

X5 Corporate Center PJSC
IFRS Consolidated Financial Statements and
Auditor's Report
for the years ended 31 December 2023,
31 December 2022, and 31 December 2021

Translation of the original Russian version

**Consolidated Financial Statements
of X5 Corporate Center PJSC
and its Subsidiaries**

Translation of the original Russian version

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Independent auditor’s report

Translation of the original Russian version

To the shareholders and the Board of Directors of X5 Corporate Center PJSC

Opinion

We have audited the consolidated financial statements of X5 Corporate Center PJSC and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2023, 31 December 2022, and 31 December 2021, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows, and consolidated statement of changes in equity for the years then ended as well as notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, 31 December 2022, and 31 December 2021, its consolidated financial performance, and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report. We are independent of the Group in accordance with the ethical requirements of the Code of Professional Ethics of Auditors and the Independence Rules of Auditors and Audit Organisations that are relevant to our audit of the consolidated financial statements in the Russian Federation together with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
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Goodwill impairment

We consider goodwill impairment a key audit matter, since the goodwill amount is significant at the reporting date, and also due to the fact that the methodology for assessment of the recoverable amount is complex and management's process to assess the recoverable amount is based on the use of significant judgment with regard to the assumptions on expected future cash flows, the discount rate, and other forecasts values.

Information on goodwill and the results of its impairment testing is disclosed in Note 13 to the consolidated financial statements.

As part of our audit procedures, we reviewed the Group's methodology used for goodwill impairment testing purposes and assessed its compliance with IFRS requirements as well as its consistent application. We analysed key assumptions used by management and compared them with industry trends and forecasts prepared by independent analysts, internal forecasts, and historical indicators.

With the involvement of internal valuation experts, we reviewed the methodology applied, compared the inputs and assumptions used in the impairment model with common practice and observable market data, and also assessed the applicable methodology for compliance with IFRS requirements.

We tested the accuracy of estimates and assumptions applied by management in the previous reporting period to exclude potential bias.

We assessed the mathematical accuracy of goodwill impairment testing. We compared inputs used in the model with figures from the audited consolidated financial statements and other information obtained during the audit.

We analysed goodwill impairment disclosures presented in notes to the consolidated financial statements.



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Key audit matter

How our audit addressed the key audit matter

Impairment of stores and other non-current assets

The carrying amount of stores and other non-current assets, such as right-of-use assets, property, plant and equipment, and intangible assets, excluding goodwill, as at 31 December 2023, 31 December 2022, and 31 December 2021 approximated RUB 986 billion, RUB 867 billion, and RUB 878 billion, respectively. We consider impairment of stores and other non-current assets a key audit matter due to the materiality of their carrying amount and the significant use of judgment in assessing the recoverable amount of those assets. Judgment is mainly used in determining the discount rate and preparing store performance forecasts, which, inter alia, depend on the expected income determined on the basis of the strategic development plan with reference to macroeconomic forecasts and local competition. Judgment is also used in determining the fair value of property on the basis of internal and external property valuation reports.

Information on property, plant and equipment, right-of-use assets, investment properties, and other intangible assets is presented in Notes 10, 11, 12, and 14 to the consolidated financial statements.

As part of our audit procedures, we reviewed the Group's methodology used for impairment testing of stores and other non-current assets and assessed its compliance with IFRS requirements as well as its consistent application.

For stores covered by impairment testing, we analysed key assumptions used by management to prepare cash flow forecasts and compared them with industry trends and forecasts prepared by independent analysts, internal forecasts, and historical indicators.

We tested the accuracy of estimates and assumptions applied by management in the previous reporting period to exclude potential bias.

With the involvement of internal valuation experts, we reviewed the methodology applied, compared the inputs and assumptions used in the impairment model with common practice and observable market data, and assessed the applicable methodology for compliance with IFRS requirements.

We assessed the mathematical accuracy of impairment testing of stores and other non-current assets. We compared inputs used in the model with figures from the audited consolidated financial statements and other information obtained during the audit.

We also analysed the objectivity and competence of independent appraisers engaged by the Group.

We reviewed disclosures in notes to the consolidated financial statements.



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Key audit matter

How our audit addressed the key audit matter

Recognition of vendor allowances

The Group receives various types of vendor allowances, such as discounts and income from services rendered. Discounts largely depend on the volumes of purchased goods, while income from services rendered is associated with promotional activities for certain products.

Vendor allowances represent a significant component of the cost of sales and are recognised as its reduction. Although most vendor allowances are settled during the financial year, a significant amount remains outstanding at the end of each year and is recognised as trade receivables.

We consider vendor allowances a key audit matter, since bonus conditions vary from contract to contract and can be complicated. In addition, the recognition of vendor allowances and related receivables requires management to use certain judgment, in particular, considering the delivery of such services or allocation of vendor allowances to the inventory cost.

Information on the Group's accounting policies relating to vendor allowances is disclosed in Note 2.22 to the consolidated financial statements.

Our procedures included tests of internal control over the occurrence, completeness, and measurement of vendor allowances recognised in the accounting records, and covered both IT application and manual controls.

We tested a sample of direct confirmations received from suppliers with regard to receivables as at 30 September 2023, 30 September 2022, and 30 September 2021. We also tested vendor allowances for Q4 2023, Q4 2022, and Q4 2021, including performing substantive analytical procedures and detailed testing on a sample of vendor allowance transactions and settlements.

We also tested on a sample basis documents supporting journal entries regarding the recognition of vendor allowances and service fees. In addition, we performed a margin analysis and reviewed subsequent collections on prior period vendor allowance receivables and subsequent collections of vendor allowances receivable at the reporting date.

We analysed accounting policies related to vendor allowances.

We reviewed disclosures in notes to the consolidated financial statements.

Emphasis of matter

We draw attention to Note 36, Subsequent Events, to the consolidated financial statements, which states that in accordance with the requirements of Article 9 of Federal Law of the Russian Federation No. 470-FZ, *On Specifics of the Regulation of Corporate Relations in Business Entities that are Economically Significant Organisations*, dated 4 August 2023, X5 Corporate Center Limited Liability Company was transformed into X5 Corporate Center Public Joint Stock Company on 1 July 2024.



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Responsibilities of management and the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's consolidated financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



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- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ We plan and perform the Group's audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units of the Group as a basis for forming our opinion on the consolidated financial statements of the Group. We are responsible for the direction, supervision, and review of audit work performed for Group audit purposes. We remain fully responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



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From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Marina Yurievna Golovkina.

Marina Yurievna Golovkina,
acting on behalf of TSATR – Audit Services Limited Liability Company

on the basis of power of attorney dated 5 April 2024,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 21906100348)

14 August 2024

Details of the auditor

Name: TSATR – Audit Services Limited Liability Company
Record made in the Unified State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: 75 Sadovnicheskaya Embankment, Moscow, 115035, Russia.
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, under main registration number 12006020327.

Details of the audited entity

Name: X5 Corporate Center Public Joint Stock Company
Record made in the Unified State Register of Legal Entities on 1 July 2024, State Registration Number 1247700463911.
Address: 28 Srednyaya Kalitnikovskaya St., Bld. 4, Internal Urban Territory Municipal District Nizhegorodsky, Moscow, 109029, Russia

	Notes	31 December 2023	31 December 2022	31 December 2021
Assets				
Non-current assets				
Property, plant and equipment	10	364,391	315,604	332,133
Right-of-use assets	11	576,463	508,543	502,325
Investment property	12	4,560	4,573	4,461
Goodwill	13	121,513	112,929	105,028
Other intangible assets	14	40,750	38,327	39,006
Investments in associates and joint ventures		–	–	50
Long-term receivables from related parties and prepayments to related parties	8	–	8,958	17,986
Other non-current assets		4,725	4,163	4,206
Deferred tax assets	30	30,058	27,446	22,796
		1,142,460	1,020,543	1,027,991
Current assets				
Inventories	15	236,826	208,661	166,840
Indemnification asset	7, 35	4,888	6,391	435
Short-term loans to related parties	8, 16	–	23	2,208
Trade and other receivables, and prepayments	8, 18	36,928	30,548	21,250
Income tax receivable		738	1,554	3,958
VAT and other taxes receivable	19	13,261	8,971	8,777
Short-term financial investments	9	116,076	50,067	–
Cash and cash equivalents	9	39,104	41,732	26,011
		447,821	347,947	229,479
Total assets		1,590,281	1,368,490	1,257,470
Equity and liabilities				
Equity attributable to equity holders of the parent				
Share capital	23	316,181	316,181	267,308
Reorganisation reserve		(312,190)	(312,190)	(312,190)
Other capital reserves		(1,689)	394	–
Retained earnings		215,277	136,978	92,823
		217,579	141,363	47,941
Total equity		217,579	141,363	47,941
Non-current liabilities				
Long-term borrowings	22	127,396	147,491	206,676
Non-current lease liabilities	11	592,546	519,317	507,099
Deferred tax liabilities	30	5,328	6,932	853
Other non-current liabilities	7, 8, 20, 29	9,536	6,715	11,623
		734,806	680,455	726,251
Current liabilities				
Trade payables		290,232	238,644	212,949
Short-term borrowings	22	100,859	87,176	87,819
Interest accrued		1,456	1,150	1,792
Current lease liabilities	11	78,416	71,843	70,264
Short-term contract liabilities	21	1,458	3,767	2,392
Income tax payable		8,444	4,926	2,410
Provisions and other liabilities	20	157,031	139,166	105,652
		637,896	546,672	483,278
Total liabilities		1,372,702	1,227,127	1,209,529
Total equity and liabilities		1,590,281	1,368,490	1,257,470

Igor Shekhterman
Chief Executive Officer
14 August 2024

The accompanying notes are an integral part of these consolidated financial statements.

	Notes	2023	2022	2021
Revenue	25	3,145,859	2,605,206	2,204,814
Cost of sales	26	(2,377,819)	(1,970,036)	(1,643,502)
Gross profit		768,040	635,170	561,312
Selling, general and administrative expenses	26	(612,733)	(518,682)	(466,559)
Expenses on expected credit losses on financial assets	18	(75)	(347)	(158)
Lease/sublease and other operating income	27	23,641	23,023	23,244
Operating profit		178,873	139,164	117,839
Finance costs	28	(79,497)	(73,902)	(57,822)
Finance income	28	9,123	2,643	499
Foreign exchange gain/(loss)		(4,583)	(1,873)	565
Profit before taxation		103,916	66,032	61,081
Income tax expense	30	(25,305)	(21,888)	(14,453)
Net profit for the year		78,611	44,144	46,628
Net profit/(net loss) for the year attributable to:				
Equity holders of the parent		78,299	44,155	46,628
Non-controlling interests		312	(11)	–

Igor Shekhterman
Chief Executive Officer
14 August 2024

	2023	2022	2021
Net profit for the year	78,611	44,144	46,628
Total comprehensive income for the year, net of tax	78,611	44,144	46,628
Total comprehensive income/(loss) for the year attributable to:			
Equity holders of the parent	78,299	44,155	46,628
Non-controlling interests	312	(11)	–

Igor Shekhterman
Chief Executive Officer
14 August 2024

	Notes	2023	2022	2021
Profit before taxation		103,916	66,032	61,081
<i>Adjustments for:</i>				
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment properties, other intangible assets, and goodwill	26	165,956	164,731	150,273
Gain on disposal of property, plant and equipment, investment properties, and intangible assets, and gain on derecognition of right-of-use assets		(1,475)	(2,270)	(3,345)
Net finance costs	28	70,374	71,259	57,323
Expenses on expected credit losses on financial assets	18	75	347	158
Impairment of prepayments	18	25	401	220
Foreign exchange loss/(gain)		4,583	1,873	(565)
Other non-cash items		(1,154)	(912)	601
Net cash from operating activities before changes in working capital		342,300	301,461	265,746
Increase in trade and other receivables, and prepayments, and VAT and other taxes receivable		(8,442)	(352)	(976)
Increase in inventories		(22,519)	(37,060)	(22,447)
Increase in trade payables		44,272	22,833	42,108
Increase in other payables and contract liabilities		11,468	21,315	10,891
Net cash flows from operations		367,079	308,197	295,322
Interest paid		(80,414)	(73,066)	(56,385)
Interest received		8,845	2,435	60
Income tax paid		(25,231)	(18,022)	(9,204)
Net cash flows from operating activities		270,279	219,544	229,793
Cash flows from investing activities				
Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets		(104,490)	(60,502)	(76,835)
Acquisition of businesses, net of cash acquired	7	(18,449)	(5,495)	(1,771)
Acquisition of subsidiaries from related parties		–	–	(1,928)
Proceeds from disposal of property, plant and equipment, investment properties, and intangible assets		7,726	3,192	4,611
Proceeds from disposal of other investment assets		53	–	–
Purchase of other intangible assets		(13,194)	(14,122)	(15,481)
Loans granted to related parties	8, 16	–	(417)	(1,087)
Repayment of loans granted to related parties	8, 16	–	2,534	6,322
Payments for financial investments	9	(65,747)	(50,000)	–
Proceeds from the principal portion of the net investment in leases		54	–	–
Other payments for investing activities		(208)	–	–
Net cash flows used in investing activities		(194,255)	(124,810)	(86,169)
Cash flows from financing activities				
Proceeds from borrowings	22	183,594	148,974	132,345
Repayment of borrowings	22	(192,007)	(210,615)	(99,585)
Proceeds from loans received from related parties	8, 22	–	–	59
Repayment of loans received from related parties	8, 22	(249)	(170)	(327)
Payments of the principal portion of lease liabilities	11	(69,831)	(66,013)	(64,610)
Other payments for financing activities		(168)	–	–
Additions to property		–	48,874	–
Dividends paid to the parent	23	–	–	(105,500)
Dividends paid to non-controlling interests		(33)	–	–
Net cash flows used in financing activities		(78,694)	(78,950)	(137,618)
Effect of exchange rate changes on cash and cash equivalents		42	(63)	–
Net (decrease)/increase in cash and cash equivalents		(2,628)	15,721	6,006
Movements in cash and cash equivalents				
Cash and cash equivalents at the beginning of the year	9	41,732	26,011	20,005
Net (decrease)/increase in cash and cash equivalents		(2,628)	15,721	6,006
Cash and cash equivalents at the end of the year	9	39,104	41,732	26,011

Igor Shekhterman
Chief Executive Officer
14 August 2024

The accompanying notes are an integral part of these consolidated financial statements.



X5 Corporate Center PJSC
Consolidated Statement of Changes in Equity
for the years ended 31 December 2023, 31 December 2022, and 31 December 2021
(expressed in millions of Russian Roubles, unless otherwise stated)

	Attributable to equity holders of the parent						Total
	Share capital	Reorganisation reserve	Other capital reserves	Retained earnings	Total shareholders' equity	Non-controlling interests	
At 1 January 2021	267,308	(206,690)	–	46,195	106,813	–	106,813
Profit for the period	–	–	–	46,628	46,628	–	46,628
Total comprehensive income for the period	–	–	–	46,628	46,628	–	46,628
Dividend distributions (Note 23)	–	(105,500)	–	–	(105,500)	–	(105,500)
At 31 December 2021	267,308	(312,190)	–	92,823	47,941	–	47,941
At 1 January 2022	267,308	(312,190)	–	92,823	47,941	–	47,941
Profit for the period	–	–	–	44,155	44,155	(11)	44,144
Total comprehensive income/(loss) for the period	–	–	–	44,155	44,155	(11)	44,144
Increase in share capital (Note 23)	48,873	–	–	–	48,873	–	48,873
Acquisition of subsidiaries (Note 7)	–	–	–	–	–	2,609	2,609
Purchase commitments for non-controlling interests (Note 7)	–	–	(2,204)	–	(2,204)	–	(2,204)
Impact of changes in non-controlling interests with purchase commitments	–	–	2,598	–	2,598	(2,598)	–
At 31 December 2022	316,181	(312,190)	394	136,978	141,363	–	141,363
At 1 January 2023	316,181	(312,190)	394	136,978	141,363	–	141,363
Profit for the period	–	–	–	78,299	78,299	312	78,611
Total comprehensive income for the period	–	–	–	78,299	78,299	312	78,611
Acquisition of subsidiaries (Note 7)	–	–	–	–	–	(82)	(82)
Purchase commitments for non-controlling interests (Note 7)	–	–	(2,280)	–	(2,280)	–	(2,280)
Impact of changes in non-controlling interests with purchase commitments	–	–	197	–	197	(197)	–
Dividends to non-controlling interests	–	–	–	–	–	(33)	(33)
At 31 December 2023	316,181	(312,190)	(1,689)	215,277	217,579	–	217,579

Igor Shekhterman
Chief Executive Officer
14 August 2024

The accompanying notes are an integral part of these consolidated financial statements.

