X5 RETAIL GROUP

X5 REPORTS 12.9% REVENUE GROWTH IN Q2 2020
EBITDA MARGIN UNDER IAS 17 REACHES 8.4%

- ✓ X5 delivered revenue growth of 12.9% year-on-year (y-o-y) on the back of solid like-for-like (LFL)(1) sales, selling space expansion and ongoing store refurbishments.
- ✓ EBITDA under IAS 17 increased by 14.4% y-o-y in Q2 2020, reflecting gross margin expansion and positive operating leverage effect. EBITDA margin reached 8.4% (13.3% under IFRS 16).
- ✓ Gross margin(2) under IAS 17 improved by 23 b.p. y-o-y to 25.3% (25.6% under IFRS 16) in Q2 2020, mainly driven by decreased shrinkage and a lower share of promo.
- ✓ SG&A expenses under IAS 17 (excl. D&A&I, LTI and share-based payments) before reclassification(2) decreased by 17 b.p. y-o-y to 17.1% (12.7% under IFRS 16) as a percentage of revenue mainly due to lower staff and utilities costs.
- ✓ Net profit under IAS 17 increased by 20.5% y-o-y in Q2 2020. Net profit margin under IAS 17 increased by 21 b.p. to 3.3% (3.0% under IFRS 16).
- ✓ The total impact of COVID-related costs on the company's EBITDA in Q2 2020 is estimated at RUB 1.78 bn.
- ✓ The net debt/EBITDA ratio under IAS 17 was 1.68x (3.28x under IFRS 16) as of 30 June 2020.

Amsterdam, 13 August 2020 - X5 Retail Group N.V. ("X5" or the "Company"), a leading Russian food retailer (LSE and MOEX ticker: FIVE) that operates the Pyaterochka, Perekrestok, and Karusel retail chains, today released its interim report for the three months (Q2) and six months (H1) ended 30 June 2020, 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:

"The COVID-19 pandemic has had a significant impact on X5's business, employees and customers. However, thanks to our robust and advanced business processes, we were able to respond to the rapidly changing environment in an effective and efficient way. I want to thank every member of the X5 team for their dedication to keeping each other and our customers safe while continuing to provide high-quality and essential food retail services to local communities in 66 regions of Russia.

"The teams at Pyaterochka, Perekrestok, Karusel and our other business units all made important contributions to our Q2 2020 performance by adapting to customer demand, reducing operating costs and making smart investments to support profitability and returns.

"On top of the progress in our offline operations, in the second quarter X5 also took the leadership position in online grocery in Russia. This market segment saw explosive growth in Q2 2020 and we expect it may triple in value during 2020. The overall profitability of X5's online platforms was well ahead of budget targets in Q2, and our online operations even saw positive EBITDA performance in May 2020.

"I am very pleased with the strong financial results that X5 achieved in Q2 2020. Our company continues to increase the revenue gap versus main competitors in Russian food retail. In terms of absolute revenue from groceries, X5 is larger than our closest competitor by 42%, and this absolute revenue gap increased by another 16% in H1 2020. X5's strong quarterly results, especially our solid profitability, are driven by fundamental factors. Our improved margins, for example, were based on a broad set of components from gross margin to operating costs. They will have a lasting effect in the quarters ahead."

Note: Financial measures under IAS 17 are used in this press release as following adoption of IFRS 16 management continued to apply IAS 17 to leases for performance assessment purposes; this is mainly due to the fact that the investment community continues to focus on IAS 17 and management decision making processes, as well as the fact that internal reporting is also based on IAS 17. A reconciliation of IAS 17 and IFRS 16 figures is presented below in the section "Effect of IFRS 16 on X5 Retail Group's financial statements".

(1) 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.

(2) Starting from Q2 2020, the Company reclassified income from the sale of recyclable materials at distribution centres as well as costs related to Perekrestok.ru and express last mile delivery from gross profit. The income from sale of recyclable materials at distribution centres is now reported under lease/sublease and other income. Costs related to Perekrestok.ru and express last mile delivery are now reported under SG&A expenses, mostly in staff costs and other expenses. The net effect on the Q2 gross margin from reclassifications was slightly positive.

Profit and loss statement highlights[3]

Russian Rouble (RUB), million (mn)	IFRS 16				IAS 17		
	Q2 2020	Q2 2019	*change, y-o-y, %*	Impact on Q2 2020*	Q2 2020	Q2 2019	*change, y-o-y, %*
Revenue	**493,631**	**437,311**	***12.9***	**-**	**493,631**	**437,311**	***12.9***
incl. net retail sales[4]	492,975	435,588	*13.2*	-	492,975	435,588	*13.2*
Pyaterochka	405,792	349,395	*16.1*	-	405,792	349,395	*16.1*
Perekrestok	73,346	65,125	*12.6*	-	73,346	65,125	*12.6*
Karusel	13,837	21,068	*(34.3)*	-	13,837	21,068	*(34.3)*
Gross profit	**126,579**	**111,181**	***13.8***	**1,852**	**124,727**	**109,500**	***13.9***
Gross profit margin, %	*25.6*	*25.4*	*22 b.p.*	*38 b.p.*	*25.3*	*25.0*	*23 b.p.*
Adj. EBITDA[5]	**66,094**	**58,078**	***13.8***	**24,240**	**41,854**	**36,599**	***14.4***
Adj. EBITDA margin, %	*13.4*	*13.3*	*11 b.p.*	*491 b.p.*	*8.5*	*8.4*	*11 b.p.*
EBITDA	**65,567**	**57,614**	***13.8***	**24,240**	**41,327**	**36,135**	***14.4***
EBITDA margin, %	*13.3*	*13.2*	*11 b.p.*	*491 b.p.*	*8.4*	*8.3*	*11 b.p.*
Operating profit	**32,954**	**29,446**	***11.9***	**7,022**	**25,932**	**22,332**	***16.1***
Operating profit margin, %	*6.7*	*6.7*	*(6) b.p.*	*142 b.p.*	*5.3*	*5.1*	*15 b.p.*
Adj. net profit[6]	**15,193**	**11,977**	***26.9***	**(1,503)**	**16,696**	**13,508**	***23.6***
Adj. net profit margin, %	*3.1*	*2.7*	*34 b.p.*	*(30) b.p.*	*3.4*	*3.1*	*29 b.p.*
Net profit	**14,772**	**11,977**	***23.3***	**(1,503)**	**16,275**	**13,508**	***20.5***
Net profit margin, %	*3.0*	*2.7*	*25 b.p.*	*(30) b.p.*	*3.3*	*3.1*	*21 b.p.*

Russian Rouble (RUB), million (mn)	IFRS 16				IAS 17		
	H1 2020	H1 2019	*change, y-o-y, %*	Impact on H1 2020*	H1 2020	H1 2019	*change, y-o-y, %*
Revenue	**962,625**	**843,175**	***14.2***	**-**	**962,625**	**843,175**	***14.2***
incl. net retail sales	961,435	839,704	*14.5*	-	961,435	839,704	*14.5*
Pyaterochka	775,839	664,669	*16.7*	-	775,839	664,669	*16.7*
Perekrestok	153,960	131,570	*17.0*	-	153,960	131,570	*17.0*
Karusel	31,636	42,985	*(26.4)*	-	31,636	42,985	*(26.4)*
Gross profit	**242,515**	**213,346**	***13.7***	**3,588**	**238,927**	**210,064**	***13.7***
Gross profit margin, %	*25.2*	*25.3*	*(11) b.p.*	*37 b.p.*	*24.8*	*24.9*	*(9) b.p.*
Adj. EBITDA[5]	**122,861**	**108,831**	***12.9***	**48,027**	**74,834**	**66,072**	***13.3***
Adj. EBITDA margin, %	*12.8*	*12.9*	*(14) b.p.*	*499 b.p.*	*7.8*	*7.8*	*(6) b.p.*
EBITDA	**121,839**	**107,910**	***12.9***	**48,027**	**73,812**	**65,151**	***13.3***
EBITDA margin, %	*12.7*	*12.8*	*(14) b.p.*	*499 b.p.*	*7.7*	*7.7*	*(6) b.p.*
Operating profit	**56,941**	**52,712**	***8.0***	**14,484**	**42,457**	**38,839**	***9.3***
Operating profit margin, %	*5.9*	*6.3*	*(34) b.p.*	*150 b.p.*	*4.4*	*4.6*	*(20) b.p.*
Adj. net profit[6]	**19,587**	**20,312**	***(3.6)***	**(5,677)**	**25,264**	**22,805**	***10.8***
Adj. net profit margin, %	*2.0*	*2.4*	*(37) b.p.*	*(59) b.p.*	*2.6*	*2.7*	*(8) b.p.*
Net profit	**18,773**	**20,312**	***(7.6)***	**(5,677)**	**24,450**	**22,805**	***7.2***
Net profit margin, %	*2.0*	*2.4*	*(46) b.p.*	*(59) b.p.*	*2.5*	*2.7*	*(16) b.p.*

* For more details on the impact of IFRS 16 please refer to the section "Effect of IFRS 16 on X5 Retail Group's financial statements".

(3) 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.

(4) 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.

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

(6) Adjusted net profit is net profit before one-off impacts of the Karusel transformation (mainly due to impairment and accelerated depreciation of non-current assets related to the transfer of stores to Perekrestok).

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Net retail sales

Total net retail sales growth reached 13.2% y-o-y in Q2 2020, driven by:

- 4.3% increase in LFL sales; and
- 8.9% y-o-y increase in net retail sales from net new space, resulting from a 10.7% y-o-y rise in selling space.

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

	As at 30-Jun-20	As at 31-Dec-19	*change vs 31-Dec-19, %*	As at 30-Jun-19	*change vs 30-Jun-19, %*
Pyaterochka	6,289,962	5,975,147	*5.3*	5,607,228	*12.2*
Perekrestok	973,109	899,893	*8.1*	814,808	*19.4*
Karusel	247,191	364,077	*(32.1)*	364,028	*(32.1)*
X5 Retail Group	**7,510,261**	**7,239,117**	***3.7***	**6,786,064**	***10.7***

Q2 & H1 2020 LFL store performance by format, % change y-o-y[6]

In Q2 & H1 2020, LFL sales performance remained strong at 4.3% and 5.0% y-o-y, respectively.

LFL sales by traffic and basket in Q2 2020 reflect the impact of the COVID-19 lockdown, with less frequent customer visits to stores and larger purchases per visit.

