITDA). The Group continued to apply IAS 17 for leases in calculation of segments EBITDA and capital expenditure. Other information provided to the Management Board is measured in a manner consistent with that in the consolidated financial statements.

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

(expressed in millions of Russian Roubles, unless otherwise stated)

5 SEGMENT REPORTING (continued)

The segment information for the period ended 30 June 2019, comparative figures for earlier periods and reconciliation of segments EBITDA to profit for the period is provided as follows:

Six months ended 30 June 2019	**Pyaterochka**	**Perekrestok**	**Karusel**	**Other segments**	**Corporate centre**	**Total**
Revenue (Note 16)	**666,300**	**132,668**	**43,523**	**684**	**–**	**843,175**
EBITDA under IAS 17	**56,500**	**9,323**	**1,865**	**16**	**(2,553)**	**65,151**
Fixed lease expenses						42,759
Depreciation, amortisation and impairment						(55,198)
Operating profit						**52,712**
Finance cost, net						(27,002)
Net foreign exchange result						1,954
Profit before income tax						**27,664**
Income tax expense						(7,352)
Profit for the period						**20,312**
Capital expenditure	26,043	6,309	942	–	939	34,233
30 June 2019						
Inventories	79,441	16,159	8,086	–	–	103,686

Six months ended 30 June 2018	**Pyaterochka**	**Perekrestok**	**Karusel**	**Other segments**	**Corporate centre**	**Total**
Revenue (Note 16)	**574,275**	**111,015**	**44,723**	**4,064**	**–**	**734,077**
EBITDA	**43,683**	**6,975**	**2,041**	**(275)**	**(2,287)**	**50,137**
Depreciation, amortisation and impairment						(22,666)
Operating profit						**27,471**
Finance cost, net						(8,651)
Net foreign exchange result						(173)
Profit before income tax						**18,647**
Income tax expense						(4,334)
Profit for the period						**14,313**
Capital expenditure	27,493	7,637	1,346	7	390	36,873
31 December 2018						
Inventories	88,923	16,609	10,063	395	–	115,990

(expressed in millions of Russian Roubles, unless otherwise stated)

6 ACQUISITION OF BUSINESSES

Acquisitions in 2019

For the six months ended 30 June 2019 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

For the six months ended 30 June 2019 the acquired businesses contributed revenue of RUB 2,236 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 six months ended 30 June 2019 as though the acquisition date had been the beginning of that period.

Details of assets and liabilities of acquired businesses and the related goodwill are as follows:

	Provisional fair values at the acquisition date
Right-of-use assets (Note 4)	10,839
Deferred tax assets	853
Indemnification asset	121
Lease liabilities (Note 4)	(10,817)
Current income tax payable	(54)
Provisions and other liabilities	(67)
Net assets acquired	**875**
Goodwill (Note 9)	3,413
Purchase consideration	**4,288**
Net cash outflow arising from the acquisition	**2,879**

The Group assigned provisional fair values to net assets acquired. In estimating provisional values of intangible assets and property, plant, equipment direct references to observable prices in an active market and estimates of the independent appraisal were used (market approach). The Group will finalise the purchase price allocation within 12 months from the acquisition date.

The purchase consideration for the reporting period comprised consideration paid in cash of RUB 2,879 and RUB 1,409 as deferred consideration measured at fair value and payable in 2019.

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 and Perekrestok segments.

During the six months ended 30 June 2019 the Group transferred RUB 303 as deferred payments for the prior periods acquisitions.

Acquisitions in 2018

For the six months ended 30 June 2018 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

For the six months ended 30 June 2018 the acquired businesses contributed revenue of RUB 1,225 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 six months ended 30 June 2018 as though the acquisition date had been the beginning of that period.

(expressed in millions of Russian Roubles, unless otherwise stated)

6 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2018 (continued)

Details of assets and liabilities of acquired businesses and the related goodwill are as follows:

	Finalised fair values at the acquisition date
Property, plant and equipment (Note 8)	642
Other intangible assets (Note 8)	61
Deferred tax assets	282
Trade, other accounts receivable and prepayments	62
VAT and other taxes receivable	71
Cash and cash equivalents	28
Deferred tax liabilities	(47)
Provisions and other liabilities	(70)
Net assets acquired	**1,029**
Goodwill (Note 9)	1,893
Purchase consideration	**2,922**
Net cash outflow arising from the acquisition	**1,228**

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 and Perekrestok segments. During the six months ended 30 June 2019 the Group has finalised fair value assessment of business combinations occurred during six months ended 30 June 2018 resulting in no change in the amount of goodwill initially recognised at provisional values.