1 PRINCIPAL ACTIVITIES AND THE GROUP STRUCTURE

These consolidated financial statements are for X5 Corporate Center PJSC (the “Company”) and its subsidiaries (the “Group”). Significant subsidiaries are disclosed in Note 6.

The Company was registered in the Russian Federation (Moscow) in September 2007 as NEOTORG LLC and renamed to X5 Management Company LLC in September 2017 and to X5 Corporate Center LLC in February 2018. The procedure for reorganising X5 Corporate Center LLC into X5 Corporate Center PJSC through transformation was completed on 1 July 2024 (as recorded in the Unified State Register of Legal Entities under State Registration Number 1247700463911 on 1 July 2024).

The Company is registered at the following address: 28 Srednyaya Kalitnikovskaya St., Bld. 4, Internal Urban Territory Municipal District Nizhegorodsky, Moscow, 109029, Russia.

As at 31 December 2023, 31 December 2022, and 31 December 2021, the Company’s principal equity holder was X5 Retail Group N.V. with interests of 99.994187%, 99.99379%, and 99.99312403%, respectively.

The Company did not have an ultimate controlling party as at 31 December 2023, 31 December 2022, and 31 December 2021. As at the specified dates, the principal shareholder with significant influence over X5 Retail Group N.V. was CTF Holdings S.A. (“CTF”), which directly owned 47.87% of total issued shares in X5 Retail Group N.V.

In accordance with the Decision of the Arbitration Court of the Moscow Region dated 3 May 2024 (Case No. A41-26836/24), in line with Federal Law No. 470-FZ, *On Specifics of the Regulation of Corporate Relations in Business Entities that are Economically Significant Organisations*, dated 4 August 2023, the corporate rights of X5 Retail Group N.V., a legal entity established under the laws of the Netherlands and registered with the Trade Register of the Netherlands Chamber of Commerce on 5 September 1975, Registration Number 33143036, with a statutory seat at Zuidplein 196, Floor 24, 1077 XV Amsterdam, the Netherlands, in respect of its interest in the Company (a 99.994187% stake in the Company’s share capital, with a par value of RUB 316,162,310,775.72) were suspended. On 20 May 2024, the 99.994187% stake was transferred to the Company and, under Federal Law No. 470-FZ, was to be distributed, on expiry of four months counting from 3 May 2024, among persons becoming direct shareholders in the Company, pro rata to their indirect interests in the Company’s share capital, or, with respect to shares not distributed among persons becoming direct holders of the respective shares, to be recognised as the Company’s treasury shares. On expiry of the period for which X5 Retail Group N.V.’s corporate rights were suspended under the court’s decision dated 3 May 2024, non-distributed shares will be returned to X5 Retail Group N.V., or, if X5 Retail Group N.V. demands compensation for such shares, will continue to be held by the Company.

The principal activity of the Group is the development and operation of grocery retail stores. As at 31 December 2023, the Group operated 24,472 stores across 72 Russian regions, including Pyaterochka proximity stores (the format also includes Pokupochka, PokupALKO, Victoria, Victoria Kvartal, and CASH stores), Perekrestok supermarkets, Chizhik hard discounters, Krasny Yar and Slata stores, Vprok.ru online hypermarket and express delivery dark stores (including Pyaterochka and Perekrestok joint dark stores), and Mnogo Lososya dark kitchens.

Number of stores:

	31 December 2023	31 December 2022	31 December 2021
Pyaterochka – proximity store	21,308	19,164	17,972
Chizhik – hard discounter	1,500	517	72
Perekrestok – supermarket	972	971	990
Krasny Yar and Slata stores	610	595	–
Mnogo Lososya – dark kitchen	70	54	48
Joint dark stores	9	7	–
Vprok.ru Perekrestok – online hypermarket	3	3	6
Karusel – hypermarket	–	12	33
Total stores	24,472	21,323	19,121

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements for the years ended 31 December 2023, 31 December 2022, and 31 December 2021 have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities (including derivative instruments) that have been measured at fair value. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain significant accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

These consolidated financial statements have been prepared on a going concern basis. In making its judgment, management considered the Group's financial position, current intentions, profitability of operations, access to financial resources (Note 31), and the sanctions imposed against certain entities and individuals in Russia.

On 14 August 2024, the CEO approved the publication of the consolidated financial statements. The statements will be published on 15 August 2024.

2.2 Basis of consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has the power to direct relevant activities of the investees that significantly affect their returns, (ii) has the exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have the practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over the investee even if it holds less than a majority of voting rights of the investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de facto power over the investee. Protective rights of other investors, i.e. those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of businesses other than those acquired from parties under common control. The consideration transferred is measured at the fair value of the assets given up, equity instruments issued, and liabilities incurred or assumed at the date of exchange, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition-related costs such as advisory, legal, valuation, and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of a business combination are deducted from the carrying amount of the debt, and all other transaction costs associated with the acquisition are expensed. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. However, when a business combination is achieved in stages by successive share purchases, the date of exchange is the date of each exchange transaction; whereas the acquisition date is the date on which the acquirer obtains control of the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests, and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

All intercompany transactions, balances, and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Pending specific guidance from IFRSs regarding accounting for put options not giving present ownership interest in the non-controlling share of subsidiaries, the Group accounts for such transactions as follows:

- (a) Determines the amount that would have been recognised for the non-controlling interest (NCI), including an update to reflect allocations of profit or loss, allocations of changes in OCI, and dividends declared for the reporting period, as required by IFRS 10 *Consolidated Financial Statements*;
- (b) Derecognises the NCI as if it was acquired at the acquisition date or reporting date for the subsequent periods;
- (c) Recognises a financial liability at the present value of the amount payable on exercise of the NCI put in accordance with IFRS 9 *Financial Instruments* with no separate accounting for the unwinding of the discount due to the passage of time;
- (d) The difference between (b) and (c) is accounted for as an equity transaction within "Other capital reserves" in equity;
- (e) When the NCI put is exercised, the amount recognised as the financial liability at that date is extinguished by the payment of the exercise price.

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interest method (also referred to as the "predecessor values method"). Under this method, the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts.

The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements within the "Reorganisation reserve" line item in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation and transactions

(a) Functional and presentation currency

The functional currency of the Group's entities is the national currency of the Russian Federation, the Russian Rouble ("RUB"). The presentation currency of the Group is the Russian Rouble ("RUB"), which management believes is the most useful currency to adopt for users of these consolidated financial statements.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the Central Bank of the 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 the statement of profit or loss. Translation at period-end rates does not apply to non-monetary items.

2.4 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the Management Board (the executive body of X5 Retail Group N.V.). The chief operating decision maker is responsible for allocating resources and assessing the performance of operating segments. The Group identifies retail chains of each format, dark kitchens (Note 1), centralised functions, and the corporate centre as separate operating segments in accordance with the criteria set forth in IFRS 8. Reportable segments whose revenue, profit, or assets are ten percent or more of those of all segments are reported separately.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment where required. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment are capitalised, and the replaced parts are retired. Capitalised costs are depreciated over the remaining useful life of the property, plant and equipment or parts' estimated useful lives, whichever is shorter.

Leasehold improvements are capitalised only when it is probable that future economic benefits associated with the improvements will flow to the Group and the cost can be measured reliably.

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment, including construction in progress. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount, and the impairment loss is recognised in the consolidated statement of profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a favourable change in circumstances affecting estimates used to determine the asset's value in use or fair value less costs of disposal.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the respective assets and recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Land and assets under construction are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Buildings are divided into foundation and frame with a depreciation period of 40–50 years and other parts with a depreciation period of 7–8 years. Other parts mainly include permanent improvements.

The depreciation periods, which approximate the estimated useful lives of the respective assets, are as follows:

	Useful lives
Buildings (foundation and frame)	40–50 years
Buildings (other parts)	7–8 years
Machinery and equipment	>1–10 years
Refrigerating equipment	7–10 years
Vehicles	4–7 years
Other	3–5 years

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted prospectively if appropriate, at each reporting date.

2.6 Investment properties

Investment properties consist of buildings held by the Group to earn rental income or for capital appreciation, or both, and which are not occupied by the Group. The Group recognises the part of owned shopping centres that are leased to third-party retailers as investment properties, unless they represent insignificant portions of the property and are used primarily to provide auxiliary services to retail customers not provided by the Group rather than to earn rental income. After the purchase or construction of a building, the Group assesses the main purpose of its use and, if the main purpose is to earn rental income or for capital appreciation, or both, the building is classified as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs of disposal. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the investment property will flow to the Group and the cost can be measured reliably. All other repair and maintenance costs are expensed when incurred.

Transfers are made to (or from) investment properties only when there is a change in use. Transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Depreciation on items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful lives of the respective assets, are 40–50 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investment properties (continued)

Investment properties are derecognised either when they have been disposed of (i.e. at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of an investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Fair value determined for disclosure purposes (Note 12) represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is classified within Level 3 of the fair value hierarchy.

2.7 Intangible assets

(a) Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill represents the excess of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date over the fair value of the net assets of the acquired subsidiary at the date of exchange. Goodwill is not deductible for tax purposes.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is tested at the operating segment level.

(b) Brand and private labels

Brand and private labels acquired in a business combination are recognised initially at fair value. Private labels are amortised using the straight-line method over their useful lives. The useful life of the "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 "Victoria," "Victoria Kwartal," "Deshevo"	3 years
Brands "Pokupochka," "PokupALKO"	2 years
Brands "Krasny Yar," "Baton," "Slata," "KhlebSol"	3 years
Private labels	1–8 years

(c) Software and other intangible assets

Expenditure on acquired patents, licences, and software development is capitalised and amortised using the straight-line method over their useful lives ranging from 1 to 10 years (5 on average).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

Research costs related to software development are expensed as incurred. Software development expenditures on an individual project are recognised as an intangible asset when the following criteria are met:

- It is technically feasible to complete the intangible asset so that the asset will be available for use or sale;
- The Group intends to complete the asset and use or sell it;
- There is an ability to use or sell the asset;
- It can be demonstrated how the asset will generate probable future economic benefits;
- Adequate technical, financial, and other resources to complete the development and to use or sell the asset are available;
- The expenditure attributable to the asset during its development can be reliably measured.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is ready for use.

(d) Impairment of intangible assets

Where an indication of impairment exists, the recoverable amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount. Goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever impairment indicators exist.

2.8 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The Group's right-of-use assets comprise leased land and buildings with depreciation periods mostly ranging from 5 to 45 years.

Right-of-use assets obtained as part of acquisition of business are recognised at an amount equal to the lease liabilities and lease payments made at or before the acquisition date and adjusted to reflect the favourable terms of the lease relative to market terms.

Where an indication of impairment exists, the recoverable amount of the right-of-use asset is assessed and, when impaired, the asset is written down to its recoverable amount (Note 3).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Leases (continued)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers those payments occurs.

Lease liabilities obtained as part of acquisition of business are recognised at the present value of the remaining lease payments at the date of acquisition.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments, or a change in the assessment of an option to purchase the underlying asset.

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

Sale and leaseback

When the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer, such an operation is treated as sale and leaseback transaction. A sale occurs when control of the underlying asset passes to the buyer. A lease liability is recognised, the associated non-current asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying amount relating to the rights retained. Any gain or loss arising relates to the rights transferred to the buyer.

Short-term leases

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease term and is included in lease/sublease and other income in the consolidated statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rent is recognised as income in the period in which it is earned.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Inventories

Inventories at distribution centres and retail outlets are stated at the lower of cost and net realisable value. Cost comprises direct costs of goods, transportation and handling costs. Cost is determined by the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Group provides for estimated inventory losses (shrinkage) between inventory counts on the basis of a percentage of cost of sales. The provision is adjusted to reflect actual shrinkage based on regular inventory counts. The provision is recorded as a component of cost of sales. The Group also provides for aged stock provision where the net realisable value is below cost.

2.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Financial assets

Initial recognition and subsequent measurement

The Group classifies its financial assets at initial recognition as those to be measured subsequently at amortised cost, fair value through other comprehensive income, or fair value through profit or loss. The classification depends on the financial asset's contractual cash flow characteristics and the business model for managing the financial assets.

With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.22 (a), Revenue from contracts with customers.

Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, if required under IFRS. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace concerned (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments) are the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified, or impaired.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e. removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted using the original effective interest rate (or an approximation thereof). The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(b) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings. For more information, refer to Note 2.12 and Note 2.11.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.11 Borrowings

Borrowings are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs directly attributable to the acquisition, construction, or production of assets that necessarily take a substantial period of time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Borrowings (continued)

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

2.12 Trade and other payables

Trade and other payables are accrued when the counterparty performs its obligation under the contract and are carried at amortised cost using the effective interest method. Trade payables are recognised initially at fair value and measured subsequently at amortised cost.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments used for meeting short-term cash commitments.

2.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the reporting date.

2.15 Value added tax

Output VAT related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice and fulfilment of other conditions in compliance with Russian tax legislation.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability, except for VAT presented within other non-current assets. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.16 Employee benefits

Wages, salaries, bonuses, paid annual leave, and sick leave are accrued in the period in which the associated services are rendered by Group employees. The Group's entities contribute to the pension and social insurance fund of the Russian Federation (Social Fund of Russia) in respect of their employees. These contributions are accrued when incurred. The Group's commitment ends with the payment of these contributions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Share capital

The Company's share capital consists of the nominal value of shares of its shareholders. The Company's share capital is fully paid up.

2.18 Reorganisation reserve

The Company's IFRS consolidated financial statements were prepared based on the audited IFRS consolidated financial statements of X5 Retail Group N.V. As at the date of transition to IFRS (31 December 2020), the Group's share capital was set equal to the capital in the Company's Articles of Association, and the Group's retained earnings were equated to the retained earnings of X5 Retail Group N.V., with the remaining difference between the Group's net assets and the net assets of X5 Retail Group N.V. being recognised in the "Reorganisation reserve" line item.

Dividend distributions made before X5 Corporate Center LLC was reorganised into X5 Corporate Center PJSC through transformation (before 1 July 2024) were recorded in the "Reorganisation reserve" line item, while dividend distributions made after this event are recorded in the "Retained earnings" line item within equity.

2.19 Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared on or before the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

2.20 Taxes

Current income tax is the amount expected to be paid to, or recovered from, the state budget in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than income tax are recorded within operating expenses.

Current income tax liabilities (assets) are measured in accordance with IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments*, based on legislation that is enacted or substantively enacted at the reporting date, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided using the reporting liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred tax asset is recorded for deductible temporary differences only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In accordance with the initial recognition exception, deferred tax liabilities are not recorded for temporary differences on the initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted within individual companies of the Group.

The Group considers whether it is probable that a taxation authority will accept an uncertain tax treatment. If the Group concludes it is probable that the taxation authority will accept an uncertain tax treatment, the Group determines the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Taxes (continued)

If the Group concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the Group reflects the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, or tax rates. The Group reflects the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty: the most likely amount or the expected value.

If an uncertain tax treatment affects current tax and deferred tax (for example, if it affects both taxable profit used to determine current tax and tax bases used to determine deferred tax), the Group makes consistent judgements and estimates for both current tax and deferred tax.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, any known court or other rulings on such issues, and relevance and effect of a change in facts and circumstances or of new information in the context of applicable tax laws. Liabilities for penalties, interest, and taxes other than income tax are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge and included in current income tax payable line of the consolidated statement of financial position. Interest incurred in relation to taxation is included in finance costs in the consolidated statement of profit or loss. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing.

2.21 Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 34.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the entire fair value measurement is directly or indirectly observable in the market;
- Level 3 – valuation techniques for which the lowest level input that is significant to the entire fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.22 Income and expense recognition

Income and expenses are recognised on an accrual basis as earned or incurred. Recognition of the principal types of income and expenses is as follows:

(a) Revenue from contracts with customers

The Group is primarily in the retail business and sells its goods both through stores operated by the Group and through franchisees (agents), acting as a principal. The revenue recognised by the Group meets the definition of revenue from contracts with customers as per IFRS 15. The Group recognises revenue when control of goods and services is transferred to the customer, i.e. generally for the retail customers, it occurs in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods.