	Q2 2020			H1 2020		
	Sales	**Traffic**	**Basket**	**Sales**	**Traffic**	**Basket**
Pyaterochka	*6.0*	*(15.0)*	*24.8*	*6.0*	*(6.2)*	*13.0*
Perekrestok[7]	*(2.4)*	*(32.6)*	*44.9*	*1.8*	*(16.2)*	*21.5*
Karusel	*(8.4)*	*(34.1)*	*39.0*	*(5.6)*	*(18.9)*	*16.4*
X5 Retail Group	***4.3***	***(17.2)***	***26.1***	***5.0***	***(7.5)***	***13.5***

For more details on net retail sales growth please refer to X5's Q2 2020 Trading Update.

Gross profit margin

The gross profit margin under IAS 17 increased by 23 b.p. y-o-y to 25.3% (and increased by 22 b.p. to 25.6% under IFRS 16) in Q2 2020. This growth was mainly due to a decrease in shrinkage vs Q2 2019, and a lower share of promo. Gross margin performance of the core formats (Pyaterochka and Perekrestok) was higher compared to the X5 average, mainly due to the ongoing Karusel transformation.

(7) Excluding Perekrestok.ru

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

RUB mn	IFRS 16 Q2 2020	IFRS 16 Q2 2019	IFRS 16 change, y-o-y, %	Impact on Q2 2020*	IAS 17 Q2 2020	IAS 17 Q2 2019	IAS 17 change, y-o-y, %
Staff costs	**(39,247)**	**(34,360)**	**14.2**	-	**(39,247)**	**(34,360)**	***14.2***
% of Revenue	*8.0*	*7.9*	*9 b.p.*	-	*8.0*	*7.9*	*9 b.p.*
incl. LTI and share-based payments	(527)	(464)	13.6	-	(527)	(464)	*13.6*
staff costs excl. LTI % of Revenue	*7.8*	*7.8*	*9 b.p.*	-	*7.8*	*7.8*	*9 b.p.*
Lease expenses	**(3,099)**	**(2,622)**	**18.2**	**20,805**	**(23,904)**	**(21,180)**	***12.9***
% of Revenue	*0.6*	*0.6*	*3 b.p.*	*(421) b.p.*	*4.8*	*4.8*	*(0) b.p.*
Utilities	**(8,840)**	**(8,264)**	**7.0**	**-**	**(8,840)**	**(8,264)**	***7.0***
% of Revenue	*1.8*	*1.9*	*(10) b.p.*	-	*1.8*	*1.9*	*(10) b.p.*
Other store costs	**(5,760)**	**(4,479)**	**28.6**	**253**	**(6,013)**	**(4,710)**	***27.7***
% of Revenue	*1.2*	*1.0*	*14 b.p.*	*(5) b.p.*	*1.2*	*1.1*	*14 b.p.*
Third party services	**(3,369)**	**(3,277)**	**2.8**	**(98)**	**(3,271)**	**(3,104)**	***5.4***
% of Revenue	*0.7*	*0.7*	*(7) b.p.*	*2 b.p.*	*0.7*	*0.7*	*(5) b.p.*
Other expenses	**(4,779)**	**(3,439)**	**39.0**	**835**	**(5,614)**	**(4,451)**	***26.1***
% of Revenue	*1.0*	*0.8*	*18 b.p.*	*(17) b.p.*	*1.1*	*1.0*	*12 b.p.*
SG&A (excl. D&A&I)	**(65,094)**	**(56,441)**	**15.3**	**21,795**	**(86,889)**	**(76,069)**	***14.2***
% of Revenue	*13.2*	*12.9*	*28 b.p.*	*(442) b.p.*	*17.6*	*17.4*	*21 b.p.*
SG&A (excl. D&A&I, LTI, share-based payments)	**(64,567)**	**(55,977)**	**15.3**	**21,795**	**(86,362)**	**(75,605)**	***14.2***
% of Revenue	*13.1*	*12.8*	*28 b.p.*	*(442) b.p.*	*17.5*	*17.3*	*21 b.p.*
SG&A (excl. D&A&I, LTI, share-based payments) before reclassification(2)	**(62,808)**	**(55,977)**	**12.2**	**21,697**	**(84,505)**	**(75,605)**	***11.8***
% of Revenue	*12.7*	*12.8*	*(8) b.p.*	*(440) b.p.*	*17.1*	*17.3*	*(17) b.p.*

RUB mn	IFRS 16 H1 2020	IFRS 16 H1 2019	IFRS 16 change, y-o-y, %	Impact on H1 2020*	IAS 17 H1 2020	IAS 17 H1 2019	IAS 17 change, y-o-y, %
Staff costs	**(77,531)**	**(67,611)**	**14.7**	-	**(77,531)**	**(67,611)**	***14.7***
% of Revenue	*8.1*	*8.0*	*4 b.p.*	-	*8.1*	*8.0*	*4 b.p.*
incl. LTI and share-based payments	(1,022)	(921)	11.0	-	(1,022)	(921)	*11.0*
staff costs excl. LTI % of Revenue	*7.9*	*7.9*	*4 b.p.*	-	*7.9*	*7.9*	*4 b.p.*
Lease expenses	**(5,503)**	**(3,949)**	**39.4**	**41,840**	**(47,343)**	**(41,947)**	***12.9***
% of Revenue	*0.6*	*0.5*	*10 b.p.*	*(435) b.p.*	*4.9*	*5.0*	*(6) b.p.*
Utilities	**(19,269)**	**(18,119)**	**6.3**	**-**	**(19,269)**	**(18,119)**	***6.3***
% of Revenue	*2.0*	*2.1*	*(15) b.p.*	-	*2.0*	*2.1*	*(15) b.p.*
Other store costs	**(10,413)**	**(8,693)**	**19.8**	**495**	**(10,908)**	**(9,155)**	***19.1***
% of Revenue	*1.1*	*1.0*	*5 b.p.*	*(5) b.p.*	*1.1*	*1.1*	*5 b.p.*
Third party services	**(6,331)**	**(5,949)**	**6.4**	**(176)**	**(6,155)**	**(5,778)**	***6.5***
% of Revenue	*0.7*	*0.7*	*(5) b.p.*	*2 b.p.*	*0.6*	*0.7*	*(5) b.p.*
Other expenses	**(9,381)**	**(7,287)**	**28.7**	**1,498**	**(10,879)**	**(8,305)**	***31.0***
% of Revenue	*1.0*	*0.9*	*11 b.p.*	*(16) b.p.*	*1.1*	*1.0*	*15 b.p.*
SG&A (excl. D&A&I)	**(128,428)**	**(111,608)**	**15.1**	**43,657**	**(172,085)**	**(150,915)**	***14.0***
% of Revenue	*13.3*	*13.2*	*10 b.p.*	*(454) b.p.*	*17.9*	*17.9*	*(2) b.p.*
SG&A (excl. D&A&I, LTI, share-based payments)	**(127,406)**	**(110,687)**	**15.1**	**43,657**	**(171,063)**	**(149,994)**	***14.0***
% of Revenue	*13.2*	*13.1*	*11 b.p.*	*(454) b.p.*	*17.8*	*17.8*	*(2) b.p.*
SG&A (excl. D&A&I, LTI, share-based payments) before reclassification(2)	**(125,647)**	**(110,687)**	**13.5**	**43,559**	**(169,206)**	**(149,994)**	***12.8***
% of Revenue	*13.1*	*13.1*	*(7) b.p.*	*(453) b.p.*	*17.6*	*17.8*	*(21) b.p.*

* For more details on the impact of IFRS 16 please refer to the section "Effect of IFRS 16 on X5 Retail Group's financial statements".

In Q2 2020, SG&A expenses excluding D&A&I, LTI and share-based payments under IAS 17 as a percentage of revenue increased by 21 b.p. to 17.5% (increased by 28 b.p. to 13.1% under IFRS 16) due to reclassification(2). Excluding reclassification, SG&A expenses decreased by 17 b.p., mainly due to lower staff and utilities costs as percent of revenue.

Staff costs (excluding LTI and share-based payments) as a percent of revenue increased by 9 b.p. y-o-y in Q2 2020 to 7.8%, due to reclassification(2) partially offset by positive operating leverage effect, lower personnel turnover (annualised turnover declined to 41.7%), an 8.6% increase in labour productivity and release of a COVID-related payroll provision created in March.

LTI and share-based payments expenses amounted to RUB 527 mn in Q2 2020 based on achieving both targets during the period: maintaining leadership by revenue and achieving leadership in terms of enterprise value multiple relative to peers.

Utilities costs as a percentage of revenue in Q2 2020 decreased by 10 b.p. y-o-y to 1.8% due to positive operating leverage effect.

Other store costs under IAS 17 as a percentage of revenue increased by 14 b.p. to 1.2% (and increased by 14 b.p. to 1.2% under IFRS 16), mainly due to reclassification(2) and additional measures related to the COVID-19 pandemic, such as masks and disposable gloves for personnel and additional disinfection hours daily for all stores.

Third party services under IAS 17 as a percentage of revenue decreased by 5 b.p. to 0.7% (decreased by 7 b.p. to 0.7% under IFRS 16), mainly due to lower marketing budgets during the COVID-19 pandemic.

Other expenses under IAS 17 as a percentage of revenue increased by 12 b.p. to 1.1% (increased by 18 b.p. to 1.0% under IFRS 16), mainly due to reclassification(2).

The total impact of COVID-related costs on the company's EBITDA in Q2 2020 is estimated at RUB 1.78 bn, the majority of which is related to personal protective equipment (masks, gloves, hand and mask sanitisers) and additional disinfection of premises (stores, office, distribution centres, trucks), followed by the impact from rent holidays that X5 granted to its small tenants in stores for the lockdown period. This also reflected smaller costs such as X5's initiative to trade socially important goods with a zero mark-up, additional inventory losses and additional working shifts in logistics during high-demand periods in April and May. The positive impact of the COVID-19 pandemic came from the more profitable category mix as consumers satisfied food demand in the absence of a normally-functioning HoReCa segment and reflecting the stay-at-home consumption mode. X5 also received better rent terms in the hypermarket segment during the lockdown, which enabled the Company to net the negative impact of the COVID-related costs.

Lease/sublease and other income

As a percentage of revenue, the Company's income from lease, sublease and other operations under IAS 17 totalled 0.7% (0.9% under IFRS 16) increased by 9 b.p. y-o-y (and increased by 17 b.p. y-o-y under IFRS 16) in Q2 2020, due to reclassification(2), which was partially balanced by the negative effect from rent holidays X5 provided to sub-tenants in its stores and lower income from sale of recyclable materials caused by the COVID-19 pandemic.

