X5 Retail Group N.V.

International Financial Reporting Standards
Consolidated Financial Statements

31 December 2021

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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of X5 Retail Group N.V. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2021 and its consolidated financial performance and its consolidated cash flows for 2021 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-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 International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and 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.

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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
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 analyzed key assumptions used by management and compared them with industry trends and forecasts prepared by independent analysts, internal forecasts and historical indicators. We engaged internal valuation experts to review the methodology applied as well as to compare the inputs and assumptions used in the impairment model with common practice and observable market data. They also assessed the applicable methodology for compliance with IFRS requirements. We also analyzed the inclusion of effects of the ongoing restructuring of the Group's retail format Karusel and the impact of the COVID-19 pandemic in the key assumptions and forecasts for the goodwill impairment model. 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 analyzed 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, equipment and intangible assets, excluding goodwill, as at 31 December 2021 approximated RUB 878 billion. 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 property 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 analyzed 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 also analyzed the inclusion of effects of the ongoing restructuring of the Group's retail format Karusel and the impact of the COVID-19 pandemic in the key assumptions and forecasts for the impairment model. We tested the accuracy of estimates and assumptions applied by management in the previous reporting period to exclude potential bias. We engaged internal valuation experts to review the methodology applied and to compare inputs and assumptions used in the impairment model with common practice and observable market data. They also 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 engaged internal real estate valuation experts to analyze the results of property valuation performed by the Group. We also analyzed objectivity and competence of independent appraisers engaged by the Group. We reviewed disclosures in notes to the consolidated financial statements.

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 recognized 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 recognized 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 bonuses from suppliers is disclosed in Note 2.24 to the consolidated financial statements.	Our procedures included tests of internal control over the occurrence, completeness and measurement of vendor allowances recognized 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 2021. We also tested vendor allowances for the fourth quarter of 2021, including performing substantive analytical procedures and detailed testing on a sample of vendor allowances 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 the vendor allowances receivable in the current year. We analyzed accounting policies related to vendor allowances. We reviewed disclosures in notes to the consolidated financial statements.

Other information included in the annual report of X5 Group

Other information consists of the information included in the annual report of X5 Group, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with EU-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 Company the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board are responsible for overseeing the Group’s 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board 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 Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 Supervisory Board, 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 M.Y. Golovkina.

M.Y. Golovkina,
acting on behalf of TSATR – Audit Services Limited Liability Company
on the basis of power of attorney dated 18 April 2022,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 21906100348)

11 July 2022

Details of the auditor

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

Details of the audited entity

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

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

	Note	31 December 2021	31 December 2020
Assets			
Non-current assets			
Property, plant and equipment	10	332,144	322,707
Right-of-use assets	11	502,325	480,511
Investment properties	12	4,461	4,502
Goodwill	13	105,028	104,890
Other intangible assets	14	39,006	30,757
Investments in associates and joint ventures	8	50	–
Other non-current assets		4,209	3,120
Deferred tax assets	30	23,047	20,458
		1,010,270	**966,945**
Current assets			
Inventories	15	166,840	144,393
Indemnification asset	7	435	171
Trade, other accounts receivable and prepayments	17	20,190	19,277
Current income tax receivable		4,057	12,119
VAT and other taxes receivable	18	8,802	10,316
Short-term financial investments	9	50,092	–
Cash and cash equivalents	9	26,062	20,008
		276,478	**206,284**
Total assets		**1,286,748**	**1,173,229**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	22	2,458	2,458
Share premium		46,127	46,086
Retained earnings		38,926	46,194
Share-based payment reserve	29	118	104
		87,629	**94,842**
Total equity		**87,629**	**94,842**
Non-current liabilities			
Long-term borrowings	21	206,571	184,921
Long-term lease liabilities	11	507,099	480,059
Deferred tax liabilities	30	928	2,769
Other non-current liabilities		1,670	1,954
		716,268	**669,703**
Current liabilities			
Trade accounts payable		212,949	170,909
Short-term borrowings	21	87,767	77,026
Interest accrued		1,792	1,380
Short-term lease liabilities	11	70,264	68,442
Short-term contract liabilities	20	2,392	2,198
Current income tax payable		3,014	2,753
Provisions and other liabilities	19	104,673	85,976
		482,851	**408,684**
Total liabilities		**1,199,119**	**1,078,387**
Total equity and liabilities		**1,286,748**	**1,173,229**

Igor Shekhterman
Chief Executive Officer
11 July 2022

Vsevolod Starukhin
Chief Financial Officer
11 July 2022

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

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

	Note	2021	2020
Revenue	24	2,204,819	1,978,026
Cost of sales	25	(1,643,502)	(1,483,406)
Gross profit		**561,317**	**494,620**
Selling, general and administrative expenses	25	(467,468)	(406,389)
Net impairment losses on financial assets	17	(154)	(251)
Lease/sublease and other income	26	23,877	17,737
Operating profit		**117,572**	**105,717**
Finance costs	27	(57,815)	(56,686)
Finance income	27	586	50
Share of loss of associates and joint ventures		–	(20)
Net foreign exchange gain/(loss)		399	(3,391)
Profit before tax		**60,742**	**45,670**
Income tax expense	30	(18,004)	(17,326)
Profit for the year		**42,738**	**28,344**
Profit for the year attributable to:			
Equity holders of the parent		42,738	28,344
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	629.55	417.54
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	23	629.54	417.52

Igor Shekhterman
Chief Executive Officer
11 July 2022

Vsevolod Starukhin
Chief Financial Officer
11 July 2022

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

	2021	2020
Profit for the year	42,738	28,344
Total comprehensive income for the year, net of tax	**42,738**	**28,344**
Total comprehensive income for the year attributable to:		
Equity holders of the parent	42,738	28,344

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Igor Shekhterman
Chief Executive Officer
11 July 2022

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Vsevolod Starukhin
Chief Financial Officer
11 July 2022