The Group has loyalty programmes, which allow customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance are charged against revenue.

(b) Cost of sales

Cost of sales includes the purchase price of the products sold and other costs incurred in bringing the inventories to the location (i.e. retail outlets) and condition ready for sale. These costs include costs of purchasing, storing, rent, salaries, and transporting the products to the extent it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of allowances from suppliers in the form of volume discounts and other forms of payment. In accounting for vendor allowances received by the Group, the Group determined that these bonuses are a reduction in prices paid for the product and are reported as part of the cost of sales as the related inventory is sold. Bonuses receivable from suppliers in cash are presented as trade receivables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Income and expense recognition (continued)

(c) Interest income and expense

Interest income and expense are recognised using the effective interest rate method.

(d) Selling, general and administrative expenses

Selling expenses consist of salaries and wages of store employees, store expenses, variable lease expenses, depreciation of stores, utilities, advertising costs, and other selling expenses. General and administrative expenses include costs of salaries and wages of support office employees, depreciation of support offices, impairment and depreciation and amortisation charges of non-current assets, and other general and administrative expenses. Selling, general and administrative expenses are recognised on an accrual basis as incurred.

2.23 Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.24 Impairment of non-current assets other than goodwill

The Group periodically assesses whether there is any indication that non-current assets may be impaired. If any such indicators exist, the Group estimates the recoverable amount of the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs. Individual stores are considered separate cash-generating units for impairment testing purposes. Impairment loss is recognised whenever the carrying amount of an asset or the related cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of profit or loss. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.25 Fair value of assets and liabilities at the acquisition date

A primary valuation of assets and liabilities of acquired companies is performed on a provisional basis. Once the valuation is finalised, any adjustments arising are recognised retrospectively.

2.26 Indemnification asset

The indemnification asset equivalent to the fair value of the indemnified liabilities is included in net assets acquired in a business combination if the sellers of the acquiree have agreed to compensate possible claims or contingencies. Subsequent measurement of the indemnification asset and contingent liability does not have any impact on future earnings, unless the indemnification asset becomes impaired.

2.27 Offsetting of financial assets and financial liabilities

Receivables and payables are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Long-term employee benefits

The Group recognises the liability and respective expenses in relation to long-term employee benefits (LTI programme) when there is a present obligation as a result of past events and a reliable estimate of the obligation can be made. The Group recognises the net total of the following amounts in profit or loss:

- Service cost;
- Net interest on the net defined benefit liability;
- Remeasurements of the net defined benefit liability.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually reviewed and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include:

Impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of a cash-generating unit has been determined based on the higher of fair value less costs of disposal and value-in-use calculations. These calculations require the use of estimates as further detailed in Note 13.

Identifying a business combination

The Group enters into transactions to acquire integrated set of assets and operations of retail stores. The Group determines whether such transactions represent a business combination or an asset acquisition. The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs. All acquisitions of assets and operations of retail stores that occurred in 2023, 2022, and 2021 were treated by the Group as business combinations.

Litigations

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration, or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

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

Tax legislation

Russian tax, currency, and customs legislation is subject to varying interpretations (Note 35).

Deferred tax assets and liabilities

The Group's management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. In the event that an assessment of future utilisation indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

IAS 12 requires a deferred tax liability to be recognised for all taxable temporary differences associated with investments in subsidiaries unless: (a) the parent, investor, joint venturer, or joint operator is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. The Group exercises significant judgment in assessing the amount of taxable temporary differences associated with investments in subsidiaries (unremitted earnings) that will not reverse in the foreseeable future.

If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations, and cash flows may be negatively affected.

Property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment (Note 10). The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets. Management increases the depreciation charge where useful lives are less than previously estimated lives, or it writes off or writes down technically obsolete or non-strategic assets that have been abandoned or reclassified as held for sale.

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. The Group performs asset impairment testing (Note 10). The Group estimates the recoverable amount of an asset or cash-generating unit, and if it is less than the carrying amount of the asset or cash-generating unit, an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2023, the Group recognised an impairment loss in the amount of RUB 1,149 million (year ended 31 December 2022: a net impairment loss of RUB 4,905 million, year ended 31 December 2021: a net impairment loss of RUB 3,105 million).

Investment property

The Group's management determines the estimated useful lives and related depreciation charges for the Group's investment properties (Note 12). Management increases the depreciation charge where useful lives are less than previously estimated lives, or it writes off or writes down technically obsolete or non-strategic assets that have been abandoned or reclassified as held for sale.

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

Investment property (continued)

The Group periodically assesses whether there is any indication that investment properties may be impaired. The Group performs asset impairment testing (Note 12). The Group estimates the recoverable amount of an asset or cash-generating unit, and if it is less than the carrying amount of the asset or cash-generating unit, an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2023, the Group recognised a net impairment loss in the amount of RUB 231 million (year ended 31 December 2022: a net impairment loss of RUB 232 million, year ended 31 December 2021: a net impairment gain of RUB 343 million).

Right-of-use assets

The Group periodically assesses whether there is any indication that right-of-use assets may be impaired. The Group performs asset impairment testing (Note 11). The Group estimates the recoverable amount of an asset or cash-generating unit, and if it is less than the carrying amount of the asset or cash-generating unit, an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2023, the Group recognised a net impairment gain in the amount of RUB 258 million (year ended 31 December 2022: a net impairment loss of RUB 1,451 million, year ended 31 December 2021: a net impairment loss of RUB 630 million).

Inventories provisions

The Group provides for estimated inventory shrinkage on the basis of historical shrinkage as a percentage of cost of sales. This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results. The Group also provides for aged stock provision where the net realisable value is below cost (Note 15).

Revenue recognition – Loyalty programmes

The Group estimates the amount of obligations related to customer loyalty programmes by allocating transaction price to loyalty points based on the stand-alone selling price of the points. The stand-alone selling price of the points is reduced for the expected amount of the points that will not be redeemed by customers.

The Group determines the stand-alone selling price of the 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 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 the 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 31 December 2023, the estimated liability for unredeemed points was RUB 1,109 million (31 December 2022: RUB 3,487 million, 31 December 2021: RUB 2,146 million).

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

Allowance for expected credit losses on trade and other receivables, and loans granted

The Group uses a provision matrix to calculate ECLs for trade and other receivables, and loans granted. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (by customer type). The calculation reflects the probability-weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions, and forecasts of future economic conditions. Generally, trade and other receivables are written off if past due for more than 3 years and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of financial assets.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated, and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast of economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables is disclosed in Note 18.

Brand and private labels

The Group periodically assesses whether there is any indication that brand and private labels may be impaired. The Group performs asset impairment testing of brands with indefinite useful lives at least annually (Note 14). The Group estimates the recoverable amount of an asset, and if it is less than the carrying amount, an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2023, the Group did not recognise any impairment of brand and private labels (year ended 31 December 2022: nil, year ended 31 December 2021: nil).

Lease term of contracts with extension options and termination options

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. For leases of retail stores, the most relevant factors are profitability and revenue of particular stores, the value to the business in a particular region, and investment strategy. For leases of distribution centres and offices, the most relevant factors are the value to the business, significance of termination penalties, and significance of leasehold improvements' residual value. At commencement of the lease, such considerations generally result in determining the lease term equal to the non-cancellable lease period, including the period covered by an option to terminate. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs that affects this assessment and that is within the control of the lessee.

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

Incremental borrowing rates for calculation of lease liability

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Because there are normally no borrowing agreements that are absolutely similar to lease agreements and whose interest rates are observable in the open market, the Group derives incremental borrowing rates from both internal and external data sources, applying significant judgement in such calculations. The Group estimates incremental borrowing rates by adjusting Russian government risk-free bonds in a relevant currency by the risk premium inherent to the Group, which in turn is determined by comparing the Group's rate of borrowing with Russian government risk-free bonds of the same duration. Incremental borrowing rates are calculated on a monthly basis.

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS

In preparing these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous years, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2023. Standards, interpretations, and amendments effective 1 January 2023 did not have a material impact on the financial position or performance of the Group.

The following amendments to IFRSs effective for financial years beginning on or after 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 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*;
- Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements: Disclosure of Accounting Policies*;
- Amendments to IFRS 17 *Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information*;
- Amendments to IAS 12 *Income Taxes: International Tax Reform – Pillar Two Model Rules*.

The amendments to IAS 12 *Income Taxes* require recognition of deferred tax even on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Since the Group's accounting policies comply with the amendments, their first application had impact only on the disclosure by type of temporary differences in Note 30.

Effective from 1 January 2023, Federal Law No. 263-FZ, *On Amendments to Parts One and Two of the Tax Code of the Russian Federation*, dated 14 July 2022 introduced a new system for paying taxes and other payments administrated by the tax authorities in the form of a single tax account (STA). Russian taxpayers have a single tax account opened with the Federal Treasury, to which they should transfer a single tax payment (STP) calculated as a taxpayer's total taxes and levies in the reporting (tax) period, without identifying any specific tax or levy. The tax authorities distribute the amount of STP among obligations on the basis of declarations and notifications filed by taxpayers.

Upon adoption of the changes, the Group classifies the overpayments for each legal entity to income tax and other taxes payable according to the nature of the overpayment and the reasonably certain intentions to offset the asset against certain type of taxes.

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

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

Standards issued but not yet effective	Effective for annual periods beginning on or after
Amendments to IFRS 16 <i>Leases: Lease Liability in a Sale and Leaseback</i>	1 January 2024
Amendments to IAS 1 <i>Presentation of Financial Statements:</i>	
• <i>Classification of Liabilities as Current or Non-current;</i>	
• <i>Classification of Liabilities as Current or Non-current – Deferral of Effective Date;</i>	
• <i>Non-current Liabilities with Covenants</i>	1 January 2024
Amendments to IAS 7 <i>Statement of Cash Flows</i> and IFRS 7 <i>Financial Instruments: Disclosures – Supplier Finance Arrangements</i>	1 January 2024
Amendments to IAS 21 <i>The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability</i>	1 January 2025
Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)	1 January 2026
IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>	1 January 2027
IFRS 19 <i>Subsidiaries without Public Accountability: Disclosures</i>	1 January 2027

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

5 SEGMENT REPORTING

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

The following significant operating functions are decentralised across formats:

- Category management, including purchasing, pricing, assortment management, and promotion management;
- Distribution centre logistics;
- Format expansion and development.

The formats' general managers are determined as segment managers in accordance with IFRS 8. The chief operating decision maker is the Management Board (the executive body of X5 Retail Group N.V.). The Management Board (the executive body of X5 Retail Group N.V.) reviews each format's internal reporting in order to assess performance and allocate resources.

Management assesses 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 (LTI) programme for key employees. EBITDA pre-IFRS 16 is calculated by adjusting operating profit to include depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment properties, other intangible assets and goodwill, fixed lease expenses, and fixed non-lease components of lease contracts, to exclude gain on derecognition of right-of-use assets and lease liabilities, and to exclude the adjustment of gain/loss from sale of assets under sale and leaseback transactions 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.

5 SEGMENT REPORTING (continued)

The accounting policies used for segments are the same as the accounting policies applied for these consolidated 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 and other unallocated functions.

The segment information for the years ended 31 December 2023, 31 December 2022, and 31 December 2021 and reconciliation of EBITDA pre-IFRS 16 to profit for the year are provided as follows:

Year ended						Adjustments and other unallocated functions	Total
31 December 2023	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions		
Revenue (Note 25)	2,493,729	419,780	229,411	6	2,933	–	3,145,859
EBITDA pre-IFRS 16, excl. LTI	215,431	29,252	(10,723)	(6,604)	(11,388)	4,419	220,387
LTI							(4,950)
EBITDA pre-IFRS 16							215,437
Fixed lease expenses and fixed non-lease components of lease contracts							128,246
Gain on derecognition of right-of-use assets and lease liabilities							1,146
Depreciation, amortisation and impairment							(165,956)
Operating profit							178,873
Net finance costs							(70,374)
Net foreign exchange result							(4,583)
Profit before income tax							103,916
Income tax expense							(25,305)
Profit for the year							78,611
Adjusted capital expenditures	113,516	14,970	18,613	1,254	72	–	148,425
31 December 2023							
Inventories	187,038	31,525	18,263	–	–	–	236,826

Year ended						Adjustments and other unallocated functions	Total
31 December 2022	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions		
Revenue (Note 25)	2,124,045	386,095	94,385	5	676	–	2,605,206
EBITDA pre-IFRS 16, excl. LTI	180,043	30,006	(6,653)	(5,298)	(9,227)	1,461	190,332
LTI							(2,505)
EBITDA pre-IFRS 16							187,827
Fixed lease expenses and fixed non-lease components of lease contracts							113,749
Gain on derecognition of right-of-use assets and lease liabilities							2,551
Reversal of adjustment for the proportion of the rights retained under sale and leaseback transactions (Note 11)							(232)
Depreciation, amortisation and impairment							(164,731)
Operating profit							139,164
Net finance costs							(71,259)
Net foreign exchange result							(1,873)
Profit before income tax							66,032
Income tax expense							(21,888)
Profit for the year							44,144
Adjusted capital expenditures	45,674	9,953	26,067	249	67	–	82,010
31 December 2022							
Inventories	169,190	28,136	11,335	–	–	–	208,661

5 SEGMENT REPORTING (continued)

Year ended						Adjustments and other unallocated functions	Total
31 December 2021	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions		
Revenue (Note 25)	1,794,654	351,029	58,693	–	438	–	2,204,814
EBITDA pre-IFRS 16, excl. LTI	155,043	27,323	(4,571)	(4,233)	(8,791)	(564)	164,207
LTI							(2,922)
EBITDA pre-IFRS 16							161,285
Fixed lease expenses and fixed non-lease components of lease contracts							104,142
Gain on derecognition of right-of-use assets and lease liabilities							2,940
Reversal of adjustment for the proportion of the rights retained under sale and leaseback transactions (Note 11)							(255)
Depreciation, amortisation and impairment							(150,273)
Operating profit							117,839
Net finance costs							(57,323)
Net foreign exchange result							565
Profit before income tax							61,081
Income tax expense							(14,453)
Profit for the year							46,628
Adjusted capital expenditures	72,079	18,656	7,189	–	–	–	97,924
31 December 2021							
Inventories	137,489	25,638	3,713	–	–	–	166,840

6 SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2023, 31 December 2022, and 31 December 2021 were as follows:

Company	Country	Nature of operations	Ownership (%)		
			31 December 2023	31 December 2022	31 December 2021
Agrotorg LLC	Russia	Retailing	100	100	100
Trade House PEREKRESTOK JSC	Russia	Retailing	100	100	100
Agroaspect LLC	Russia	Retailing	100	100	100
KOPEYKA-MOSCOW LLC	Russia	Retailing	100	100	100
Sladkaya Zhizn N.N. LLC	Russia	Retailing	100	100	100
Prodtorg JSC	Russia	Retailing	100	100	100
Mayak LLC	Russia	Retailing	70	70	–
Smart LLC	Russia	Retailing	70	70	–
Agro-Avto LLC	Russia	Assets holding company	100	100	100
X5 Digital LLC	Russia	Assets holding company	100	100	100
IT X5 Technologies LLC	Russia	Assets holding company	100	100	100
X5 Nedvizhimost JSC	Russia	Assets holding company	100	100	100
Krasnoborskoe LLC	Russia	Assets holding company	100	100	100
PEREKRESTOK-2000 LLC	Russia	Assets holding company	100	100	100
Beta Estate LLC	Russia	Assets holding company	100	100	100
X5 FINANSE LLC	Russia	Bond issuer	100	100	100

7 ACQUISITION OF BUSINESSES

Acquisitions in 2023

Acquisition of Tamerlan

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

In the year ended 31 December 2023, the acquired business contributed revenue of RUB 18,899 million from the date of acquisition. Net loss from the date of acquisition comprised RUB 330 million. If the acquisition had taken place at the beginning of the year, revenue of the Group would have been RUB 3,152,070 million. The Group considers it 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.

