X5 reports 19.2% revenue growth in Q2 2023 7.8% adj. EBITDA margin pre-IFRS 16

+19.2% y-o-y

Revenue growth in Q2 2023

driven by solid like-for-like (LFL)[1] sales and selling space expansion

+83.7% y-o-y

Digital business (express delivery, Vprok.ru, 5Post and Mnogo Lososya) net sales growth in Q2 2023

Digital business net sales amounted to RUB 27.0 billion, which comprised 3.5% of consolidated Q2 2023 revenue.

24.4% -137 b.p.

Gross margin under IFRS 16 in Q2 2023

(-139 b.p. to 24.1% pre-IFRS 16[2]) driven by the aggressive expansion of the Chizhik hard discounter format into regional markets, the consolidation of Krasny Yar and Slata, as well as the transformation of Pyaterochka's CVP

11.9% -212 b.p.

Adjusted EBITDA[3] margin under IFRS 16 in Q2 2023

(-179 b.p. to 7.8% pre-IFRS 16)

3.4% -72 b.p.

Net profit margin under IFRS 16 in Q2 2023

(-11 b.p. to 3.8% pre-IFRS 16)

2.71x

Net debt/EBITDA ratio under IFRS 16 as of 30 June 2023 (vs. 2.58x as of 31 December 2022)

(1.10x as of 30 June 2023 vs. 1.02x as of 31 December 2022 pre-IFRS 16)

Amsterdam
15 August 2023

X5 Retail Group N.V. ("X5" or the "Company", LSE and MOEX ticker: FIVE), a leading Russian food retailer that operates the Pyaterochka, Perekrestok and Chizhik retail chains, today released its interim report for the three months (Q2) and six months (H1) ended 30 June 2023, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The interim report has been reviewed by the Company's independent auditor but has not been audited.

Igor Shekhterman
X5 Chief Executive Officer

During the first half of 2023, X5 focused on adapting its customer value proposition while continuing to pursue its dynamic expansion on the domestic grocery market. Our current priority is developing and expanding our Pyaterochka proximity stores and Chizhik hard discounters as well as improving efficiency and transforming the existing store base of our Perekrestok supermarket format to increase like-for-like sales. In Q2 2023, X5 demonstrated strong revenue growth of 19.2%, driven both by organic development and M&A.

We continued to develop our Pyaterochka proximity store network and adapt its CVP to changing market conditions, including by expanding the low-price segment that has proven attractive to our customers. This and other measures have resulted in traffic gains, with Pyaterochka's like-for-like traffic increasing by 7.2% year-on-year in Q2 2023.

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 LFL calculations starting from the day of the store's opening. We include all stores that fit our LFL criteria in each reporting period. Express delivery sales from stores and dark stores that have operated for less than 12 full months are also included in LFL calculations.

2. Pre-IFRS 16 financial measures are calculated by adjusting the applicable IFRS measures to include fixed lease expenses and fixed non-lease components of lease contracts, and to exclude any gain on derecognition of right-of-use assets and lease liabilities, depreciation of right-of-use assets and interest on lease liabilities, and gain/loss from asset sale and leaseback operations for the proportion of rights retained as recognised under IFRS 16.

3. Adjusted EBITDA is EBITDA before costs related to the LTI programme, share-based payments, other one-off remuneration payment expenses and the impact of the Karusel transformation.

In a major milestone during the reporting period, Pyaterochka launched operations in the Russian Far East, becoming the first nationwide food retailer to establish a presence in this territory.

In line with our strategy, we continued the active expansion of our Chizhik hard discounter format. The expansion of this format serves an important social function by providing a wide range of customers with access to affordable, high-quality food, while creating new jobs and expanding opportunities for local suppliers. At the end of Q2 2023, Chizhik had 809 stores across 27 regions of Russia, with plans to accelerate the rate of new store openings in H2 2023.

Our strategic priorities for Perekrestok include revamping our CVP to focus on the supermarket's unique assortment and presence in large cities, and prioritising LFL growth over new store openings. Perekrestok is particularly attractive to customers on the go thanks to its varied assortment of fresh and ultra-fresh products, take-out and dine-in meal options, and basics covering all customer needs through both private labels and branded products. Our new store formats also feature a high level of service and a pleasant ambiance that transform the shopping experience. We aim to drive sales growth by focusing on Perekrestok's online services, particularly express delivery.

X5’s digital businesses posted solid growth in Q2 2023, with net sales increasing by 83.7 % year-on-year and accounting for 3.5% of consolidated revenue for the quarter. We continue to actively develop our express delivery services, both internally through our retail stores and dark stores, and externally through partnerships with leading delivery aggregators. The number of online orders increased 2.8x year-on-year in Q2 2023. During this period, we launched a joint pilot project between Avito Delivery, a leading Russian online classified ads platform, and X5’s e-commerce delivery service 5Post to offer parcel drop-off and pick-up options at select 5Post locations. The pilot may be scaled up in the future to enable customers to drop off and collect Avito orders at more than 13,000 additional pickup points and more than 5,000 multi-parcel lockers located in X5’s Pyaterochka and Perekrestok retail chain stores.

A key driver of customer engagement is our unified loyalty programme, X5 Club, which enables customers to earn and redeem bonus points for various X5 Group services on a single platform. In Q2 2023, X5 Club was expanded to include X5’s express delivery services, the ready-to-eat digital service Mnogo Lososya, and the online media platform Food.ru. As of June, our loyalty programme counted more than 72 million members, while its sales penetration reached 76%. We plan to further develop the loyalty programme as part of our aim to drive new efficiency gains, create a highly tailored customer experience and offer better insights into customer needs.

In parallel to pursuing business expansion through organic growth, in Q2 2023 X5 secured an agreement to acquire Tamerlan, the operator of three retail chains in southern Russia. This acquisition will enable us to expand our presence in this region, while giving local customers more opportunities to benefit from the wide selection and affordable prices at X5 stores. We will maintain our strategy of seeking attractive inorganic growth opportunities as market conditions continue to evolve.

Throughout this time, X5 has remained committed to its sustainability strategy as guided by the UN Sustainable Development Goals, with food security becoming a primary focus. In June 2023, the Company published its third annual Sustainability Report. Among the report’s key highlights, X5 collected and distributed more than 518 tonnes of food to approximately 199,000 people in need through the Basket of Kindness food drive in 2022. And in July of this year, X5 marked the one-year anniversary of its food-sharing initiative, which saw the Company donate more than 13 tonnes of food to more than 26,000 people in the project’s first 12 months of operation. Moving forward, we plan to scale up our food assistance programmes while continuing our work to reduce the environmental impact of our operations.

I would like to express my gratitude to our partners and investors for their continued trust and cooperation during the current challenging environment. I would also like to extend my appreciation to all of X5’s employees, who have shown flexibility and dedication as we work to adjust quickly to meet customers’ needs. This effort forms the foundation of our customer-focused approach, and drives our continued success as the domestic food retailer of choice.

Profit and loss statement highlights[4]

RUB mln	IFRS 16 Q2 2023	IFRS 16 Q2 2022	IFRS 16 change, y-o-y, % or multiple	Pre-IFRS 16 Q2 2023	Pre-IFRS 16 Q2 2022	Pre-IFRS 16 change, y-o-y, % or multiple
Revenue	**772,043**	**647,950**	**19.2**	**772,043**	**647,950**	**19.2**
incl. net retail sales[5]	768,609	646,164	18.9	768,609	646,164	18.9
Pyaterochka (incl. express delivery)	616,986	534,319	15.5	616,986	534,319	15.5
Perekrestok (incl. express delivery)	100,401	95,345	5.3	100,401	95,345	5.3
Chizhik	26,586	6,818	4x	26,586	6,818	4x
Gross profit	**188,394**	**167,016**	**12.8**	**185,835**	**164,957**	**12.7**
Gross profit margin, %	24.4	25.8	(137) b.p.	24.1	25.5	(139) b.p.
Adj. EBITDA	**92,086**	**91,013**	**1.2**	**60,512**	**62,376**	**(3.0)**
Adj. EBITDA margin, %	11.9	14.0	(212) b.p.	7.8	9.6	(179) b.p.
EBITDA	**92,446**	**90,152**	**2.5**	**60,872**	**61,515**	**(1.0)**
EBITDA margin, %	12.0	13.9	(194) b.p.	7.9	9.5	(161) b.p.
Operating profit	**52,700**	**51,578**	**2.2**	**41,169**	**41,519**	**(0.8)**
Operating profit margin, %	6.8	8.0	(113) b.p.	5.3	6.4	(108) b.p.
Net profit	**26,307**	**26,762**	**(1.7)**	**29,489**	**25,442**	**15.9**
Net profit margin, %	3.4	4.1	(72) b.p.	3.8	3.9	(11) b.p.

4. 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.

5. 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. Including Mnogo Lososya, Vprok.ru, Krasny Yar and Slata

RUB mln	IFRS 16 H1 2023	IFRS 16 H1 2022	IFRS 16 change, y-o-y, % or multiple	Pre-IFRS 16 H1 2023	Pre-IFRS 16 H1 2022	Pre-IFRS 16 change, y-o-y, % or multiple
Revenue	**1,468,407**	**1,252,180**	**17.3**	**1,468,407**	**1,252,180**	**17.3**
incl. net retail sales[6]	1,462,090	1,247,940	17.2	1,462,090	1,247,940	17.2
Pyaterochka (incl. express delivery)	1,165,898	1,023,512	13.9	1,165,898	1,023,512	13.9
Perekrestok (incl. express delivery)	201,843	191,910	5.2	201,843	191,910	5.2
Chizhik	45,330	10,917	4x	45,330	10,917	4x
Gross profit	**355,625**	**317,446**	**12.0**	**350,784**	**313,429**	**11.9**
Gross profit margin, %	24.2	25.4	(113) b.p.	23.9	25.0	(114) b.p.
Adj. EBITDA	**163,009**	**161,192**	**1.1**	**100,748**	**104,908**	**(4.0)**
Adj. EBITDA margin, %	11.1	12.9	(177) b.p.	6.9	8.4	(152) b.p.
EBITDA	**162,637**	**159,708**	**1.8**	**100,376**	**103,424**	**(2.9)**
EBITDA margin, %	11.1	12.8	(168) b.p.	6.8	8.3	(142) b.p.
Operating profit	**83,216**	**77,768**	**7.0**	**60,501**	**58,625**	**3.2**
Operating profit margin, %	5.7	6.2	(54) b.p.	4.1	4.7	(56) b.p.
Net profit	**36,003**	**29,261**	**23.0**	**41,661**	**30,464**	**36.8**
Net profit margin, %	2.5	2.3	12 b.p.	2.8	2.4	40 b.p.

6. 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. Including Mnogo Lososya, Vprok.ru, Krasny Yar and Slata

Revenue

Revenue growth reached 19.2% year-on-year in Q2 2023. Net retail sales increased by 18.9%, driven by a combination of 10.4% selling space growth and 7.8% LFL sales growth, while X5's digital business sales grew by 83.7% y-o-y.