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

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

	Note	2021	2020
Profit before tax		**60,742**	**45,670**
Adjustments for:			
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment properties, other intangible assets and goodwill	25	150,278	137,905
Gain on disposal of property plant and equipment, investment properties and intangible assets and gain on derecognition of right-of-use assets		(3,345)	(3,705)
Finance costs, net	27	57,229	56,636
Net impairment losses on financial assets	17	154	251
Impairment of prepayments	17	221	237
Share-based compensation expense	29	89	60
Net foreign exchange (gain)/loss		(399)	3,391
Share of loss of associates and joint ventures		–	20
Other non-cash items		559	336
Net cash from operating activities before changes in working capital		**265,528**	**240,801**
Increase in trade, other accounts receivable and prepayments and VAT and other taxes receivable		(1,198)	(2,119)
Increase in inventories		(22,447)	(16,931)
Increase in trade payable		42,108	10,491
Increase in other accounts payable and contract liabilities		13,952	10,806
Net cash flows from operations		**297,943**	**243,048**
Interest paid		(56,561)	(55,461)
Interest received		60	44
Income tax paid		(13,980)	(28,071)
Net cash flows from operating activities		**227,462**	**159,560**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets		(76,574)	(73,427)
Acquisition of businesses, net of cash acquired	7	(1,771)	(3,138)
Proceeds from disposal of property, plant and equipment, investment properties and intangible assets		4,392	4,365
Purchase of other intangible assets		(15,482)	(12,084)
Acquisition of interest in associates and joint ventures		–	(150)
Proceeds from sale of interest in associates and joint ventures		–	120
Payments for financial investments	9	(50,000)	–
Net cash flows used in investing activities		**(139,435)**	**(84,314)**
Cash flows from financing activities			
Proceeds from loans	21	132,345	203,046
Repayment of loans	21	(99,585)	(169,175)
Purchase of treasury shares		(34)	(126)
Payments of principal portion of lease liabilities	11	(64,610)	(57,557)
Dividends paid to equity holders of the parent	22	(50,006)	(49,993)
Net cash flows used in financing activities		**(81,890)**	**(73,805)**
Effect of exchange rate changes on cash and cash equivalents		(83)	(35)
Net increase in cash and cash equivalents		**6,054**	**1,406**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	9	20,008	18,602
Net increase in cash and cash equivalents		6,054	1,406
Cash and cash equivalents at the end of the year	9	**26,062**	**20,008**

Igor Shekhterman
Chief Executive Officer
11 July 2022

Vsevolod Starukhin
Chief Financial Officer
11 July 2022

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

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

	Attributable to equity holders of the parent						
	Number of shares	**Share capital**	**Share premium**	**Share-based payment reserve**	**Retained earnings**	**Total shareholders' equity**	**Total**
Balance as at 1 January 2020	**67,890,054**	**2,458**	**46,150**	**105**	**67,843**	**116,556**	**116,556**
Profit for the period	–	–	–	–	28,344	28,344	**28,344**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**28,344**	**28,344**	**28,344**
Acquisition of treasury shares	(12,870)	–	(107)	–	–	(107)	**(107)**
Dividends (Note 22)	–	–	–	–	(49,993)	(49,993)	**(49,993)**
Share-based payment compensation (Note 29)	–	–	–	60	–	60	**60**
Transfer and waiving of vested equity rights (Note 29)	5,260	–	43	(61)	–	(18)	**(18)**
Balance as at 31 December 2020	**67,882,444**	**2,458**	**46,086**	**104**	**46,194**	**94,842**	**94,842**
Balance as at 1 January 2021	**67,882,444**	**2,458**	**46,086**	**104**	**46,194**	**94,842**	**94,842**
Profit for the period	–	–	–	–	42,738	42,738	**42,738**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**42,738**	**42,738**	**42,738**
Dividends (Note 22)	–	–	–	–	(50,006)	(50,006)	**(50,006)**
Share-based payment compensation (Note 29)	–	–	–	89	–	89	**89**
Transfer and waiving of vested equity rights (Note 29)	6,252	–	41	(75)	–	(34)	**(34)**
Balance as at 31 December 2021	**67,888,696**	**2,458**	**46,127**	**118**	**38,926**	**87,629**	**87,629**

Igor Shekhterman
Chief Executive Officer
11 July 2022

Vsevolod Starukhin
Chief Financial Officer
11 July 2022

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

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

1 PRINCIPAL ACTIVITIES AND THE GROUP STRUCTURE

These consolidated financial statements are for the economic entity comprising X5 Retail Group N.V. (the "Company") and its subsidiaries, as set out in Note 6 (the "Group").

X5 Retail Group N.V. is a joint stock limited liability company established in August 1975 under the laws of the Netherlands. The principal activity of the Company is to act as a holding company for a group of companies that operate retail grocery stores. The Company's address and tax domicile is Zuidplein 196, 1077 XV Amsterdam, the Netherlands.

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2021 the Group operated a retail chain of 19,121 proximity stores, supermarket, hypermarket, hard discounter, online hypermarket stores and dark kitchens under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Chizhik", "Perekrestok Vprok" and "Mnogo Lososya" (each representing separate format) in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg (31 December 2020: 17,707 proximity stores, supermarket, hypermarket, hard discounter and online hypermarket stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Chizhik" and "Perekrestok Vprok"), with the following number of stores:

	31 December 2021	31 December 2020
"Perekrestok" − Supermarket		
Central FD	552	519
North-Western FD	151	129
Volga FD	142	144
Ural FD	76	75
Southern FD	60	56
Northern Caucasus	9	10
Total	**990**	**933**
"Pyaterochka" − Proximity store		
Central FD	6,489	6,147
Volga FD	4,745	4,462
Southern FD	1,890	1,660
North-Western FD	1,838	1,772
Ural FD	1,596	1,459
Siberian FD	1,036	886
Northern Caucasus	378	323
Total	**17,972**	**16,709**
"Karusel" − Hypermarket		
Central FD	21	30
Volga FD	7	14
North-Western FD	3	8
Southern FD	1	2
Northern Caucasus	1	1
Ural FD	−	1
Total	**33**	**56**
"Perekrestok Vprok" – Online hypermarket		
Central FD	4	3
Volga FD	1	1
North-Western FD	1	1
Total	**6**	**5**
"Chizhik" – Hard discounter		
Central FD	72	4
Total	**72**	**4**
"Mnogo Lososya" – Dark kitchen		
Central FD	43	−
North-Western FD	5	−
Total	**48**	**−**
Total stores	**19,121**	**17,707**

As at 31 December 2021 and 31 December 2020 the principal shareholder exerting significant influence over the Company was CTF Holdings S.A. ("CTF"). As at 31 December 2021 and 31 December 2020 CTF directly owned 47.86% of total issued shares in the Company. As at 31 December 2021 and 31 December 2020 the Company's shares were listed on the London and Moscow Stock Exchanges in the form of Global Depositary Receipts (GDRs) with each GDR representing an interest of 0.25 in an ordinary share (Note 22).