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

	Finalised fair values at the acquisition date
Property, plant and equipment (Note 10)	4,611
Other intangible assets (Note 14)	188
Right-of-use assets (Note 11)	2,751
Inventories	2,449
Trade and other receivables, and prepayments	2,117
Income tax receivable	80
VAT and other taxes receivable	48
Cash and cash equivalents	259
Lease liabilities (Note 11)	(2,751)
Deferred tax liabilities (Note 30)	(398)
Trade payables	(2,455)
Short-term borrowings (Note 22)	(1,962)
Interest accrued	(2)
Income tax payable	(96)
Provisions and other liabilities	(1,411)
Net assets acquired	3,428
Goodwill (Note 13)	4,557
Purchase consideration	7,985
Net cash outflow arising from the acquisition	7,726

The purchase consideration transferred in the reporting period comprised consideration paid in cash of RUB 7,985 million.

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 this acquisition was allocated to the Pyaterochka segment in the amount of RUB 4,557 million.

Acquisition of Victoria

In August 2023, the Group acquired 100% of shares in Victoria Baltia LLC, which operates a retail chain in Moscow, Kaliningrad, and the Moscow Region. At the acquisition date, the retail chain operated 119 stores under brands “Victoria,” “Victoria Kvarstal,” “Deshevo,” and “CASH.”

In the year ended 31 December 2023, the acquired business contributed revenue of RUB 16,307 million from the date of acquisition. Net loss from the date of acquisition comprised RUB 83 million. If the acquisition had taken place at the beginning of the year, revenue of the Group would have been RUB 3,168,150 million. The Group considers it 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.

7 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2023 (continued)

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

	Finalised fair values at the acquisition date
Property, plant and equipment (Note 10)	2,182
Investment property (Note 12)	506
Other intangible assets (Note 14)	574
Right-of-use assets (Note 11)	9,740
Other non-current assets	8
Deferred tax assets (Note 30)	2
Indemnification asset	294
Inventories	3,206
Trade and other receivables, and prepayments	3,687
Income tax receivable	11
Cash and cash equivalents	530
Lease liabilities (Note 11)	(9,535)
Deferred tax liabilities (Note 30)	(246)
Trade payables	(2,717)
Short-term contract liabilities	(6)
Income tax payable	(144)
Provisions and other liabilities	(2,211)
Net assets acquired	5,881
Goodwill (Note 13)	2,619
Purchase consideration	8,500
Net cash outflow arising from the acquisition	7,970

The purchase consideration transferred in the reporting period comprised consideration paid in cash of RUB 8,500 million.

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 this acquisition was allocated to the Pyaterochka segment in the amount of RUB 2,619 million.

Other acquisitions

In 2023, the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2023, the acquired businesses contributed revenue of RUB 7,222 million from the date of acquisition. As the businesses were not acquired as separate legal entities, it is impracticable to disclose net profit from the date of acquisition. These businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2023 as though the acquisition date had been the beginning of that period.

7 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2023 (continued)

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

	Finalised fair values at the acquisition date
Right-of-use assets (Note 11)	6,126
Deferred tax assets (Note 30)	491
Lease liabilities (Note 11)	(6,126)
Net assets acquired	491
Goodwill (Note 13)	1,974
Purchase consideration	2,465
Net cash outflow arising from the acquisition	1,796

The purchase consideration transferred in the reporting period comprised RUB 1,796 million and RUB 669 million 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 this acquisition was allocated to the Pyaterochka segment in the amount of RUB 1,974 million.

During the year ended 31 December 2023, the Group transferred RUB 72 million as deferred payments for the prior period acquisitions.

Acquisition of Krasny Yar and Slata

In Q4 2022, the Group acquired 70% of shares in Smart LLC (Krasny Yar) and Mayak LLC (Slata) operating retail chains in Eastern Siberia, and issued put options for the remaining 30% non-controlling interests. At the acquisition date, the retail chains operated 594 stores under brands "Krasny Yar," "Baton," "Slata," and "KhlebSol."

Since the put options do not give present ownership interest in the shares subject to put and in the absence of particular accounting guidance for put options over non-controlling interests in current IFRSs, the Group made the accounting policy choice (Note 2.2) to account for the initial recognition and further changes in the fair value of the put option liability along with the non-controlling interests in Other reserves within equity. As at 31 December 2022, purchase commitments for the non-controlling interests under the put options in the amount of RUB 2,204 million were included in other non-current liabilities in the consolidated statement of financial position.

In the year ended 31 December 2022, the acquired businesses contributed revenue of RUB 14,482 million from the date of acquisition. Net loss from the date of acquisition comprised RUB 37 million. If the acquisition had taken place at the beginning of the year, revenue of the Group would have been RUB 2,663,257 million. The Group considers it impracticable to disclose the impact of the acquisition 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.

During the 12 months ended 31 December 2023, the Group finalised determination of the deferred consideration and purchase price allocation for the acquisition of Smart LLC (Krasny Yar) and Mayak LLC (Slata) effected in Q4 2022 and updated the fair value measurement of the purchase commitment for the non-controlling interests under the put options.

As at 31 December 2023 and 31 December 2022, the purchase commitments for the non-controlling interests under the put options in the amount of RUB 4,484 million and RUB 2,204 million, respectively, were included in other non-current liabilities in the consolidated statement of financial position.

7 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2023 (continued)

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

	Provisional fair values at the acquisition date at 31 December 2022	Finalised fair values at the acquisition date at 31 December 2023	Effect of change in purchase price allocation on the consolidated statement of financial position at 31 December 2023
Property, plant and equipment (Note 10)	2,342	2,342	–
Other intangible assets (Note 14)	1,863	1,863	–
Right-of-use assets (Note 11)	19,061	19,061	–
Indemnification asset	5,986	5,986	–
Inventories	4,761	4,752	(9)
Trade and other receivables, and prepayments	753	784	31
VAT and other taxes receivable	148	148	–
Cash and cash equivalents	531	531	–
Lease liabilities (Note 11)	(18,960)	(18,960)	–
Deferred tax liabilities (Note 30)	(424)	(384)	40
Trade payables	(5,361)	(5,361)	–
Short-term borrowings (Note 22)	(1,819)	(1,819)	–
Interest accrued	(5)	(5)	–
Short-term contract liabilities (Note 21)	(26)	(26)	–
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 13)	7,674	7,355	(319)
Non-controlling interests measured at fair value	(2,609)	(2,527)	82
Purchase consideration	6,086	5,899	(187)

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Krasny Yar and Slata, the Group elected to recognise the non-controlling interests at fair value.

The fair value of the non-controlling interests in Smart LLC and Mayak LLC, non-listed companies, was estimated by applying a proportionate share to the appraised values of the companies which, in turn, were derived by applying multiples to the revenue and EBITDA measures. The fair value measurements were based on significant inputs that are not observable in the market.

The purchase consideration for the year ended 31 December 2022 comprised RUB 5,013 million and RUB 1,073 million as cash consideration and deferred consideration, respectively.

7 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2023 (continued)

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 this acquisition was allocated to other segments in the amount of RUB 7,674 million.

During the 12 months ended 31 December 2023, the Group transferred RUB 885 million as deferred payments under the final settlement completed in Q1 2023.

Acquisitions in 2022

Other acquisitions

In 2022, the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2022, the acquired businesses contributed revenue of RUB 3,391 million from the date of acquisition. If the acquisition had taken place at the beginning of the year, revenue of the Group would have been RUB 2,607,521 million. The Group considers it 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 31 December 2022, the Group assigned provisional fair values to the net assets acquired. In 2023, the Group completed the purchase price allocation, which resulted in no changes in the fair values at the acquisition date:

	Finalised fair values at the acquisition date
Property, plant and equipment (Note 10)	339
Right-of-use assets (Note 11)	3,574
Deferred tax assets (Note 30)	128
Trade and other receivables, and prepayments	5
VAT and other taxes receivable	52
Cash and cash equivalents	4
Lease liabilities (Note 11)	(3,507)
Income tax payable	(106)
Provisions and other liabilities	(343)
Net assets acquired	146
Goodwill (Note 13)	502
Purchase consideration	648
Net cash outflow arising from the acquisition	644

The purchase consideration transferred in the reporting period comprised consideration paid in cash of RUB 648 million.

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 the Pyaterochka segment in the amount of RUB 502 million.

During the year ended 31 December 2022, the Group transferred RUB 369 million as deferred payments for the prior period acquisitions.

7 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2021

In 2021, the Group acquired 100% of several businesses of retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2021, the acquired businesses contributed revenue of RUB 5,996 million from the date of acquisition. As the businesses were not acquired as separate legal entities, it is impracticable to disclose net profit from the date of acquisition. These businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2021 as though the acquisition date had been the beginning of that period.

At 31 December 2021, the Group determined provisional fair values of the net assets acquired, as part of estimating provisional fair values of the acquired assets. In 2022, the Group completed the purchase price allocation, which resulted in no changes in the provisional fair values at the acquisition date:

	Finalised fair values at the acquisition date
Other intangible assets (Note 14)	10
Right-of-use assets (Note 11)	3,928
Deferred tax assets (Note 30)	244
Indemnification asset	6
Trade and other receivables, and prepayments	22
Lease liabilities (Note 11)	(3,928)
Income tax payable	(34)
Provisions and other liabilities	(80)
Net assets acquired	168
Goodwill (Note 13)	1,118
Purchase consideration	1,286
Net cash outflow arising from the acquisition	1,021

The purchase consideration transferred in the reporting period comprised consideration paid in cash of RUB 1,021 million and RUB 265 million as deferred consideration measured at fair value.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions, ii) expected cost synergies from the business combination, and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to the Pyaterochka segment in the amount of RUB 1,063 million, the Perekrestok segment in the amount of RUB 35 million, and other segments in the amount of RUB 20 million.

During the year ended 31 December 2021, the Group transferred RUB 750 million as deferred payments for the prior period acquisitions.

8 RELATED PARTY TRANSACTIONS

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

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2023, 31 December 2022, and 31 December 2021 are provided below. The ownership structure is disclosed in Note 1.

8 RELATED PARTY TRANSACTIONS (continued)

The following transactions were carried out with related parties:

	Relationship	2023	2022	2021
X5 Retail Group N.V.	Parent			
Loans granted				
Provision of loans		–	400	1,081
Interest accrued		1	66	139
Loans received				
Raising of loans		–	–	59
Interest accrued		7	7	17
Cost of guarantees received		199	148	149
Other expenses		44	48	44
Distribution and payment of dividends		–	–	105,500
Increase in share capital		–	48,873	–
	Entities under common control of the parent			
Loans granted				
Provision of loans		–	17	6
Interest accrued		–	18	293
Revenue from other services		1	13	189
CTF Holdings S.A.	Entity with significant influence over the parent			
Management services received		–	33	113
Other	Under control of the entity with significant influence over the Company			
Purchases		6,273	4,924	4,122
Other income		98	–	1
Other operating expenses		2	4	44
Bonuses received		352	206	201
Other	Other			
Interest expenses		–	107	–
Variable lease payments		–	3	–

The consolidated financial statements include the following balances with the related parties:

	Relationship	31 December 2023	31 December 2022	31 December 2021
X5 Retail Group N.V.	Parent			
Loans granted		–	–	1,964
Loans received		27	135	158
Interest payable		15	8	–
Receivables and prepayments		8,327	16,145	16,725
Impairment allowance for receivables		(49)	(71)	(71)
Other payables		–	7,936	8,037
	Entities under common control of the parent			
Loans granted		–	23	244
Receivables and prepayments		778	2,079	3,043
Other payables		575	1,994	3,549
CTF Holdings S.A.	Entity with significant influence over the Company			
Other payables		–	–	27
Other	Under control of the entity with significant influence over the Company			
Other receivables		6	52	50
Impairment allowance for other receivables		–	–	(5)
Trade payables		732	872	759
Trade receivables		–	–	23
Other payables		–	–	54
Prepayments		–	–	26

8 RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Group. The Group considers all members of the Management Board and the Executive Board to be key management personnel as defined in IAS 24 *Related Party Disclosures*. The total direct compensation for members of the Management Board and the Executive Board consists of a base salary, and benefits under a short-term incentive (STI) programme and a performance-related long-term incentive (LTI) programme.

Total compensation of the Management Board and the Executive Board was as follows:

	2023	2022	2021
Short-term employee benefits	1,505	1,048	717
Long-term employee benefits	638	458	538
Social security costs	320	230	194
Total	2,463	1,736	1,449

Terms and conditions of transactions with related parties

A number of related party transactions are made on terms equivalent to those that prevail in arm's length transactions. Related party transactions may also be made on terms different from those in transactions with third parties. Outstanding balances at the year-end are unsecured and interest-free, and settlement occurs in cash or on a net basis.

9 CASH AND CASH EQUIVALENTS, SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2023	31 December 2022	31 December 2021
Bank current accounts – Roubles	8,015	14,324	2,731
Bank current accounts – other currencies	46	67	5
Cash in transit – Roubles	17,480	17,456	14,997
Cash in hand – Roubles	13,130	9,759	8,278
Deposits – Roubles	433	126	–
Total	39,104	41,732	26,011

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

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

Short-term financial investments at 31 December 2023 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 16.5%–17.5% per annum (31 December 2022: at the rates in the range of 8.0%–9.0% per annum).

	31 December 2023	31 December 2022	31 December 2021
Short-term financial investments	116,076	50,067	–
Total	116,076	50,067	–

10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress*	Total
Cost							
At 1 January 2021	316,545	65,987	72,728	25,673	59,090	7,265	547,288
Additions	–	–	–	–	–	79,716	79,716
Transfers between categories	31,764	16,375	11,208	5,795	13,140	(78,282)	–
Transfers to investment property	–	–	–	–	–	–	–
Assets from acquisitions of businesses	–	–	–	–	–	–	–
Disposals	(7,360)	(5,536)	(4,098)	(921)	(3,845)	(273)	(22,033)
At 31 December 2021	340,949	76,826	79,838	30,547	68,385	8,426	604,971
Additions	–	–	–	–	–	56,258	56,258
Transfers between categories	18,548	10,400	6,454	4,468	9,553	(49,423)	–
Transfers to investment property	(1,605)	–	–	–	–	–	(1,605)
Assets from acquisitions of businesses	697	815	663	64	408	34	2,681
Disposals	(11,858)	(3,689)	(2,386)	(1,671)	(2,609)	(123)	(22,336)
At 31 December 2022	346,731	84,352	84,569	33,408	75,737	15,172	639,969
Additions	–	–	–	–	–	116,672	116,672
Transfers between categories	27,913	28,639	10,945	10,833	17,273	(95,603)	–
Transfers to investment property	(517)	–	–	–	–	–	(517)
Assets from acquisitions of businesses	5,538	801	–	265	146	43	6,793
Disposals	(7,675)	(4,616)	(3,369)	(2,878)	(2,861)	(87)	(21,486)
At 31 December 2023	371,990	109,176	92,145	41,628	90,295	36,197	741,431
Accumulated depreciation and impairment							
At 1 January 2021	(114,675)	(29,788)	(31,974)	(11,513)	(36,480)	(160)	(224,590)
Depreciation charge	(28,408)	(10,709)	(9,513)	(4,044)	(10,865)	–	(63,539)
Impairment charge	(3,160)	(872)	(585)	(27)	(196)	(131)	(4,971)
Reversal of impairment	1,829	9	4	22	2	–	1,866
Transfers to investment property	–	–	–	–	–	–	–
Disposals	4,539	5,161	3,946	808	3,744	198	18,396
At 31 December 2021	(139,875)	(36,199)	(38,122)	(14,754)	(43,795)	(93)	(272,838)
Depreciation charge	(29,678)	(11,789)	(9,842)	(4,917)	(11,295)	–	(67,521)
Impairment charge	(4,766)	(567)	(300)	–	(234)	(81)	(5,948)
Reversal of impairment	1,043	–	–	–	–	–	1,043
Transfers to investment property	911	–	–	–	–	–	911
Disposals	10,351	3,424	2,246	1,394	2,458	115	19,988
At 31 December 2022	(162,014)	(45,131)	(46,018)	(18,277)	(52,866)	(59)	(324,365)
Depreciation charge	(29,453)	(13,610)	(10,382)	(5,254)	(11,963)	–	(70,662)
Impairment charge	(2,318)	(401)	(374)	(29)	(140)	(38)	(3,300)
Reversal of impairment	2,104	–	–	–	40	7	2,151
Transfers to investment property	140	–	–	–	–	–	140
Disposals	6,196	4,157	3,225	2,584	2,790	44	18,996
At 31 December 2023	(185,345)	(54,985)	(53,549)	(20,976)	(62,139)	(46)	(377,040)
Net book value at 31 December 2023	186,645	54,191	38,596	20,652	28,156	36,151	364,391
Net book value at 31 December 2022	184,717	39,221	38,551	15,131	22,871	15,113	315,604
Net book value at 31 December 2021	201,074	40,627	41,716	15,793	24,590	8,333	332,133
Net book value at 1 January 2021	201,870	36,199	40,754	14,160	22,610	7,105	322,698

* This category also includes machinery and equipment, refrigerating equipment, vehicles, and other items of property, plant and equipment not yet available for use.