The purchase consideration for the reporting period comprised consideration paid in cash of RUB 1,256 and RUB 1,666 as deferred consideration measured at fair value and paid in 2018.

During the six months ended 30 June 2018 the Group transferred RUB 10,358 as deferred payments for the prior periods acquisitions.

7 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. There were no material changes in the volume of transactions and outstanding balances between the Group and related parties compared to the Group’s consolidated financial statements as at 31 December 2018.

At 30 June 2019 trade accounts payable to other related parties amounted to RUB 688 (31 December 2018: RUB 394), trade accounts receivable amounted to RUB 22 (31 December 2018: RUB 23), other receivables and prepayments amounted to RUB Nil (31 December 2018: RUB 50), other accounts payable amounted to RUB 6 (31 December 2018: RUB 1).

For the six months ended 30 June 2019 purchases from other related parties net of bonuses amounted to RUB 1,602 (six months ended 30 June 2018: RUB 1,130). Other related parties represent entities under control by the entity with significant influence over the Company.

Key management personnel

The Group ‘key management personnel’ consists of members of the Supervisory Board, the Management Board and members of the Executive Board, having authority and responsibility for planning, directing and controlling the activities of the Group as a whole. The total direct compensation for members of the Management Board and other key management personnel consists of a base salary and a performance related short-term incentive as well as, for the CEO and other key management personnel, a performance related long-term incentive. Members of the Supervisory Board receive a fixed annual remuneration in cash and share-based payments.

(expressed in millions of Russian Roubles, unless otherwise stated)

7 RELATED PARTY TRANSACTIONS (continued)

Key management personnel (continued)

For the six months ended 30 June 2019 members of the Management Board and other key management personnel were entitled to a total short-term and long-term compensation of RUB 554 (six months ended 30 June 2018: RUB 418), including accrued short-term incentive rewards of RUB 137 (six months ended 30 June 2018: RUB 90) payable on an annual basis subject to meeting annual performance targets, accrued rewards under the long-term incentive plan of RUB 147(six months ended 30 June 2018: RUB 134), social security costs of RUB 69 (six months ended 30 June 2018: RUB 39).

For the six months ended 30 June 2019 members of the Supervisory Board were entitled to a cash remuneration of RUB 43 (six months ended 30 June 2018: RUB 38) and a share-based compensation of RUB 39 (six months ended 30 June 2018: RUB 49). As at 30 June 2019 the total number of restricted stock units awarded to members of the Supervisory Board under the Restricted Stock Unit Plan was 105,760 (31 December 2018: 109,819).

8 PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

	2019		**2018**	
	Property, plant and equipment	**Other intangible assets**	**Property, plant and equipment**	**Other intangible assets**
Cost				
At 1 January	**452,524**	**50,688**	**391,788**	**44,998**
Effect of adoption of new accounting standards (Note 4)	–	(13,156)	–	–
At 1 January Restated	**452,524**	**37,532**	**391,788**	**44,998**
Additions	27,094	3,531	32,230	2,047
Assets from acquisitions (Note 6)	–	–	642	61
Disposals	(4,296)	(38)	(4,826)	(94)
At 30 June	**475,322**	**41,025**	**419,834**	**47,012**
Accumulated depreciation, amortisation and impairment				
At 1 January	**(148,722)**	**(28,562)**	**(112,860)**	**(26,556)**
Effect of adoption of new accounting standards (Note 4)	3,888	8,970	–	–
At 1 January Restated	**(144,834)**	**(19,592)**	**(112,860)**	**(26,556)**
Depreciation and amortisation charge	(23,690)	(1,196)	(20,116)	(1,415)
Impairment charge	(1,317)	–	(1,008)	(32)
Reversal of impairment	23	–	–	–
Disposals	4,051	20	4,647	94
At 30 June	**(165,767)**	**(20,768)**	**(129,337)**	**(27,909)**
Net book value at 1 January	**303,802**	**22,126**	**278,928**	**18,442**
Net book value at 1 January Restated (Note 4)	**307,690**	**17,940**	**278,928**	**18,442**
Net book value at 30 June	**309,555**	**20,257**	**290,497**	**19,103**