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 year ended 31 December 2021 have been prepared in accordance with and comply with International Financial Reporting Standards as adopted by the European Union. These consolidated financial statements are not intended for statutory reporting in accordance with Part 9 Book 2 of the Dutch Civil Code.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities (including derivative instruments) that have been measured at fair value. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3. Management prepared these consolidated financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations, access to financial resources (Note 31) and the potential impact of COVID-19 and the sanctions being imposed against certain entities and individuals in Russia (Note 36). On 11 July 2022, the Management Board authorised the consolidated financial statements for issue. Publication is on 11 July 2022.

2.2 Basis of consolidation

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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

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

2.3 Foreign currency translation and transactions

(a) Functional and presentation currency

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

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the Central Bank of Russian Federation ("CBRF") at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items.

2.4 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Management Board. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Group identifies retail chains of each format and dark kitchens (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2.5 Property, plant and equipment

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Gains and losses on disposals determined by comparing the proceeds with the carrying amount are recognised in profit or loss.

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

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

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

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

2.6 Investment properties

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets

(a) Goodwill

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

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

(b) Brand and private labels

Brand and private labels acquired in a business combination are recognised initially at fair value. Private labels are amortised using the straight-line method over their useful lives. The useful life of “Pyaterochka” brand is estimated to be indefinite-lived as there is no foreseeable limit to the period over which the brand is expected to generate net cash inflows for the Group. In 2021 the Group revised the useful live of brand “Karusel” and determined that the useful life of 5 years fairly reflects the period over which the Group expects net cash inflows from the asset. Change in estimate was based on the demonstration of the brands’ ability to survive changes in the economic environment and Karusel reorganisation.

	Useful lives
Brand “Karusel”	5 years
Private labels	1-8 years

(c) Software and other intangible assets

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

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

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

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

(d) Impairment of intangible assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Leases

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

Group as a lessee

Right-of-use assets

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

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

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

Lease liabilities

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

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

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

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

Sale and leaseback

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

Short-term leases

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Leases (continued)

Group as a lessor

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

2.9 Inventories

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

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

2.10 Financial instruments

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

(a) Financial assets

Initial recognition and measurement

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

With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.24 (a) Revenue from contracts with customers.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

Subsequent measurement

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

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

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

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

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

Derecognition

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

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

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

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

Impairment of financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

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 2.11 and Note 2.12.

Derecognition

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

2.11 Borrowings

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 the employees of the Group. The Group's entities contribute to the Russian Federation's state pension and social insurance funds in respect of their employees. These contributions are accrued when incurred. The Group's commitment ends with the payment of these contributions.

2.17 Share-based payments

Employee stock plan

The Group receives services from employees as consideration for conditional rights to receive GDRs after vesting period of 3 years and fulfilment of certain predetermined performance conditions.

Share-based payment transactions under the employee stock plan are accounted for as equity-settled transactions.

The fair value of the employee services received in exchange for the grant of the conditional rights is recognised as an expense over the vesting period with the corresponding increase in equity (Share-based payment reserve) and measured by reference to the market price of the GDRs which is determined at grant date.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions. No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

2.19 Dividends

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

2.20 Treasury shares

Where any group company purchases the Company's equity share capital, the paid consideration, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any received consideration, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.21 Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting period. Diluted earnings per share are calculated by adjusting the earnings and the number of shares for the effects of dilutive options.

2.22 Taxes

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted within the consolidated group of taxpayers (CGT) and within individual companies of the Group for the entities that are not members of the CGT.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Taxes (continued)

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

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

2.23 Fair value measurement

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

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

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Income and expense recognition

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

(a) Revenue from contracts with customers

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

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

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

(b) Cost of sales

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

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

(c) Interest income and expense

Interest income and expense are recognised on an effective yield basis.

(d) Selling, general and administrative expenses

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

2.25 Contract liability

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

2.26 Impairment of non-current assets other than goodwill

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 Fair value of assets and liabilities at the acquisition date

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

2.28 Indemnification asset

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

2.29 Offsetting of financial assets and financial liabilities

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

2.30 Long-term employee benefits

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

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

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

Impairment of goodwill

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

Identifying a business combination

The Group enters into transactions to acquire integrated set of assets and operations of retail stores. The Group determines whether such transactions represent a business combination or assets acquisitions. The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs. All acquisitions of assets and operations of retail stores occurred in 2021 and 2020 were treated by the Group as business combinations.

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

Litigations

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

Tax legislation

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

Deferred tax assets and liabilities

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

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

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

Property, plant and equipment

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

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. The Group performs assets impairment testing (Note 10). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2021 the Group recognised an impairment loss in the amount of RUB 3,105 (year ended 31 December 2020: a net impairment loss in the amount of RUB 4,010).

Investment property

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

The Group periodically assesses whether there is any indication that investment property may be impaired. The Group performs assets impairment testing (Note 12). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2021 the Group recognised a net impairment gain in the amount of RUB 343 (year ended 31 December 2020: a net impairment gain in the amount of RUB 50).

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

Right-of-use assets

The Group periodically assesses whether there is any indication that right-of-use assets may be impaired. The Group performs assets impairment testing (Note 11). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2021 the Group recognised a net impairment loss in the amount of RUB 630 (year ended 31 December 2020: a net impairment gain in the amount of RUB 350).

Inventories provisions

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

Revenue recognition – Loyalty programmes

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

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

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

Any significant changes in customers' redemption patterns will impact the estimated redemption rate. As at 31 December 2021, the estimated liability for unredeemed points was RUB 2,146 (31 December 2020: RUB 1,955).

Provision for expected credit losses of trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and other receivables are written-off if past due for more than 3 years and are no subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables is disclosed in Note 17.

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

Brand and private labels

The Group periodically assesses whether there is any indication that brand and private labels may be impaired. The Group performs assets impairment testing of brands with indefinite useful lives at least annually (Note 14). The Group estimates the recoverable amount of the asset and if it is less than the carrying amount an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2021 the Group did not recognise any impairment of brand and private labels (year ended 31 December 2020: impairment loss in amount of RUB 885).