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EBITDA and EBITDA margin

RUB mn	IFRS 16 Q2 2020	IFRS 16 Q2 2019	IFRS 16 change, y-o-y, %	Impact on Q2 2020*	IAS 17 Q2 2020	IAS 17 Q2 2019	IAS 17 change, y-o-y, %
Gross profit	**126,579**	**111,181**	**13.8**	**1,852**	**124,727**	**109,500**	***13.9***
Gross profit margin, %	*25.6*	*25.4*	*22 b.p.*	*38 b.p.*	*25.3*	*25.0*	*23 b.p.*
SG&A (excl. D&A&I, LTI, share-based payments)	**(64,567)**	**(55,977)**	**15.3**	**21,795**	**(86,362)**	**(75,605)**	***14.2***
% of Revenue	*13.1*	*12.8*	*28 b.p.*	*(442) b.p.*	*17.5*	*17.3*	*21 b.p.*
Net impairment losses on financial assets	**(130)**	**(94)**	**38.3**	**-**	**(130)**	**(94)**	***38.3***
% of Revenue	*0.026*	*0.021*	*0 b.p.*	*-*	*0.026*	*0.021*	*0 b.p.*
Lease/sublease and other income	**4,212**	**2,968**	**41.9**	**593**	**3,619**	**2,798**	***29.3***
% of Revenue	*0.9*	*0.7*	*17 b.p.*	*12 b.p.*	*0.7*	*0.6*	*9 b.p.*
Adj. EBITDA	**66,094**	**58,078**	**13.8**	**24,240**	**41,854**	**36,599**	***14.4***
Adj. EBITDA margin, %	*13.4*	*13.3*	*11 b.p.*	*491 b.p.*	*8.5*	*8.4*	*11 b.p.*
LTI, share-based payments and other one-off remuneration payments expense and SSC	(527)	(464)	13.6	-	(527)	(464)	13.6
% of Revenue	*(0.1)*	*(0.1)*	*(0) b.p.*	-	*(0.1)*	*(0.1)*	*(0) b.p.*
EBITDA	**65,567**	**57,614**	**13.8**	**24,240**	**41,327**	**36,135**	***14.4***
EBITDA margin, %	*13.3*	*13.2*	*11 b.p.*	*491 b.p.*	*8.4*	*8.3*	*11 b.p.*

RUB mn	IFRS 16 H1 2020	IFRS 16 H1 2019	IFRS 16 change, y-o-y, %	Impact on H1 2020*	IAS 17 H1 2020	IAS 17 H1 2019	IAS 17 change, y-o-y, %
Gross profit	**242,515**	**213,346**	**13.7**	**3,588**	**238,927**	**210,064**	***13.7***
Gross profit margin, %	*25.2*	*25.3*	*(11) b.p.*	*37 b.p.*	*24.8*	*24.9*	*(9) b.p.*
SG&A (excl. D&A&I, LTI, share-based payments)	**(127,406)**	**(110,687)**	**15.1**	**43,657**	**(171,063)**	**(149,994)**	***14.0***
% of Revenue	*13.2*	*13.1*	*11 b.p.*	*(454) b.p.*	*17.8*	*17.8*	*(2) b.p.*
Net impairment losses on financial assets	**(199)**	**(102)**	**95.1**	**-**	**(199)**	**(102)**	***95.1***
% of Revenue	*0.021*	*0.012*	*1 b.p.*	*-*	*0.021*	*0.012*	*1 b.p.*
Lease/sublease and other income	**7,951**	**6,274**	**26.7**	**782**	**7,169**	**6,104**	***17.4***
% of Revenue	*0.8*	*0.7*	*8 b.p.*	*8 b.p.*	*0.7*	*0.7*	*2 b.p.*
Adj. EBITDA	**122,861**	**108,831**	**12.9**	**48,027**	**74,834**	**66,072**	***13.3***
Adj. EBITDA margin, %	*12.8*	*12.9*	*(14) b.p.*	*499 b.p.*	*7.8*	*7.8*	*(6) b.p.*
LTI, share-based payments and other one-off remuneration payments expense and SSC	(1,022)	(921)	11.0	-	(1,022)	(921)	11.0
% of Revenue	*(0.1)*	*(0.1)*	*0 b.p.*	-	*(0.1)*	*(0.1)*	*0 b.p.*
EBITDA	**121,839**	**107,910**	**12.9**	**48,027**	**73,812**	**65,151**	***13.3***
EBITDA margin, %	*12.7*	*12.8*	*(14) b.p.*	*499 b.p.*	*7.7*	*7.7*	*(6) b.p.*

* For more details on the impact of IFRS 16 please refer to the section "Effect of IFRS 16 on X5 Retail Group's financial statements".

Segment reporting (under IAS 17)

RUB mn	H1 2020	H1 2019	*change, y-o-y, %*
Proximity (Pyaterochka)			
Revenue	776,086	666,300	*16.5*
EBITDA	64,796	56,221	*15.3*
EBITDA margin, %	*8.3*	*8.4*	*(9) b.p.*
Supermarkets (Perekrestok), incl. online			
Revenue	154,735	132,668	*16.6*
EBITDA	10,670	9,268	*15.1*
EBITDA margin, %	*6.9*	*7.0*	*(9) b.p.*
Hypermarkets (Karusel)			
Revenue	31,652	43,523	*(27.3)*
EBITDA	789	1,847	*(57.3)*
EBITDA margin, %	*2.5*	*4.2*	*(175) b.p.*
Other segments			
Revenue	152	684	*(77.8)*
EBITDA	(215)	16	-
EBITDA margin, %	*n/m*	*2.3*	-
Corporate			
EBITDA	(2,228)	(2,201)	*1.2*

Upon adoption of IFRS 16 the Management Board continued to assess the performance of 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 2020, Pyaterochka's EBITDA margin under IAS 17 decreased by 9 b.p. y-o-y to 8.3%, driven primarily by targeted price investments in January-February and additional costs related to the COVID-19 pandemic in March-April.

Perekrestok's EBITDA margin under IAS 17 declined by 9 b.p. y-o-y in H1 2020 to 6.9%, mainly due to a lower rate of revenue growth driven by the closure to the public of shopping malls where some supermarkets are located as well as ongoing development and scaling up of Perekrestok.ru with a planned negative EBITDA, which was supported by high demand during the COVID lockdown.

In H1 2020, Karusel's EBITDA margin under IAS 17 declined by 175 b.p. y-o-y to 2.5%, driven by planned format downsizing as part of its transformation programme.

Other segments include 5Post in H1 2020 and Perekrestok Express in H1 2019 (the latter was closed in June 2019).

Corporate expenses under IAS 17 increased by only 1.2% y-o-y in H1 2020, reflecting the ongoing automation of back-office functions and savings on corporate travel during the pandemic.

D&A&I

Depreciation, amortisation and impairment costs under IAS 17 totalled RUB 15,395 mn in Q2 2020 and RUB 31,355 mn in H1 2020 (RUB 32,613 mn in Q2 2020 and RUB 64,898 mn in H1 2020 under IFRS 16), decreasing as a percentage of revenue by 4 b.p. y-o-y to 3.1% (increasing by 17 b.p. y-o-y to 6.6% under IFRS 16), (for H1 2020: up by 14 b.p. to 3.3% under IAS 17 and up by 20 b.p. to 6.7% under IFRS 16). This was due to revenue growth outpacing the growth of gross book value of assets.

Non-operating gains and losses

RUB mn	IFRS 16 Q2 2020	IFRS 16 Q2 2019	IFRS 16 change, y-o-y, %	Impact on Q2 2020*	IAS 17 Q2 2020	IAS 17 Q2 2019	IAS 17 change, y-o-y, %
Operating profit	**32,954**	**29,446**	**11.9**	**7,022**	**25,932**	**22,332**	***16.1***
Net finance costs	(14,550)	(13,480)	7.9	(10,077)	(4,473)	(4,154)	*7.7*
Net FX result	1,770	349	407.2	1,176	594	68	*773.5*
Profit before tax	**20,174**	**16,315**	**23.7**	**(1,879)**	**22,053**	**18,246**	***20.9***
Income tax expense	(5,402)	(4,338)	24.5	376	(5,778)	(4,738)	*22.0*
Net profit/(loss)	**14,772**	**11,977**	**23.3**	**(1,503)**	**16,275**	**13,508**	***20.5***
Net profit margin, %	*3.0*	*2.7*	*25 b.p.*	*(30) b.p.*	*3.3*	*3.1*	*21 b.p.*
Effect of Karusel transformation	**421**	**-**	**-**	**-**	**421**	**-**	**-**
% of Revenue	*0.1*	*-*	*9 b.p.*	*-*	*0.1*	*-*	*9 b.p.*
Adj. net profit	**15,193**	**11,977**	**26.9**	**(1,503)**	**16,696**	**13,508**	***23.6***
Adj. net profit margin, %	*3.1*	*2.7*	*34 b.p.*	*(30) b.p.*	*3.4*	*3.1*	*29 b.p.*

RUB mn	IFRS 16 H1 2020	IFRS 16 H1 2019	IFRS 16 change, y-o-y, %	Impact on H1 2020*	IAS 17 H1 2020	IAS 17 H1 2019	IAS 17 change, y-o-y, %
Operating profit	**56,941**	**52,712**	**8.0**	**14,484**	**42,457**	**38,839**	***9.3***
Net finance costs	(28,603)	(27,002)	5.9	(20,098)	(8,505)	(8,448)	*0.7*
Net FX result	(1,935)	1,954	-	(1,482)	(453)	391	*-*
Profit before tax	**26,403**	**27,664**	**(4.6)**	**(7,096)**	**33,499**	**30,782**	***8.8***
Income tax expense	(7,630)	(7,352)	3.8	1,419	(9,049)	(7,977)	*13.4*
Net profit/(loss)	**18,773**	**20,312**	**(7.6)**	**(5,677)**	**24,450**	**22,805**	***7.2***
Net profit margin, %	*2.0*	*2.4*	*(46) b.p.*	*(59) b.p.*	*2.5*	*2.7*	*(16) b.p.*
Effect of Karusel transformation	**814**	**-**	**-**	**-**	**814**	**-**	**-**
% of Revenue	*0.1*	*-*	*8 b.p.*	*-*	*0.1*	*-*	*8 b.p.*
Adj. net profit	**19,587**	**20,312**	**(3.6)**	**(5,677)**	**25,264**	**22,805**	***10.8***
Adj. net profit margin, %	*2.0*	*2.4*	*(37) b.p.*	*(59) b.p.*	*2.6*	*2.7*	*(8) b.p.*

* For more details on the impact of IFRS 16 please refer to the section "Effect of IFRS 16 on X5 Retail Group's financial statements".