Depreciation and amortisation charge, impairment charge, reversal of impairment were included in selling, general and administrative expenses in the condensed consolidated interim financial statement of profit or loss for the six months ended 30 June 2019 and 30 June 2018.

For the six months ended 30 June 2019 the additions of other intangible assets were attributable to additions of software in the amount of RUB 3,531 (for the six months ended 30 June 2018 RUB 1,929 attributable to additions of software and RUB 118 attributable to lease rights).

(expressed in millions of Russian Roubles, unless otherwise stated)

8 PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS (continued)

The Group analysed external and internal sources of information and did not identify any impairment indicators for property, plant and equipment and other intangible assets as at 30 June 2019. As a result the Group did not perform an impairment test.

The impairment charge for the six months ended 30 June 2019 and 30 June 2018 arose primarily from impairment of assets attributable to the stores closed during the reporting period and impairment of technically obsolete equipment. At the same time the Group recognised the reversal of previously recorded impairment charges due to improved performance of certain stores.

9 GOODWILL

Movements in goodwill arising on the acquisition of businesses at 30 June 2019 and 30 June 2018 are:

	2019	**2018**
Cost		
Gross book value at 1 January	**161,225**	**156,874**
Acquisition of businesses (Note 6)	3,413	1,893
Gross book value at 30 June	**164,638**	**158,767**
Accumulated impairment losses		
Accumulated impairment losses at 1 January	**(66,598)**	**(66,598)**
Accumulated impairment losses at 30 June	**(66,598)**	**(66,598)**
Carrying amount at 1 January	**94,627**	**90,276**
Carrying amount at 30 June	**98,040**	**92,169**

Goodwill impairment test

For the purposes of impairment testing, goodwill is allocated to groups of cash-generating units (groups of CGUs) being store chains of each format. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The group of CGUs to which goodwill has been allocated is tested for impairment annually or more frequently if there are indications that the particular group of CGUs might be impaired. Goodwill is tested for impairment at the group of CGUs level by comparing carrying values of particular group of CGU assets including allocated goodwill to their value in use.

No events indicating triggers of goodwill impairment occurred in the six months ended 30 June 2019. The Group will perform an annual impairment test of goodwill at 31 December 2019.

10 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2019	**31 December 2018**
Trade accounts receivable	8,150	10,218
Other receivables	2,910	1,780
Allowance for expected credit losses of trade and other receivables	(1,222)	(1,098)
Total trade and other accounts receivable	**9,838**	**10,900**
Prepayments	1,723	3,310
Advances made to trade suppliers	311	589
Allowance for impairment of prepayments and advances	(483)	(627)
Total prepayments	**1,551**	**3,272**
Total	**11,389**	**14,172**

(expressed in millions of Russian Roubles, unless otherwise stated)

11 PROVISIONS AND OTHER LIABILITIES

	30 June 2019	31 December 2018
Other accounts payable and accruals	18,838	18,545
Accrued salaries and bonuses	16,870	19,194
Accounts payable for property, plant and equipment	12,113	13,823
Taxes other than income tax	20,370	16,488
Advances received	1,541	1,773
Payables to landlords	661	1,780
Provisions and liabilities for non-income tax uncertainties	167	133
Total	**70,560**	**71,736**

12 CONTRACT LIABILITIES

	30 June 2019	31 December 2018
Short-term contract liabilities		
Short-term contract liabilities related to loyalty programmes	1,416	1,489
Advances received from wholesales customers	54	54
Advances received from other customers	168	121
Total short-term contract liabilities	**1,638**	**1,664**

13 BORROWINGS

The Group had the following borrowings at 30 June 2019 and 31 December 2018:

	Final	Fair value		Carrying value	
Current	**maturity year**	**2019**	**2018**	**2019**	**2018**
RUB Bonds X5 Finance series BO-04		–	5,250	–	4,999
RUB Bonds X5 Finance series BO-06		–	5,025	–	4,999
RUB Bonds X5 Finance series BO-07		–	5,004	–	5,000
RUB Bonds X5 Finance series 001P-01	2019	15,060	15,072	14,998	14,994
RUB Bonds X5 Finance series 001P-03	2020	9,925	–	9,993	–
RUB Eurobond	2020	20,174	–	19,961	–
RUB Bilateral Loans	2019	14,900	30,443	14,900	30,443
Total current borrowings		**60,059**	**60,794**	**59,852**	**60,435**
Non-current					
RUB Bonds X5 Finance series BO-04	2020	2,174	–	2,150	–
RUB Bonds X5 Finance series BO-05	2021	380	410	390	390
RUB Bonds X5 Finance series BO-06	2022	1,215	–	1,201	–
RUB Bonds X5 Finance series BO-07	2022	5,078	–	4,995	–
RUB Bonds X5 Finance series 001P-02	2020	10,100	10,000	9,993	9,990
RUB Bonds X5 Finance series 001P-03		–	9,908	–	9,988
RUB Bonds X5 Finance series 001P-04	2021	5,053	–	4,992	–
RUB Bonds X5 Finance series 001P-05	2022	5,058	–	4,999	–
RUB Eurobond		–	20,092	–	19,937
RUB Bilateral Loans	2022	122,737	103,254	123,483	107,024
Total non-current borrowings		**151,795**	**143,664**	**152,203**	**147,329**
Total borrowings		**211,854**	**204,458**	**212,055**	**207,764**

In February 2019 the Group issued RUB 5,000 exchange-registered corporate bonds series 001P-04 with 8.5% coupon rate and 2.5-years oferta (put-option).

In February 2019 the Group successfully passed the oferta on the exchange-registered corporate bonds series BO-07 in the amount of RUB 5,000 with the new annual rate for the next 6 semi-annual coupons fixed at 8.55%.

13 BORROWINGS (continued)

In April 2019 the Group issued RUB 5,000 exchange-registered corporate bonds series 001P-05 with 8.45% coupon rate and 3-years oferta (put-option).

In April 2019 the Group successfully passed the oferta on the exchange-registered corporate bonds series BO-04 in the amount of RUB 5,000 and bought back RUB 2,850 from the issue. For the remaining RUB 2,150 the new annual rate for the next 3 semi-annual coupons was fixed at 8.35%.

In May 2019 the Group successfully passed the oferta on the exchange-registered corporate bonds series BO-06 in the amount of RUB 5,000 and bought back RUB 3,799 from the issue. For the remaining RUB 1,201 the new annual rate for the next 7 semi-annual coupons was fixed at 8.45%.

The weighted average effective interest rate on X5's total borrowings for the six months ended 30 June 2019 comprised 8,14% per annum (six months ended 30 June 2018: 8.59%).

All borrowings at 30 June 2019 are shown net of related transaction costs of RUB 190 which are amortised over the term of the loans using the effective interest method (31 December 2018: RUB 166). Borrowing costs capitalised for the six months ended 30 June 2019 amounted to RUB 86 (six months ended 30 June 2018: RUB 149). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was approximate to weighted average effective interest rate for the period.

Change in total borrowings in amount of RUB 4,291 for the six months ended 30 June 2019 equals to the proceeds from borrowings in amount of RUB 49,828 repayment of borrowings in amount of RUB 45,598 (the Condensed Consolidated Interim Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 61. Change in total borrowings in amount of RUB 29,868 for the six months ended 30 June 2018 equals to the proceeds from borrowings in amount of RUB 114,205, repayment of borrowings in amount of RUB 84,500 (the Condensed Consolidated Interim Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 149 and other non-cash changes of RUB 14.

In accordance with the loan agreements the Group maintains an optimal capital structure by tracking certain covenants, such as the maximum level of Net Debt/EBITDA (4.00/4.25 during 2 quarters after acquisition). The Group's Eurobond documentation implies 3.75 leverage ratio threshold but with additional permitted indebtedness baskets and exclusions. As at 30 June 2019 the Group complied with this covenant and Net Debt/EBITDA was equal to 1.59 (31 December 2018: 1.70). According to all loan agreements and Eurobond documentation EBITDA is calculated under IAS 17.