Lease term of contracts with extension options and termination options

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

Incremental borrowing rates for calculation of lease liability

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

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

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2021. Standards, Interpretations and amendments effective 1 January 2021 did not have a material impact on the financial position or performance of the Group.

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

The following other new standards and amendments to IFRSs effective for the financial year beginning on or after 1 January 2021 do not have a material impact on the Group and do not result in change of the Group's accounting policy:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform* – Phase 2;
- Amendments to IFRS 4 *Insurance Contracts* – deferral of IFRS 9;
- Amendments to IFRS 16 *Leases*: COVID-19-Related Rent Concessions beyond 30 June 2021.

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

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 in the European Union	**Effective for annual periods beginning on or after**
Amendments to IAS 1 *Presentation of Financial Statements*: Classification of Liabilities as Current or Non-current *and* Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023*
Amendments to IFRS 17 *Insurance Contracts*: Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1 January 2023*
Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors:* Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12 *Income Taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023*
Amendments to IFRS 3 *Business Combinations*; IAS 16 *Property, Plant and Equipment*; IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as well as Annual Improvements 2018-2020	1 January 2022
IFRS 17 *Insurance Contracts* including Amendments to IFRS 17	1 January 2023

* Subject to EU endorsement.

The Group expects that the adoption of other pronouncements listed above will not have a significant impact on the Group's results of operations and financial positions in the period of initial application except for amendments to IAS 12 *Income Taxes*.

The amendments to IAS 12 *Income Taxes* may require to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The impact for the Group would be the recognition of additional deferred tax assets and liabilities attributable to right-of-use assets and lease liabilities. The Group is currently assessing the potential effect of the amendments to IAS 12 on its consolidated financial statements.

5 SEGMENT REPORTING

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

The following significant operating functions are decentralised by formats:

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

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

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

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

5 SEGMENT REPORTING (continued)

The accounting policies used for segments are the same as accounting policies applied for these consolidated financial statements. In 2021 a new methodology of overhead expenses allocation was used for more accurate measurements of segments' performance. The comparative figures for earlier periods have been adjusted in order to provide meaningful comparative information.

The segment information for the year ended 31 December 2021, comparative figures for earlier periods and reconciliation of EBITDA pre-IFRS 16 to profit for the year is provided as follows:

Year ended 31 December 2021	**Pyaterochka**	**Perekrestok**	**Other segments**	**Corporate centre**	**Total**
Revenue (Note 24)	**1,795,018**	**351,100**	**58,701**	**–**	**2,204,819**
EBITDA pre-IFRS 16	145,350	24,213	(4,375)	(4,164)	**161,024**
Fixed lease expenses and fixed non-lease components of lease contracts					**104,141**
Gain on derecognition of right-of-use assets and lease liabilities					**2,940**
Reversal of adjustment for the proportion of the rights retained under sale and leaseback operations (Note 11)					**(255)**
Depreciation, amortisation and impairment					**(150,278)**
Operating profit					**117,572**
Finance cost, net					**(57,229)**
Net foreign exchange result					**399**
Profit before income tax					**60,742**
Income tax expense					**(18,004)**
Profit for the year					**42,738**
Adjusted capital expenditure	72,079	18,656	7,189	–	**97,924**
31 December 2021					
Inventories	137,489	25,638	3,713	–	**166,840**

Year ended 31 December 2020	**Pyaterochka**	**Perekrestok**	**Other segments**	**Corporate centre**	**Total**
Revenue (Note 24)	**1,598,315**	**309,460**	**70,251**	**–**	**1,978,026**
EBITDA pre-IFRS 16	129,268	22,116	(2,409)	(3,838)	**145,137**
Fixed lease expenses and fixed non-lease components of lease contracts					**96,630**
Gain on derecognition of right-of-use assets and lease liabilities					**1,855**
Depreciation, amortisation and impairment					**(137,905)**
Operating profit					**105,717**
Share of loss of associates and joint ventures					**(20)**
Finance cost, net					**(56,636)**
Net foreign exchange result					**(3,391)**
Profit before income tax					**45,670**
Income tax expense					**(17,326)**
Profit for the year					**28,344**
Adjusted capital expenditure	66,895	17,588	5,444	3	**89,930**
31 December 2020					
Inventories	115,674	23,963	4,756	–	**144,393**

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

6 SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2021 and 31 December 2020 were as follows:

			Ownership (%)	
Company	**Country**	**Nature of operations**	**31 December 2021**	**31 December 2020**
Agrotorg LLC	Russia	Retailing	100	100
Trade House PEREKRIOSTOK JSC	Russia	Retailing	100	100
Agroaspect LLC	Russia	Retailing	100	100
X5 Nedvizhimost CJSC	Russia	Assets holding company	100	100
KOPEYKA-MOSCOW Ltd	Russia	Retailing	100	100
Krasnoborskoe LLC	Russia	Assets holding company	100	100
Perekrestok Holdings B.V.	The Netherlands	Holding company	–*	100
PEREKRIOSTOK-2000 LLC	Russia	Assets holding company	100	100
Beta Estate LLC	Russia	Assets holding company	100	100
X5 FINANSE LLC	Russia	Bond issuer	100	100
Agro-Avto LLC	Russia	Assets holding company	100	100
X5 Corporate Center LLC	Russia	Assets holding company	100	100

* In 2021 Perekrestok Holdings B.V. was reorganised by merger with X5 Retail Group N.V.

7 ACQUISITION OF BUSINESSES

Acquisitions in 2021

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

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

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

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

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

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

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

7 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2021 (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 these acquisitions was allocated to Pyaterochka segment in amount of RUB 1,063, Perekrestok segment in amount of RUB 35 and other segment in amount of RUB 20.

During the 12 months ended 31 December 2021 the Group transferred RUB 750 as deferred payments for the prior periods acquisitions.

Acquisitions in 2020

During 2020 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2020 the acquired businesses contributed revenue of RUB 8,137 from the date of acquisition. As the businesses were not acquired as separate legal entities, it is impracticable to disclose net profit from the date of acquisition. These businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2020 as though the acquisition date had been the beginning of that period.