Net finance costs under IAS 17 in Q2 2020 increased by 7.7% y-o-y to RUB 4,473 mn (and increased by 7.9% y-o-y to RUB 14,550 mn under IFRS 16) due to higher gross debt and partially compensated by a decrease in the weighted average effective interest rate on X5's total debt from 8.14% for H1 2019 to 7.31% for H1 2020 as a result of declining interest rates in Russian capital markets, as well as actions taken by X5 to minimise interest expenses.

The positive net FX result of RUB 594 mn (RUB 1,770 mn under IFRS 16) in Q2 2020, compared to positive RUB 68 mn (RUB 349 mn under IFRS 16) in Q2 2019, was due to accounts payable nominated in foreign currency related to regular direct import operations. The positive result under IFRS 16 is also due to revaluation of foreign currency liabilities resulting from lease contracts denominated in foreign currencies.

In Q2 2020 income tax expense under IAS 17 increased by 22.0% y-o-y to RUB 5,778 mn (and increased by 24.5% y-o-y to RUB 5,402 mn under IFRS 16) in line with growth in pre-tax profit. X5's effective tax rate under IAS 17 for the quarter totalled 26.2% (26.8% under IFRS 16) (including the accrual of deferred tax on investments associated with potential dividend payments).

X5 RETAIL GROUP

Consolidated cash flow statement highlights

RUB mn	IFRS 16 Q2 2020	IFRS 16 Q2 2019	change, y-o-y, %	Impact on Q2 2020*	IAS 17 Q2 2020	IAS 17 Q2 2019	change, y-o-y, %
Net cash from operating activities before changes in working capital	65,211	57,599	*13.2*	23,648	41,563	36,292	*14.5*
Change in working capital	(15,968)	1,333	-	(926)	(15,042)	1,939	-
Net interest and income tax paid	(19,517)	(15,719)	*24.2*	(10,057)	(9,460)	(6,412)	*47.5*
Net cash flows generated from operating activities	29,726	43,213	*(31.2)*	12,665	17,061	31,819	*(46.4)*
Net cash used in investing activities	(20,749)	(18,186)	*14.1*	-	(20,749)	(18,186)	*14.1*
Net cash (used) /generated in/from financing activities	(9,553)	(26,357)	*(63.8)*	(12,665)	3,112	(14,963)	-
Effect of exchange rate changes on cash & cash equivalents	6	(8)	-	-	6	(8)	-
Net decrease in cash & cash equivalents	**(570)**	**(1,338)**	***(57.4)***	**-**	**(570)**	**(1,338)**	***(57.4)***

RUB mn	IFRS 16 H1 2020	IFRS 16 H1 2019	change, y-o-y, %	Impact on H1 2020*	IAS 17 H1 2020	IAS 17 H1 2019	change, y-o-y, %
Net cash from operating activities before changes in working capital	120,594	107,669	*12.0*	47,245	73,349	65,083	*12.7*
Change in working capital	(316)	(1,781)	*(82.3)*	(356)	40	(1,237)	-
Net interest and income tax paid	(36,340)	(33,330)	*9.0*	(20,053)	(16,287)	(14,815)	*9.9*
Net cash flows generated from operating activities	83,938	72,558	*15.7*	26,836	57,102	49,031	*16.5*
Net cash used in investing activities	(38,043)	(35,559)	*7.0*	-	(38,043)	(35,559)	*7.0*
Net cash used in financing activities	(53,164)	(44,416)	*19.7*	(26,836)	(26,328)	(20,889)	*26.0*
Effect of exchange rate changes on cash & cash equivalents	(31)	(8)	-	-	(31)	(8)	*287.5*
Net decrease in cash & cash equivalents	**(7,300)**	**(7,425)**	***(1.7)***	**-**	**(7,300)**	**(7,425)**	***(1.7)***

* For more details on the impact of IFRS 16 please refer to the section "Effect of IFRS 16 on X5 Retail Group's financial statements".

In Q2 2020, the Company's net cash from operating activities before changes in working capital under IAS 17 increased by RUB 5,271 mn and totalled RUB 41,563 mn (and increased by RUB 7,612 mn and totalled RUB 65,211 mn under IFRS 16), reflecting business growth and sustainably high profitability. The negative change in working capital under IAS 17 of RUB 15,042 mn in Q2 2020 (RUB 15,968 mn under IFRS 16) compared to positive RUB 1,939 mn in Q2 2019 was mainly due to a decrease in accounts payable (due to the calendarisation effect and higher purchases at the end of March driven by the COVID-19 pandemic) and a larger increase in inventories, reflecting business growth and partially impacted by the COVID-19 pandemic. Inventory levels in Q2 2020 were in line with year-end 2019 levels.

Net interest and income tax paid under IAS 17 in Q2 2020 increased by RUB 3,048 mn, or 47.5% y-o-y, and totalled RUB 9,460 mn (increased by RUB 3,798 mn, or 24.2% y-o-y, and totalled RUB 19,517 mn under IFRS 16). The increase in interest paid was driven by the calendarisation of coupon payments. Income tax paid under IAS 17 increased y-o-y due to a one-off tax refund in Q2 2019, following tax overpayment in previous periods.

As a result, in Q2 2020, net cash flow generated from operating activities under IAS 17 totalled RUB 17,061 mn, down 46.4% from RUB 31,819 mn in Q2 2019 (and totalled RUB 29,726 mn, down 31.2% from RUB 43,213 mn in Q2 2019 under IFRS 16).

In H1 2020, net cash flows generated from operating activities under IAS 17 totalled RUB 57,102 mn, up 16.5% from RUB 49,031 mn for the same period of 2019 (and totalled RUB 83,938 mn, up 15.7% from RUB 72,558 mn for the same period of 2019 under IFRS 16) reflecting overall business growth and profitability, and despite the technical negative impact of calendarisation on payables at the end of H1 2020.

Net cash used in investing activities, which generally consists of payments for property, plant and equipment, increased to RUB 20,749 mn in Q2 2020 from RUB 18,186 mn in Q2 2019, driven primarily by the Pyaterochka refurbishment programme. For H1 2020, net cash used in investing activities increased to RUB 38,043 mn from RUB 35,559 mn in H1 2019.

Net cash generated from financing activities under IAS 17 totalled RUB 3,112 mn (net cash used in financing activities totalled RUB 9,553 mn under IFRS 16) in Q2 2020 compared to net cash used in financing activities of RUB 14,963 mn (net cash used in financing activities of RUB 26,357 mn under IFRS 16) in Q2 2019. For H1 2020, net cash used in financing activities under IAS 17 increased to RUB 26,328 mn from RUB 20,889 mn (and increased to RUB 53,164 mn from RUB 44,416 mn under IFRS 16) in H1 2019, reflecting the increased dividend payment.

Liquidity update

RUB mn	30-Jun-20	*% in total*	31-Dec-19	*% in total*	30-Jun-19	*% in total*
Total debt	**231,778**		**227,933**		**212,055**	
Short-term debt	73,622	*31.8*	74,755	*32.8*	59,852	*28.2*
Long-term debt	158,156	*68.2*	153,178	*67.2*	152,203	*71.8*
Net debt (under IAS 17)	**220,476**		**209,331**		**195,112**	
Net debt/ EBITDA (under IAS 17)	**1.68**		**1.71**		**1.59**	
Lease liabilities (IFRS 16)	**518,454**		**484,795**		**448,114**	
Net debt/ EBITDA (under IFRS 16)	**3.28**		**3.28**		**-**	

The Company's net debt/EBITDA ratio under IAS 17 was 1.68x (3.28x under IFRS 16) as of 30 June 2020.

The Company's debt under IAS 17 is 100% denominated in Russian roubles.

As of 30 June 2020, the Company had access to RUB 429,638 mn 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 1,852 mn and 38 b.p. under IFRS 16 compared to IAS 17 in Q2 2020 (RUB 3,588 mn and 37 b.p. in H1 2020), respectively, due to the lease for distribution centres, 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 21,795 mn have been excluded from SG&A expenses in Q2 2020 (RUB 43,657 mn in H1 2020) under the new standard. Additional depreciation of RUB 17,218 mn related to leased assets has been added under operating costs in Q2 2020 (RUB 33,543 mn in H1 2020) under IFRS 16.

Financial costs increased by RUB 10,077 mn under the new standard compared to IAS 17 due to the interest expense on lease liabilities in Q2 2020 (RUB 20,098 mn in H1 2020).

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 2020 (499 b.p. in H1 2020). Interest expense on liabilities is recognised in finance costs, below the EBITDA level.

Effect on net profit

The net FX result is RUB 1,176 mn higher under IFRS 16 compared to IAS 17 in Q2 2020 (RUB 1,482 mn in H1 2020) due to the 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 26.8% and 28.9% in Q2 2020 and H1 2020, respectively.

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 1,503 mn and 30 b.p. under the new standard compared to IAS 17 in Q2 2020 (RUB 5,677 mn and 59 b.p. in H1 2020).

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 2019 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 2020 and believes that the risks identified are in line with those presented in the 2019 Annual Report. For a description of the financial risks faced by the

Company, please refer to note 31 of the audited consolidated financial statements and the Company's 2019 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 132-135 of the Annual Report 2019.

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 2020, X5 had 17,025 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 16,096 Pyaterochka proximity stores, 867 Perekrestok supermarkets and 62 Karusel hypermarkets. The Company operates 42 DCs and 4,083 Company-owned trucks across the Russian Federation.

For the full year 2019, revenue totalled RUB 1,734,347 mn (USD 26,791 mn), Adjusted EBITDA under IAS 17 reached RUB 127,380 mn (USD 1,968 mn), and net profit under IAS 17 for the period amounted to RUB 25,908 mn (USD 400 mn). In H1 2020, revenue totalled RUB 962,625 mn (USD 13,876 mn), adjusted EBITDA reached RUB 74,834 mn (USD 1,079 mn), and net profit amounted to RUB 24,450 mn (USD 352 mn).

X5's Shareholder structure is as follows: CTF Holdings S.A. – 47.86%, Intertrust Trustees Ltd (Axon Trust) – 11.43%, X5 Directors – 0.09%, treasury shares – 0.01%, Shareholders with less than 3% – 40.61%.

Forward looking statements:

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the fact that they do not only relate to historical or current events. Forward-looking statements often use words such as "anticipate", "target", "expect", "estimate", "intend", "expected", "plan", "goal", "believe", or other words of similar meaning.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, a number of which are beyond X5 Retail Group N.V.'s control. As a result, actual future results may differ materially from the plans, goals and expectations set out in these forward-looking statements.