Selling space by format, square metres (sqm)

	AS AT 30-JUN-23	AS AT 31-DEC-22	CHANGE VS 31-DEC-22, % OR MULTIPLE	AS AT 30-JUN-22	CHANGE Y-O-Y, % OR MULTIPLE
Pyaterochka	7,899,872	7,497,056	5.4	7,271,291	8.6
Perekrestok	1,067,171	1,085,496	(1.7)	1,107,702	(3.7)
Chizhik	239,559	152,370	57.2	44,129	5x
Joint dark stores	10,258	8,087	26.8	5,358	91.5
X5 Group[7]	9,541,021	9,107,479	4.8	8,643,579	10.4

Q2 and H1 2023 LFL store performance by format, % change y-o-y

In Q2 2023, LFL sales increased by 7.8% year-on-year, supported by Pyaterochka's and Perekrestok's solid LFL results of 8.5% and 4.6%, respectively.

LFL traffic was the main driver of LFL sales in Q2 2023, with the LFL basket in positive territory at 1.1% year-on-year.

	Q2 2023			H1 2023		
	SALES	TRAFFIC	BASKET	SALES	TRAFFIC	BASKET
Pyaterochka	8.5	7.2	1.2	7.8	5.6	2.0
Perekrestok	4.6	2.3	2.3	4.3	1.8	2.5
X5 Group[8]	7.8	6.6	1.1	7.2	5.2	1.9

For more details on net retail sales performance, please refer to X5's Q2 2023 Trading Update.

Gross profit margin

Gross profit margin under IFRS 16 decreased by 137 b.p. year-on-year to 24.4% (down 139 b.p. year-on-year to 24.1% pre-IFRS 16) in Q2 2023, mainly due to the aggressive expansion of the Chizhik hard discounter format into regional markets, the consolidation of Krasny Yar and Slata, as well as the transformation of Pyaterochka's CVP.

Gross profit margin for H1 2023 decreased by 113 b.p. under IFRS 16 (down 114 b.p. pre-IFRS 16) due to the increasing share of the hard discounter format in revenue, the consolidation of Krasny Yar and Slata, as well as the transformation of Pyaterochka's CVP.

7. Including Vprok.ru dark stores, Mnogo Lososya dark kitchens, and Krasny Yar and Slata stores.
8. Excluding Krasny Yar and Slata, Vprok.ru and Mnogo Lososya; including Chizhik.

Selling, general and administrative (SG&A) expenses (excl. D&A&I and the impact of the Karusel transformation)

	IFRS 16			Pre-IFRS 16		
RUB mln	Q2 2023	Q2 2022	change, y-o-y, %	Q2 2023	Q2 2022	change, y-o-y, %
Staff costs	(62,672)	(50,210)	24.8	(62,672)	(50,210)	24.8
% of revenue	8.1	7.7	37 b.p.	8.1	7.7	37 b.p.
incl. LTI and share-based payments	(1,429)	(685)	108.6	(1,429)	(685)	108.6
staff costs excl. LTI and share-based payments as % of revenue	7.9	7.6	29 b.p.	7.9	7.6	29 b.p.
Lease expenses	(6,628)	(4,619)	43.5	(32,912)	(29,054)	13.3
% of revenue	0.9	0.7	15 b.p.	4.3	4.5	(22) b.p.
Utilities	(14,426)	(11,122)	29.7	(14,426)	(11,122)	29.7
% of revenue	1.9	1.7	15 b.p.	1.9	1.7	15 b.p.
Other store costs	(6,440)	(5,784)	11.3	(6,652)	(6,001)	10.8
% of revenue	0.8	0.9	(6) b.p.	0.9	0.9	(6) b.p.
Third-party services	(5,305)	(3,425)	54.9	(5,158)	(3,329)	54.9
% of revenue	0.7	0.5	15 b.p.	0.7	0.5	15 b.p.
Other expenses	(8,249)	(7,514)	9.8	(10,632)	(9,113)	16.7
% of revenue	1.1	1.2	(9) b.p.	1.4	1.4	(3) b.p.
SG&A (excl. D&A&I and the impact of the Karusel transformation)	(103,720)	(82,674)	25.5	(132,452)	(108,829)	21.7
% of revenue	13.4	12.8	68 b.p.	17.2	16.8	36 b.p.
SG&A (excl. D&A&I, LTI, share-based payments and the impact of the Karusel transformation)	(102,291)	(81,989)	24.8	(131,023)	(108,144)	21.2
% of revenue	13.2	12.7	60 b.p.	17.0	16.7	28 b.p.

RUB mln	IFRS 16 H1 2023	IFRS 16 H1 2022	IFRS 16 change, y-o-y, %	Pre-IFRS 16 H1 2023	Pre-IFRS 16 H1 2022	Pre-IFRS 16 change, y-o-y, %
Staff costs	(123,870)	(100,288)	23.5	(123,870)	(100,288)	23.5
% of revenue	8.4	8.0	43 b.p.	8.4	8.0	43 b.p.
incl. LTI and share-based payments	(2,161)	(1,061)	103.7	(2,161)	(1,061)	103.7
staff costs excl. LTI and share-based payments as % of revenue	8.3	7.9	36 b.p.	8.3	7.9	36 b.p.
Lease expenses	(11,899)	(8,788)	35.4	(64,269)	(57,222)	12.3
% of revenue	0.8	0.7	11 b.p.	4.4	4.6	(19) b.p.
Utilities	(31,294)	(24,989)	25.2	(31,294)	(24,989)	25.2
% of revenue	2.1	2.0	14 b.p.	2.1	2.0	14 b.p.
Other store costs	(12,593)	(11,404)	10.4	(13,018)	(11,840)	9.9
% of revenue	0.9	0.9	(5) b.p.	0.9	0.9	(6) b.p.
Third-party services	(9,449)	(7,939)	19.0	(9,244)	(7,748)	19.3
% of revenue	0.6	0.6	1 b.p.	0.6	0.6	1 b.p.
Other expenses	(16,639)	(15,701)	6.0	(20,902)	(18,677)	11.9
% of revenue	1.1	1.3	(12) b.p.	1.4	1.5	(7) b.p.
SG&A (excl. D&A&I and the impact of the Karusel transformation)	(205,744)	(169,109)	21.7	(262,597)	(220,764)	18.9
% of revenue	14.0	13.5	51 b.p.	17.9	17.6	25 b.p.
SG&A (excl. D&A&I, LTI, share-based payments and the impact of the Karusel transformation)	(203,583)	(168,048)	21.1	(260,436)	(219,703)	18.5
% of revenue	13.9	13.4	44 b.p.	17.7	17.5	19 b.p.

In Q2 2023, SG&A expenses excluding D&A&I, LTI, share-based payments and the impact of the Karusel transformation under IFRS 16 as a percentage of revenue increased by 60 b.p. to 13.2% (up 28 b.p. to 17.0% pre-IFRS 16), mainly driven by increased staff costs, lease expenses, utilities costs and third-party services as a percentage of revenue.

Staff costs (excluding LTI and share-based payments) as a percentage of revenue increased by 29 b.p. year-on-year in Q2 2023 to 7.9%, mainly due to the negative operating leverage effect as well as the hiring of additional store personnel at Perekrestok on the back of the new CVP.

LTI and share-based payment expenses amounted to RUB 1,429 million in Q2 2023, up by 108.6% from RUB 685 million in Q2 2022, driven by the introduction of the LTI programme for new businesses and an increase in accruals for the 2021–2023 LTI programme on the back of updated KPIs and a reassessment of the probability of achieving the KPIs.

Lease expenses under IFRS 16 as a percentage of revenue in Q2 2023 increased by 15 b.p. year-on-year to 0.9%, mainly due to an increase in the number of reverse franchising stores. The 22 b.p. decrease in pre-IFRS 16 lease expenses to 4.3% was caused by a positive operating leverage effect for fixed lease rates.

Utilities costs as a percentage of revenue in Q2 2023 increased by 15 b.p. year-on-year to 1.9%, mainly due to a negative operating leverage effect and increase in tariffs.

Other store costs under IFRS 16 as a percentage of revenue in Q2 2023 decreased by 6 b.p. year-on-year (falling by 6 b.p. pre-IFRS 16), mainly due to the optimisation of store security operations.

Third-party service expenses under IFRS 16 as a percentage of revenue in Q2 2023 increased by 15 b.p. year-on-year to 0.7% (up 15 b.p. to 0.7% pre-IFRS 16), mainly due to the normalisation of marketing expenses vs Q2 2022.

Other expenses under IFRS 16 as a percentage of revenue in Q2 2023 decreased by 9 b.p. year-on-year to 1.1% (down 3 b.p. to 1.4% pre-IFRS 16), due to the reversal of one-off provisions partially offset by the growing share of courier service costs for express delivery.

In H1 2023, SG&A expenses excluding D&A&I, LTI, share-based payments and the impact of the Karusel transformation under IFRS 16 as a percentage of revenue increased by 44 b.p. to 13.9% (up 19 b.p. to 17.7% pre-IFRS 16), mainly driven by higher staff costs, lease expenses and utilities as a percentage of revenue.

Lease/sublease and other income[9]

As a percentage of revenue, the Company's income from leases, subleases and other operations under IFRS 16 totalled 0.8%, representing a decrease of 11 b.p. year-on-year in Q2 2023 (a decrease of 8 b.p. to 0.7% pre-IFRS 16), driven by lower income from sales of recyclables.

9. Mainly consists of lease/sublease income, income from the sale of recyclable materials and other one-off gains.

EBITDA and EBITDA margin

RUB mln	IFRS 16			Pre-IFRS 16		
	Q2 2023	Q2 2022	change, y-o-y, %	Q2 2023	Q2 2022	change, y-o-y, %
Gross profit	188,394	167,016	12.8	185,835	164,957	12.7
Gross profit margin, %	24.4	25.8	(137) b.p.	24.1	25.5	(139) b.p.
SG&A (excl. D&A&I, LTI, share-based payments and the effect of the Karusel transformation)	(102,291)	(81,989)	24.8	(131,023)	(108,144)	21.2
% of revenue	13.2	12.7	60 b.p.	17.0	16.7	28 b.p.
Net impairment gain on financial assets	12	288	(95.8)	12	288	(95.8)
% of revenue	0.00	0.04	(4) b.p.	0.00	0.04	(4) b.p.
Lease/sublease and other income (excl. the effect of the Karusel transformation)	5,971	5,698	4.8	5,688	5,275	7.8
% of revenue	0.8	0.9	(11) b.p.	0.7	0.8	(8) b.p.
Adj. EBITDA	**92,086**	**91,013**	**1.2**	**60,512**	**62,376**	**(3.0)**
Adj. EBITDA margin, %	11.9	14.0	(212) b.p.	7.8	9.6	(179) b.p.
LTI, share-based payments and other one-off remuneration payment expenses and SSC	(1,429)	(685)	108.6	(1,429)	(685)	108.6
% of revenue	0.2	0.1	8 b.p.	0.2	0.1	8 b.p.
Effect of the Karusel transformation	1,789	(176)	n/a	1,789	(176)	n/a
% of revenue	0.23	(0.03)	26 b.p.	0.23	(0.03)	26 b.p.
EBITDA	**92,446**	**90,152**	**2.5**	**60,872**	**61,515**	**(1.0)**
EBITDA margin, %	12.0	13.9	(194) b.p.	7.9	9.5	(161) b.p.