At 31 December 2020 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2021 the Group completed the purchase price allocation, which resulted in the following changes in fair values at the acquisition date:

	Provisional fair values at the acquisition date	Finalised fair values at the acquisition date	Effect of change in purchase price allocation on the consolidated statement of financial position as at 31 December 2021
Indemnification asset	–	258	258
Right-of-use assets (Note 11)	8,507	8,507	–
Deferred tax assets (Note 30)	575	575	–
Cash and cash equivalents	55	55	–
Lease liabilities (Note 11)	(8,505)	(8,505)	–
Current income tax payable	–	(79)	(79)
Provisions and other liabilities	–	(179)	(179)
Net assets acquired	**632**	**632**	**–**
Goodwill (Note 13)	2,963	2,963	–
Purchase consideration	**3,595**	**3,595**	**–**
Net cash outflow arising from the acquisition	**2,699**	**2,699**	**–**

The purchase consideration for the reporting period comprised consideration paid in cash of RUB 2,754 and RUB 841 as deferred consideration measured at fair value.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka segment in amount of RUB 1,142, Perekrestok segment in amount of RUB 1,158 and other segments in amount of RUB 663.

During the 12 months ended 31 December 2020 the Group transferred RUB 439 as deferred payments for the prior periods' acquisitions.

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

8 RELATED PARTY TRANSACTIONS

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

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2021 and at 31 December 2020 are provided below. The ownership structure is disclosed in Note 1.

The following transactions were carried out with related parties:

	Relationship	2021	2020
CTF Holdings S.A.	Entity with significant influence over the Company		
Management services received		113	125
Other	Under control by the entity with significant influence over the Company		
Purchases from related parties		4,122	3,826
Other operating expenses		1	–
Bonuses from related parties		201	185
Other	Other		
Other operating expenses		44	39

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

	Relationship	31 December 2021	31 December 2020
CTF Holdings S.A.	Entity with significant influence over the Company		
Other accounts payable		27	–
Other	Under control by the entity with significant influence over the Company		
Other receivables from related parties		45	–
Trade accounts payable		759	757
Trade accounts receivable		23	24
Other accounts payable		50	–
Other	Other		
Advances		26	–
Other accounts payable		4	12

At 31 December 2021 the Group had a 49.99% interest in X5 FINANCIAL SOLUTIONS LLC which was formed together with ALFA-BANK JSC and Alfa Investments LLC. The Group's share in equity amounted to RUB 50. In 1H 2022 the liquidation of X5 FINANCIAL SOLUTIONS LLC was started.

Key management personnel compensation

Key management personnel compensation is disclosed in Note 28.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2021 and 31 December 2020, the Group did not record any material expected credit loss provisions for trade and other receivables nor did it recognise any impairment provisions for prepayments.

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

9 CASH AND CASH EQUIVALENTS, SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2021	31 December 2020
Bank current account − Roubles	2,733	528
Bank current account − other currencies	49	2
Cash in transit – Roubles	14,997	12,590
Cash in hand – Roubles	8,278	6,888
Deposits – Roubles	5	−
Total	**26,062**	**20,008**

The bank accounts represent current accounts. Interest income on overnights / term deposits was immaterial. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

Short-term financial investments at 31 December 2021 represent irrevocable bank deposits in Russian Roubles with maturity not more than a year that earned interest income at the rates in the range of 8.0%-9.0% per annum.

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

Credit quality of cash and cash equivalents and short-term financial investments balances are summarised as follows:

Bank	Moody's	Fitch	S&P	31 December 2021	31 December 2020
Cash and cash equivalents					
Alfa-Bank	Ba1	BBB-	BBB-	1,559	263
Sberbank	Baa3	BBB	−	1,025	11
Gazprombank	Ba1	BBB-	BBB-	31	25
GPB International S.A.	−	−	BBB-	5	−
Vneshtorgbank	Baa3	−	BBB-	108	181
Other banks				59	50
Cash in transit and in hand				23,275	19,478
Total				**26,062**	**20,008**
Short-term financial investments					
GPB International S.A.	−	−	BBB-	50,092	−
Total				**50,092**	**−**

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

10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress*	Total
Cost							
At 1 January 2020	**299,815**	**55,317**	**64,657**	**25,547**	**52,428**	**4,637**	**502,401**
Additions	–	–	–	–	–	74,275	**74,275**
Transfers	30,216	15,585	12,077	1,142	12,499	(71,519)	**–**
Disposals	(13,486)	(4,915)	(4,006)	(1,016)	(5,837)	(119)	**(29,379)**
At 31 December 2020	**316,545**	**65,987**	**72,728**	**25,673**	**59,090**	**7,274**	**547,297**
Additions	–	–	–	–	–	79,716	**79,716**
Transfers	31,764	16,375	11,208	5,795	13,140	(78,282)	**–**
Disposals	(7,360)	(5,536)	(4,098)	(921)	(3,835)	(282)	**(22,032)**
At 31 December 2021	**340,949**	**76,826**	**79,838**	**30,547**	**68,395**	**8,426**	**604,981**
Accumulated depreciation and impairment							
At 1 January 2020	**(96,152)**	**(24,221)**	**(26,319)**	**(8,847)**	**(31,384)**	**(221)**	**(187,144)**
Depreciation charge	(27,764)	(9,171)	(8,668)	(3,636)	(10,484)	–	**(59,723)**
Impairment charge	(3,151)	(1,096)	(884)	(5)	(385)	(58)	**(5,579)**
Reversal of impairment	1,508	–	–	61	–	–	**1,569**
Disposals	10,884	4,700	3,897	914	5,773	119	**26,287**
At 31 December 2020	**(114,675)**	**(29,788)**	**(31,974)**	**(11,513)**	**(36,480)**	**(160)**	**(224,590)**
Depreciation charge	(28,408)	(10,709)	(9,513)	(4,044)	(10,865)	–	**(63,539)**
Impairment charge	(3,160)	(872)	(585)	(27)	(196)	(131)	**(4,971)**
Reversal of impairment	1,829	9	4	22	2	–	**1,866**
Disposals	4,539	5,161	3,946	808	3,745	198	**18,397**
At 31 December 2021	**(139,875)**	**(36,199)**	**(38,122)**	**(14,754)**	**(43,794)**	**(93)**	**(272,837)**
Net book value at 31 December 2021	**201,074**	**40,627**	**41,716**	**15,793**	**24,601**	**8,333**	**332,144**
Net book value at 31 December 2020	**201,870**	**36,199**	**40,754**	**14,160**	**22,610**	**7,114**	**322,707**
Net book value at 1 January 2020	**203,663**	**31,096**	**38,338**	**16,700**	**21,044**	**4,416**	**315,257**

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

Depreciation charge, impairment charge and reversal of impairment were included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2021 and 31 December 2020.