14 SHARE CAPITAL

As at 30 June 2019 the Group had 190,000,000 authorised ordinary shares (31 December 2018: 190,000,000) of which 67,885,946 (31 December 2018: 67,890,099) ordinary shares were outstanding and 7,272 ordinary shares (31 December 2018: 3,119) held as treasury stock. The nominal par value of each ordinary share is EUR 1.

Dividends approved for distribution at the General Meeting in May 2019 have been paid in the amount of RUB 25,000 during the six months ended 30 June 2019 (RUB 368.23 per share).

Dividends approved for distribution at the General Meeting in May 2018 have been paid in the amount of RUB 21,590 during the six months ended 30 June 2018 (RUB 318.00 per share).

(expressed in millions of Russian Roubles, unless otherwise stated)

15 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 period, excluding treasury shares.

Earnings per share were calculated as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Profit attributable to equity holders of the parent	**20,312**	**14,313**
Weighted average number of ordinary shares in issue	67,889,135	67,887,607
Effect of share options awarded to employees, number of shares	–	6,671
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**67,889,135**	**67,894,278**
Basic earnings per share for profit for the period (expressed in RUB per share)	**299.19**	**210.83**
Diluted earnings per share for profit for the period (expressed in RUB per share)	**299.19**	**210.81**

16 REVENUE

	Six months ended 30 June 2019				
	Pyaterochka	**Perekrestok**	**Karusel**	**Other segments**	**Total**
Revenue from sale of goods through own stores (at a point of time)	659,537	131,323	42,985	480	**834,325**
Revenue from sale of goods through franchisees (at a point of time)	5,132	247	–	–	**5,379**
Revenue from wholesale of goods (at a point of time)	1,506	991	491	198	**3,186**
Revenue from other services (over time)	125	107	47	6	**285**
Total	**666,300**	**132,668**	**43,523**	**684**	**843,175**

	Six months ended 30 June 2018				
	Pyaterochka	**Perekrestok**	**Karusel**	**Other segments**	**Total**
Revenue from sale of goods (at a point of time)	568,660	109,563	44,077	3,401	**725,701**
Revenue from sale of goods through franchisees (at a point of time)	4,653	845	–	–	**5,498**
Revenue from wholesale of goods (at a point of time)	874	540	597	658	**2,669**
Revenue from other services (over time)	88	67	49	5	**209**
Total	**574,275**	**111,015**	**44,723**	**4,064**	**734,077**

(expressed in millions of Russian Roubles, unless otherwise stated)

17 LEASE EXPENSES AND SUBLEASE INCOME

Among cost of sales and selling, general and administrative expenses charged for the six months ended 30 June 2018 were lease expenses of RUB 39,010. For the six months ended 30 June 2019 fixed lease expenses were excluded due to adoption of IFRS 16 Leases using modified retrospective approach (refer to Note 4).

The expenses related to short-term leases for the six months ended 30 June 2019 amounted to RUB 17. The expense related to variable lease payments not included in the measurement of lease liabilities for the six months ended 30 June 2019 amounted to RUB 3,932.

Income from subleasing right-of-use assets under operating lease agreement for the six months ended 30 June 2019 amounted to RUB 1,368.

18 FINANCE INCOME AND COSTS

	Six months ended 30 June 2019	Six months ended 30 June 2018
Interest expense on lease liabilities	18,513	–
Interest expense on borrowings	8,186	8,335
Interest income	(30)	(55)
Other finance costs, net	333	371
Total	**27,002**	**8,651**

19 SHARE-BASED PAYMENTS

Employee stock plan

Members of the Supervisory Board are entitled to annual awards of restricted stock units (RSUs) under the Company'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 six months ended 30 June 2019 a total number of 47,348 RSUs were awarded under tranche 10 and will vest in 2022. A total number of 51,407 RSUs vested. Upon vesting these RSUs were converted into GDRs registered in the participant's name. The GDRs are kept in custody during a two-year lock-in period during which the GDRs cannot be traded. In accordance with the RSU Plan rules the lock-in restrictions do not apply in case of accelerated release of GDRs, if and when a Supervisory Board member ceases to be a member of the Supervisory Board.