RUB mln	IFRS 16			Pre-IFRS 16		
	H1 2023	H1 2022	change, y-o-y, %	H1 2023	H1 2022	change, y-o-y, %
Gross profit	355,625	317,446	12.0	350,784	313,429	11.9
Gross profit margin, %	24.2	25.4	(113) b.p.	23.9	25.0	(114) b.p.
SG&A (excl. D&A&I, LTI, share-based payments and the effect of the Karusel transformation)	(203,583)	(168,048)	21.1	(260,436)	(219,703)	18.5
% of revenue	13.9	13.4	44 b.p.	17.7	17.5	19 b.p.
Net impairment losses on financial assets	(54)	(147)	(63.3)	(54)	(147)	(63.3)
% of revenue	0.00	0.01	(1) b.p.	0.00	0.01	(1) b.p.
Lease/sublease and other income (excl. the effect of the Karusel transformation)	11,021	11,941	(7.7)	10,454	11,329	(7.7)
% of revenue	0.8	1.0	(20) b.p.	0.7	0.9	(19) b.p.
Adj. EBITDA	**163,009**	**161,192**	**1.1**	**100,748**	**104,908**	**(4.0)**
Adj. EBITDA margin, %	11.1	12.9	(177) b.p.	6.9	8.4	(152) b.p.
LTI, share-based payments and other one-off remuneration payment expenses and SSC	(2,161)	(1,061)	103.7	(2,161)	(1,061)	103.7
% of revenue	0.1	0.1	6 b.p.	0.1	0.1	6 b.p.
Effect of the Karusel transformation	1,789	(423)	n/a	1,789	(423)	n/a
% of revenue	0.12	(0.03)	16 b.p.	0.12	(0.03)	16 b.p.
EBITDA	**162,637**	**159,708**	**1.8**	**100,376**	**103,424**	**(2.9)**
EBITDA margin, %	11.1	12.8	(168) b.p.	6.8	8.3	(142) b.p.

D&A&I

Depreciation, amortisation and impairment costs under IFRS 16 decreased as a percentage of revenue by 81 b.p. year-on-year to 5.1% (down 53 b.p. year-on-year to 2.6% pre-IFRS 16) in Q2 2023, totalling RUB 39,746 million (RUB 19,703 million pre-IFRS 16). This was mainly due to the fact that revenue growth outpaced growth in the gross book value of assets. In H1 2023, depreciation, amortisation and impairment costs under IFRS 16 decreased by 114 b.p. year-on-year to 5.4% (down 86 b.p. year-on-year to 2.7% pre-IFRS 16), totalling RUB 79,421 million (RUB 39,875 million pre-IFRS 16).

Non-operating gains and losses

RUB mln	IFRS 16			Pre-IFRS 16		
	Q2 2023	Q2 2022	change, y-o-y, % or multiple	Q2 2023	Q2 2022	change, y-o-y, % or multiple
Operating profit	**52,700**	**51,578**	**2.2**	**41,169**	**41,519**	**(0.8)**
Net finance costs	(16,252)	(18,253)	(11.0)	(1,744)	(5,972)	(70.8)
Net FX result	(2,087)	6,231	n/a	(1,086)	2,352	n/a
Profit before tax	**34,361**	**39,556**	**(13.1)**	**38,339**	**37,899**	**1.2**
Income tax expense	(8,054)	(12,794)	(37.0)	(8,850)	(12,457)	(29.0)
Net profit	**26,307**	**26,762**	**(1.7)**	**29,489**	**25,442**	**15.9**
Net profit margin, %	3.4	4.1	(72) b.p.	3.8	3.9	(11) b.p.

RUB mln	IFRS 16			Pre-IFRS 16		
	H1 2023	H1 2022	change, y-o-y, % or multiple	H1 2023	H1 2022	change, y-o-y, % or multiple
Operating profit	**83,216**	**77,768**	**7.0**	**60,501**	**58,625**	**3.2**
Net finance costs	(33,015)	(35,319)	(6.5)	(4,904)	(11,782)	(58.4)
Net FX result	(3,498)	2,937	n/a	(1,822)	45	n/a
Profit before tax	**46,703**	**45,386**	**2.9**	**53,775**	**46,888**	**14.7**
Income tax expense	(10,700)	(16,125)	(33.6)	(12,114)	(16,424)	(26.2)
Net profit	**36,003**	**29,261**	**23.0**	**41,661**	**30,464**	**36.8**
Net profit margin, %	2.5	2.3	12 b.p.	2.8	2.4	40 b.p.

Net finance costs under IFRS 16 in Q2 2023 decreased by 11% year-on-year to RUB 16,252 million (down 70.8% year-on-year to RUB 1,744 million pre-IFRS 16), driven by lower finance costs on the back of decreased interest rates in Russian capital markets vs Q2 2022 and lower total debt.

The negative net FX result totalled RUB 2,087 million (RUB 1,086 million under pre-IFRS 16) in Q2 2023, compared with positive RUB 6,231 million (positive RUB 2,352 million under pre-IFRS 16) in Q2 2022, due to the depreciation of the rouble.

In Q2 2023, income tax expense under IFRS 16 decreased by 37.0% year-on-year (down 29.0% year-on-year pre-IFRS 16) due to the high base effect of Q2 2022 driven by a one-off effect from provisions.

In H1 2023, the effective tax rate under IFRS 16 was 22.9% (22.5% under pre-IFRS 16), down from 35.5% in H1 2022 (35.0% under pre-IFRS 16).

Consolidated cash flow statement highlights

RUB mln	IFRS 16 Q2 2023	IFRS 16 Q2 2022	IFRS 16 change, y-o-y, % or multiple	Pre-IFRS 16 Q2 2023	Pre-IFRS 16 Q2 2022	Pre-IFRS 16 change, y-o-y, % or multiple
Net cash from operating activities before changes in working capital	90,205	89,817	0.4	58,906	61,603	(4.4)
Change in working capital	16,864	5,699	3x	16,865	5,898	3x
Adj. net interest and income tax paid[10]	(21,117)	(19,536)	8.1	(6,637)	(7,245)	(8.4)
Interest received on short-term financial investments	2,232	-	n/a	2,232	-	n/a
Net interest and income tax paid	(18,885)	(19,536)	(3.3)	(4,405)	(7,245)	(39.2)
Adj. net cash flows generated from operating activities[10]	85,952	75,980	13.1	69,134	60,256	14.7
Net cash flows generated from operating activities	88,184	75,980	16.1	71,366	60,256	18.4
Adj. net cash used in investing activities[11]	(30,354)	(15,058)	101.6	(30,507)	(15,143)	101.5
(Payment for)/Repayment of short-term financial investments	(32,232)	30,000	n/a	(32,232)	30,000	n/a
Net cash (used in)/generated from investing activities	(62,586)	14,942	n/a	(62,739)	14,857	n/a
Net cash used in financing activities	(37,435)	(105,309)	(64.5)	(20,464)	(89,500)	(77.1)
Effect of exchange rate changes on cash and cash equivalents	134	(309)	n/a	134	(309)	n/a
Net increase in cash and cash equivalents	(11,703)	(14,696)	(20.4)	(11,703)	(14,696)	(20.4)

RUB mln	IFRS 16 H1 2023	IFRS 16 H1 2022	IFRS 16 change, y-o-y, % or multiple	Pre-IFRS 16 H1 2023	Pre-IFRS 16 H1 2022	Pre-IFRS 16 change, y-o-y, % or multiple
Net cash from operating activities before changes in working capital	160,048	160,574	(0.3)	98,353	104,909	(6.2)
Change in working capital	(14,015)	(18,493)	(24.2)	(13,834)	(17,996)	(23.1)
Adj. net interest and income tax paid[10]	(43,344)	(39,945)	8.5	(15,288)	(16,423)	(6.9)
Interest received on short-term financial investments	2,232	-	n/a	2,232	-	n/a
Net interest and income tax paid	(41,112)	(39,945)	2.9	(13,056)	(16,423)	(20.5)
Adj. net cash flows generated from operating activities[10]	102,689	102,136	0.5	69,231	70,490	(1.8)
Net cash flows generated from operating activities	104,921	102,136	2.7	71,463	70,490	1.4
Adj. net cash used in investing activities[11]	(47,430)	(37,025)	28.1	(47,707)	(37,267)	28.0
(Payment for)/Repayment of short-term financial investments	(32,232)	30,000	n/a	(32,232)	30,000	n/a
Net cash used in investing activities	(79,662)	(7,025)	11x	(79,939)	(7,267)	11x
Net cash used in financing activities	(41,354)	(82,343)	(49.8)	(7,619)	(50,455)	(84.9)
Effect of exchange rate changes on cash and cash equivalents	256	(314)	n/a	256	(314)	n/a
Net increase in cash and cash equivalents	(15,839)	12,454	n/a	(15,839)	12,454	n/a

10. Adjusted for interest received on short-term financial investments

11. Adjusted for cash used for short-term financial investments

In Q2 2023, the Company's net cash from operating activities before changes in working capital under IFRS 16 increased by RUB 388 million (down RUB 2,697 million under pre-IFRS 16) and totalled RUB 90,205 million (RUB 58,906 million under pre-IFRS 16). The positive change in working capital under IFRS 16 of RUB 16,864 million in Q2 2023 vs. RUB 5,699 million in Q2 2022 was driven by an increase in trade accounts payable due to the effect of the low base of Q1 2023 on the back of earlier stock purchases ahead of Russian holidays on 23 February and 8 March and a negative effect on inventories from additional stock purchases last year.

Working capital highlights

RUB mln	30-Jun-23	31-Dec-22	30-Jun-22
Inventories	207,849	208,661	175,204
Trade, other accounts receivable and prepayments	22,055	21,382	12,921
Trade accounts payable	222,308	238,641	187,672
Provisions and other liabilities	131,061	130,450	97,827
Short-term contract liabilities	1,779	3,767	5,826

Adjusted net interest and income tax paid under IFRS 16 in Q2 2023 increased by 8.1% year-on-year (down 8.4% year-on-year pre-IFRS 16) and totalled RUB 21,117 million (RUB 6,637 million pre-IFRS 16). This was due to the low base effect of income tax paid in Q2 2022 driven by income tax prepayments made in previous periods.

As a result, adjusted net cash flow generated from operating activities under IFRS 16 totalled RUB 85,952 million in Q2 2023, up from RUB 75,980 million in Q2 2022 (RUB 69,134 million, up from RUB 60,256 million in Q2 2022 pre-IFRS 16).

In H1 2023, adjusted net cash flows generated from operating activities under IFRS 16 totalled RUB 102,689 million, up 0.5% from RUB 102,136 million in H1 2022 (totalling RUB 69,231 million, down 1.8% from RUB 70,490 million in H1 2022 pre-IFRS 16).