Construction in progress predominantly related to the development of stores through the use of sub-contractors.

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

Impairment test

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

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

The impairment review has been carried out by comparing recoverable amount of the individual store/unit with their carrying values. The recoverable amount of store/unit is determined as the higher of fair value less cost of disposal or value in use.

10 PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment test (continued)

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

The Group analysed external and internal sources of information including the potential impact of COVID-19 pandemic on the Group itself and on the macro economic environment and identified that COVID-19 caused lower traffic in certain stores located in shopping malls which however was partly compensated by improved performance of other stores and segments.

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

Value in use

For property, plant and equipment, right-of-use assets, other intangible assets and investment property the discounted future cash flow approach is applied and covers a 10-year period from 2022 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan is extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4.00% to 7.86% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2020: 4.00% to 6.78%). For the years beyond the forecast period the long-term consumer price index forecast of 4.00% at 31 December 2021 is used (31 December 2020: 4.00%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) − 13.39% (31 December 2020: 12.14%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions. If the revised estimated discount rate consistently applied to the discounted cash flows had been 200 b.p. higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment, right-of-use assets, investment property and intangible assets by RUB 1,544 (31 December 2020: RUB 2,216), if 200 b.p. lower − increase by RUB 1,198 (31 December 2020: RUB 1,487). If the annual revenue growth rate used in calculations of value in use had been 200 b.p. higher, the Group would need to increase the carrying value of property, plant and equipment, right-of-use assets, investment property and intangible assets by RUB 809 (31 December 2020: RUB 619), lower − decrease by RUB 1,026 (31 December 2020: RUB 705).

11 LEASES

Group as a lessee

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

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

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

11 LEASES (continued)

Group as a lessee (continued)

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 2020	**428,166**	**(484,795)**
Additions	115,529	(114,970)
Acquisition of businesses (Note 7)	8,507	(8,505)
Depreciation expense	(69,206)	−
Impairment charge	(1,806)	−
Reversal of impairment	2,156	−
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(2,835)	4,690
Interest accrued	−	(39,996)
Payments	−	97,553
Effect of changes in foreign exchange rates	−	(2,478)
At 31 December 2020	**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)**

The expenses related to short-term leases for the year ended 31 December 2021 amounted to RUB 97 (31 December 2020: 15). The expense related to variable lease payments not included in the measurement of lease liabilities for the year ended 31 December 2021 amounted to RUB 14,444 (31 December 2020: 11,271). Variable lease payments are mainly linked to sales generated from a store. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base.

The total cash outflow for leases for the year ended 31 December 2021 amounted to RUB 119,238 (2020: RUB 108,737).

Maturity analysis of the lease liabilities is disclosed in the Note 31.

As at 31 December 2021 potential future cash outflows of RUB 3,134 (undiscounted) (31 December 2020: 3,057) have not been included in the lease liability because it was assessed reasonably certain that the leases will be terminated.

In an ordinary course of the business the Group constantly arranges for leases of new premises and land. As at 31 December 2021 and 31 December 2020 the Group had a certain number of leases to which the Group was committed but the lease did not commence. The Group assesses that the amount of future cash outflows to which the lessee is potentially exposed is not significant.

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

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

11 LEASES (continued)

Group as a lessor

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

	31 December 2021	31 December 2020
Within 1 year	2,928	2,863
Between 1 and 2 years	403	984
Between 2 and 3 years	329	733
Between 3 and 4 years	272	571
Between 4 and 5 years	138	397
Later than 5 years	418	773
Total	**4,488**	**6,321**

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2021 amounted to RUB 7,007 (2020: RUB 6,284) (Note 26). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2021 amounted to RUB 202 (2020: 276).

Income from subleasing right-of-use assets under operating lease agreement for the year ended 31 December 2021 amounted to RUB 2,618 (2020: RUB 2,464).

Impairment test

At the end of 2021 management performed an impairment test of right-of-use assets. The evaluation performed and reasons for it are consistent with the approach for impairment testing of Property, Plant and Equipment (Note 10).

12 INVESTMENT PROPERTIES

The Group held the following investment properties at 31 December 2021 and 31 December 2020:

Cost	**2021**	**2020**
Cost at 1 January	**8,356**	**9,383**
Disposals	(447)	(1,027)
Cost at 31 December	**7,909**	**8,356**
Accumulated depreciation and impairment		
Accumulated depreciation and impairment at 1 January	**(3,854)**	**(3,819)**
Depreciation charge	(169)	(188)
Impairment charge	(65)	(16)
Reversal of impairment	408	66
Disposals	232	103
Accumulated depreciation and impairment at 31 December	**(3,448)**	**(3,854)**
Net book value at 31 December	**4,461**	**4,502**
Net book value at 1 January	**4,502**	**5,564**

Depreciation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2021 and 31 December 2020.

The Group's investment properties consist of land and buildings. Rental income from investment property amounted to RUB 1,140 (2020: RUB 1,235). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 796 (2020: RUB 821). There were no significant direct operating expenses incurred by the Group in relation to investment property that did not generate rental income.

Management estimates that the fair value of investment property at 31 December 2021 amounted to RUB 6,700 (31 December 2020: RUB 7,666). The fair value was estimated using market approach with key inputs being rent income rates and market value of comparable assets.

Impairment test

At the end of 2021 management performed an impairment test of investment property. The evaluation performed and reasons for it are consistent with the approach for impairment testing of Property, Plant and Equipment (Note 10).