Any forward-looking statements made by or on behalf of X5 Retail Group N.V. speak only as of the date of this announcement. Save as required by any applicable laws or regulations, X5 Retail Group N.V. undertakes no obligation publicly to release the results of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of this document.

Elements of this press release contain or may contain inside information about X5 Retail Group N.V. within the meaning of Article 7(1) of the Market Abuse Regulation (596/2014/EU).

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X5 Retail Group N.V.

Condensed Consolidated Interim Financial Statements

Six months ended 30 June 2020

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 2020 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 2020, 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
Chief Executive Officer

12 August 2020

Svetlana Demyashkevich
Chief Financial Officer

12 August 2020

Independent auditor's review report

To: the shareholders and the supervisory board of directors of X5 Retail Group N.V.

Our conclusion

We have reviewed the condensed consolidated interim financial statements included in the accompanying first half-year 2020 financial report of X5 Retail Group N.V., Amsterdam for the period 1 January 2020 to 30 June 2020.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of X5 Retail Group N.V. for the period from 1 January 2020 to 30 June 2020, are not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union.

The condensed consolidated interim financial statements comprises:

- The condensed consolidated interim statement of financial position as of 30 June 2020
- The following condensed consolidated interim statements for the period from 1 January 2020 to 30 June 2020: the statements of profit or loss, comprehensive income, cash flows and changes in equity
- The notes comprising of a summary of the significant accounting policies and selected explanatory information

Basis for our conclusion

We conducted our review in accordance with Dutch law including, Dutch Standard 2410, "Het beoordelen van tussentijdse financiële informatie door de accountant van de entiteit" (Review of Interim Financial Information Performed by the Independent Auditor of the Entity). A review of interim financial information in accordance with the Dutch Standard 2410 is a limited assurance engagement. Our responsibilities under this standard are further described in the 'Our responsibilities for the review of the condensed interim IFRS consolidated financial information' section of our report.

We are independent of X5 Retail Group N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Emphasis of matter relating to COVID-19 developments

The developments around the Covid-19 pandemic have a profound impact on people, society and on the economy. This impacts operational and financial performance of organizations and the assessment of the ability to continue as a going concern. The impact may continue to evolve. The condensed consolidated interim financial information and our review report thereon reflect the conditions at the time of preparation. The impact of the developments on X5 Retail Group N.V. is disclosed in the notes to the condensed consolidated interim financial information in note 25 'Commitments and contingencies'. We draw attention to this disclosure.
Our conclusion is not modified in respect of this matter.

Responsibilities of the board of directors for the condensed interim IFRS consolidated financial information

The management board is responsible for the preparation and presentation of the condensed interim IFRS consolidated financial information in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Furthermore, the management board is responsible for such internal control as it determines is necessary to enable the preparation of the condensed interim IFRS consolidated financial information that is free from material misstatement, whether due to fraud or error.

The supervisory board is responsible for overseeing the company's financial reporting process.

Building a better working world

Our responsibilities for the review of the condensed interim IFRS consolidated financial information

Our responsibility is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

The level of assurance obtained in a review engagement is substantially less than the level of assurance obtained in an audit conducted in accordance with the Dutch Standards on Auditing. Accordingly, we do not express an audit opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the review, in accordance with Dutch Standard 2410.
Our review included among others:

- Updating our understanding of the company and its environment, including its internal control, and the applicable financial reporting framework, in order to identify areas in the condensed interim IFRS consolidated financial information where material misstatements are likely to arise due to fraud or error, designing and performing analytical and other review procedures to address those areas, and obtaining assurance evidence that is sufficient and appropriate to provide a basis for our conclusion
- Obtaining an understanding of internal control as it relates to the preparation of interim financial information
- Making inquiries of management and others within the company
- Applying analytical procedures with respect to information included in the condensed interim IFRS consolidated financial information
- Obtaining assurance evidence that the condensed consolidated interim financial statements agree with, or reconciles to, the company's underlying accounting records
- Evaluating the assurance evidence obtained
- Considering whether there have been any changes in accounting principles or in the methods of applying them and whether any new transactions have necessitated the application of a new accounting principle
- Considering whether management has identified all events that may require adjustment to or disclosure in the condensed consolidated interim financial statements
- Considering whether the condensed consolidated interim financial statements have been prepared in accordance with the applicable financial reporting framework and represents the underlying transactions free from material misstatement

Amsterdam, 12 August 2020

Ernst & Young Accountants LLP

signed by G. Arnold

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

	Note	30 June 2020	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	8	318,612	315,257
Right-of-use assets	9	455,047	428,166
Investment properties		5,466	5,564
Goodwill	10	102,907	101,927
Other intangible assets	8	26,510	24,338
Investments in associates and joint ventures		350	200
Other non-current assets		2,574	2,646
Deferred tax assets		18,711	16,478
		930,177	**894,576**
Current assets			
Inventories		128,466	127,462
Indemnification asset		164	140
Trade, other accounts receivable and prepayments	11	12,634	15,853
Current income tax receivable		5,195	5,631
VAT and other taxes receivable		8,671	12,066
Cash and cash equivalents		11,302	18,602
		166,432	**179,754**
Total assets		**1,096,609**	**1,074,330**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	15	2,458	2,458
Share premium		46,088	46,150
Retained earnings		56,620	67,843
Share-based payment reserve	20	75	105
		105,241	**116,556**
Total equity		**105,241**	**116,556**
Non-current liabilities			
Long-term borrowings	14	158,156	153,178
Long-term lease liabilities	9	454,714	427,173
Deferred tax liabilities		6,737	5,501
Other non-current liabilities		2,216	3,349
		621,823	**589,201**
Current liabilities			
Trade accounts payable		149,411	160,434
Short-term borrowings	14	73,622	74,755
Interest accrued		1,356	1,734
Short-term lease liabilities	9	63,740	57,622
Short-term contract liabilities	13	2,905	2,206
Current income tax payable		584	750
Provisions and other liabilities	12	77,927	71,072
		369,545	**368,573**
Total liabilities		**991,368**	**957,774**
Total equity and liabilities		**1,096,609**	**1,074,330**

Igor Shekhterman	Svetlana Demyashkevich
Chief Executive Officer	Chief Financial Officer
12 August 2020	12 August 2020

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

		Six months ended 30 June	
	Note	**2020**	**2019**
Revenue	5, 17	962,625	843,175
Cost of sales		(720,110)	(629,829)
Gross profit		**242,515**	**213,346**
Selling, general and administrative expenses		(193,326)	(166,806)
Net impairment losses on financial assets		(199)	(102)
Lease/sublease and other income	18	7,951	6,274
Operating profit		**56,941**	**52,712**
Finance costs	19	(28,636)	(27,035)
Finance income	19	33	33
Net foreign exchange (loss)/gain		(1,935)	1,954
Profit before tax		**26,403**	**27,664**
Income tax expense	21	(7,630)	(7,352)
Profit for the period		**18,773**	**20,312**
Profit for the period attributable to:			
Equity holders of the parent		18,773	20,312
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	16	276.54	299.19
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	16	276.54	299.19

Igor Shekhterman
Chief Executive Officer

12 August 2020

Svetlana Demyashkevich
Chief Financial Officer

12 August 2020

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

	Six months ended 30 June	
	2020	**2019**
Profit for the period	18,773	20,312
Total comprehensive income for the period, net of tax	**18,773**	**20,312**
Total comprehensive income for the period attributable to:		
Equity holders of the parent	18,773	20,312

Igor Shekhterman
Chief Executive Officer

12 August 2020

Svetlana Demyashkevich
Chief Financial Officer

12 August 2020

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

		Six months ended 30 June	
	Note	**2020**	**2019**
Profit before tax		**26,403**	**27,664**
Adjustments for:			
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment properties and intangible assets		64,898	55,198
Gain on disposal of property plant and equipment, investment properties and intangible assets and gain on derecognition of right-of-use assets		(1,621)	(201)
Finance costs, net	19	28,603	27,002
Net impairment losses on financial assets		199	102
Impairment/(Reversal of impairment) of prepayments		82	(77)
Share-based compensation expense	20	27	39
Net foreign exchange loss/(gain)		1,935	(1,954)
Other non-cash items		68	(104)
Net cash from operating activities before changes in working capital		**120,594**	**107,669**
Decrease in trade, other accounts receivable and prepayments and VAT and other taxes receivable		6,566	692
(Increase)/decrease in inventories		(1,004)	12,304
Decrease in trade payable		(11,019)	(16,121)
Increase in other accounts payable and contract liabilities		5,141	1,344
Net cash flows from operations		**120,278**	**105,888**
Interest paid		(28,260)	(26,598)
Interest received		31	29
Income tax paid		(8,111)	(6,761)
Net cash flows from operating activities		**83,938**	**72,558**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets		(32,007)	(28,452)
Acquisition of businesses, net of cash acquired	6	(1,502)	(3,182)
Proceeds from disposal of property, plant and equipment, investment properties and intangible assets		1,338	325
Purchase of other intangible assets		(5,722)	(4,253)
Acquisition of interest in associates and joint ventures		(150)	–
Proceeds from sale of interest in associates and joint ventures		–	3
Net cash flows used in investing activities		**(38,043)**	**(35,559)**
Cash flows from financing activities			
Proceeds from loans		91,366	49,828
Repayment of loans		(87,579)	(45,598)
Purchase of treasury shares		(119)	(118)
Payments of principal portion of lease liabilities		(26,836)	(23,528)
Dividends paid to equity holders of the parent	15	(29,996)	(25,000)
Net cash flows used in financing activities		**(53,164)**	**(44,416)**
Effect of exchange rate changes on cash and cash equivalents		(31)	(8)
Net decrease in cash and cash equivalents		**(7,300)**	**(7,425)**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		18,602	24,368
Net decrease in cash and cash equivalents		(7,300)	(7,425)
Cash and cash equivalents at the end of the period		**11,302**	**16,943**

Igor Shekhterman
Chief Executive Officer

12 August 2020

Svetlana Demyashkevich
Chief Financial Officer

12 August 2020

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

	Attributable to equity holders of the parent						
	Number of shares	**Share capital**	**Share premium**	**Share-based payment reserve**	**Retained earnings**	**Total share-holders' equity**	**Total**
Balance as at 1 January 2019	**67,890,099**	**2,458**	**46,192**	**118**	**73,336**	**122,104**	**122,104**
Profit for the period	–	–	–	–	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 15)	–	–	–	–	(25,000)	(25,000)	**(25,000)**
Share-based payment compensation (Note 20)	–	–	–	39	–	39	**39**
Transfer and waiving of vested equity rights (Note 20)	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**
Balance as at 1 January 2020	**67,890,054**	**2,458**	**46,150**	**105**	**67,843**	**116,556**	**116,556**
Profit for the period	–	–	–	–	18,773	18,773	**18,773**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**18,773**	**18,773**	**18,773**
Acquisition of treasury shares	(12,870)	–	(107)	–	–	(107)	**(107)**
Dividends (Note 15)	–	–	–	–	(29,996)	(29,996)	**(29,996)**
Share-based payment compensation (Note 20)	–	–	–	27	–	27	**27**
Transfer and waiving of vested equity rights (Note 20)	5,260	–	45	(57)	–	(12)	**(12)**
Balance as at 30 June 2020	**67,882,444**	**2,458**	**46,088**	**75**	**56,620**	**105,241**	**105,241**

Igor Shekhterman
Chief Executive Officer

12 August 2020

Svetlana Demyashkevich
Chief Financial Officer

12 August 2020

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 Zuidplein 196, 1077 XV Amsterdam, the Netherlands.