In Q2 2023, adjusted net cash used in investing activities, which predominantly consists of payments for property, plant and equipment, increased to RUB 30,354 million under IFRS 16 (RUB 30,507 million pre-IFRS 16) due to the low base effect of Q2 2022 driven by capex control measures, as well as the acquisition of Tamerlan in Q2 2023. For H1 2023, adjusted net cash used in investing activities under IFRS 16 increased to RUB 47,430 million (RUB 47,707 million under pre-IFRS 16) from RUB 37,025 million (RUB 37,267 million under pre-IFRS 16) in H1 2022.

Net cash used in financing activities under IFRS 16 totalled RUB 37,435 million (RUB 20,464 million pre-IFRS 16) in Q2 2023, compared with net cash used in financing activities of RUB 105,309 million (RUB 89,500 million pre-IFRS 16) in Q2 2022. In H1 2023, net cash used in financing activities under IFRS 16 decreased to RUB 41,354 million from RUB 82,343 million (decreasing to RUB 7,619 million from RUB 50,455 million pre-IFRS 16) in H1 2022.

Liquidity update

RUB mln	30-Jun-23	% of total	31-Dec-22	% of total	30-Jun-22	% of total
Total debt	**228,985**		**234,532**		**243,928**	
Short-term debt	109,997	48.0	87,146	37.2	60,490	24.8
Long-term debt	118,988	52.0	147,386	62.8	183,438	75.2
Net debt (pre-IFRS 16)	201,569		191,277		205,412	
Net debt/EBITDA (pre-IFRS 16)	1.10x		1.02x		1.11x	
Lease liabilities (IFRS 16)	626,676		591,160		558,072	
Net debt/EBITDA (IFRS 16)	2.71x		2.58x		2.58x	

The Company's net debt/EBITDA ratio under IFRS 16 was 2.71x (1.10x pre-IFRS 16) as of 30 June 2023.

The Company's debt pre-IFRS 16 is 100% denominated in Russian roubles.

As of 30 June 2023, the Company had access to RUB 442,961 million in available lines of credit with major banks.

Related Party Transactions

For a description of the related party transactions entered into by the Company, please refer to note 8 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 2022 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 2023 and believes that the risks identified are in line with those presented in the 2022 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 2022 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/investors/financial-and-operational-results/

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 73-76 of the Annual Report 2022.

Note to Editors

X5 Retail Group N.V. (LSE and MOEX: FIVE; Expert RA – ruAAA; ACRA – AAA(RU)) is a leading Russian food retailer. The Company operates proximity stores under the Pyaterochka brand, Perekrestok supermarkets and Chizhik hard discounters. X5 provides an omnichannel experience to its customers, integrating retail stores and e-commerce through its businesses Vprok.ru, 5Post and Mnogo Lososya.

As of 30 June 2023, X5 had 22,682 Company-operated stores. It has the leading market position in both Moscow and St Petersburg, as well as a significant presence in the European part of Russia and a growing presence in the Russian Far East. Its store base includes 20,248 Pyaterochka proximity stores, 956 Perekrestok supermarkets, 809 Chizhik hard discounters and 596 Krasny Yar and Slata stores. The Company operates 59 DCs and 4,604 Company-owned trucks across the Russian Federation.

X5 is one of the largest employers in Russia. The Company employs over 358 thousand people.

For the full year 2022, revenue totalled RUB 2,605,232 million (USD 38,005 million*), EBITDA pre-IFRS 16 reached RUB 186,788 million (USD 2,725 million*), and net profit pre-IFRS 16 for the period amounted to RUB 52,248 million (USD 762 million*). In H1 2023, revenue totalled RUB 1,468,407 million (USD 19,095 million**), adjusted EBITDA pre-IFRS 16 reached RUB 100,748 million (USD 1,310 million**), and net profit pre-IFRS 16 amounted to RUB 41,661 million (USD 542 million**).

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 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 Group N.V. speak only as of the date of this announcement. Save as required by any applicable laws or regulations, X5 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.

For further details please contact:

Polina Ugryumova
Head of Corporate Finance and IR

Tel.: +7 (495) 662-88-88 ext. 13-312
e-mail: Polina.Ugryumova@x5.ru

Maria Yazeva
Investor Relations Officer

Tel.: +7 (495) 662-88-88 ext. 13-147
e-mail: Maria.Yazeva@x5.ru

* FX rate: 68.5494 USD/RUB
** FX rate: 76.8996 USD/RUB

X5 Retail Group N.V.

Condensed Consolidated Interim Financial Statements

Six months ended 30 June 2023

Provided under IAS 34 as adopted by the EU

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ООО «ЦАТР – аудиторские услуги»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 495 705 9700
+7 495 755 9700
Факс: +7 495 755 9701
ОГРН: 1027739707203
ИНН: 7709383532
ОКПО: 59002827
КПП: 770501001

TSATR – Audit Services LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 495 705 9700
+7 495 755 9700
Fax: +7 495 755 9701
www.b1.ru

Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of X5 retail Group N.V. and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 June 2023, the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flows and interim condensed consolidated statement of changes in equity for the six-month period then ended, and selected explanatory notes (interim financial information). Management of X5 retail Group N.V. is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

M.Y. Golovkina
Partner
TSATR – Audit Services Limited Liability Company

14 August 2023

Details of the auditor

Name: TSATR – Audit Services Limited Liability Company
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
TSATR – Audit Services Limited Liability Company is a member of Self-regulatory organization of auditors Association "Sodruzhestvo". TSATR – Audit Services Limited Liability Company is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Details of the entity

Name: X5 Retail Group N.V.
Record made in the Netherlands Chamber of Commerce on 13 August 1975, Registration Number 33143036.
Address: the Netherlands, Amsterdam, Zuidplein 196, 1077 XV.

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

	Note	30 June 2023	31 December 2022
Assets			
Non-current assets			
Property, plant and equipment	9	317,352	315,612
Right-of-use assets	10	537,643	508,543
Investment properties		4,400	4,573
Goodwill	11	117,542	112,929
Other intangible assets	9	39,615	38,327
Other non-current assets		5,258	4,164
Deferred tax assets		27,444	27,482
		1,049,254	**1,011,630**
Current assets			
Inventories		207,849	208,661
Indemnification asset		4,351	6,391
Trade, other accounts receivable and prepayments	12	22,055	21,382
Current income tax receivable		678	1,622
VAT and other taxes receivable		7,139	9,007
Short-term financial investments	7	82,232	50,067
Cash and cash equivalents	7	27,416	43,255
		351,720	**340,385**
Total assets		**1,400,974**	**1,352,015**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	16	2,458	2,458
Share premium		46,127	46,127
Retained earnings		120,096	84,125
Other capital reserves	21	(521)	432
		168,160	**133,142**
Total equity		**168,160**	**133,142**
Non-current liabilities			
Long-term borrowings	15	118,988	147,386
Long-term lease liabilities	10	552,475	519,317
Deferred tax liabilities		7,230	6,954
Other non-current liabilities		5,850	6,206
		684,543	**679,863**
Current liabilities			
Trade accounts payable		222,308	238,641
Short-term borrowings	15	109,997	87,146
Interest accrued		1,147	1,143
Short-term lease liabilities	10	74,201	71,843
Short-term contract liabilities	14	1,779	3,767
Current income tax payable		7,778	6,020
Provisions and other liabilities	13	131,061	130,450
		548,271	**539,010**
Total liabilities		**1,232,814**	**1,218,873**
Total equity and liabilities		**1,400,974**	**1,352,015**

Igor Shekhterman
Chief Executive Officer

14 August 2023

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

	Note	Six months ended 30 June 2023	Six months ended 30 June 2022
Revenue	5, 18	1,468,407	1,252,180
Cost of sales		(1,112,782)	(934,734)
Gross profit		**355,625**	**317,446**
Selling, general and administrative expenses		(283,376)	(251,472)
Net impairment losses on financial assets		(54)	(147)
Lease/sublease and other income	19	11,021	11,941
Operating profit		**83,216**	**77,768**
Finance costs	20	(36,291)	(38,930)
Finance income	20	3,276	3,611
Net foreign exchange (loss)/gain		(3,498)	2,937
Profit before tax		**46,703**	**45,386**
Income tax expense	22	(10,700)	(16,125)
Profit for the period		**36,003**	**29,261**
Profit for the period attributable to:			
Equity holders of the parent		35,971	29,261
Non-controlling interests		32	–
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	17	529.85	431.01
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	17	529.85	431.01

Igor Shekhterman
Chief Executive Officer

14 August 2023

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

	Six months ended 30 June	
	2023	**2022**
Profit for the period	36,003	29,261
Total comprehensive income for the period, net of tax	**36,003**	**29,261**
Total comprehensive income for the period attributable to:		
Equity holders of the parent	35,971	29,261
Non-controlling interests	32	–

Igor Shekhterman
Chief Executive Officer

14 August 2023

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

	Note	Six months ended 30 June 2023	2022
Profit before tax		**46,703**	**45,386**
Adjustments for:			
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment properties, other intangible assets and goodwill		79,421	81,940
Gain on disposal of property plant and equipment, investment properties and intangible assets and gain on derecognition of right-of-use assets		(829)	(525)
Finance costs, net	20	33,015	35,319
Net impairment losses on financial assets		54	147
Impairment of prepayments		54	270
Share-based compensation expense	21	20	37
Net foreign exchange loss/(gain)		3,498	(2,937)
Other non-cash items		(1,888)	937
Net cash from operating activities before changes in working capital		**160,048**	**160,574**
Decrease in trade, other accounts receivable and prepayments and VAT and other taxes receivable		2,192	8,458
Decrease/(increase) in inventories		3,267	(8,364)
Decrease in trade payable		(16,884)	(25,724)
(Decrease)/increase in other accounts payable and contract liabilities		(2,590)	7,137
Net cash flows from operations		**146,033**	**142,081**
Interest paid		(37,239)	(38,645)
Interest received		3,329	2,808
Income tax paid		(7,202)	(4,108)
Net cash flows from operating activities		**104,921**	**102,136**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets		(32,093)	(30,093)
Acquisition of businesses, net of cash acquired	6	(8,974)	(405)
Proceeds from disposal of property, plant and equipment, investment properties and intangible assets		1,281	1,867
Proceeds from disposal of interest in associate		53	–
Purchase of other intangible assets		(7,697)	(8,394)
Payments for short-term financial investments	7	(32,232)	–
Proceeds from short-term financial investments		–	30,000
Net cash flows used in investing activities		**(79,662)**	**(7,025)**
Cash flows from financing activities			
Proceeds from loans	15	30,044	74,999
Repayment of loans	15	(37,663)	(125,454)
Payments of principal portion of lease liabilities		(33,735)	(31,888)
Net cash flows used in financing activities		**(41,354)**	**(82,343)**
Effect of exchange rate changes on cash and cash equivalents		256	(314)
Net (decrease)/increase in cash and cash equivalents		**(15,839)**	**12,454**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		43,255	26,062
Net (decrease)/increase in cash and cash equivalents		(15,839)	12,454
Cash and cash equivalents at the end of the period		**27,416**	**38,516**