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

13 GOODWILL

Movements in goodwill arising on the acquisition of businesses at 31 December 2021 and 31 December 2020 are:

Cost	**2021**	**2020**
Gross book value at 1 January	**171,202**	**168,239**
Acquisition of businesses (Note 7)	1,118	2,963
Disposal	(221)	−
Gross book value at 31 December	**172,099**	**171,202**
Accumulated impairment losses		
Accumulated impairment losses at 1 January	**(66,312)**	**(66,312)**
Impairment charge	(980)	−
Disposal	221	−
Accumulated impairment losses at 31 December	**(67,071)**	**(66,312)**
Carrying amount at 1 January	**104,890**	**101,927**
Carrying amount at 31 December	**105,028**	**104,890**

Goodwill impairment test

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

The group of CGUs to which goodwill has been allocated is tested for impairment annually or more frequently if there are indications that the particular group of CGUs might be impaired. Goodwill is tested for impairment at the group of CGUs level by comparing carrying values of particular group of CGU assets including allocated goodwill to their value in use. The Karusel group of CGUs started reorganisation in 2019. The reorganisation is expected to be finalised in 2023. The reorganisation resulted in a transfer of goodwill to Perekrestok group of CGUs in amount of RUB 644 and impairment charge for the year ended 31 December 2021 in amount of RUB 980.

The Group analysed the potential impacts and effects of the COVID-19 pandemic, including the estimated impact on the macro economic environment. COVID-19 pandemic did not negatively affect the overall Group's performance during the reporting period as demand for food products remains stable.

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

31 December 2021	**Pyaterochka**	**Perekrestok**	**Other**	**Total**
Goodwill	80,756	23,334	938	**105,028**

31 December 2020	**Pyaterochka**	**Perekrestok**	**Other**	**Total**
Goodwill	79,693	22,655	2,542	**104,890**

Value in use

For items of land, buildings and construction in progress the discounted future cash flow approach is applied and covers a 10-year period from 2021 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4.00% to 7.86% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2020: 4.00% to 6.78%). For the years beyond the forecast period the long-term consumer price index forecast of 4.00% at 31 December 2021 is used (31 December 2020: 4.00%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 13.39% (31 December 2020: 12.14%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

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

13 GOODWILL (continued)

Goodwill impairment test (continued)

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

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

Impairment test

The recoverable amount of the groups of CGUs calculated exceeds their carrying amounts and therefore no impairment was recognised for them during the year ended 31 December 2021 (year ended 31 December 2020: Nil).

14 OTHER INTANGIBLE ASSETS

Other intangible assets comprise the following:

	Brand and private labels	Software and other	Total
Cost			
At 1 January 2020	**16,843**	**30,504**	**47,347**
Additions	–	12,160	**12,160**
Disposals	–	(362)	**(362)**
At 31 December 2020	**16,843**	**42,302**	**59,145**
Additions	–	16,520	**16,520**
Acquisition of businesses (Note 7)	–	10	**10**
Disposals	–	(415)	**(415)**
At 31 December 2021	**16,843**	**58,417**	**75,260**
Accumulated amortisation and impairment			
At 1 January 2020	**(11,554)**	**(11,455)**	**(23,009)**
Amortisation charge	–	(4,323)	**(4,323)**
Impairment charge	(885)	(533)	**(1,418)**
Disposals	–	362	**362**
At 31 December 2020	**(12,439)**	**(15,949)**	**(28,388)**
Amortisation charge	(76)	(7,846)	**(7,922)**
Impairment charge	–	(352)	**(352)**
Disposals	–	408	**408**
At 31 December 2021	**(12,515)**	**(23,739)**	**(36,254)**
Net book value at 31 December 2021	**4,328**	**34,678**	**39,006**
Net book value at 31 December 2020	**4,404**	**26,353**	**30,757**
Net book value at 1 January 2020	**5,289**	**19,049**	**24,338**

The majority of additions of software are represented with internally generated development costs. Brand and private labels includes brand "Pyaterochka" with the carrying amount of RUB 4,029 (31 December 2020: RUB 4,029) and brand "Karusel" with the carrying amount of RUB 298 (31 December 2020: RUB 373). In 2021 the Group revised the useful life of the brand "Karusel" to finite terms and started to amortise it (Note 2.7), in 2020 the brand "Karusel" was impaired in amount of RUB 885.

Amortisation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2021 and 31 December 2020.

Impairment test

At the end of 2021 management performed an impairment test of brands.

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

Also the Group recognised an impairment of software which was no longer used.

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

15 INVENTORIES

At 31 December 2021 inventories in the amount of RUB 166,840 were accounted at the lower of cost and net realisable value (31 December 2020: RUB 144,393). Write-off of inventory to net realisable value at 31 December 2021 amounted to RUB 3,021 (31 December 2020: RUB 2,590). At 31 December 2021 and 31 December 2020 inventories consisted mainly of goods for resale.

16 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortised cost
31 December 2021	
Assets as per consolidated statement of financial position	
Short-term financial investments	50,092
Trade and other receivables excluding prepayments	15,338
Cash and cash equivalents	26,062
Total	**91,492**

	Financial liabilities at amortised cost
31 December 2021	
Liabilities as per consolidated statement of financial position	
Lease liabilities	577,363
Borrowings	294,338
Interest accrued	1,792
Trade, other current and non-current payables excluding statutory liabilities and advances	290,074
Total	**1,163,567**

	Financial assets at amortised cost
31 December 2020	
Assets as per consolidated statement of financial position	
Trade and other receivables excluding prepayments	16,626
Cash and cash equivalents	20,008
Total	**36,634**

	Financial liabilities at amortised cost
31 December 2020	
Liabilities as per consolidated statement of financial position	
Lease liabilities	548,501
Borrowings	261,947
Interest accrued	1,380
Trade, other current and non-current payables excluding statutory liabilities and advances	236,863
Total	**1,048,691**

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

17 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2021	31 December 2020
Trade accounts receivable	11,499	13,828
Other receivables	4,658	3,879
Allowance for expected credit losses of trade and other receivables	(819)	(1,081)
Total trade and other accounts receivable	**15,338**	**16,626**
Prepayments	4,327	2,452
Advances made to trade suppliers	1,086	699
Allowance for impairment of prepayments and advances	(561)	(500)
Total prepayments	**4,852**	**2,651**
Total	**20,190**	**19,277**

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

During the year ended 2021 the Group made a detailed analysis of coronavirus influence on the expected credit losses and did not identify significant effects. In general, COVID-19 did not negatively affect the Group's main debtors mostly being food suppliers, as well as other receivables turnover except for minor debtors, so there was no need for the revision of the provision matrix for expected credit losses.