Depreciation charge, impairment charge, and reversal of impairment were included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2023, 31 December 2022, and 31 December 2021.

Construction in progress predominantly related to the development of stores through the use of subcontractors.

The buildings are mostly located on leased land. No loans were collateralised by land and buildings, including investment property, as of 31 December 2023, 31 December 2022, and 31 December 2021.

10 PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment test

At the end of 2023, 2022, and 2021, management performed an impairment test of property, plant and equipment, right-of-use assets, other intangible assets, and investment property. The approach to determining the recoverable amount of an asset was different for each class of property, plant and equipment, right-of-use assets, other intangible assets, and investment property.

Evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally at the individual store/cash-generating unit (CGU) level. The variability of factors to consider depends on a number of conditions, including uncertainty about future events and changes in demand.

The impairment test has been carried out by comparing the recoverable amount of an individual store/CGU with its carrying amount. The recoverable amount of a store/CGU is determined as the higher of its fair value less costs of disposal and its value in use.

The resulting impairment charge arose primarily from underperforming stores. At the same time, the Group recognised the reversal of previously recorded impairment losses due to improved performance of certain stores. Due to the great number of CGUs being tested for impairment, it is considered impracticable to disclose detailed information for each individual CGU.

Fair value of land and buildings, and construction in progress is determined by management internal specialists by reference to current observable prices in an active market, subsequently adjusted for specific characteristics of the respective assets. The fair value measurement of these assets is classified within Level 3 of the fair value hierarchy.

Value in use

For property, plant and equipment, right-of-use assets, other intangible assets, and investment property, the discounted future cash flow approach is applied and covers a 10-year period for measuring impairment at 31 December 2023 from 2024 onwards (31 December 2022: from 2023 onwards, 31 December 2021: from 2022 onwards, 31 December 2020: from 2021 onwards). The Group believes that the use of a 10-year forecast better reflects the expected future cash flows of its cash-generating units due to the cyclical nature of their renovation expenditures. Future cash flows are based on current budgets and forecasts approved by management. For the forecast period, the data in the strategic business plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators determined in the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4.00% to 9.37% in accordance with internal forecasts based on budget and consumer price index projections (31 December 2022: 4.00% to 6.91%, 31 December 2021: 4.00% to 7.86%). For the years beyond the forecast period, the long-term consumer price index forecast of 4.00% at 31 December 2023 is used (31 December 2022: 4.00%, 31 December 2021: 4.00%). The projections are made in the functional currency of Group entities, Russian Rouble, on a pre-tax basis and discounted at the Group's pre-tax weighted average cost of capital, which is then adjusted to reflect the risks specific to the respective assets (cash-generating units) – 16.52% (31 December 2022: 15.92%, 31 December 2021: 13.39%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of the Russian Federation. The Group's management believes that all of its estimates are reasonable, consistent with the internal reporting, and reflect management's best knowledge.

The result of applying a discounted cash flow model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of a range of uncertain economic conditions. If the revised estimated discount rate consistently applied to the discounted cash flows had been 200 b.p. higher than management's estimates, the Group would need to reduce the carrying amount of property, plant and equipment, right-of-use assets, investment property, and intangible assets by RUB 1,164 million (31 December 2022: RUB 1,994 million, 31 December 2021: RUB 1,544 million), and if it had been 200 b.p. lower, to increase that carrying amount by RUB 1,068 million (31 December 2022: RUB 1,581 million, 31 December 2021: RUB 1,198 million). If the annual revenue growth rate used in the calculations of value in use had been 200 b.p. higher, the Group would need to increase the carrying amount of property, plant and equipment, right-of-use assets, investment property, and intangible assets by RUB 117 million (31 December 2022: RUB 157 million, 31 December 2021: RUB 809 million), and if it had been 200 b.p. lower, to decrease that carrying amount by RUB 121 million (31 December 2022: RUB 164 million, 31 December 2021: RUB 1,026 million).

11 LEASES

Group as a lessee

The Group has lease contracts for land and buildings used in its operations. Leases of land and buildings generally have fixed lease terms between 5 and 45 years and contain extension options provided by the law. However, vast majority of lease contracts include cancellation options on a 2–12 months' notice.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease contracts do not impose any covenants other than security interests in the leased assets that are held by the lessor.

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

	Right-of-use assets (land and buildings)	Lease liabilities
At 1 January 2021	480,511	(548,501)
Additions	96,964	(96,555)
Acquisition of businesses (Note 7)	3,928	(3,928)
Depreciation expense	(74,601)	–
Impairment charge	(1,596)	–
Reversal of impairment	966	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(3,847)	6,787
Interest accrued	–	(40,572)
Payments	–	105,182
Effect of changes in foreign exchange rates	–	224
At 31 December 2021	502,325	(577,363)
Additions	64,489	(64,059)
Acquisition of businesses (Note 7)	22,635	(22,467)
Depreciation expense	(75,958)	–
Impairment charge	(3,239)	–
Reversal of impairment	1,788	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(3,497)	6,048
Interest accrued	–	(49,880)
Payments	–	115,893
Effect of changes in foreign exchange rates	–	668
At 31 December 2022	508,543	(591,160)
Additions	138,068	(137,088)
Acquisition of businesses (Note 7)	18,617	(18,412)
Depreciation expense	(82,333)	–
Impairment charge	(2,220)	–
Reversal of impairment	2,478	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(6,690)	7,836
Interest accrued	–	(60,655)
Payments	–	130,486
Effect of changes in foreign exchange rates	–	(1,969)
At 31 December 2023	576,463	(670,962)

Expenses related to short-term leases for the year ended 31 December 2023 amounted to RUB 106 million (31 December 2022: RUB 100 million, 31 December 2021: RUB 97 million). Expenses related to variable lease payments not included in the measurement of lease liabilities for the year ended 31 December 2023 amounted to RUB 26,651 million (for the year ended 31 December 2022: RUB 19,789 million, for the year ended 31 December 2021: RUB 14,380 million). Variable lease payments are mainly linked to sales generated from a store. Variable lease payment terms are used for a variety of reasons, including minimising the fixed costs base.

The total cash outflow for leases for the year ended 31 December 2023 amounted to RUB 156,556 million (2022: RUB 135,546 million, 2021: RUB 119,238 million).

Maturity analysis of lease liabilities is disclosed in Note 31.

11 LEASES (continued)

Group as a lessee (continued)

As at 31 December 2023, potential future cash outflows of RUB 4,243 million (undiscounted) (31 December 2022: RUB 3,529 million, 31 December 2021: RUB 3,134 million) have not been included in the lease liability because the Company is reasonably certain that the leases will be terminated.

In the ordinary course of business, the Group constantly arranges for leases of new premises and land. As at 31 December 2023, 31 December 2022, and 31 December 2021, the Group had a certain number of leases to which the Group was committed but the lease did not commence. The Group assesses that the amount of future cash outflows to which the lessee is potentially exposed is insignificant.

In 2023, there were no sale and leaseback transactions.

In 2022, the Group completed a sale and leaseback transaction in respect of a number of stores located in Bashkortostan. The cash proceeds amounted to RUB 970 million, recognised in the consolidated statement of cash flows, and the loss from the sale amounted to RUB 25 million, recognised in the consolidated statement of profit or loss for the year ended 31 December 2022. When measuring the lease liability, the Group included fixed lease payments per lease contract and an estimate of variable payments calculated as a percentage of the expected revenue generated from the leased asset. The lease term of the leaseback was 14 years.

In 2021, the Group completed a sale and leaseback transaction in respect of a store located in Saint Petersburg. The cash proceeds amounted to RUB 594 million, recognised in the consolidated statement of cash flows, and the gain from sale amounted to RUB 124 million, recognised in the consolidated statement of profit or loss for the year ended 31 December 2021. When measuring the lease liability, the Group included fixed lease payments per lease contract and an estimate of variable payments calculated as a percentage of the expected revenue generated from the leased asset. The lease term of the leaseback was 12 years.

Group as a lessor

Lease arrangements are operating leases, the majority of which are short-term. Future minimum lease and sublease payments receivable under operating leases were as follows:

	31 December 2023	31 December 2022	31 December 2021
During 1 year	1,769	3,382	2,928
Between 1 and 2 years	392	638	403
Between 2 and 3 years	238	432	329
Between 3 and 4 years	203	315	272
Between 4 and 5 years	148	212	138
More than 5 years	131	364	418
Total	2,881	5,343	4,488

Rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2023 amounted to RUB 8,111 million (2022: RUB 7,214 million, 2021: RUB 7,007 million) (Note 27). The contingent rents recognised in the consolidated statement of profit or loss for the year ended 31 December 2023 amounted to RUB 192 million (2022: RUB 221 million, 2021: RUB 202 million).

Income from subleasing right-of-use assets under operating leases for the year ended 31 December 2023 amounted to RUB 3,486 million (2022: RUB 2,763 million, 2021: RUB 2,618 million).

Impairment test

At the end of 2023, 2022, and 2021, management performed an impairment test of right-of-use assets. The evaluation performed and reasons for it are consistent with the approach to impairment testing of property, plant and equipment (Note 10).

12 INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2023, 31 December 2022, and 31 December 2021:

	2023	2022	2021
Cost			
Cost at 1 January	9,047	7,909	8,356
Assets from acquisitions	506	–	–
Transfers from property, plant and equipment	517	1,605	–
Disposals	(1,058)	(467)	(447)
Cost at 31 December	9,012	9,047	7,909
Accumulated depreciation and impairment			
Accumulated depreciation and impairment at 1 January	(4,474)	(3,448)	(3,854)
Depreciation charge	(154)	(176)	(169)
Impairment charge	(587)	(483)	(65)
Reversal of impairment	356	251	408
Transfers from property, plant and equipment	(140)	(911)	–
Disposals	547	293	232
Accumulated depreciation and impairment at 31 December	(4,452)	(4,474)	(3,448)
Net book value at 31 December	4,560	4,573	4,461
Net book value at 1 January	4,573	4,461	4,502

Depreciation charge, impairment charge, and reversal of impairment were included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2023, 31 December 2022, and 31 December 2021.

The Group's investment properties consist of land and buildings. Rental income from investment property amounted to RUB 1,244 million (2022: RUB 1,165 million, 2021: RUB 1,140 million). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 1,073 million (2022: RUB 937 million, 2021: RUB 796 million). There were no significant direct operating expenses incurred by the Group in relation to investment property that did not generate rental income.

Management estimates that the fair value of investment property at 31 December 2023 amounted to RUB 5,902 million (31 December 2022: RUB 6,861 million, 31 December 2021: RUB 6,700 million). The fair value was estimated using market approach with key inputs being rental income rates and market value of comparable assets.

Impairment test

At the end of 2023, 2022, and 2021, management performed an impairment test of investment property. The evaluation performed and reasons for it are consistent with the approach to impairment testing of property, plant and equipment (Note 10).

13 GOODWILL

Movements in goodwill arising on the acquisition of businesses at 31 December 2023, 31 December 2022, and 31 December 2021 were:

	2023	2022	2021
Cost			
Gross carrying amount at 1 January	173,708	172,099	171,202
Acquisition of businesses (Note 7)	8,831	8,176	1,118
Disposals	–	(6,567)	(221)
Gross carrying amount at 31 December	182,539	173,708	172,099
Accumulated impairment losses			
Accumulated impairment losses at 1 January	(60,779)	(67,071)	(66,312)
Impairment charge	(247)	(275)	(980)
Disposals	–	6,567	221
Accumulated impairment losses at 31 December	(61,026)	(60,779)	(67,071)
Carrying amount at 1 January	112,929	105,028	104,890
Carrying amount at 31 December	121,513	112,929	105,028

13 GOODWILL (continued)

Goodwill impairment test

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

A 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 the carrying amount of a particular group of CGU assets, including the allocated goodwill, with their value in use. The reorganisation of the Karusel group of CGUs, started in 2019, resulted in a transfer of goodwill to the Perekrestok group of CGUs in the amount of RUB 644 million and impairment charge for the year ended 31 December 2021 in the amount of RUB 980 million. In 2022, the reorganisation resulted in the disposal of goodwill allocated to Karusel in the amount of RUB 6,567 million and its accumulated impairment in the same amount as well as an impairment charge of RUB 255 million. The impairment charge recognised for the year ended 31 December 2023 was attributable to the Dark Kitchen operating segment.

The allocation of carrying amounts of goodwill to each group of CGUs was as follows:

	31 December 2023	31 December 2022	31 December 2021
Pyaterochka	90,408	81,258	80,756
Perekrestok	23,334	23,334	23,334
Other	7,771	8,337	938
Total	121,513	112,929	105,028

Value in use

For land and buildings, and construction in progress, the discounted future cash flow approach is applied and covers a 10-year period for measuring impairment at 31 December 2023 from 2024 onwards (31 December 2022: from 2023 onwards, 31 December 2021: from 2022 onwards, 31 December 2020: from 2021 onwards). The Group believes that the use of a 10-year forecast better reflects the expected future cash flows of its cash-generating units due to the cyclical nature of their renovation expenditures. Future cash flows are based on current budgets and forecasts approved by management. For the forecast period, the data in the strategic business plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators determined in the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4.00% to 9.37% in accordance with internal forecasts based on budget and consumer price index projections (31 December 2022: 4.00% to 6.91%, 31 December 2021: 4.00% to 7.86%). For the years beyond the forecast period, the long-term consumer price index forecast of 4.00% at 31 December 2023 is used (31 December 2022: 4.00%, 31 December 2021: 4.00%). The projections are made in the functional currency of Group entities, Russian Rouble, on a pre-tax basis and discounted at the Group's pre-tax weighted average cost of capital, which is then adjusted to reflect the risks specific to the respective assets (cash-generating units) – 16.52% (31 December 2022: 15.92%, 31 December 2021: 13.39%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of the Russian Federation. The Group's management believes that all of its estimates are reasonable, consistent with the internal reporting, and reflect management's best knowledge.

The changes in assumptions applied in the model used for impairment testing do not indicate any trigger for impairment because the fair value less costs of disposal and value in use are significantly higher than the carrying amounts of cash-generating unit assets.

The result of applying a discounted cash flow model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of a range of uncertain economic conditions.

14 OTHER INTANGIBLE ASSETS

Other intangible assets comprise the following:

	Brand and private labels	Software and other	Total
Cost			
At 1 January 2021	16,843	42,302	59,145
Additions	–	16,520	16,520
Assets from acquisitions (Note 7)	–	10	10
Disposals	–	(415)	(415)
At 31 December 2021	16,843	58,417	75,260
Additions	–	12,221	12,221
Assets from acquisitions (Note 7)	1,725	138	1,863
Disposals	–	(5,057)	(5,057)
At 31 December 2022	18,568	65,719	84,287
Additions	–	13,653	13,653
Assets from acquisitions (Note 7)	608	154	762
Disposals	(3,132)	(327)	(3,459)
At 31 December 2023	16,044	79,199	95,243
Accumulated amortisation and impairment			
At 1 January 2021	(12,439)	(15,949)	(28,388)
Amortisation charge	(76)	(7,846)	(7,922)
Impairment charge	–	(352)	(352)
Disposals	–	408	408
At 31 December 2021	(12,515)	(23,739)	(36,254)
Amortisation charge	(352)	(10,291)	(10,643)
Impairment charge	–	(3,918)	(3,918)
Disposals	–	4,855	4,855
At 31 December 2022	(12,867)	(33,093)	(45,960)
Amortisation charge	(766)	(10,641)	(11,407)
Impairment charge	–	(610)	(610)
Reversal of impairment	–	62	62
Disposals	3,132	290	3,422
At 31 December 2023	(10,501)	(43,992)	(54,493)
Net book value at 31 December 2023	5,543	35,207	40,750
Net book value at 31 December 2022	5,701	32,626	38,327
Net book value at 31 December 2021	4,328	34,678	39,006
Net book value at 1 January 2021	4,404	26,353	30,757

14 OTHER INTANGIBLE ASSETS (continued)

The majority of additions of software are represented by internally generated development costs. Brand and private labels include brand "Pyaterochka" with the carrying amount of RUB 4,029 million (31 December 2022: RUB 4,029 million, 31 December 2021: RUB 4,029 million), brands "Krasny Yar," "Baton," "Slata," and "KhlebSol" with the carrying amount of RUB 1,054 million (31 December 2022: RUB 1,630 million), brands "Pokupochka" and "PokupALKO" with the carrying amount of RUB 98 million, and brands "Victoria," "Victoria Kvartal," and "Deshevo" with the carrying amount of RUB 362 million. Brand "Karusel" was disposed of in 2023 (the carrying amount at 31 December 2022: RUB 42 million, 31 December 2021: RUB 298 million).