The main activity of the Group is the development and operation of grocery retail stores. As at 30 June 2020 the Group operated a retail chain of 17,025 proximity stores, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel" (each representing separate format) in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg (31 December 2019: 16,297 proximity stores, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel"). The Group's multiformat store network comprises 16,096 proximity stores under "Pyaterochka" brand, 867 supermarkets under "Perekrestok" brand and 62 hypermarkets under "Karusel" brand (31 December 2019: 15,354 proximity stores under "Pyaterochka" brand, 852 supermarkets under "Perekrestok" brand and 91 hypermarkets under "Karusel" brand).

As at 30 June 2020 the principal shareholder exerting significant influence over the Company was CTF Holdings S.A. ("CTF"). CTF owns 47.86% of total issued shares in the Company, indirectly through Luxaro Retail Holding S.a.r.l. As at 30 June 2020 and 31 December 2019 the Company's shares were listed on the London and Moscow Stock Exchanges in the form of Global Depositary Receipts (GDRs) with each GDR representing an interest of 0.25 in an ordinary share (Note 16).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2020 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 2019 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 2019 except for the adoption of new Standards that are mandatory for financial annual periods beginning on 1 January 2020. 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, access to financial resources (Note 23) and the potential impact of COVID 19.

On 12 August 2020, the Management Board authorised the condensed consolidated interim financial statements for issue. Publication is on 13 August 2020. 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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2019.

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 25).

Property, plant and equipment, Right-of-use assets, Investment properties 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 2020 the Group recognised an impairment loss in the amount of RUB 1,973 (six months ended 30 June 2019: an impairment loss in the amount of RUB 1,317) and reversed the impairment loss previously recognised in the amount of RUB 267 (six months ended 30 June 2019: reversed the impairment loss previously recognised in the amount of RUB 23) based on the actual results.

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 2019 except for the adoption of new standards that are mandatory for financial annual periods beginning on 1 January 2020.

***Definition of a Business* – Amendments to IFRS 3**

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs and explained how to assess whether an acquired process is substantive.

As a result of the amendments the Group changed its accounting policy for determination of whether an acquisition is an acquisition of business. The amendments did not have material impact on the financial position of the Group.

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

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

***Definition of a Business* – Amendments to IFRS 3 (continued)**

The following other new standards and amendments to IFRSs effective for the financial year beginning 1 January 2020 do not have a material impact on the Group and do not result in change of the Group's accounting policy:

- Amendments to IFRS 7, IFRS 9 and IAS 39: *Interest Rate Benchmark Reform*;
- Amendments to IAS 1 and IAS 8: *Definition of Material*;
- Revised *Conceptual Framework for Financial Reporting*.

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 IAS 1 *Presentation of Financial Statements*: Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IFRS 3 *Business Combinations*; IAS 16 *Property, Plant and Equipment*; IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as well as Annual Improvements 2018-2020	1 January 2022*
Amendment to IFRS 16 *Leases Covid-19-Related Rent Concessions*	1 June 2020*
IFRS 17 *Insurance Contracts* including Amendments to IFRS 17	1 January 2023*
Amendments to IFRS 4 *Insurance Contracts* – deferral of IFRS 9	1 January 2021*

* Subject to EU endorsement.

The Group does not intend to apply the practical expedient provided by the Amendment to IFRS 16 *Leases*. The Group expects that the adoption of other pronouncements listed above will not have a significant impact on the Group's results of operations and financial positions in the period of initial application.

5 SEGMENT REPORTING

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

The following significant operating functions are decentralised by formats:

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

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

Upon adoption of IFRS 16 the Management Board continued assessment of the performance of the operating segments based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment (EBITDA). The Group continued to apply IAS 17 for leases in calculation of segments EBITDA and capital expenditure. Other information provided to the Management Board is measured in a manner consistent with that in the consolidated financial statements. Capital expenditures include additions of property, plant and equipment, investment properties and intangible assets, acquisitions of property, plant and equipment, investment properties and intangible assets through business combinations as well as goodwill acquired through such business combinations.

The accounting policies used for segments are the same as accounting policies applied for these condensed consolidated interim financial statements except for the accounting of leases under IAS 17 instead of IFRS 16. In 2020 a new methodology of overhead expenses allocation was used for more accurate measurements of segments' performance. The comparative figures for earlier periods have been adjusted in order to provide meaningful comparative information.

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

5 SEGMENT REPORTING (continued)

The segment information for the period ended 30 June 2020, comparative figures for earlier periods and reconciliation of segments EBITDA to profit for the period is provided as follows:

Six months ended 30 June 2020	**Pyaterochka**	**Perekrestok**	**Karusel**	**Other segments**	**Corporate centre**	**Total**
Revenue (Note 17)	**776,086**	**154,735**	**31,652**	**152**	**–**	**962,625**
EBITDA under IAS 17	**64,796**	**10,670**	**789**	**(215)**	**(2,228)**	**73,812**
Fixed lease expenses						**47,245**
Gain on derecognition of right-of-use assets and lease liabilities						**782**
Depreciation, amortisation and impairment						**(64,898)**
Operating profit						**56,941**
Finance cost, net						**(28,603)**
Net foreign exchange result						**(1,935)**
Profit before income tax						**26,403**
Income tax expense						**(7,630)**
Profit for the period						**18,773**
Capital expenditure	31,186	7,072	262	–	808	**39,328**
30 June 2020						
Inventories	102,338	21,457	4,671	–	–	**128,466**

Six months ended 30 June 2019	**Pyaterochka**	**Perekrestok**	**Karusel**	**Other segments**	**Corporate centre**	**Total**
Revenue (Note 17)	**666,300**	**132,668**	**43,523**	**684**	**–**	**843,175**
EBITDA under IAS 17	**56,221**	**9,268**	**1,847**	**16**	**(2,201)**	**65,151**
Fixed lease expenses						**42,600**
Gain on derecognition of right-of-use assets and lease liabilities						**159**
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**
31 December 2019						
Inventories	100,281	20,166	7,015	–	–	**127,462**

6 ACQUISITION OF BUSINESSES

Acquisitions in 2020

For the six months ended 30 June 2020 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 2020 the acquired businesses contributed revenue of RUB 749 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 2020 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 2020 (continued)

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 9)	3,534
Deferred tax assets	245
Lease liabilities (Note 9)	(3,534)
Net assets acquired	**245**
Goodwill (Note 10)	980
Purchase consideration	**1,225**
Net cash outflow arising from the acquisition	**1,192**

The Group assigned provisional fair values to net assets acquired. The Group will finalise the purchase price allocation within 12 months from the acquisition date.

The purchase consideration for the reporting period comprised RUB 1,192 and RUB 33 as cash consideration and deferred consideration respectively.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka segment in amount of RUB 415 and Perekrestok segment in amount of RUB 565. None of the goodwill recognised is expected to be deductible for income tax purposes.

During the six months ended 30 June 2020 the Group transferred RUB 310 as deferred payments for the prior periods acquisitions.

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 were as follows:

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

6 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2019 (continued)

The purchase consideration for the reporting period comprised RUB 2,879 and RUB 1,409 as cash consideration and deferred consideration respectively.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka segment in amount of RUB 2,899 and Perekrestok segment in amount of RUB 514. None of the goodwill recognised is expected to be deductible for income tax purposes.

During the six months ended 30 June 2020 the Group has finalised fair value assessment of business combinations occurred during six months ended 30 June 2019 resulting in no change in the amount of goodwill initially recognised at provisional values.

During the six months ended 30 June 2019 the Group transferred RUB 303 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 2019.

At 30 June 2020 trade accounts payable to other related parties amounted to RUB 691 (31 December 2019: RUB 567), trade accounts receivable amounted to RUB 12 (31 December 2019: RUB 24), other receivables and prepayments amounted to RUB Nil (31 December 2019: RUB Nil), other accounts payable amounted to RUB 10 (31 December 2019: RUB 14).

For the six months ended 30 June 2020 purchases from other related parties net of bonuses amounted to RUB 1,708 (six months ended 30 June 2019: RUB 1,602). 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.

For the six months ended 30 June 2020 members of the Management Board and other key management personnel were entitled to a total short-term and long-term compensation of RUB 689 (six months ended 30 June 2019: RUB 554), including accrued short-term incentive rewards of RUB 185 (six months ended 30 June 2019: RUB 137) payable on an annual basis subject to meeting annual performance targets, accrued rewards under the long-term incentive plan of RUB 213 (six months ended 30 June 2019: RUB 147), social security costs of RUB 86 (six months ended 30 June 2019: RUB 69).

For the six months ended 30 June 2020 members of the Supervisory Board were entitled to a cash remuneration of RUB 51 (six months ended 30 June 2019: RUB 43) and a share-based compensation of RUB 27 (six months ended 30 June 2019: RUB 39). As at 30 June 2020 the total number of restricted stock units awarded to members of the Supervisory Board under the Restricted Stock Unit Plan was 131,801 (31 December 2019: 109,751).