Igor Shekhterman
Chief Executive Officer

14 August 2023

(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**	**Other capital reserve**	**Retained earnings**	**Total share-holders' equity**	**Non-controlling interests**	**Total**
Balance as at 1 January 2022	**67,888,696**	**2,458**	**46,127**	**118**	**–**	**38,926**	**87,629**	**–**	**87,629**
Profit for the period	–	–	–	–	–	29,261	**29,261**	–	**29,261**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**29,261**	**29,261**	**–**	**29,261**
Share-based payment compensation (Note 21)	–	–	–	37	–	–	**37**	–	**37**
Balance as at 30 June 2022	**67,888,696**	**2,458**	**46,127**	**155**	**–**	**68,187**	**116,927**	**–**	**116,927**
Balance as at 1 January 2023	**67,888,696**	**2,458**	**46,127**	**–**	**432**	**84,125**	**133,142**	**–**	**133,142**
Profit for the period	–	–	–	–	–	35,971	**35,971**	32	**36,003**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**35,971**	**35,971**	**32**	**36,003**
Acquisition of businesses (Note 6)	–	–	–	–	–	–	**–**	(82)	**(82)**
Purchase commitments for non-controlling interests' shares (Note 6)	–	–	–	–	(903)	–	**(903)**	–	**(903)**
Impact of changes in non-controlling interests with purchase commitments	–	–	–	–	(50)	–	**(50)**	50	**–**
Balance as at 30 June 2023	**67,888,696**	**2,458**	**46,127**	**–**	**(521)**	**120,096**	**168,160**	**–**	**168,160**

Igor Shekhterman
Chief Executive Officer

14 August 2023

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

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 2023 the Group operated a retail chain of 22,682 proximity stores, supermarket, hard discounter, online hypermarket stores, dark kitchens, “Krasny Yar” & “Slata” stores and joint dark stores under the brand names “Pyaterochka”, “Perekrestok”, “Chizhik”, “Perekrestok Vprok”, “Mnogo Lososya”, “Krasny Yar”, “Slata”, “Pokupochka” and “Pokupalko” (each representing separate format except for “Pokupochka” and “Pokupalko” which are included in “Pyaterochka” 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, Krasnoyarsk, Irkutsk (31 December 2022: 21,323 proximity stores, supermarket, hypermarket, hard discounter, online hypermarket stores, dark kitchens, “Krasny Yar” & “Slata” stores and joint dark stores under the brand names “Pyaterochka”, “Perekrestok”, “Karusel”, “Chizhik”, “Perekrestok Vprok”, “Mnogo Lososya”, “Krasny Yar” and “Slata”), with the following number of stores:

Format	30 June 2023	31 December 2022
“Pyaterochka” − Proximity store	20,248	19,164
“Perekrestok” − Supermarket	956	971
“Chizhik” − Hard discounter	809	517
“Krasny Yar” & “Slata” stores	596	595
“Mnogo Lososya” − Dark kitchen	61	54
Joint dark stores	9	7
“Perekrestok Vprok” − Online hypermarket	3	3
“Karusel” − Hypermarket	−	12
Total stores	**22,682**	**21,323**

As at 30 June 2023 and 31 December 2022 the principal shareholder exerting significant influence over the Company was CTF Holdings S.A. (“CTF”). As at 30 June 2023 and 31 December 2022 CTF directly owned 47.87% and 47.87% of total issued voting shares in the Company respectively. CTF is not an ultimate controlling party for the Group. As at 30 June 2023 and 31 December 2022 the Company’s shares were listed on the London and Moscow Stock Exchanges (LSE and MOEX respectively) in the form of Global Depositary Receipts (GDRs) with each GDR representing an interest of 0.25 in an ordinary share (Note 16). Trading on the London Stock Exchange are currently suspended.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2023 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 2022 which have been prepared in accordance with IFRS as adopted by the European Union.

The accounting policies applied were consistent with those of the consolidated financial statements for the year ended 31 December 2022 except for the adoption of new Standards that are mandatory for financial annual periods beginning on 1 January 2023. 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 24), sanctions imposed on specific entities and individuals in response to the military operation initiated by the Russian Federation on 24 February 2022.

On 14 August 2023, the Management Board authorised the condensed consolidated interim financial statements for issue. Publication is on 15 August 2023. The condensed consolidated interim financial statements have been reviewed, not audited.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.3 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.

2.4 Intangible assets (brand and private labels)

Brand and private labels acquired in a business combination are recognised initially at fair value. Private labels are amortised using the straight-line method over their useful lives. The useful life of "Pyaterochka" brand is estimated to be indefinite-lived as there is no foreseeable limit to the period over which the brand is expected to generate net cash inflows for the Group.

	Useful lives
Brands "Pokupochka", "Pokupalko"	2 years
Brands "Krasny Yar", "Baton", "Slata", "KhlebSol"	3 years
Private labels	1-8 years

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 2022.

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 26).

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 2023 the Group recognised an impairment loss in the amount of RUB 811 mainly attributable to buildings and equipment (six months ended 30 June 2022: an impairment loss in the amount of RUB 7,011 mainly attributable to software and buildings) and reversed the impairment loss previously recognised in the amount of RUB 167 mainly attributable to buildings (six months ended 30 June 2022: reversed the impairment loss previously recognised in the amount of RUB 24 mainly attributable to buildings) based on the actual results.

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Revenue recognition − Loyalty programmes

The Group estimates the amount of obligations related to customer loyalty programmes by allocating transaction price to loyalty points based on the standalone selling price of the points. The standalone selling price of the points is reduced for the expected amount of the points that will expire unredeemed.

The Group estimates the stand-alone selling price of the loyalty points awarded under loyalty programmes. The stand-alone selling price of the loyalty points issued is calculated by multiplying to the estimated redemption rate and to the monetary value assigned to the loyalty points. In estimating the redemption rate, the Group considers breakage which represents the portion of the points issued that will never be redeemed. The Group applies statistical projection methods in its estimation using customers' historical redemption patterns as the main input. The redemption rate is updated monthly and the liability for the unredeemed points is adjusted accordingly. The Group ensures that the value assigned to the loyalty points is commensurate to the stand-alone selling price of the products eligible for redemption (i.e., the value of each point is equivalent to the stand-alone selling price of any product eligible for redemption divided by number of points required).

Points issued under the loyalty programmes normally expire in six months from their recognition. However due to periodic changes in customer redemption patterns estimates of the stand-alone selling price are subject to significant uncertainty.

Any significant changes in customers' redemption patterns will impact the estimated redemption rate. As at 30 June 2023, the estimated liability for unredeemed points was RUB 1,415 (31 December 2022: RUB 3,487).

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 2022 except for the adoption of new standards that are mandatory for financial annual periods beginning on or after 1 January 2023.

The following new standards and amendments to IFRSs effective for the financial year beginning 1 January 2023 do not have a material impact on the Group and do not result in change of the Group's accounting policy:

- IFRS 17 *Insurance Contracts*; including Amendments to IFRS 17;
- Amendments to IFRS 17 *Insurance contracts*: Initial Application of IFRS 17 and IFRS 9 − Comparative Information;
- Amendments to IAS 12 *Income Taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: Disclosure of Accounting policies;
- Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates.

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 12 *Income taxes*: International Tax Reform − Pillar Two Model Rules	1 January 2023*
Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*: Supplier Finance Arrangements	1 January 2024*
Amendments to IAS 1 *Presentation of Financial Statements*:	
• *Classification of Liabilities as Current or Non-current Date*;	
• *Classification of Liabilities as Current or Non-current* − Deferral of Effective Date; and	
• *Non-current Liabilities with Covenants*	1 January 2024*
Amendments to IFRS 16 *Leases*: Lease Liability in a Sale and Leaseback	1 January 2024*

* Subject to EU endorsement.

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

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

5 SEGMENT REPORTING

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

The following significant operating functions are decentralised by formats:

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

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

Upon adoption of IFRS 16 the Management Board started to assess the performance of the operating segments based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment pre-IFRS 16 (EBITDA pre-IFRS 16) excluding expenses related to the long-term incentive programme (LTI) for key employees. EBITDA pre-IFRS 16 is calculated by adjusting EBITDA to include fixed lease expenses, fixed non-lease components of lease contracts, exclude gain on derecognition of right-of-use assets and lease liabilities and exclude adjustment of gain/loss from sale of asset under sale and leaseback operations for the proportion of the rights retained. Adjusted capital expenditures include additions of property, plant and equipment, investment properties and intangible assets adjusted to replace capitalised depreciation of right-of-use assets with capitalisation of fixed lease expenses, acquisitions of property, plant and equipment, investment properties and intangible assets through business combinations as well as goodwill acquired through such business combinations.

The accounting policies used for segments are the same as accounting policies applied for these condensed consolidated interim financial statements except for inclusion of foreign exchange loss or gain related to goods sold by segments during the period in EBITDA pre-IFRS 16 of the segments with elimination of this effect as part of adjustments. Starting from 2023 expenses for LTI, overhead expenses and financial results of centralised functions are disclosed separately without allocation on key segments for more accurate measurements of segments' and centralised functions' performance. The comparative figures for earlier periods have been adjusted in order to provide meaningful comparative information.

The segment information for the period ended 30 June 2023, comparative figures for earlier periods and reconciliation of segments EBITDA pre-IFRS 16 to profit for the period is provided as follows:

Six months ended 30 June 2023	**Pyaterochka**	**Perekrestok**	**Other segments**	**Corporate centre**	**Centralised functions**	**Adjustments**	**Total**
Revenue (Note 18)	**1,166,433**	**202,185**	**98,409**	**151**	**1,229**	**–**	**1,468,407**
EBITDA pre-IFRS 16 excl. LTI	**93,671**	**13,736**	**(3,355)**	**(2,928)**	**(3,462)**	**4,875**	**102,537**
LTI							**(2,161)**
EBITDA pre-IFRS 16							**100,376**
Fixed lease expenses and fixed non-lease components of lease contracts							**61,695**
Gain on derecognition of right-of-use assets and lease liabilities							**566**
Depreciation, amortisation and impairment							**(79,421)**
Operating profit							**83,216**
Finance cost, net							**(33,015)**
Net foreign exchange result							**(3,498)**
Profit before income tax							**46,703**
Income tax expense							**(10,700)**
Profit for the period							**36,003**
Adjusted capital expenditure	39,996	3,829	5,215	–	–	–	**49,040**
30 June 2023							
Inventories	168,749	27,145	11,955	–	–	–	**207,849**

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

5 SEGMENT REPORTING (continued)

Six months ended 30 June 2022	**Pyaterochka**	**Perekrestok**	**Other segments**	**Corporate centre**	**Centralised functions**	**Adjustments**	**Total**
Revenue (Note 18)	**1,024,055**	**192,156**	**35,657**	**39**	**273**	**–**	**1,252,180**
EBITDA pre-IFRS 16 excl. LTI	**99,663**	**17,190**	**(2,956)**	**(1,984)**	**(4,255)**	**(3,173)**	**104,485**
LTI							**(1,061)**
EBITDA pre-IFRS 16							**103,424**
Fixed lease expenses and fixed non-lease components of lease contracts							**55,665**
Gain on derecognition of right-of-use assets and lease liabilities							**850**
Reversal of adjustment for the proportion of the rights retained under sale and leaseback operations							**(231)**
Depreciation, amortisation and impairment							**(81,940)**
Operating profit							**77,768**
Finance cost, net							**(35,319)**
Net foreign exchange result							**2,937**
Profit before income tax							**45,386**
Income tax expense							**(16,125)**
Profit for the period							**29,261**
Adjusted capital expenditure	19,906	4,361	3,924	–	–	–	**28,191**
31 December 2022							
Inventories	169,190	28,136	11,335	–	–	–	**208,661**

6 ACQUISITION OF BUSINESSES

Acquisitions in 2023

Acquisition of Tamerlan

In April 2023 the Group acquired 100% of shares of Tamerlan LLC operating retail chain in the south of Russia. At acquisition date the retail chain operated 298 stores under brands “Pokupochka” and “Pokupalko”.