In total during the six months ended 30 June 2019 the Group recognised an expense related to the RSU plan in the amount of RUB 39 (expense during six months ended 30 June 2018: RUB 49). At 30 June 2019 the equity component was RUB 92 (31 December 2018: RUB 118). The fair value of services received in return for the conditional RSUs awarded to employees is measured by reference to the market price of the GDRs which is determined at award date.

Details of the conditional rights outstanding during the six months ended 30 June 2019 and 30 June 2018 were as follows:

	30 June 2019		30 June 2018	
	Number of conditional rights	Weighted average fair value, RUB	Number of conditional rights	Weighted average fair value, RUB
Outstanding at the beginning of the period	**109,819**	**1,645.55**	**152,097**	**1,397.63**
Awarded during the period	47,348	2,016.54	35,918	1,858.22
Vested during the period	(51,407)	1,272.00	(62,072)	1,133.34
Outstanding at the end of the period	**105,760**	**1,993.29**	**125,943**	**1,659.24**

(expressed in millions of Russian Roubles, unless otherwise stated)

20 INCOME TAX

	Six months ended 30 June 2019	Six months ended 30 June 2018
Current income tax charge	6,905	3,025
Deferred income tax charge	447	1,309
Income tax charge for the period	**7,352**	**4,334**

21 SEASONALITY

The Group experiences seasonal effects on its business − increased customer activity in December results in an increase in sales made by the Group (approximately 25-40% higher than annual monthly average). The majority of expenses have the same trend as sales with the following exceptions: utility expenses are normally higher during winter period due to increased electricity and heating service consumption.

22 FINANCIAL RISKS MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; they should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018. There have been no changes in the risk management department since year end or in any risk management policies.

Market risk − interest rates risk

As at 30 June 2019 the Group had no significant floating interest-bearing assets and liabilities, the Group's income, expenses and operating cash inflows and outflows are substantially independent of changes in market interest rates.

Liquidity risk

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:

30 June 2019	**During 1 year**	**In 1 to 5 years**	**Over 5 years**
Lease liabilities	90,757	382,870	154,670
Borrowings	75,860	164,854	−
Trade payables	138,732	−	−
Other financial liabilities	48,482	1,031	−
Total	**353,831**	**548,755**	**154,670**

31 December 2018	**During 1 year**	**In 1 to 5 years**	**Over 5 years**
Borrowings	76,196	158,865	−
Trade payables	154,873	−	−
Other financial liabilities	53,342	543	−
Total	**284,411**	**159,408**	**−**

At 30 June 2019 the Group had net current liabilities of RUB 178,950 (31 December 2018: RUB 120,363) including short-term borrowings of RUB 59,852 and short-term lease liabilities of 53,910 (31 December 2018: short-term borrowings of RUB 60,435).

At 30 June 2019 the Group had available bank credit limits of RUB 341,073 (31 December 2018: RUB 341,502).

At 30 June 2019 the Group had RUB bonds available for issue on MICEX of RUB 5,000 (31 December 2018: RUB 15,000).

23 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 MICEX and the ISE is determined based on active market quotations and amounted to RUB 74,217 at 30 June 2019 (31 December 2018: RUB 70,761). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 73,672 at 30 June 2019 (31 December 2018: RUB 70,297) (Note 13). The fair value of long-term borrowings amounted to RUB 122,737 at 30 June 2019 (31 December 2018: RUB 103,254). The measurement is classified in level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using interest rate of similar instruments available on the market. The sensitivity analysis shows that the increase/decrease of the market interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 1,239 at 30 June 2019. The fair value of short-term borrowings was not materially different from their carrying amounts.

24 COMMITMENTS AND CONTINGENCIES

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by fluctuations in oil prices and sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Capital expenditure commitments

At 30 June 2019 the Group contracted for capital expenditure of RUB 7,637 (net of VAT) (31 December 2018: RUB 10,801).

Legal contingencies

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued at 30 June 2019.