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

8 PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

	2020		2019	
	Property, plant and equipment	**Other intangible assets**	**Property, plant and equipment**	**Other intangible assets**
Cost				
At 1 January	**502,401**	**47,347**	**452,524**	**37,532**
Additions	33,469	4,550	27,094	3,531
Disposals	(13,144)	(213)	(4,296)	(38)
At 30 June	**522,726**	**51,684**	**475,322**	**41,025**
Accumulated depreciation, amortisation and impairment				
At 1 January	**(187,144)**	**(23,009)**	**(144,834)**	**(19,592)**
Depreciation and amortisation charge	(27,859)	(2,196)	(23,690)	(1,196)
Impairment charge	(1,791)	(182)	(1,317)	–
Reversal of impairment	267	–	23	–
Disposals	12,413	213	4,051	20
At 30 June	**(204,114)**	**(25,174)**	**(165,767)**	**(20,768)**
Net book value at 1 January	**315,257**	**24,338**	**307,690**	**17,940**
Net book value at 30 June	**318,612**	**26,510**	**309,555**	**20,257**

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 2020 and 30 June 2019.

For the six months ended 30 June 2020 the additions of other intangible assets were attributable to additions of software in the amount of RUB 4,550 (for the six months ended 30 June 2019 RUB 3,531 attributable to additions of software).

The Group analysed external and internal sources of information including the potential impact of COVID-19 pandemic on the Group itself and on the macro economic environment and identified impairment indicators for the stores located in shopping malls. The Group reviewed the cash flow projections for these stores to include the impact of COVID-19 and performed an impairment test, which resulted in no impairment charge being necessary as at 30 June 2020.

The impairment charge for the six months ended 30 June 2020 and 30 June 2019 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 recoverable amount of certain stores.

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

9 LEASES

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets (land and buildings)	Lease liabilities
At 1 January 2019	**386,903**	**(433,813)**
Additions	32,275	(32,103)
Acquisition of businesses (Note 6)	10,839	(10,817)
Depreciation expense	(29,279)	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(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)**
At 1 January 2020	**428,166**	**(484,795)**
Additions	58,574	(58,183)
Acquisition of businesses (Note 6)	3,534	(3,534)
Depreciation expense	(33,305)	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(1,922)	2,704
Interest accrued	–	(20,066)
Payments	–	46,902
Effect of changes in foreign exchange rates	–	(1,482)
At 30 June 2020	**455,047**	**(518,454)**

The expenses related to short-term leases for which the Group applies recognition exemption under IFRS 16 for the six months ended 30 June 2020 amounted to RUB 6 (six months ended 30 June 2019: RUB 17). The expense related to variable lease payments not included in the measurement of lease liabilities for the six months ended 30 June 2020 amounted to RUB 5,496 (six months ended 30 June 2019: RUB 3,932).

Maturity analysis of the lease liabilities is disclosed in the Note 23.

As at 30 June 2020 potential future cash outflows of RUB 4,095 (undiscounted) have not been included in the lease liability because it was assessed reasonably certain that the leases will be terminated (31 December 2019: RUB 4,164).

10 GOODWILL

Movements in goodwill arising on the acquisition of businesses at 30 June 2020 and 30 June 2019 were:

	2020	2019
Cost		
Gross book value at 1 January	**168,239**	**161,225**
Acquisition of businesses (Note 6)	980	3,413
Gross book value at 30 June	**169,219**	**164,638**
Accumulated impairment losses		
Accumulated impairment losses at 1 January	**(66,312)**	**(66,598)**
Accumulated impairment losses at 30 June	**(66,312)**	**(66,598)**
Carrying amount at 1 January	**101,927**	**94,627**
Carrying amount at 30 June	**102,907**	**98,040**

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

10 GOODWILL (continued)

Goodwill impairment test

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

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

The Group analysed the potential impacts and effects of the COVID-19 pandemic, including the estimated impact on the macro economic environment. COVID-19 pandemic did not negatively affect the overall Group’s performance during the reporting period and the Group does not expect that potential effects may significantly affect its performance as demand for food products is expected to remain stable, The Group did not identify triggers of goodwill impairment during the six months ended 30 June 2020 and will perform an annual impairment test of goodwill at 31 December 2020.

11 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2020	31 December 2019
Trade accounts receivable	8,680	12,501
Other receivables	3,042	2,465
Allowance for expected credit losses of trade and other receivables	(1,119)	(1,059)
Total trade and other accounts receivable	**10,603**	**13,907**
Prepayments	2,068	2,097
Advances made to trade suppliers	429	341
Allowance for impairment of prepayments and advances	(466)	(492)
Total prepayments	**2,031**	**1,946**
Total	**12,634**	**15,853**

During the six months ended 2020 the Group made a detailed analysis of new coronavirus influence on the expected credit losses and did not identify significant effects. In general COVID-19 did not negatively affect the Group’s main debtors mostly being food suppliers, as well as other receivables turnover except for minor debtors, so there was no need for the revision of the provision matrix for expected credit losses.

12 PROVISIONS AND OTHER LIABILITIES

	30 June 2020	31 December 2019
Other accounts payable and accruals	18,913	20,689
Accrued salaries and bonuses	20,223	20,656
Accounts payable for property, plant and equipment	13,932	12,371
Taxes other than income tax	19,427	12,452
Advances received	1,411	1,649
Payables to landlords	984	961
Provisions and liabilities for non-income tax uncertainties	3,037	2,294
Total	**77,927**	**71,072**

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

13 CONTRACT LIABILITIES

	30 June 2020	31 December 2019
Short-term contract liabilities		
Short-term contract liabilities related to loyalty programmes	2,675	1,836
Advances received from wholesales customers	75	116
Advances received from other customers	155	254
Total short-term contract liabilities	**2,905**	**2,206**

14 BORROWINGS

The Group had the following borrowings at 30 June 2020 and 31 December 2019:

	Final matu-	Fair value		Carrying value	
Current	**rity year***	**2020**	**2019**	**2020**	**2019**
RUB Bonds X5 Finance series BO-04	2020	2,252	2,013	2,150	2,150
RUB Bonds X5 Finance series 001P-02	2020	10,476	10,551	9,998	9,995
RUB Bonds X5 Finance series 001P-03		–	10,030	–	9,998
RUB Eurobond X5 Finance B.V.		–	20,171	–	19,985
RUB Bilateral Loans	2020	61,474	32,627	61,474	32,627
Total current borrowings		**74,202**	**75,392**	**73,622**	**74,755**
Non-current					
RUB Bonds X5 Finance series BO-05	2021	398	365	390	390
RUB Bonds X5 Finance series BO-06	2022	1,274	1,257	1,201	1,201
RUB Bonds X5 Finance series BO-07	2022	5,297	5,175	4,997	4,996
RUB Bonds X5 Finance series 001P-01	2023	99	98	98	96
RUB Bonds X5 Finance series 001P-03	2023	40	–	48	–
RUB Bonds X5 Finance series 001P-04	2021	5,155	5,148	4,996	4,994
RUB Bonds X5 Finance series 001P-05	2022	5,229	5,255	4,996	4,995
RUB Bonds X5 Finance series 001P-06	2022	10,223	10,044	9,990	9,998
RUB Bonds X5 Finance series 001P-07	2022	5,093	4,994	4,995	4,999
RUB Bonds X5 Finance series 001P-08	2022	5,106	4,950	4,994	4,999
RUB Bonds X5 Finance series 001P-09	2022	5,106	4,994	4,994	4,999
RUB Bonds X5 Finance series 001P-10	2022	10,215	–	9,997	–
RUB Bonds X5 Finance series 001P-11	2022	10,010	–	9,997	–
RUB Bonds X5 Finance series 001P-12	2023	10,000	–	9,999	–
RUB Bilateral Loans	2023	86,741	111,972	86,464	111,511
Total non-current borrowings		**159,986**	**154,252**	**158,156**	**153,178**
Total borrowings		**234,188**	**229,644**	**231,778**	**227,933**

* *In case of the Group's Bonds – the next put-option date.*

In March 2020 the Group passed the put-option on the exchange-registered corporate bonds series 001P-03 in the amount of RUB 10,000 and bought back RUB 9,952 from the issue. For the remaining RUB 48 the new annual rate for the next 6 semi-annual coupon periods was fixed at 0.01%.

In April 2020 the Group issued RUB 10,000 exchange-registered corporate bonds series 001P-10 with 6.90% coupon rate and put-option in 2 years.

In May 2020 the Group issued RUB 10,000 exchange-registered corporate bonds series 001P-11 with 5.75% coupon rate and put-option in 2.5 years.

In June 2020 the Group issued RUB 10,000 exchange-registered corporate bonds series 001P-12 with 5.65% coupon rate and put-option in 3 years.

The weighted average effective interest rate on X5's total borrowings for the six months ended 30 June 2020 comprised 7.31% per annum (six months ended 30 June 2019: 8.14%).

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

14 BORROWINGS (continued)

All borrowings at 30 June 2020 are shown net of related transaction costs of RUB 111 which are amortised over the term of the loans using the effective interest method (31 December 2019: RUB 134). Borrowing costs capitalised for the six months ended 30 June 2020 amounted to RUB 14 and were included as part of additions in Property, plant and equipment and Other intangible assets in Note 8 (six months ended 30 June 2019: RUB 86). 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 3,845 for the six months ended 30 June 2020 equals to the proceeds from borrowings in amount of RUB 91,366, repayment of borrowings in amount of RUB 87,579 (the Condensed Consolidated Interim Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 58.

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.

In accordance with a few loan agreements the Group maintains an optimal leverage ratio by tracking covenant: the maximum level of Net Debt/EBITDA (4.00/4.25 during 2 quarters after acquisition). As at 30 June 2020 the Group complied with this covenant and Net Debt/EBITDA was equal to 1.68 (31 December 2019: 1.71). According to all loan agreements EBITDA is calculated under IAS 17.

15 SHARE CAPITAL

As at 30 June 2020 the Group had 190,000,000 authorised ordinary shares (31 December 2019: 190,000,000) of which 67,882,444 (31 December 2019: 67,890,054) ordinary shares were outstanding and 10,774 ordinary shares (31 December 2019: 3,164) 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 2020 have been paid in the amount of RUB 29,996 during the six months ended 30 June 2020 (RUB 441.88 per share).

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).

16 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 2020	**Six months ended 30 June 2019**
Profit attributable to equity holders of the parent	**18,773**	**20,312**
Weighted average number of ordinary shares in issue	67,884,287	67,889,135
Effect of share options awarded to employees, number of shares	809	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**67,885,096**	**67,889,135**
Basic earnings per share for profit for the period (expressed in RUB per share)	**276.54**	**299.19**
Diluted earnings per share for profit for the period (expressed in RUB per share)	**276.54**	**299.19**

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

17 REVENUE

	Six months ended 30 June 2020				
	Pyaterochka	**Perekrestok**	**Karusel**	**Other segments**	**Total**
Revenue from sale of goods through own stores (at a point of time)	768,481	153,730	31,636	–	**953,847**
Revenue from sale of goods through franchisees (at a point of time)	7,358	230	–	–	**7,588**
Revenue from wholesale of goods (at a point of time)	43	553	–	–	**596**
Revenue from other services (over time)	204	222	16	152	**594**
Total	**776,086**	**154,735**	**31,652**	**152**	**962,625**

	Six months ended 30 June 2019				
	Pyaterochka	**Perekrestok**	**Karusel**	**Other segments**	**Total**
Revenue from sale of goods (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**

The decrease in revenue from wholesales of goods is in line with Group’s strategy to focus on retail sales.