Amortisation charge, impairment charge, and reversal of impairment were included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2023, 31 December 2022, and 31 December 2021.

Impairment test

At the end of 2023, 2022, and 2021, management performed an impairment test of brands.

For private labels, the evaluation performed and reasons for it are consistent with the approach to impairment testing of property, plant and equipment (Note 10). For brands, which are tested annually for impairment, evaluation performed is consistent with the approach for goodwill (Note 13).

Also, the Group recognised an impairment of software which was no longer used in the consolidated statement of profit or loss for the years ended 31 December 2023, 31 December 2022, and 31 December 2021.

15 INVENTORIES

At 31 December 2023, inventories in the amount of RUB 236,826 million were accounted for at the lower of cost and net realisable value (31 December 2022: RUB 208,661 million, 31 December 2021: RUB 166,840 million). Write-off of inventory to net realisable value at 31 December 2023 amounted to RUB 3,843 million (31 December 2022: RUB 2,877 million, 31 December 2021: RUB 3,021 million). At 31 December 2023, 31 December 2022, and 31 December 2021, inventories consisted mainly of goods for resale.

16 LOANS GRANTED TO RELATED PARTIES

As at 31 December 2023, 31 December 2022, and 31 December 2021, loans granted to related parties totalled:

	31 December 2023	31 December 2022	31 December 2021
Carrying amount			
Short-term loans granted to related parties	–	23	2,208
Long-term loans granted to related parties	–	–	–
Total carrying amount	–	23	2,208
Fair value	–	23	2,105

Loans granted to related parties are not collateralised and are denominated in Roubles; as at 31 December 2022 and 31 December 2021, the interest rate varied from 6% to 9% per annum.

17 FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets at amortised cost:

Assets as per consolidated statement of financial position	31 December 2023	31 December 2022	31 December 2021
Loans granted to related parties	–	23	2,208
Short-term financial investments	116,076	50,067	–
Trade and other receivables, excluding prepayments	28,230	33,613	34,412
Cash and cash equivalents	39,104	41,732	26,011
Total	183,410	125,435	62,631

Financial liabilities at amortised cost:

Liabilities as per consolidated statement of financial position	31 December 2023	31 December 2022	31 December 2021
Lease liabilities	670,962	591,160	577,363
Borrowings	228,255	234,667	294,495
Interest accrued	1,456	1,150	1,792
Trade and other current and non-current payables, excluding statutory liabilities and advances	410,187	333,864	301,185
Total	1,310,860	1,160,841	1,174,835

18 CURRENT RECEIVABLES AND PREPAYMENTS

Current receivables and prepayments	31 December 2023	31 December 2022	31 December 2021
Trade receivables	14,593	13,122	11,498
Other receivables	5,272	3,052	3,960
Receivables from related parties (Note 8)	9,106	9,269	1,784
Allowance for expected credit losses on trade and other receivables	(692)	(766)	(811)
Allowance for expected credit losses on receivables from related parties	(49)	(22)	(5)
Total current receivables	28,230	24,655	16,426
Prepayments	6,367	4,603	4,272
Advances made to trade suppliers	2,872	2,076	1,086
Advances made to related parties	5	–	26
Impairment allowance for prepayments and advances	(546)	(786)	(560)
Total short-term advances and prepayments	8,698	5,893	4,824
Total current receivables and prepayments	36,928	30,548	21,250

The carrying amounts of the Group's trade and other receivables were primarily denominated in Russian Roubles. Trade and other receivables are non-interest bearing and are generally on terms of 30 to 90 days.

18 CURRENT RECEIVABLES AND PREPAYMENTS (continued)

Trade receivables

Trade receivables are mainly bonuses from suppliers of goods for resale with a low historic default rate. The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivables. The Group did not hold any collateral as security.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Expected credit loss rate at 31 December 2023	Estimated total gross carrying amount at default at 31 December 2023	Expected credit losses at 31 December 2023	Expected credit loss rate at 31 December 2022	Estimated total gross carrying amount at default at 31 December 2022	Expected credit losses at 31 December 2022
Not overdue –						
1 month	0.16%	13,848	23	0.16%	12,581	20
1–6 months	2.01%	548	11	2.80%	214	6
6–12 months	36.36%	22	8	40.32%	62	25
Over 1 year	77.71%	175	136	75.85%	265	201
Total		14,593	178		13,122	252

	Expected credit loss rate at 31 December 2021	Estimated total gross carrying amount at default at 31 December 2021	Expected credit losses at 31 December 2021
Not overdue – 1 month	0.28%	11,017	31
1–6 months	3.91%	256	10
6–12 months	45.16%	62	28
Over 1 year	71.17%	163	116
Total		11,498	185

Movements on the allowance for expected credit losses on trade receivables were as follows:

	2023	2022	2021
At 1 January	(252)	(185)	(472)
Addition of allowance for expected credit losses	(91)	(308)	(110)
Release of allowance for expected credit losses	56	31	104
Trade receivables written off as uncollectable	109	210	293
At 31 December	(178)	(252)	(185)

The creation and release of the allowance for expected credit losses have been included in net impairment losses on financial assets in the consolidated statement of profit or loss.

18 CURRENT RECEIVABLES AND PREPAYMENTS (continued)

Other receivables

The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivables. The Group did not hold any collateral as security.

Set out below is the information about the credit risk exposure on the Group's other receivables using a provision matrix:

	Expected credit loss rate at 31 December 2023	Estimated total gross carrying amount at default at 31 December 2023	Expected credit losses at 31 December 2023	Expected credit loss rate at 31 December 2022	Estimated total gross carrying amount at default at 31 December 2022	Expected credit losses at 31 December 2022
Not overdue –						
1 month	1.44%	3,762	54	0.43%	1,878	8
1–6 months	3.90%	1,076	42	12.28%	668	82
6–12 months	84.48%	58	49	48.15%	81	39
Over 1 year	98.14%	376	369	90.59%	425	385
Total		5,272	514		3,052	514

	Expected credit loss rate at 31 December 2021	Estimated total gross carrying amount at default at 31 December 2021	Expected credit losses at 31 December 2021
Not overdue – 1 month	1.76%	909	16
1–6 months	3.61%	1,884	68
6–12 months	43.30%	194	84
Over 1 year	47.07%	973	458
Total		3,960	626

Movements on the allowance for expected credit losses on other receivables were as follows:

	2023	2022	2021
At 1 January	(514)	(626)	(608)
Addition of allowance for expected credit losses	(230)	(260)	(350)
Release of allowance for expected credit losses	168	185	207
Other receivables written off as uncollectable	62	187	125
At 31 December	(514)	(514)	(626)

The creation and release of the allowance for expected credit losses have been included in net impairment losses on financial assets in the consolidated statement of profit or loss.

18 CURRENT RECEIVABLES AND PREPAYMENTS (continued)

Receivables from related parties

Set out below is the information about the credit risk exposure on the Group's receivables from related parties using a provision matrix:

	Expected credit loss rate at 31 December 2023	Estimated total gross carrying amount at default at 31 December 2023	Expected credit losses at 31 December 2023	Expected credit loss rate at 31 December 2022	Estimated total gross carrying amount at default at 31 December 2022	Expected credit losses at 31 December 2022
Not overdue – 1 month	0.00%	3,388	–	0.00%	10,295	–
1–6 months	97.78%	45	44	0.00%	19	–
6–12 months	0.00%	1	–	0.00%	68	–
Over 1 year	0.09%	5,672	5	0.90%	7,894	71
Total		9,106	49		18,276	71

	Expected credit loss rate at 31 December 2021	Estimated total gross carrying amount at default at 31 December 2021	Expected credit losses at 31 December 2021
Not overdue – 1 month	0.03%	11,844	3
1–6 months	22.33%	206	46
6–12 months	40.00%	10	4
Over 1 year	0.30%	7,781	23
Total		19,841	76

Movements on the allowance for expected credit losses on receivables from related parties were as follows:

	2023	2022	2021
At 1 January	(71)	(76)	(67)
Addition of allowance for expected credit losses	–	–	(31)
Release of allowance for expected credit losses	22	5	22
Receivables from related parties written off as uncollectable	–	–	–
At 31 December	(49)	(71)	(76)

The creation and release of the allowance for expected credit losses have been included in net impairment losses on financial assets in the consolidated statement of profit or loss.

18 CURRENT RECEIVABLES AND PREPAYMENTS (continued)

Prepayments and advances made to trade suppliers

Movements on the impairment allowance for prepayments and advances made to trade suppliers were as follows:

	2023	2022	2021
At 1 January	(786)	(560)	(498)
Addition of impairment allowance for prepayments and advances to trade suppliers	(315)	(534)	(371)
Release of impairment allowance for prepayments and advances to trade suppliers	290	133	151
Prepayments and advances to trade suppliers written off as uncollectable	265	175	158
At 31 December	(546)	(786)	(560)

The creation and release of the impairment allowance for prepayments have been included in general and administrative expenses in the consolidated statement of profit or loss.

The individually impaired prepayments mainly related to debtors that expected financial difficulties or there was a likelihood of the debtor's insolvency. It was assessed that a portion of the prepayments was expected to be recovered.

19 VAT AND OTHER TAXES RECEIVABLE

	31 December 2023	31 December 2022	31 December 2021
VAT receivable	12,991	8,882	8,587
Other taxes receivable	270	89	190
Total	13,261	8,971	8,777

20 OTHER NON-CURRENT AND CURRENT LIABILITIES

Other non-current liabilities

	31 December 2023	31 December 2022	31 December 2021
Purchase commitments for non-controlling interests	4,484	2,204	–
Long-term employee benefit liabilities	3,123	3,356	1,297
Other payables	1,410	73	145
Other payables to related parties (Note 8)	–	508	9,931
Total long-term financial instruments	9,017	6,141	11,373
Long-term liabilities related to loyalty programmes	41	38	29
Taxes other than income tax	478	513	198
Advances received from related parties	–	23	23
Total long-term non-financial instruments	519	574	250
Total	9,536	6,715	11,623

20 OTHER NON-CURRENT AND CURRENT LIABILITIES (continued)

Provisions and other current liabilities

	31 December 2023	31 December 2022	31 December 2021
Other payables and accruals	41,469	34,175	31,406
Accrued salaries and bonuses	38,583	28,226	26,111
Payables to landlords	2,438	1,771	1,442
Other payables to related parties	552	9,399	1,713
Payables for property, plant and equipment, other intangible assets, and acquisition of businesses	27,896	15,508	16,191
Total short-term financial instruments	110,938	89,079	76,863
Taxes other than income tax	37,350	37,655	21,098
Provisions and liabilities for non-income tax uncertainties	6,663	10,636	6,012
Advances received	2,057	1,796	1,679
Advances received from related parties (Note 8)	23	–	–
Total short-term non-financial instruments	46,093	50,087	28,789
Total	157,031	139,166	105,652

21 CONTRACT LIABILITIES

	31 December 2023	31 December 2022	31 December 2021
Short-term contract liabilities			
Short-term liabilities related to loyalty programmes	1,109	3,487	2,146
Advances received from wholesale customers	76	42	40
Advances received from other customers	273	238	206
Total	1,458	3,767	2,392

Movements in short-term liabilities related to loyalty programmes were as follows:

	2023	2022	2021
At 1 January	3,487	2,146	1,955
Deferred during the year	12,087	11,949	2,146
Recognised at acquisition of businesses (Note 7)	–	26	–
Recognised as revenue during the year	(14,465)	(10,634)	(1,955)
At 31 December	1,109	3,487	2,146

22 BORROWINGS

The Group had the following borrowings at 31 December 2023, 31 December 2022, and 31 December 2021:

	Final maturity year*	Fair value			Carrying amount		
		2023	2022	2021	2023	2022	2021
Long-term borrowings							
RUB Bonds X5 FINANCE series BO-05		–	–	8	–	–	9
RUB Bonds X5 FINANCE series 001P-01		–	–	98	–	–	96
RUB Bonds X5 FINANCE series 001P-02		–	–	7	–	–	8
RUB Bonds X5 FINANCE series 001P-03		–	–	43	–	–	48
RUB Bonds X5 FINANCE series 001P-12		–	–	9,609	–	–	9,989
RUB Bonds X5 FINANCE series 002P-01		–	9,860	9,951	–	9,992	9,998
RUB Bonds X5 FINANCE series 002P-02	2025	19,296	19,972	–	19,975	19,956	–
RUB Bonds X5 FINANCE series 002P-03	2025	13,545	13,930	–	13,983	13,969	–
RUB Bonds X5 FINANCE series 003P-02	2026	20,342	–	–	19,968	–	–
RUB Bonds X5 FINANCE series 003P-03	2026	9,849	–	–	9,970	–	–
RUB Bilateral Loans	2026	63,650	101,279	179,255	63,500	103,469	186,423
RUB Bilateral Loans from related parties		–	99	97	–	105	105
Total long-term borrowings		126,682	145,140	199,068	127,396	147,491	206,676
Short-term							
RUB Bonds X5 FINANCE series BO-05		–	9	–	–	9	–
RUB Bonds X5 FINANCE series BO-04		–	–	2,091	–	–	2,150
RUB Bonds X5 FINANCE series BO-06		–	–	1,201	–	–	1,201
RUB Bonds X5 FINANCE series BO-07		–	–	5,023	–	–	5,000
RUB Bonds X5 FINANCE series 001P-05		–	–	5,017	–	–	4,999
RUB Bonds X5 FINANCE series 001P-06		–	–	9,920	–	–	9,999
RUB Bonds X5 FINANCE series 001P-07		–	–	4,967	–	–	4,999
RUB Bonds X5 FINANCE series 001P-08		–	–	4,915	–	–	4,998
RUB Bonds X5 FINANCE series 001P-09		–	–	4,915	–	–	4,998
RUB Bonds X5 FINANCE series 001P-10		–	–	9,875	–	–	9,998
RUB Bonds X5 FINANCE series 001P-11		–	–	9,726	–	–	10,046
RUB Bonds X5 FINANCE series 001P-01		–	96	–	–	96	–
RUB Bonds X5 FINANCE series 001P-02		–	7	–	–	8	–
RUB Bonds X5 FINANCE series 001P-03		–	51	–	–	48	–
RUB Bonds X5 FINANCE series 001P-12	2024	1,494	9,906	–	1,566	10,026	–
RUB Bonds X5 FINANCE series 002P-01	2024	9,626	–	–	9,929	–	–
RUB Bilateral Loans	2024	87,022	76,989	29,431	89,270	76,989	29,431
RUB Bilateral Loans from related parties	2024	87	–	–	94	–	–
Total short-term borrowings		98,229	87,058	87,081	100,859	87,176	87,819
Total		224,911	232,198	286,149	228,255	234,667	294,495

* In case of the Group's Bonds – the final maturity/offer year.

22 BORROWINGS (continued)

In November–December 2023, the Group issued RUB 20,000 million of exchange registered corporate bonds series 003P-02 with a floating coupon of 1.1% over the key rate of the Central Bank of the Russian Federation, to be repaid in October 2026, and RUB 10,000 million of exchange registered corporate bonds series 003P-03 with a 12.90% coupon rate and a put option in 2.5 years.