24 COMMITMENTS AND CONTINGENCIES (continued)

New LTI programme

In May 2018 the General Meeting of Shareholders approved a new LTI programme. The new LTI is a cash incentive programme over a three-year period until 31 December 2020, with an extension component of deferred, conditional payouts in order to maintain the focus on long-term goals and to provide for an effective retention mechanism. Targets under the LTI focus on maintaining leadership in terms of revenue and, as additional long-term objective, leadership in terms of enterprise value multiple relative to competition. Additionally, the LTI includes triggers relating to (i) the EBITDA margin to ensure that profitability is not sacrificed and (ii) the net debt / EBITDA ratio to retain focus on prudent financial and balance sheet management. Under the conditional payout scheme of the programme, 50% of the total award is deferred to 2022 subject to maintaining a certain level of EBITDA margin during 2021. The total available fund for all payouts under the LTI programme is capped at 5% of average EBITDA during the three-year period of the programme.

For the six months ended 30 June 2019 the Group recognised expenses related to the new programme in the amount of RUB 543 (six months ended 30 June 2018: RUB 148). In addition to the accrued amount the Group currently assesses the possible additional expenses attributable to the new programme, that are more than remote, but for which no liability is required to be recognised under IFRS, as RUB 1,162 at 30 June 2019 (31 December 2018: 619).

Taxation environment

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of these legislative areas as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the Russian authorities decide to issue a claim and prove successful in court, they would be entitled to recover the tax amount claimed, together with fines amounting to 20% of such amount and late payment interest at the rate of 1/300 of the rate of the Central Bank of the Russian Federation (CBRF rate) for each day of the delay during the first 30 days, 1/150 of CBRF rate for each day of the delay if the latter is for more than 30 days to be calculated from the amount of underpaid tax. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russia has transfer pricing rules generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the transfer pricing legislation. Therefore the impact of any potential challenge of the Group's transfer prices is not expected to be significant to the financial conditions and/or the overall operations of the Group.

The concept of beneficial ownership

The possibility to apply the reduced tax rates to the income paid to foreign companies of the Group allowed under double tax treaties (DTTs) will depend on whether the company receiving such income is its beneficial owner. When determining the beneficial owner status of a foreign company the functions it performs and the risks it undertakes should be tested. It will be also considered whether such income was transferred (fully or in part) to another company. Given that relevant court practice on this issue is still developing, the impact of any potential challenge may be significant and have an effect on the financial conditions and/or the overall operations of the Group.

Management believes that the Group's foreign companies receiving income from Russia are beneficial owners of that income and the reduced tax rates are correctly applied in accordance with the relevant DTTs.

24 COMMITMENTS AND CONTINGENCIES (continued)

Tax residency of legal entities

Few years ago, more specific and detailed rules were put in place establishing when foreign entities can be viewed as managed from Russia and consequently can be deemed Russian tax residents. Russian tax residency means that such legal entities' worldwide income will be taxed in Russia. The Group comprises companies incorporated outside of Russia. The tax liabilities of the Group were determined on the assumption that these companies were not subject to Russian profits tax, because they did not have a permanent establishment in Russia and were not Russian tax residents by way of application of the new tax residency rules. This interpretation of relevant legislation in regard to the Group companies incorporated outside of Russia may be challenged. Given that the concept of the Russian broader rules for determining the tax residency of legal entities is rather new and the practice is not yet developed, the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

Tax contingencies, commitments and risks

Russian tax legislation does not provide definitive guidance in many areas and continue to evolve. Various legislative acts and regulations are not always clearly written, and their interpretation is subject to discussion by taxpayers, tax authorities, Courts and other regulating bodies.

The tax authorities may take a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in past may be challenged as not having been in compliance with Russian tax laws applicable at the relevant time. In particular, the Supreme Court issued guidance to lower courts on reviewing tax cases providing a systematic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed.

From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

In Russia, tax returns remain open and subject to tax audit for a period of up to three years. If an understatement of a tax liability is detected as a result of a tax audit, penalties and fines should be paid. Under a certain conditions a repeated tax audit can be open for the periods already closed, however such cases are not very often.

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.

25 SUBSEQUENT EVENTS

There were no significant events after the reporting date.