For the six months ended 30 June 2023 the acquired business contributed revenue of RUB 5,490 from the date of acquisition. Net loss from the date of acquisition comprised RUB 72. If the acquisitions had taken place at the beginning of the year, revenue of the Group would have been RUB 1,474,618. The Group considers impracticable to disclose the impact of the acquisition on the Group’s net profit, since before the acquisition the acquired business did not prepare financial statements in accordance with the Group’s accounting policy.

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

6 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2023 (continued)

Details of assets and liabilities of acquired business and the related goodwill were as follows:

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 9)	4,630
Intangible assets (Note 9)	197
Right-of-use assets (Note 10)	2,498
Inventories	2,464
Trade, other accounts receivable and prepayments	2,080
Current income tax receivable	80
VAT and other taxes receivable	36
Cash & cash equivalents	259
Lease liabilities (Note 10)	(2,498)
Deferred tax liabilities	(417)
Trade accounts payable	(2,455)
Short-term borrowings	(1,962)
Interest accrued	(2)
Short-term contract liabilities	(1)
Current income tax payable	(96)
Provisions and other liabilities	(1,382)
Net assets acquired	**3,431**
Goodwill (Note 11)	4,553
Purchase consideration	**7,984**
Net cash outflow arising from the acquisition	**7,725**

The Group assigned provisional fair values to net assets acquired. The Group will finalise the purchase price allocation within a 12-month period from the acquisition date which is not yet finished at the date of approval of these condensed consolidated financial statements.

The purchase consideration for the reporting period comprised consideration paid in cash of RUB 7,984.

The goodwill recognised is attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to this acquisition was allocated to Pyaterochka segment in amount of RUB 4,553.

Other acquisitions

During six months ended 30 June 2023 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 2023 the acquired businesses contributed revenue of RUB 799 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 2023 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:

	Provisional fair values at the acquisition date
Right-of-use assets (Note 9)	2,405
Deferred tax assets	93
Lease liabilities (Note 9)	(2,405)
Net assets acquired	**93**
Goodwill (Note 11)	379
Purchase consideration	**472**
Net cash outflow arising from the acquisition	**291**

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

6 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2023 (continued)

The Group assigned provisional fair values to net assets acquired. The Group will finalise the purchase price allocation within a 12-month period from the acquisition date which is not yet finished at the date of approval of these consolidated financial statements

The purchase consideration for the reporting period comprised RUB 291 and RUB 181 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 379.

During the six months ended 30 June 2023 the Group transferred RUB 73 as deferred payments for the prior periods acquisitions.

Acquisition of Krasny Yar and Slata

During six months ended 30 June 2023 the Group finalised determination of the deferred consideration for acquisition of Smart LLC (Krasny Yar) and Mayak LLC (Slata) effected in 4th quarter 2022 and updated fair value assessment of the purchase commitment for non-controlling interests' shares under put option recognised.

As at 30 June 2023 and 31 December 2022 purchase commitments for non-controlling interests' shares under put option liability in amount of RUB 3,107 and 2,204 respectively were included in other non-current liabilities in the consolidated statement of financial position.

Details of change in provisional fair values of assets and liabilities of acquired business and the related goodwill were as follows:

	Provisional fair values at the cquisition date as at 31 December 2022	Updated provisional fair values at the acquisition date as at 30 June 2023	Effect of change in purchase price allocation on the consolidated statement of financial position as at 30 June 2023
Property, plant and equipment (Note 9)	2,342	2,342	–
Other intangible assets (Note 9)	1,863	1,863	–
Right-of-use assets (Note 10)	19,061	19,061	–
Indemnification asset	5,986	5,986	–
Inventories	4,761	4,752	(9)
Trade, other accounts receivable and prepayments	753	784	31
VAT and other taxes receivable	148	148	–
Cash and cash equivalents	531	531	–
Lease liabilities (Note 10)	(18,960)	(18,960)	–
Deferred tax liabilities	(424)	(384)	40
Trade accounts payable	(5,361)	(5,361)	–
Short-term borrowings	(1,819)	(1,819)	–
Interest accrued	(5)	(5)	–
Short-term contract liabilities	(26)	(26)	–
Current income tax payable	(2,115)	(2,115)	–
Provisions and other liabilities	(5,714)	(5,726)	(12)
Net assets acquired	**1,021**	**1,071**	**50**
Goodwill (Note 11)	7,674	7,355	(319)
Non-controlling interests measured at fair value	(2,609)	(2,527)	82
Purchase consideration	**6,086**	**5,899**	**(187)**

During the six months ended 30 June 2023 the Group transferred RUB 885 as deferred payment.

Acquisitions in 2022

Other acquisitions

For the six months ended 30 June 2022 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

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

6 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2022 (continued)

For the six months ended 30 June 2022 the acquired businesses contributed revenue of RUB 231 from the date of acquisition. If the acquisitions had taken place at the beginning of the year, revenue of the Group would have been RUB 1,254,469. The Group considers impracticable to disclose the impact of this factor on the Group's net profit, since before the acquisition the acquired businesses did not prepare financial statements in accordance with the Group's accounting policy.

At 30 June 2022 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets and liabilities. During one-year period ended 30 June 2023 the Group completed the purchase price allocation, which resulted in no changes in fair values at the acquisition date and the amount of goodwill initially recognised at provisional values.

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

	Finalised fair values at the acquisition date
Property, plant and equipment (Note 9)	322
Right-of-use assets (Note 10)	2,694
Deferred tax assets	20
Indemnification asset	20
Trade, other accounts receivable and prepayments	11
VAT and other taxes receivable	53
Cash & cash equivalents	5
Lease liabilities (Note 10)	(2,627)
Current income tax payable	(184)
Provisions and other liabilities	(571)
Net assets acquired	**(257)**
Goodwill (Note 11)	393
Purchase consideration	**136**
Net cash outflow arising from the acquisition	**70**

The purchase consideration for the reporting period comprised RUB 75 and RUB 61 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 81 and Perekrestok segment in amount of RUB 312.

During the six months ended 30 June 2022 the Group transferred RUB 335 as deferred payments for the prior periods acquisitions.

7 CASH AND CASH EQUIVALENTS, SHORT-TERM FINANCIAL INVESTMENTS

	30 June 2023	31 December 2022
Bank current account − Roubles	6,814	14,336
Bank current account − other currencies	684	1,577
Cash in transit − Roubles	10,436	17,457
Cash in hand − Roubles	8,046	9,759
Deposits − Roubles	442	126
Deposits − other currencies	994	−
Total	**27,416**	**43,255**

The bank accounts represent current accounts. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

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

7 CASH AND CASH EQUIVALENTS, SHORT-TERM FINANCIAL INVESTMENTS (continued)

The Group assessed credit quality of outstanding cash and cash equivalents balances as high and considered that there was no significant individual exposure. The maximum exposure to credit risk at the reporting date was the carrying value of cash and bank balances.

Short-term financial investments at 30 June 2023 and 31 December 2022 represent irrevocable bank deposits in Russian Roubles with maturity not more than a year that earn interest income at the rates in the range of 8.0%-9.0% per annum.

	30 June 2023	31 December 2022
Short-term financial investments	82,232	50,067
Total	**82,232**	**50,067**

8 RELATED PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. 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 2022.

At 30 June 2023 trade accounts payable to other related parties amounted to RUB 1,012 (31 December 2022: RUB 872), trade accounts receivable amounted to RUB 44 (31 December 2022: Nil), other receivables and prepayments amounted to RUB 58 (31 December 2022: RUB 52).

For the six months ended 30 June 2022 purchases from other related parties net of bonuses amounted to RUB 2,882 (six months ended 30 June 2022: RUB 2,179), interest expenses amounted to RUB Nil (six months ended 30 June 2022: RUB 107), variable rent expenses amounted to RUB Nil (six months ended 30 June 2022: RUB 3).

Other related parties represent entities under control by the entity with significant influence over the Company and other.

Key management personnel

The Group 'key management personnel' consists of members of the Supervisory Board, the Management Board and members of the Executive Board (other key management personnel), 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, a performance related short-term incentive and a performance related long-term incentive. Members of the Supervisory Board receive a fixed annual remuneration in cash and equity-based payments.

Total compensation of the Management Board and other key management personnel was as follows:

	Six months ended 30 June	
	2023	2022
Short-term employee benefits	562	443
Long-term employee benefits	270	293
Social security costs	116	110
Non-competition reward	7	–
Total	**955**	**846**

Total compensation of the Supervisory Board was as follows:

	Six months ended 30 June	
	2023	2022
Short-term remunerations	35	37
Equity-based compensation	20	37
Total	**55**	**74**

As at 30 June 2023 the total number of outstanding conditional rights awarded to members of the Supervisory Board under the Phantom Stock Unit Plan was 80,065 (31 December 2022: 38,925) and under the Restricted Stock Unit Plan was 13,448 (31 December 2022: 23,248).

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

9 PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

	2023		2022	
	Property, plant and equipment	**Other intangible assets**	**Property, plant and equipment**	**Other intangible assets**
Cost				
At 1 January	**639,977**	**84,287**	**604,981**	**75,260**
Additions	32,858	6,203	21,332	6,118
Transfer to investment property	–	–	(849)	–
Assets from acquisitions	4,630	197	322	–
Disposals	(10,859)	(498)	(14,123)	(6,338)
At 30 June	**666,606**	**90,189**	**611,663**	**75,040**
Accumulated depreciation, amortisation and impairment				
At 1 January	**(324,365)**	**(45,960)**	**(272,837)**	**(36,254)**
Depreciation and amortisation charge	(34,297)	(5,113)	(32,698)	(5,162)
Impairment charge	(775)	(18)	(2,617)	(4,332)
Reversal of impairment	105	62	24	–
Transfer to investment property	–	–	438	–
Disposals	10,078	455	12,637	6,192
At 30 June	**(349,254)**	**(50,574)**	**(295,053)**	**(39,556)**
Net book value at 1 January	**315,612**	**38,327**	**332,144**	**39,006**
Net book value at 30 June	**317,352**	**39,615**	**316,610**	**35,484**

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 2023 and 30 June 2022.