18 LEASE/SUBLEASE AND OTHER INCOME

	Six months ended 30 June 2020	**Six months ended 30 June 2019**
Lease/sublease income	2,948	3,840
Income from sales of waste	1,506	1,323
Other	3,497	1,111
Total	**7,951**	**6,274**

19 FINANCE INCOME AND COSTS

	Six months ended 30 June 2020	**Six months ended 30 June 2019**
Interest expense on lease liabilities	20,053	18,513
Interest expense on borrowings	7,830	8,186
Interest income	(31)	(30)
Other finance costs, net	751	333
Total	**28,603**	**27,002**

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

20 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 2020 a total number of 48,536 RSUs were awarded under tranche 11 and will vest in 2023. A total number of 26,485 RSUs vested during the six months ended 30 June 2020. 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 2020 the Group recognised an expense related to the RSU plan in the amount of RUB 27 (expense during six months ended 30 June 2019: RUB 39). At 30 June 2020 the equity component was RUB 75 (31 December 2019: RUB 105). 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 2020 and 30 June 2019 were as follows:

	30 June 2020		30 June 2019	
	Number of conditional rights	Weighted average fair value, RUB	Number of conditional rights	Weighted average fair value, RUB
Outstanding at the beginning of the period	**109,751**	**1,987.74**	**109,819**	**1,645.55**
Awarded during the period	48,536	2,185.02	47,348	2,016.54
Vested during the period	(26,485)	2,114.26	(51,407)	1,272.00
Outstanding at the end of the period	**131,802**	**2,034.96**	**105,760**	**1,993.29**

21 INCOME TAX

	Six months ended 30 June 2020	Six months ended 30 June 2019
Current income tax charge	8,382	6,905
Deferred income tax (benefit)/charge	(752)	447
Income tax charge for the period	**7,630**	**7,352**

22 SEASONALITY

Usually 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), which can be different in 2020 due to increased revenue during the lockdown measures in the first half of the year. 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.

23 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 2019. There have been no changes in the risk management department since year end or in any risk management policies.

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

23 FINANCIAL RISKS MANAGEMENT (continued)

Market risk − interest rates risk

As at 30 June 2020 the Group had no floating interest-bearing assets, but had 21% share of borrowings with floating interest rates based on the Key rate of the Central Bank of the Russian Federation and financial instruments limiting the corridor of rate fluctuations for 5% share of borrowings. If the Key rate had been 100 b.p. higher the profit before tax for the six months ended 30 June 2020 had been RUB 137 lower. If the Key rate had been 100 b.p. lower the profit before tax for the six months ended 30 June 2020 had been RUB 137 higher. The Group's income and operating cash inflows were largely independent of changes in market interest rates but part of The Group's interest expenses was marginally exposed to changes in market interest rates.

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 2020	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	101,386	354,468	246,417
Borrowings	88,172	167,810	−
Trade payables	149,411	−	−
Other financial liabilities	54,407	2,300	−
Total	**393,376**	**524,578**	**246,417**

31 December 2019	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	96,142	340,765	232,559
Borrowings	89,343	162,621	−
Trade payables	160,434	−	−
Other financial liabilities	54,677	2,888	−
Total	**400,596**	**506,274**	**232,559**

At 30 June 2020 the Group had net current liabilities of RUB 203,113 (31 December 2019: RUB 188,819) including short-term borrowings of RUB 73,622 and short-term lease liabilities of RUB 63,740 (31 December 2019: short-term borrowings of RUB 74,755 and short-term lease liabilities of RUB 57,622).

At 30 June 2020 the Group had available bank credit limits of RUB 429,638 (31 December 2019: RUB 415,592).

At 30 June 2020 the Group had RUB registered bonds programme available for issue on MOEX of RUB 200,000 (31 December 2019: RUB 30,000).

24 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. The measurement of trade and other receivables is classified in level 3 of the fair value hierarchy.

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Liabilities carried at amortised cost

The fair value of bonds is based on quoted market prices. Fair values of other liabilities are classified in level 3 of the fair value hierarchy and are determined using valuation techniques. The fair value of other liabilities approximates their carrying amounts.

The fair value of bonds traded on the MOEX and the SE is determined based on active market quotations and amounted to RUB 85,973 at 30 June 2020 (31 December 2019: RUB 85,045). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 83,840 at 30 June 2020 (31 December 2019: RUB 83,795) (Note 14). The fair value of long-term borrowings amounted to RUB 86,741 at 30 June 2020 (31 December 2019: RUB 111,972). The measurement is classified in level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using interest rate of similar instruments available on the market. The carrying value of these long-term borrowings amounted to RUB 86,464 at 30 June 2020 (31 December 2019: RUB 111,511) (Note 14). 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 580 at 30 June 2020. The fair value of short-term borrowings was not materially different from their carrying amounts.

25 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 COVID-19 worldwide outbreak was also increasing uncertainties. Mobility restrictions, quarantines and similar lockdown measures implemented in Russia to cope with the pandemic affected the operations of the Group leading to less frequent customer visits to stores but larger purchases and shift towards digitalisation. From the beginning of COVID-19 pandemic the Group has taken necessary measures to avoid direct impact of the pandemic on its operations with a special focus on protection of the health of employees and customers and uninterrupted business processes. The Group introduced measures such as mandatory body temperature checks for all employees entering its premises, provided masks and disposable gloves to operational personnel, introduced additional disinfection hours daily for all stores as well as additional disinfection in stores and other premises. The Group has assessed a potential impact of the COVID 19 outbreak on its going concern (Note 2), impairment of non-current assets (Notes 8, 10) and allowance for expected credit losses (Note 11).

The future stability of the Russian economy is largely dependent upon the impact and span of the COVID-19, the measures taken to contain the spread of the virus and further government reforms, developments and the effectiveness of economic, financial and monetary measures undertaken by the government. Should the economy be in a long-term recession after the pandemic that may affect the Group's financial position, cash flows and results of operations. The Group expects that this effect may be compensated by transfer of customers from HORECA segment (hotels, restaurants, cafes) as well as by new opportunities provided by online sales and express deliveries.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Capital expenditure commitments

At 30 June 2020 the Group contracted for capital expenditure of RUB 6,608 (net of VAT) (31 December 2019: RUB 7,386).

Legal contingencies

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued at 30 June 2020.

Taxation environment

Russian tax, customs, and currency legislation allows for various interpretations and is subject to frequent amendments. Relevant regional and federal authorities can challenge the Group management interpretation of legislation provisions in the context of the Group's transactions and operations. The Group includes companies incorporated outside Russia. These companies are subject to tax at the rates prescribed by the legislation of the jurisdiction where the companies are tax residents. According to the Russian legislation, foreign companies of the Group are not subject to profit tax except for cases of withholding tax (i.e. dividends, interest, capital gain, etc.), since tax obligations of the foreign companies of the Group are determined on the assumption that the foreign companies of the Group are not Russian tax residents.

25 COMMITMENTS AND CONTINGENCIES (continued)

Taxation environment (continued)

In 2020 Russian legislative authorities performed further update of state taxation system and continue to diligently collaborate with foreign tax authorities in the framework of an international tax information exchange which makes corporate operations more transparent. In the context of tax management procedures, it also requires a comprehensive consideration of the reasonability of an economic purpose for the formation of an international business structure, especially in conditions of the measures taken to overcome the crisis caused by the COVID-19. After the speech of the Russian President about the intention to increase withholding tax rate on dividends and interest paid from Russia to the so-called "offshore jurisdictions" it is generally known that the Russian Ministry of Finance sent letters to finance ministries of some foreign jurisdictions regarding proposed changes to the current tax rates provided in Double Tax Treaties (DTTs), including Cyprus, Luxembourg, Malta and the Netherlands. As at reporting date the final list of DTTs to be amended and particular provisions of DTTs to be changed have not been introduced to the public. Generally, it is announced that if any party of DTTs does not accept given Russian proposals, Russia saves the right to unilaterally withdraw from those DTTs. Such measures can increase tax burden on income paid to residents of "low-tax" jurisdictions. The changes may enter into force from 1 January 2021, from 1 January 2022 or later depending on provisions of respective DTTs and would not apply retrospectively to income paid in 2020.

The Russian transfer pricing legislation is to the large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. Starting from 1 January 2019, a significant number of domestic transactions was excluded from the transfer pricing control in Russia. Only transactions between Russian companies that apply different tax rates on profits or special tax regimes are subject to the rules, and only if income from those transactions exceeds RUB 1 billion per year. Moreover, starting from 1 January 2019, a threshold of RUB 60 million applies for cross-border transactions to be classified as controlled for transfer pricing purposes.

The amendments described above as well as recent trends of interpretation and application of particular provisions of the Russian tax legislation highlight the fact that tax authorities can enter the more rigid position with regards to the interpretation of the legislation and tax calculations. Therefore, tax authorities can dispute lawfulness of transactions and accounting methods that were previously out of question. As a result, material additional taxes, penalties and fines can be charged. It is impossible to forecast the amount of potential claims and to evaluate the probability of an unfavourable outcome. Generally, tax audits can cover three calendar years preceding the year in which the decision on the performance of audit is adopted. In certain circumstances a tax audit can cover earlier tax periods.

The Russian authorities also announced an array of measures meant to support the public and businesses during the COVID-19 outbreak, including a number of tax initiatives which are also applicable to some companies of the Group.

The following main categories of measures aimed to shield the business are relevant to the Group and were substantively enacted as at 30 June 2020:

- Right to delay submitting of tax returns (for example, the new deadline for submitting tax return for 1st quarter 2020 is 28 July 2020 instead of 28 April 2020);
- Right to pay monthly advances on actual profit;
- Right to deduct the "expenses for COVID-19" under article 264 of the Russian Tax Code;
- Licenses for retail sale of alcoholic and alcohol-containing products are extended for 12 months if their term expires during the period from 15 March 2020 till 31 December 2020.

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.

26 SUBSEQUENT EVENTS

There were no significant events after the reporting date.