In December 2022, the Group issued RUB 20,000 million of exchange registered bonds series 002P-02 with a 8.90% coupon rate and a put option in 2.5 years, and RUB 14,000 million of exchange registered bonds series 002P-03 with a 8.68% coupon rate and a call option in 2.25 years.

In September 2021, the Group bought back, under the put option, exchange registered bonds series BO-05 for the amount of RUB 381 million from the issue totalling RUB 390 million. For the remaining RUB 9 million, the new annual rate for the next 3 semi-annual coupon periods was set at 0.01%.

In September 2021, the Group issued RUB 10,000 million of exchange registered bonds series 002P-01 with a 7.60% coupon rate and a put option in 3 years.

The weighted average effective interest rate on the Group's total borrowings for the year ended 31 December 2023 was 8.60% per annum (year ended 31 December 2022: 8.63%, year ended 31 December 2021: 6.57%).

All borrowings at 31 December 2023 are shown net of related transaction costs of RUB 116 million, which are amortised over the term of the loans using the effective interest method (31 December 2022: RUB 129 million, 31 December 2021: RUB 119 million). Borrowing costs capitalised for the year ended 31 December 2023 amounted to RUB 22 million (year ended 31 December 2022: RUB 13 million, year ended 31 December 2021: RUB 24 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was approximately equal to the weighted average effective interest rate for the period.

Change in total borrowings in the amount of RUB 6,412 million in 2023 equals to the proceeds from borrowings in the amount of RUB 183,594 million; repayment of borrowings in the amount of RUB 192,256 million (the consolidated statement of cash flows); increase due to acquisitions during the year recorded as part of the purchase price allocation (Note 7) in the amount of RUB 1,962 million; and other non-cash movements in the amount of RUB 210 million plus amortisation of transaction costs in the amount of RUB 78 million. Changes in lease liabilities that also form liabilities arising from financing activities are disclosed in Note 11.

Change in total borrowings in the amount of RUB 59,828 million in 2022 equals to the proceeds from borrowings in the amount of RUB 148,974 million; repayment of borrowings in the amount of RUB 210,785 million (the consolidated statement of cash flows); increase due to acquisitions during the year recorded as part of the purchase price allocation (Note 7) in the amount of RUB 1,819 million; and other non-cash movements in the amount of RUB 78 million plus amortisation of transaction costs in the amount of RUB 86 million. Changes in lease liabilities that also form liabilities arising from financing activities are disclosed in Note 11.

Change in total borrowings in the amount of RUB 32,310 million in 2021 equals to the proceeds from borrowings in the amount of RUB 132,404 million, repayment of borrowings in the amount of RUB 99,912 million (the consolidated statement of cash flows), and other non-cash movements in the amount of RUB 260 million plus amortisation of transaction costs in the amount of RUB 78 million. Changes in lease liabilities that also form liabilities arising from financing activities are disclosed in Note 11.

In accordance with some loan agreements, the Group maintains an optimal leverage ratio by tracking the maximum level of the Net Debt/EBITDA pre-IFRS 16 covenant (4.00x/4.25x during 2 quarters after the acquisition). At 31 December 2023, the Group complied with this covenant, as the Net Debt/EBITDA pre-IFRS 16 ratio was equal to 0.89x (31 December 2022: 1.03x, 31 December 2021: 1.66x). The EBITDA metric specified in all loan agreements is equal to EBITDA pre-IFRS 16 (for calculation, please refer to Note 5).

23 SHARE CAPITAL

As at 31 December 2023, the Group's share capital amounted to RUB 316,181 million (31 December 2022: RUB 316,181 million, 31 December 2021: RUB 267,308 million).

In 2022, the share capital was increased by RUB 48,873 million through a contribution from the principal equity holder.

In 2021, the Group distributed and paid RUB 105,500 million to shareholders as dividends.

24 EARNINGS PER SHARE

Until 1 July 2024, the Company had no issued shares, as it was a limited liability company. On 1 July 2024, the Company was transformed into X5 Corporate Center PJSC and issued 271,572,872 shares (Note 1).

Estimated earnings per share for the reporting periods were calculated by dividing the profit or loss for the respective period attributable to equity holders of the Company by the number of ordinary shares as at 1 July 2024:

	2023	2022	2021
Profit attributable to equity holders of the parent	78,299	44,155	46,628
Number of ordinary shares in issue	271,572,872	271,572,872	271,572,872
Number of ordinary shares for the purposes of diluted earnings per share	271,572,872	271,572,872	271,572,872
Basic earnings per share for profit (expressed in RUB per share)	288.32	162.59	171.70
Diluted earnings per share for profit (expressed in RUB per share)	288.32	162.59	171.70

25 REVENUE

	2023					Total
	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	
Revenue from sale of goods through own stores (at a point in time)	2,444,089	417,252	218,900	–	–	3,080,241
Revenue from sale of goods through franchisees (at a point in time)	46,920	1,686	–	–	–	48,606
Revenue from wholesale of goods (at a point in time)	512	–	5,801	–	2,922	9,235
Revenue from other services (over time)	2,208	842	4,710	6	11	7,777
Total	2,493,729	419,780	229,411	6	2,933	3,145,859

	2022					Total
	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	
Revenue from sale of goods through own stores (at a point in time)	2,089,270	385,025	87,798	–	–	2,562,093
Revenue from sale of goods through franchisees (at a point in time)	33,523	470	–	–	–	33,993
Revenue from wholesale of goods (at a point in time)	–	–	3,571	–	676	4,247
Revenue from other services (over time)	1,252	600	3,004	5	–	4,861
Revenue from other services from related parties (over time)	–	–	12	–	–	12
Total	2,124,045	386,095	94,385	5	676	2,605,206

25 REVENUE (continued)

	2021					Total
	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	
Revenue from sale of goods through own stores (at a point in time)	1,770,731	348,553	51,858	–	–	2,171,142
Revenue from sale of goods through franchisees (at a point in time)	22,946	389	–	–	–	23,335
Revenue from wholesale of goods (at a point in time)	8	1,525	3,556	–	438	5,527
Revenue from other services (over time)	969	562	3,094	–	–	4,625
Revenue from other services from related parties (over time)	–	–	185	–	–	185
Total	1,794,654	351,029	58,693	–	438	2,204,814

26 EXPENSES BY NATURE

	2023	2022	2021
Cost of sales	2,276,777	1,893,471	1,580,063
Staff costs (Note 29)	315,396	247,978	218,527
Lease expenses (Note 11)	26,757	19,889	14,477
Depreciation, amortisation	164,039	153,950	145,549
Impairment of non-current assets	1,917	10,781	4,724
Other store costs	40,284	34,678	31,416
Utilities	65,392	54,147	47,929
Net impairment losses on financial assets	75	347	158
Other	99,990	73,824	67,376
Total	2,990,627	2,489,065	2,110,219

Other expenses included impairment of prepayments in the amount of RUB 25 million in 2023 (2022: RUB 401 million, 2021: RUB 220 million).

27 LEASE/SUBLEASE AND OTHER INCOME

	2023	2022	2021
Lease/sublease income (Note 11)	8,111	7,214	7,007
Income from sales of waste	8,046	8,391	8,412
Gain on derecognition of right-of-use assets and lease liabilities	1,146	2,551	2,940
Other	6,338	4,867	4,885
Total	23,641	23,023	23,244

28 FINANCE INCOME AND COSTS

	2023	2022	2021
Interest expense on lease liabilities	60,654	49,880	40,561
Interest expense on borrowings	19,754	22,536	16,207
Interest expense on loans received from related parties	7	7	17
Interest income	(9,092)	(2,500)	(61)
Interest income from loans granted to related parties	(1)	(75)	(432)
Other finance (income)/costs	(1,119)	1,270	832
Other finance costs associated with related parties	171	141	199
Total	70,374	71,259	57,323

29 STAFF COSTS

	2023	2022	2021
Wages and salaries	248,093	194,608	171,020
Social security costs	67,303	53,370	47,507
Total	315,396	247,978	218,527

Wages and salaries include expenses for outstaffing and outsourcing services. Wages and salaries in 2023 included expenses of RUB 4,293 million related to the long-term incentive (LTI) programme for key employees, including members of the Management Board, other key management personnel, and other key employees (2022: RUB 2,171 million, 2021: 2,535 million). The liability under the LTI programme in the amount of RUB 3,601 million (including social security costs) was included in other non-current liabilities in the consolidated statement of financial position at 31 December 2023 (31 December 2022: RUB 3,869 million, 31 December 2021: RUB 1,495 million) and in the amount of RUB 5,478 million (including social security costs) in provisions and other liabilities in the consolidated statement of financial position (31 December 2022: RUB 105 million, 31 December 2021: 2,403 million).

Since the transition to united social contributions effective from 2023 and the regressive taxation scale, it is impracticable to separate pension contributions from medical and social contributions (2022: pension contributions amounted to RUB 35,178 million, 2021: RUB 32,052 million).

The number of employees at 31 December 2023 amounted to 372,200 (31 December 2022: 353,196, 31 December 2021: 340,928).

30 INCOME TAX

	2023	2022	2021
Current income tax charge	27,943	20,755	17,160
Deferred income tax (benefit)/charge	(4,327)	1,133	(2,707)
Windfall tax	1,689	–	–
Income tax charge for the year	25,305	21,888	14,453

The theoretical and effective tax rates are reconciled as follows:

	2023	2022	2021
Profit before taxation	103,916	66,032	61,081
Theoretical income tax at the effective statutory rate*	20,783	13,206	12,216
Tax effect of items which are not deductible or assessable for taxation purposes			
Current tax on dividends distributed by the Group's subsidiaries	–	–	15
Expenses on inventory shortage	475	400	337
Effect of income taxable at rates different from standard statutory rates	(471)	(148)	(48)
Adjustments in respect of current income tax of previous years	–	1,600	–
Deferred tax expenses arising from deferred tax asset write-down	206	1,599	–
Effect of windfall tax	1,689	–	–
Other non-deductible expense	2,623	5,231	1,933
Income tax charge for the year	25,305	21,888	14,453

* Profit before taxation for Russian operations is assessed based on the statutory rate of 20%.

As at 31 December 2022 and 31 December 2021, 37 subsidiaries of the Group were members of the consolidated group of taxpayers (CGT), with X5 Corporate Center LLC acting as the responsible CGT member. On 1 January 2023, the CGT agreement was terminated, and the former members of the CGT started accounting for income tax on a standalone basis.

30 INCOME TAX (continued)

Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were attributable to the following line items for the year ended 31 December 2023:

	1 January 2023	Credited/(debited) to profit or loss	Deferred tax on business combinations (Note 7)	31 December 2023
Tax effects of deductible temporary differences and tax loss carry-forwards				
Tax losses available for carry-forward	2,686	1,818	13	4,517
Lease liabilities*	119,822	12,059	4,224	136,105
Property, plant and equipment and investment property	631	(459)	238	410
Other intangible assets	147	396	–	543
Inventories	2,579	522	18	3,119
Receivables	281	(207)	–	74
Payables	13,399	2,292	239	15,930
Other	705	(472)	1	234
Gross deferred tax assets	140,250	15,949	4,733	160,932
Less offsetting with deferred tax liabilities	(112,804)	(13,830)	(4,240)	(130,874)
Recognised deferred tax assets	27,446	2,119	493	30,058
Tax effects of taxable temporary differences				
Right-of-use assets*	(98,961)	(10,342)	(3,723)	(113,026)
Property, plant and equipment and investment property	(11,852)	(2,151)	(402)	(14,405)
Other intangible assets	(6,697)	(240)	(114)	(7,051)
Inventories	(10)	(11)	13	(8)
Receivables	(1,765)	953	(626)	(1,438)
Payables	(340)	266	8	(66)
Other	(111)	(97)	–	(208)
Gross deferred tax liabilities	(119,736)	(11,622)	(4,844)	(136,202)
Less offsetting with deferred tax assets	112,804	13,830	4,240	130,874
Recognised deferred tax liabilities	(6,932)	2,208	(604)	(5,328)

* Upon adoption of amendments to IAS 12 (Note 4), the Group disclosed separately deferred tax assets in relation to lease liabilities and deferred tax liabilities in relation to right-of-use assets starting from 1 January 2021.

30 INCOME TAX (continued)

Deferred income tax (continued)

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were attributable to the following line items for the year ended 31 December 2022:

	1 January 2022	Credited/(debited) to profit or loss	Deferred tax on business combinations (Note 7)	31 December 2022
Tax effects of deductible temporary differences and tax loss carry-forwards				
Tax losses available for carry-forward	4,993	(2,307)	–	2,686
Lease liabilities*	117,280	(2,113)	4,655	119,822
Property, plant and equipment and investment property	305	326	–	631
Other intangible assets	53	94	–	147
Inventories	2,426	133	20	2,579
Receivables	40	241	–	281
Payables	10,707	2,589	103	13,399
Other	437	263	5	705
Gross deferred tax assets	136,241	(774)	4,783	140,250
Less offsetting with deferred tax liabilities	(113,445)	5,296	(4,655)	(112,804)
Recognised deferred tax assets	22,796	4,522	128	27,446
Tax effects of taxable temporary differences				
Right-of-use assets*	(97,216)	2,811	(4,556)	(98,961)
Property, plant and equipment and investment property	(8,401)	(3,234)	(217)	(11,852)
Other intangible assets	(6,814)	405	(288)	(6,697)
Inventories	–	(10)	–	(10)
Receivables	(1,694)	(53)	(18)	(1,765)
Payables	(2)	(338)	–	(340)
Other	(171)	60	–	(111)
Gross deferred tax liabilities	(114,298)	(359)	(5,079)	(119,736)
Less offsetting with deferred tax assets	113,445	(5,296)	4,655	112,804
Recognised deferred tax liabilities	(853)	(5,655)	(424)	(6,932)

* Upon adoption of amendments to IAS 12 (Note 4), the Group disclosed separately deferred tax assets in relation to lease liabilities and deferred tax liabilities in relation to right-of-use assets starting from 1 January 2021.

30 INCOME TAX (continued)

Deferred income tax (continued)

	1 January 2021	Credited/(debited) to profit or loss	Deferred tax on business combinations (Note 7)	31 December 2021
Tax effects of deductible temporary differences and tax loss carry-forwards				
Tax losses available for carry-forward	4,891	102	–	4,993
Lease liabilities*	110,117	6,133	1,030	117,280
Property, plant and equipment and investment property	275	30	–	305
Other intangible assets	52	1	–	53
Inventories	2,293	133	–	2,426
Receivables	36	4	–	40
Payables	8,477	2,230	–	10,707
Other	399	38	–	437
Gross deferred tax assets	126,540	8,671	1,030	136,241
Less offsetting with deferred tax liabilities	(106,425)	(6,234)	(786)	(113,445)
Recognised deferred tax assets	20,115	2,437	244	22,796
Tax effects of taxable temporary differences				
Right-of-use assets*	(91,623)	(4,807)	(786)	(97,216)
Property, plant and equipment and investment property	(9,722)	1,321	–	(8,401)
Other intangible assets	(4,895)	(1,919)	–	(6,814)
Receivables	(1,142)	(552)	–	(1,694)
Payables	(4)	2	–	(2)
Other	(162)	(9)	–	(171)
Gross deferred tax liabilities	(107,548)	(5,964)	(786)	(114,298)
Less offsetting with deferred tax assets	106,425	6,234	786	113,445
Recognised deferred tax liabilities	(1,123)	270	–	(853)

* Upon adoption of amendments to IAS 12 (Note 4), the Group disclosed separately deferred tax assets in relation to lease liabilities and deferred tax liabilities in relation to right-of-use assets starting from 1 January 2021.

Temporary differences associated with investments in subsidiaries that could have resulted in deferred tax recognition were not recognised as at 31 December 2023, 31 December 2022, and 31 December 2021.

30 INCOME TAX (continued)

Deferred income tax (continued)

Management believes that future taxable profits in tax jurisdictions where a loss was suffered in the current or preceding years will be available to utilise the deferred tax asset of RUB 4,517 million recognised at 31 December 2023 for the carry-forward of unused tax losses (31 December 2022: RUB 2,686 million, 31 December 2021: 4,993 million).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry-forwards at RUB 6,776 million at 31 December 2023 (31 December 2022: RUB 5,780 million, 31 December 2021: RUB 970 million). At 31 December 2023, 31 December 2022, and 31 December 2021, the unused tax losses had no time restrictions for carry-forward.