For the six months ended 30 June 2023 the additions of other intangible assets were attributable to additions of software in the amount of RUB 6,203 (for the six months ended 30 June 2022 RUB 6,118 attributable to additions of software).

The Group analysed external and internal sources of information including the potential impact of the sanctions followed by the military operation initiated by the Russian Federation on 24 February 2022 on the Group itself and on the macro economic environment and did not identify impairment indicators for non-current assets.

The impairment charge for the six months ended 30 June 2023 arose primarily from impairment of assets attributable to the stores closed during the reporting period and impairment of technically obsolete equipment. The impairment charge for the six months ended 30 June 2022 arose primarily from impairment of software and buildings. At the same time the Group recognised the reversal of previously recorded impairment charges due to improved recoverable amount of certain stores.

10 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 2022	**502,325**	**(577,363)**
Additions	14,154	(14,231)
Acquisition of businesses (Note 6)	2,694	(2,627)
Depreciation expense	(37,160)	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(519)	1,369
Interest accrued	–	(23,521)
Payments	–	55,409
Effect of changes in foreign exchange rates	–	2,892
At 30 June 2022	**481,494**	**(558,072)**

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

10 LEASES (continued)

	Right-of-use assets (land and buildings)	Lease liabilities
At 1 January 2023	**508,543**	**(591,160)**
Additions	63,879	(63,416)
Acquisition of businesses (Note 6)	4,903	(4,903)
Depreciation expense	(39,504)	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(178)	744
Interest accrued	–	(28,056)
Payments	–	61,791
Effect of changes in foreign exchange rates	–	(1,676)
At 30 June 2023	**537,643**	**(626,676)**

The expenses related to short-term leases for the six months ended 30 June 2023 amounted to RUB 59 (six months ended 30 June 2022: RUB 27). The expense related to variable lease payments not included in the measurement of lease liabilities for the six months ended 30 June 2023 amounted to RUB 11,845 (six months ended 30 June 2022: RUB 9,209). Variable lease payments are mainly linked to sales generated from a store. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base.

The total cash outflow for leases for the six months ended 30 June 2023 amounted to RUB 73,675 (six months ended 30 June 2022: RUB 64,811).

Maturity analysis of the lease liabilities is disclosed in the Note 24.

As at 30 June 2023 potential future cash outflows of RUB 656 (undiscounted) have not been included in the lease liability because it was assessed reasonably certain that the leases will be terminated (31 December 2022: RUB 3,529).

11 GOODWILL

Movements in goodwill arising on the acquisition of businesses at 30 June 2023 and 30 June 2022 were:

	2023	2022
Cost		
Gross book value at 1 January	**173,708**	**172,099**
Acquisition of businesses (Note 6)	4,613	393
Disposal	–	(203)
Gross book value at 30 June	**178,321**	**172,289**
Accumulated impairment losses		
Accumulated impairment losses at 1 January	**(60,779)**	**(67,071)**
Disposal	–	203
Accumulated impairment losses at 30 June	**(60,779)**	**(66,868)**
Carrying amount at 1 January	**112,929**	**105,028**
Carrying amount at 30 June	**117,542**	**105,421**

Goodwill impairment test

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

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

No events including the potential impact of the sanctions followed by the military operation initiated by the Russian Federation on 24 February 2022 indicating triggers of goodwill impairment occurred in the six months ended 30 June 2023. The Group will perform an annual impairment test of goodwill at 31 December 2023.

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

12 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2023	31 December 2022
Trade accounts receivable	12,201	13,123
Other receivables	4,544	3,117
Allowance for expected credit losses of trade and other receivables	(778)	(778)
Total trade and other accounts receivable	**15,967**	**15,462**
Prepayments	4,679	4,631
Advances made to trade suppliers	2,125	2,076
Allowance for impairment of prepayments and advances	(716)	(787)
Total prepayments	**6,088**	**5,920**
Total	**22,055**	**21,382**

During the six months ended 30 June 2023 the Group made a detailed analysis of the effects from sanctions followed by the military operation initiated by the Russian Federation on 24 February 2022 on the expected credit losses and did not identify significant effects.

13 PROVISIONS AND OTHER LIABILITIES

	30 June 2023	31 December 2022
Other accounts payable and accruals	31,727	34,212
Accrued salaries and bonuses	27,944	28,266
Payables to landlords	1,597	1,771
Accounts payable for property, plant and equipment, other intangible assets and acquisition of businesses	15,392	15,837
Total financial instruments	**76,660**	**80,086**
Taxes other than income tax	46,342	37,872
Provisions and liabilities for non-income tax uncertainties	5,836	10,696
Advances received	2,223	1,796
Total non-financial instruments	**54,401**	**50,364**
Total	**131,061**	**130,450**

14 CONTRACT LIABILITIES

	30 June 2023	31 December 2022
Short-term contract liabilities		
Short-term contract liabilities related to loyalty programmes	1,415	3,487
Advances received from wholesales customers	68	42
Advances received from other customers	296	238
Total short-term contract liabilities	**1,779**	**3,767**

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

15 BORROWINGS

The Group had the following borrowings at 30 June 2023 and 31 December 2022:

	Final maturity year*	Fair value		Carrying value	
		2023	2022	2023	2022
Current					
RUB Bonds X5 FINANSE LLC series BO-05		–	9	–	9
RUB Bonds X5 FINANSE LLC series 001P-01		–	96	–	96
RUB Bonds X5 FINANSE LLC series 001P-02	2023	8	7	8	8
RUB Bonds X5 FINANSE LLC series 001P-03		–	51	–	48
RUB Bonds X5 FINANSE LLC series 001P-12		–	9,906	–	9,996
RUB Bilateral Loans	2023-2024	109,989	76,989	109,989	76,989
Total current borrowings		**109,997**	**87,058**	**109,997**	**87,146**
Non-current					
RUB Bonds X5 FINANSE LLC series 001P-12	2024	1,562	–	1,566	–
RUB Bonds X5 FINANSE LLC series 002P-01	2024	9,876	9,860	9,994	9,992
RUB Bonds X5 FINANSE LLC series 002P-02	2025	19,994	19,972	19,966	19,956
RUB Bonds X5 FINANSE LLC series 002P-03	2025	13,868	13,930	13,976	13,969
RUB Bilateral Loans	2024-2026	73,226	101,279	73,486	103,469
Total non-current borrowings		**118,526**	**145,041**	**118,988**	**147,386**
Total borrowings		**228,523**	**232,099**	**228,985**	**234,532**

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

The weighted average effective interest rate on the Group's total borrowings for the six months ended 30 June 2023 comprised 7.80% per annum (six months ended 30 June 2022: 9.53%).

All borrowings at 30 June 2023 are shown net of related transaction costs of RUB 89 which are amortised over the term of the loans using the effective interest method (31 December 2022: RUB 129). Borrowing costs capitalised for the six months ended 30 June 2023 amounted to RUB 6 and were included as part of additions in Property, plant and equipment and Other intangible assets in Note 9 (six months ended 30 June 2022: RUB 4). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was approximate to weighted average effective interest rate for the period.

The decrease in borrowings in amount of RUB 5,547 for the six months ended 30 June 2023 equals to the proceeds from borrowings in amount of RUB 30,044, repayment of borrowings in amount of RUB 37,663 (the Consolidated Statement of Cash Flows), increase due to acquisitions recorded as part of the purchase price allocation (Note 6) in amount of RUB 1,962, other non-cash movements in amount of RUB 70 and amortisation of transaction costs in amount of RUB 40.

Change in total borrowings in amount of RUB 50,410 for the six months ended 30 June 2022 equals to the proceeds from borrowings in amount of RUB 74,999, repayment of borrowings in amount of RUB 125,454 (the Condensed Consolidated Interim Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 45.

In accordance with a few loan agreements the Group maintains an optimal leverage ratio by tracking covenant: the maximum level of Net Debt/EBITDA pre-IFRS 16 (4.00/4.25 during 2 quarters after acquisition). As at 30 June 2023 the Group complied with this covenant and Net Debt/EBITDA pre-IFRS 16 was equal to 1.10 (31 December 2022: 1.02). Metric EBITDA specified in all loan agreements is equal to EBITDA pre-IFRS 16 (for calculation please refer to Note 5).

16 SHARE CAPITAL

As at 30 June 2023 the Group had an authorised share capital of 190,000,000 ordinary shares (31 December 2022: 190,000,000) of which 67,888,696 (31 December 2022: 67,888,696) ordinary shares were outstanding and 4,521 ordinary shares in the amount of RUB 41 were held as treasury stock (31 December 2022: 4,521 ordinary shares in the amount of RUB 41). The nominal par value of each ordinary share is EUR 1.

17 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.

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

17 EARNINGS PER SHARE (continued)

Earnings per share were calculated as follows:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Profit attributable to equity holders of the parent	**35,971**	**29,261**
Weighted average number of ordinary shares in issue	67,888,696	67,888,696
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**67,888,696**	**67,888,696**
Basic earnings per share for profit for the period (expressed in RUB per share)	**529.85**	**431.01**
Diluted earnings per share for profit for the period (expressed in RUB per share)	**529.85**	**431.01**

18 REVENUE

	Six months ended 30 June 2023					
	Pyaterochka	**Perekrestok**	**Other segments**	**Corporate centre**	**Centralised functions**	**Total**
Revenue from sale of goods through own stores (at a point of time)	1,144,828	201,062	94,349	–	–	1,440,239
Revenue from sale of goods through franchisees (at a point of time)	21,070	781	–	–	–	21,851
Revenue from wholesale of goods (at a point of time)	78	–	2,410	–	1,228	3,716
Revenue from other services (over time)	457	342	1,650	151	1	2,601
Total	**1,166,433**	**202,185**	**98,409**	**151**	**1,229**	**1,468,407**

	Six months ended 30 June 2022					
	Pyaterochka	**Perekrestok**	**Other segments**	**Corporate centre**	**Centralised functions**	**Total**
Revenue from sale of goods through own stores (at a point of time)	1,008,478	191,725	32,518	–	–	1,232,721
Revenue from sale of goods through franchisees (at a point of time)	15,034	185	–	–	–	15,219
Revenue from wholesale of goods (at a point of time)	–	–	1,713	–	273	1,986
Revenue from other services (over time)	543	246	1,426	39	–	2,254
Total	**1,024,055**	**192,156**	**35,657**	**39**	**273**	**1,252,180**

19 LEASE/SUBLEASE AND OTHER INCOME

	Six months ended 30 June 2023	Six months ended 30 June 2022
Lease/sublease income	3,900	3,614
Income from sales of waste	3,448	5,117
Gain on derecognition of right-of-use assets and lease liabilities	566	850
Other	3,107	2,360
Total	**11,021**	**11,941**

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

20 FINANCE INCOME AND COSTS

	Six months ended 30 June 2023	Six months ended 30 June 2022
Interest expense on lease liabilities	28,057	23,520
Interest expense on borrowings	9,184	14,621
Interest income	(3,263)	(3,563)
Other finance (income)/costs, net	(963)	741
Total	**33,015**	**35,319**

21 SHARE-BASED PAYMENTS

Phantom Stock Unit Plan

Members of the Supervisory Board are entitled to annual awards of phantom stock units (PSUs) under the Group's Phantom Stock Unit Plan (PSU Plan) approved by the General Meeting of Shareholders on 30 November 2022. PSUs awards to members of the Supervisory Board are not subject to performance criteria, and PSUs are converted into cash after a three-year vesting period.