31 FINANCIAL RISK MANAGEMENT

Financial risk management is part of the integrated risk management and internal control framework described in the Corporate Governance section of the Annual Report of X5 Retail Group N.V. The primary objectives of financial risk management are to set risk limits and then ensure that exposure to risks stays within these limits.

Financial risk management is carried out by the Group's centralised Finance Department. The Finance Department monitors and measures financial risks and takes steps to limit their influence on the Group's performance.

(a) Market risk

Currency risk

The Group is exposed to foreign exchange risk arising from foreign currency denominated assets and liabilities with respect to import purchases, lease liabilities, and payables for property, plant and equipment, and intangible assets, mainly in USD and EUR. As at 31 December 2023, the Group had trade payables denominated in USD in the amount of RUB 7,039 million, in EUR in the amount of RUB 1,154 million, and in CNY in the amount of RUB 1,270 million (31 December 2022: denominated in USD in the amount of RUB 8,140 million, in EUR in the amount of RUB 2,307 million, and in CNY in the amount of RUB 354 million; 31 December 2021: denominated in USD in the amount of RUB 7,827 million and in EUR in the amount of RUB 2,163 million) and leases denominated in USD in the amount of RUB 4,595 million and in EUR in the amount of RUB 3,041 million (31 December 2022: denominated in USD in the amount of RUB 4,523 million and in EUR in the amount of RUB 2,532 million; 31 December 2021: denominated in USD in the amount of RUB 7,028 million and in EUR in the amount of RUB 3,506 million).

The Group had payables for property, plant and equipment, and intangible assets denominated in USD in the amount of RUB 1,657 million, in EUR in the amount of RUB 284 million, and in CNY in the amount of RUB 84 million (31 December 2022: denominated in USD in the amount of RUB 977 million and in EUR in the amount of RUB 11 million; 31 December 2021: denominated in USD in the amount of RUB 1,100 million and in EUR in the amount of RUB 60 million).

As at 31 December 2023, 31 December 2022, and 31 December 2021, the Group did not have any other significant assets and liabilities denominated in foreign currency, and the exposure for the Group was estimated as insignificant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As at 31 December 2023, the Group had no floating interest-bearing assets (31 December 2022: nil) but had a 26% (31 December 2022: 4%; 31 December 2021: 16%) share of borrowings with floating interest rates based on the key rate of the Central Bank of the Russian Federation.

31 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

If the key rate had been 100 b.p. higher, profit before tax for the year ended 31 December 2023 would have been RUB 183 million lower. If the key rate had been 100 b.p. lower, profit before tax for the year ended 31 December 2023 would have been RUB 183 million 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.

If the key rate had been 100 b.p. higher, profit before tax for the year ended 31 December 2022 would have been RUB 85 million lower. If the key rate had been 100 b.p. lower, profit before tax for the year ended 31 December 2022 would have been RUB 85 million 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.

If the key rate had been 100 b.p. higher, profit before tax for the year ended 31 December 2021 would have been RUB 398 million lower. If the key rate had been 100 b.p. lower, profit before tax for the year ended 31 December 2021 would have been RUB 398 million higher. The Group's income and operating cash inflows were largely independent of changes in market interest rates, but part of the Group's interest expenses was marginally exposed to changes in market interest rates.

(b) Credit risk

Financial assets, which are potentially subject to credit risk, consisted principally of cash and cash equivalents, short-term financial investments held in banks, trade and other receivables, and loans granted to related parties (Notes 9, 16, and 18). Due to the nature of its main activities (retail sales to individual customers), the Group had no significant concentration of credit risk. Cash was placed in financial institutions that were considered at the time of deposit to have low risk of default (Note 9).

The Group has policies in place to ensure that in case of credit sales of products and services to wholesale customers and reverse franchise schemes, only those counterparties with an appropriate credit history are selected. Although collection of receivables may be influenced by economic factors, management believes that there was no significant risk of loss to the Group beyond the allowance already recorded. In accordance with the Group's treasury policies and exposure management practices, counterparty credit exposure limits were continually monitored, and no individual exposure was considered significant.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by the Corporate Finance Department.

The Group finances its operations by a combination of cash flows from operating activities and long-term and short-term debt. The objective is to ensure continuity of funding on the best available market terms. The policy is to keep the Group's credit portfolio diversified, continue to improve the debt maturity profile, arrange funding ahead of requirements, and maintain sufficient undrawn available credit lines and a strong credit rating so that maturing debt may be refinanced as it falls due.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities as at the reporting date at spot foreign exchange rates:

Year ended 31 December 2023	Within 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	143,241	484,906	393,093
Borrowings and interest accrued	124,041	150,088	–
Loans received from related parties and interest accrued	235	32	–
Trade payables	290,232	–	–
Other financial liabilities	111,998	16,718	–
Total	669,747	651,744	393,093

31 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Year ended 31 December 2022	Within 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	122,886	418,196	318,224
Borrowings and interest accrued	104,323	157,776	–
Other payables to related parties	–	508	–
Loans received from related parties and interest accrued	159	267	–
Trade payables	238,644	–	–
Other financial liabilities	89,092	10,899	–
Total	555,104	587,646	318,224

Year ended 31 December 2021	Within 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	111,953	389,062	289,176
Borrowings and interest accrued	107,339	223,397	–
Other payables to related parties	–	9,931	–
Loans received from related parties and interest accrued	148	426	–
Trade payables	212,949	–	–
Other financial liabilities	78,868	3,028	–
Total	511,257	625,844	289,176

At 31 December 2023, the Group had net current liabilities of RUB 190,075 million (31 December 2022: RUB 198,725 million, 31 December 2021: RUB 253,799 million), including short-term borrowings of RUB 100,859 million (31 December 2022: RUB 87,176 million, 31 December 2021: RUB 87,819 million).

Management regularly monitors the Group's operating cash flows and available credit lines/limits to ensure that these are adequate to meet the Group's ongoing obligations and its expansion programmes. Part of the existing credit lines is provided on a rolling basis, closely monitored using detailed cash flow forecasts and managed by the Corporate Finance Department.

At 31 December 2023, the Group had available bank credit lines of RUB 549,740 million (31 December 2022: RUB 475,020 million, 31 December 2021: RUB 482,263 million). At 31 December 2023, the Group had a RUB 170,000 million registered bond programme available for issue on MOEX (31 December 2022: RUB 156,000 million, 31 December 2021: RUB 190,000 million).

The Group's capital expenditure programme is highly discretionary. The Group optimises its cash outflows by managing the speed of execution of current CAPEX projects and by delaying future capital extensive programmes, if required.

The Group is carefully monitoring its liquidity profile by optimising the cost of funding and the drawdown periods within revolving credit facilities as well as extending existing credit facilities or obtaining new credit lines. The Group manages liquidity requirements by the use of both short-term and long-term projections and maintaining the availability of funding. Based on the review of the current liquidity position of the Group, management believes that the available credit lines and expected cash flows are more than sufficient to finance the Group's current operations.

The Group has assessed the impact of climate-related matters on its financial statements as insignificant.

32 OPERATING ENVIRONMENT OF THE GROUP

In 2023, the continuing conflict related to Ukraine and the resulting aggravation of geopolitical tensions had a negative impact on the economy of the Russian Federation. During the period of the conflict, including 2023, the European Union, the United States, and several other countries imposed new sanctions against a number of Russian state and commercial organisations, including banks, individuals, and certain industries, as well as restrictions on certain types of transactions, including freezing Russian accounts with foreign banks and blocking payments on eurobonds of the Russian Federation and Russian entities. Some global companies announced that they would either suspend their operations in, or stop supplies to, Russia. This resulted in increased volatility in stock and currency markets. The Russian Federation introduced temporary restrictive economic measures; in particular, it prohibited Russian residents from providing foreign currency loans to non-residents and from crediting foreign currency to their accounts with foreign banks, as well as imposing restrictions on securities-related payments to foreign investors and on transactions involving persons of a number of foreign countries. In response to increased volatility in financial markets and growing inflation risks, the Central Bank of the Russian Federation raised the key rate from 7.5% to 16% in the second half of 2023.

The future stability of the Russian economy is largely dependent upon the impact of the sanctions imposed. Should the economy be in a long-term recession after the sanctions, that may affect the Group's financial position, cash flows, and results of operations.

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

33 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, providing returns for equity holders and benefits for other stakeholders and maintaining an optimal capital structure to reduce the cost of capital. The Group manages total equity attributable to equity holders recognised under IFRS requirements. The Group is in compliance with all externally imposed capital requirements.

In accordance with some loan agreements, the Group maintains an optimal leverage ratio by tracking the maximum level of the Net Debt/EBITDA pre-IFRS 16 covenant (4.00x/4.25x during 2 quarters after the acquisition). Net debt is calculated as the sum of short-term and long-term borrowings less cash and cash equivalents. Reconciliation of EBITDA pre-IFRS 16 to operating profit is presented in Note 5. This ratio is included in covenants in some of the Group's loan agreements (Note 22). At 31 December 2023, 31 December 2022, and 31 December 2021, the Group complied with all requirements under the loan facilities.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

The carrying amount of cash and cash equivalents and trade and other financial receivables approximates their fair value; the carrying amount and fair value of loans granted are presented in Note 16.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Liabilities carried at amortised cost

The fair value of bonds is based on quoted market prices. Fair values of other liabilities are determined using valuation techniques.

The fair value of bonds traded on the Moscow Exchange (MOEX) is determined based on active market quotations and amounted to RUB 74,152 million at 31 December 2023 (31 December 2022: RUB 53,831 million, 31 December 2021: RUB 77,366 million). The measurement is classified within Level 1 of the fair value hierarchy. The carrying amount of these bonds was RUB 75,391 million at 31 December 2023 (31 December 2022: RUB 54,104 million, 31 December 2021: RUB 78,536 million) (Note 22).

The fair value of bilateral loans amounted to RUB 150,759 million at 31 December 2023 (31 December 2022: RUB 178,367 million, 31 December 2021: RUB 208,783 million). The measurement is classified within Level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using the interest rate of similar instruments available in the market. The sensitivity analysis shows that an increase in the market interest rate by 10% leads to a decrease in the fair value of bilateral loans by RUB 1,143 million at 31 December 2023 (31 December 2022: RUB 1,306 million, 31 December 2021: RUB 2,472 million), and a decrease in the market interest rate by 10% leads to an increase in the fair value of bilateral loans by RUB 1,184 million at 31 December 2023 (31 December 2022: RUB 1,341 million, 31 December 2021: RUB 2,548 million).

35 COMMITMENTS AND CONTINGENCIES

Capital expenditure commitments

At 31 December 2023, the Group had contracted for capital expenditure for the acquisition of property, plant and equipment, and intangible assets of RUB 9,970 million (net of VAT) (31 December 2022: RUB 4,540 million, 31 December 2021: RUB 7,659 million).

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 that could have a material effect on results of operations or financial position of the Group and that have not been accrued at 31 December 2023.

Tax contingencies, commitments, and risks

Russian tax, customs, and currency legislation allows for various interpretations and is subject to frequent amendments. Relevant regional and federal authorities can challenge the Group management's interpretation of legislation provisions in the context of the Group's transactions and operations. Recent trends in the interpretation and application of particular provisions of the Russian tax legislation highlight the fact that tax authorities can take a more rigid position with regards to the interpretation of the legislation and tax calculations. Therefore, tax authorities can dispute the lawfulness of transactions and accounting methods that previously raised no doubt. 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 to conduct an audit is taken. In certain circumstances, a tax audit can cover earlier tax periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Co-operation and Development. Starting from 1 January 2019, a significant number of domestic transactions were excluded from the transfer pricing control in Russia. Only transactions between Russian companies that apply different income tax rates on profits or special tax regimes are subject to the rules, and only if income/expenses from those transactions exceed 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.

35 COMMITMENTS AND CONTINGENCIES (continued)

Tax contingencies, commitments, and risks (continued)

In June 2023, the Ministry of Finance of the Russian Federation issued the order expanding the list of offshore zones (the "list"). The updated list contains 91 countries, including, in particular, the countries of the European Union, the UK, Japan, and the USA. All transactions with companies registered in countries from the list are automatically equated to those controlled for transfer pricing purposes if the amount of income or expenses per company exceeds RUB 120 million for the calendar year. This amendment to tax legislation came into effect in relation to transactions leading to income/expenses recognised starting from 1 January 2024.

At the end of 2023, Federal Law No. 539-FZ on changes to the Russian Federation Tax Code was adopted. Most of the amendments affected the regulation of transfer pricing rules, increasing the administrative burden on taxpayers to prepare documentation and the penalties for non-compliance with transfer pricing legislation. The law also introduced a withholding tax at a rate of 15% on the income paid to a foreign company providing intra-group services to a Russian company. The new transfer pricing rules, as well as changes regarding withholding tax, apply to transactions leading to income/expenses recognised/paid from 1 January 2024.

In May 2021, the federal law on denunciation of the double tax treaty (DTT) with the Netherlands was adopted; as a result, the respective DTT was terminated starting from 2022.

The 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 double 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 double 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 double 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 8 August 2023, the President of Russia signed Executive Order No. 585 (the "Order") suspending the effect of certain articles of double tax treaties (DTTs), including provisions concerning the taxation of all types of income (including dividends, interest, royalties, business profits, etc.) with "unfriendly" countries. The Order applies to tax treaties signed by Russia with 38 countries.

35 COMMITMENTS AND CONTINGENCIES (continued)

Tax contingencies, commitments, and risks (continued)

For certain types of income, Law No. 539-FZ keeps in place until the end of 2025 the benefits previously granted under the DTTs. The law does not apply to transactions between related parties.

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 was 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.

At the beginning of 2023, the Government of the Russian Federation issued a Resolution that established the procedure for providing an instalment plan to pay 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 4 August 2023, Federal Law No. 414-FZ *On Windfall Tax* was adopted. The law established the procedure for determining and paying a one-off tax on excess (windfall) profits and took effect from 1 January 2024. According to the law, Russian entities whose average profit for 2021–2022 exceeds RUB 1 billion had to file a windfall tax return with tax authorities before 25 January 2024 and pay windfall tax calculated at a rate of 10% before 29 January 2024. The law also provided for the option of voluntarily making an "advance payment" between 1 October and 30 November 2023 to form a tax credit, which the taxpayer can use to reduce the tax amount. The amount of such tax credit cannot exceed ½ of the amount of tax payable. The Group made this "advance payment" to the budget before 30 November 2023, thus taking advantage of a corresponding tax credit.

On 12 July 2024, Law No. 176-FZ was adopted, effective from 1 January 2025 and introducing the following changes:

- Raising from 20% to 25% the basic income tax rate for the income of Russian and foreign entities receiving income from sources in Russia;
- Raising from 0% to 5% the tax rate for IT companies accredited by the Russian Ministry of Digital Development, Communications, and Mass Media. The period for IT companies to benefit from a reduced rate was extended to 2025–2030;
- Introducing a progressive personal income tax scale (from 13% to 22%) and clarifying a number of benefits and special rules related to personal income tax;
- Raising the property tax rate cap to 2.5% for real estate properties for which the tax base is determined as the cadastral value and whose cadastral value exceeds RUB 300 million.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees, and current interpretations published by authorities. 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 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 income tax and non-income tax risks (e.g. assessment 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 in 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.

36 SUBSEQUENT EVENTS

On 1 July 2024, the procedure for reorganising X5 Corporate Center LLC into X5 Corporate Center PJSC through transformation was completed (Note 1).

On 1 July 2024, the Group placed a number of irrevocable bank deposits in the total amount of RUB 152,875 million with major Russian banks (from top 5 banks by net assets as at the date of approval of these consolidated financial statements), maturing in Q4 2024 and earning interest income at rates above the key rate of the Central Bank of the Russian Federation at the date of placement.

On 12 July 2024, Federal Law No. 176-FZ *On Amendments to Parts One and Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation and Invalidation of Specific Provisions of Legislative Acts of the Russian Federation* was adopted, raising the income tax rate from 20% to 25% from 1 January 2025 (Note 25).

This law will result in changes to deferred tax assets, deferred tax liabilities, and deferred income tax charges. However, as at the publication date of these consolidated financial statements, the Group has not finalised its assessment of this impact. This law will not affect current income tax amounts for 2024.

On 23 July 2024, Company shares were included in the first level quotation list of the Moscow Exchange.