During the six months ended 30 June 2023 a total number of 45,629 PSUs were awarded under tranche 2 and will vest in 2026 (six months ended 30 June 2022: Nil).

In total during six months ended 30 June 2023 the Group recognised expense related to the PSU Plan in the amount of RUB 15 (six months ended 30 June 2022: Nil).

At 30 June 2023 the carrying amount of liability related to PSU was RUB 21 (31 December 2022: 10). The fair value of services received in return for the conditional PSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding under the PSU Plan:

	Six months ended 30 June 2023			Six months ended 30 June 2022		
	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB
Outstanding at the beginning of the period	**38,925**	**1,049.50**	**1,500.50**	**–**	**–**	**–**
Awarded during the period	45,629	1,482.41	1,464.50	–	–	–
Vested during the period	(2,993)	1,283.12	1,505.50	–	–	–
Forfeited during the period	(1,496)	1,283.12	1,505.50	–	–	–
Outstanding at the end of the period	**80,065**	**1,283.12**	**1,511.00**	**–**	**–**	**–**

The PSU Plan replaces the Restricted Stock Unit Plan (RSU Plan) that was terminated in September 2022. In accordance with the RSU Plan termination conditions, the remaining RSUs outstanding will be settled in cash upon vesting based on the GDR value at the Moscow Exchange or other Exchange where GDRs will be primarily traded at the time of vesting

Details of the conditional rights outstanding under the RSU Plan:

	Six months ended 30 June 2023			Six months ended 30 June 2022		
	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB
Outstanding at the beginning of the period	**23,248**	**2,218.76**	**1,500.50**	**120,448**	**2,156.84**	**1,959.50**
Vested during the period	(9,800)	2,218.76	1,464.50	–	–	–
Forfeited during the period	–	–	–	(22,705)	2,223.84	1,130.00
Outstanding at the end of the period	**13,448**	**2,218.76**	**1,511.00**	**97,743**	**2,141.28**	**981.00**

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

21 SHARE-BASED PAYMENTS (continued)

Phantom Stock Unit Plan (continued)

Expenses recognised for the RSU Plan were as follows:

	Six months ended 30 June	
	2023	**2022**
Equity settled RSU expenses	–	37
Cash settled RSU expenses	5	–
Total	**5**	**37**

At 30 June 2023 the carrying amount of liability related to RSU was RUB 14 (31 December 2022: RUB 35). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

22 INCOME TAX

	Six months ended 30 June 2023	**Six months ended 30 June 2022**
Current income tax charge	10,670	10,415
Deferred income tax charge	30	5,710
Income tax charge for the period	**10,700**	**16,125**

23 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). 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.

24 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 2022. There have been no changes risk management policies since year end.

Market risk − currency risk

The Group is exposed to foreign exchange risk arising from foreign currency denominated assets and liabilities with respect to import purchases and lease liabilities. As at 30 June 2023 the Group had trade accounts payable denominated in USD in the amount of RUB 6,278, in EUR in the amount of RUB 1,293, in CNY in the amount of RUB 1,129 and in other currencies in the amount of RUB 350 (31 December 2022: denominated in USD in the amount of RUB 8,140, in EUR in the amount of RUB 2,307, in CNY in the amount of RUB 354) and leases denominated in USD in the amount of RUB 5,501 and in EUR in the amount of RUB 3,076 (31 December 2022: denominated in USD in the amount of RUB 4,523 and in EUR in the amount of RUB 2,532). As at 30 June 2023 the Group did not have any other significant assets and liabilities denominated in foreign currency and the exposure for the Group was estimated as not significant.

Market risk − interest rates risk

As at 30 June 2023 the Group had no floating interest-bearing assets, but had 26% share of borrowings with floating interest rates based on the Key rate of the Central Bank of the Russian Federation. If the Key rate had been 100 b.p. higher the profit before tax for the six months ended 30 June 2023 had been RUB 195 lower. If the Key rate had been 100 b.p. lower the profit before tax for the six months ended 30 June 2023 had been RUB 195 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.

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

24 FINANCIAL RISKS MANAGEMENT (continued)

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 2023	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	130,001	443,996	348,325
Borrowings	126,476	127,495	–
Trade payables	222,308	–	–
Other financial liabilities	76,660	5,456	–
Total	**555,445**	**576,947**	**348,325**

31 December 2022	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	122,886	418,196	318,224
Borrowings	104,323	157,776	–
Trade payables	238,641	–	–
Other financial liabilities	80,086	5,655	–
Total	**545,936**	**581,627**	**318,224**

At 30 June 2023 the Group had net current liabilities of RUB 196,551 (31 December 2022: RUB 198,625) including short-term borrowings of RUB 109,997 and short-term lease liabilities of RUB 74,201 (31 December 2022: short-term borrowings of RUB 87,146 and short-term lease liabilities of RUB 71,843).

At 30 June 2023 the Group had available bank credit limits of RUB 442,961 (31 December 2022: RUB 475,020).

At 30 June 2023 the Group had RUB registered bonds programme available for issue on MOEX of RUB 156,000 (31 December 2022: RUB 156,000).

25 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.

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 LSE is determined based on active market quotations and amounted to RUB 45,308 at 30 June 2023 (31 December 2022: RUB 53,831). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 45,510 at 30 June 2023 (31 December 2022: RUB 54,074) (Note 15). The fair value of long-term borrowings amounted to RUB 73,226 at 30 June 2023 (31 December 2022: RUB 101,279). 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 73,486 at 30 June 2023 (31 December 2022: RUB 103,469) (Note 15). 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 279 RUB at 30 June 2023. The fair value of short-term borrowings was not materially different from their carrying amounts.

26 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. Since late February 2022 a number of countries (including the US, UK and EU) imposed sanctions against certain entities and individuals in Russia as a result of the official recognition of the Donetsk People Republic and Lugansk People Republic by the Russian Federation. Announcements of additional sanctions have been made following military operations initiated by the Russian Federation on 24 February 2022. Such sanctions can directly impact the sanctioned entities and individuals, and entities under their control. The Group is not subject to any sanctions or restrictions at the moment, but is likely to encounter challenges due to sanctions on financial system and certain imports into Russia.

The Group has assessed a potential impact of the sanctions imposed on the Russian Federation in response to the military operation on its going concern (Note 2), impairment of non-current assets (Notes 9, 11) and allowance for expected credit losses (Note 12).

The future stability of the Russian economy is largely dependent upon the impact of the sanctions imposed 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 as a result of the impact of the sanctions that may affect the Group's financial position, cash flows and results of operations.

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

Capital expenditure commitments

At 30 June 2023 the Group contracted for capital expenditure of RUB 7,499 (net of VAT) (31 December 2022: RUB 4,540).

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 2023.

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.

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 2022, a threshold of RUB 120 million applies for cross-border transactions to be classified as controlled for transfer pricing purposes.

In June 2023 the Ministry of Finance of the Russian Federation issued the Order expanding the list of the offshore zones (hereinafter − "the list"). The updated list contains 91 countries, including, in particular, the countries of the European Union, the Great Britain, Japan and the USA. All transactions with companies registered in the countries from the list are automatically equated to those controlled for transfer pricing purposes if the amount of income or expenses per company for the calendar year exceeds RUB 120 million.

26 COMMITMENTS AND CONTINGENCIES (continued)

Taxation environment (continued)

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.

In May 2021 the Federal Law on denunciation of the Double Tax Treaty (DTT) with the Netherlands was adopted, as a result respective DTT expired starting from 2022. These changes do not apply retrospectively to income paid prior to 2022.

MLI standards came into effect on 1 January 2021. The MLI requires the setting of minimum standards − rules that must be observed in order to benefit from reduced rates under a tax treaty. The Russian Federation adopted the following standards:

- The principal purpose test (PPT); and
- Simplified limitation on benefits (sLoB).

The principal purpose test means that tax treaty benefits may not be applied if obtaining them was the principal purpose of a transaction.

The simplified limitation on benefits means that reduced rates under a tax treaty may be enjoyed only by "qualified persons" (individuals, a state or political subdivision thereof, public companies, pension funds, non-profit organisations, etc.) and other persons who are not "qualified persons" if they carry on "active business" and the income received is connected to that business. The term "active business" does not include activities of holding companies, intra-group financing, making or managing investments (except for professional participants in the market), etc.

It follows from the above that where income is paid to a foreign company which qualifies for reduced rates or exemption from taxation only on the basis of the provisions of a tax treaty with a specific state, it is essential to ensure compliance both with local law and with the provisions of the MLI as a document that regulates the application of DTTs between specific countries.

On 14 February 2023, the Council of the European Union revised its EU list of non-cooperative jurisdictions for tax purposes (the "EU Blacklist") and decided to add Russia to the EU Blacklist. The immediate tax effect of this decision is not expected in 2023. Potentially, tax changes may lead to an increase in tax control by the EU regulatory authorities and increase the tax burden in the future.

In the beginning of 2023, the Government of the Russian Federation issued Decree that established the procedure for submitting instalment plan for contributions to social funds, for which in 2022 the Government granted the right to postpone payments by one year. The instalment plan provides the right to pay the amounts due on a monthly basis in equal instalments starting from 28 June 2023 until 28 May 2024.

On 28 June 2023 the State Duma of the Russian Federation approved in the first reading a government bill on excess profit tax for large companies (windfall tax). According to the document, this will be a one-off tax that affects companies whose average profit for 2021-2022 exceeds RUB 1 billion. The tax rate will be 10% of the excess of average profit for 2021-2022 over the same indicator for 2018-2019. The amount of the tax can be halved to an effective rate of 5% if it is paid from 1 October to 30 November 2023.

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.

27 SUBSEQUENT EVENTS

In August 2023 the law on excess profit tax for large companies (windfall tax) (Note 26) was signed by the President of the Russian Federation and published. The Group believes that the law will impact its future income tax expenses.

In August 2023 the law *The Specifics of the Regulation of Corporate Relations in Business Entities that are Economically Significant Organisations* was signed by the President of the Russian Federation and published. The law provides for the possibility of suspension in court of the foreign holding companies corporate rights in relation to Russian organisations controlled by them and included in the list of economically significant organisations, which is approved by the Government of the Russian Federation. As a result of the adoption of the law the structure of the Group may undergo significant changes, a significant part of the assets (operating companies) may be out of control of the Company, the status of the Company's securities, including admission to trading and inclusion in the quotation lists on the stock exchange, may be materially changed, the rights of the holders of the Company's securities may be significantly restricted and/or holders of the Company's securities may become required to convert the Company's securities into other securities.

In August 2023 the Group acquired 100% of Victoria Baltia LLC, the operator of Victoria stores in the Kaliningrad Region, Moscow and the Moscow region, Deshevo stores in the Kaliningrad Region, as well as two distribution centres and a CASH hypermarket in Kaliningrad.