Trade receivables

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

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

	Expected credit loss rate at 31 December 2021	Estimated total gross carrying amount at default 31 December 2021	Expected credit loss 31 December 2021	Expected credit loss rate at 31 December 2020	Estimated total gross carrying amount at default 31 December 2020	Expected credit loss 31 December 2020
Not overdue − 1 month	0.28%	11,018	31	0.18%	13,116	24
1-6 months	3.91%	256	10	7.37%	190	14
6-12 months	45.16%	62	28	29.41%	34	10
Over 1 year	71.17%	163	116	86.89%	488	424
Total		**11,499**	**185**		**13,828**	**472**

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

	2021	2020
At 1 January	**(472)**	**(451)**
Addition of allowance for expected credit losses	(110)	(77)
Release of allowance for expected credit losses	104	29
Trade receivables written off as uncollectable	293	27
At 31 December	**(185)**	**(472)**

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

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

17 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Other receivables

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

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

	Expected credit loss rate at 31 December 2021	Estimated total gross carrying amount at default 31 December 2021	Expected credit loss 31 December 2021	Expected credit loss rate at 31 December 2020	Estimated total gross carrying amount at default 31 December 2020	Expected credit loss 31 December 2020
Not overdue − 1 month	1.50%	1,538	23	1.15%	2,606	30
1-6 months	3.53%	1,896	67	15.51%	690	107
6-12 months	44.12%	204	90	68.42%	190	130
Over 1 year	44.51%	1,020	454	87.02%	393	342
Total		**4,658**	**634**		**3,879**	**609**

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

	2021	2020
At 1 January	**(609)**	**(608)**
Addition of allowance for expected credit losses	(356)	(440)
Release of allowance for expected credit losses	208	237
Other receivables written off as uncollectable	123	202
At 31 December	**(634)**	**(609)**

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

Prepayments and advances made to trade suppliers

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

	2021	2020
At 1 January	**(500)**	**(492)**
Addition of allowance for prepayments and advances to trade suppliers impairment	(372)	(312)
Release of allowance for prepayments and advances to trade suppliers impairment	151	75
Prepayments and advances to trade suppliers written off as uncollectable	160	229
At 31 December	**(561)**	**(500)**

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

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

18 VAT AND OTHER TAXES RECEIVABLE

	31 December 2021	31 December 2020
VAT receivable	8,462	8,216
Other taxes receivable	340	2,100
Total	**8,802**	**10,316**

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

19 PROVISIONS AND OTHER LIABILITIES

	31 December 2021	31 December 2020
Other accounts payable and accruals	31,896	26,604
Accrued salaries and bonuses	26,153	23,318
Accounts payable for property, plant and equipment	16,191	13,264
Taxes other than income tax	21,261	15,689
Advances received	1,680	1,844
Payables to landlords	1,443	1,055
Provisions and liabilities for tax uncertainties (Note 35)	6,049	4,202
Total	**104,673**	**85,976**

There were no significant amounts of other payables to foreign counterparties as at 31 December 2021 and 31 December 2020.

20 CONTRACT LIABILITIES

	31 December 2021	31 December 2020
Short-term contract liabilities		
Short-term contract liabilities related to loyalty programmes	2,146	1,955
Advances received from wholesales customers	40	32
Advances received from other customers	206	211
Total	**2,392**	**2,198**

Movements in short-term contract liabilities related to loyalty programmes comprise the following:

	2021	2020
At 1 January	**1,955**	**1,836**
Deferred during the year	2,146	1,955
Recognised as revenue during the year	(1,955)	(1,836)
At 31 December	**2,146**	**1,955**

21 BORROWINGS

The Group had the following borrowings at 31 December 2021 and 31 December 2020:

Current	**Final maturity year***	**Fair value 2021**	**Fair value 2020**	**Carrying value 2021**	**Carrying value 2020**
RUB Bonds X5 FINANSE LLC series BO-05		–	386	–	390
RUB Bonds X5 FINANSE LLC series BO-04	2022	2,091	–	2,150	–
RUB Bonds X5 FINANSE LLC series BO-06	2022	1,201	–	1,201	–
RUB Bonds X5 FINANSE LLC series BO-07	2022	5,023	–	5,000	–
RUB Bonds X5 FINANSE LLC series 001P-04		–	5,115		4,998
RUB Bonds X5 FINANSE LLC series 001P-05	2022	5,017	–	4,999	–
RUB Bonds X5 FINANSE LLC series 001P-06	2022	9,920	–	9,999	–
RUB Bonds X5 FINANSE LLC series 001P-07	2022	4,967	–	4,999	–
RUB Bonds X5 FINANSE LLC series 001P-08	2022	4,915	–	4,998	–
RUB Bonds X5 FINANSE LLC series 001P-09	2022	4,915	–	4,998	–
RUB Bonds X5 FINANSE LLC series 001P-10	2022	9,875	–	9,998	–
RUB Bonds X5 FINANSE LLC series 001P-11	2022	9,726	–	9,994	–
RUB Bilateral Loans	2022	29,431	71,638	29,431	71,638
Total current borrowings		**87,081**	**77,139**	**87,767**	**77,026**

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

21 BORROWINGS (continued)

Non-current	Final maturity year*	Fair value 2021	Fair value 2020	Carrying value 2021	Carrying value 2020
RUB Bonds X5 FINANSE LLC series BO-04		−	2,134	−	2,149
RUB Bonds X5 FINANSE LLC series BO-05	2023	8	−	9	
RUB Bonds X5 FINANSE LLC series BO-06		−	1,330	−	1,201
RUB Bonds X5 FINANSE LLC series BO-07		−	5,188	−	4,998
RUB Bonds X5 FINANSE LLC series 001P-01	2023	98	99	96	96
RUB Bonds X5 FINANSE LLC series 001P-02	2023	7	8	8	8
RUB Bonds X5 FINANSE LLC series 001P-03	2023	43	42	48	48
RUB Bonds X5 FINANSE LLC series 001P-05		−	5,163	−	4,997
RUB Bonds X5 FINANSE LLC series 001P-06		−	10,245	−	9,993
RUB Bonds X5 FINANSE LLC series 001P-07		−	5,080	−	4,996
RUB Bonds X5 FINANSE LLC series 001P-08		−	5,100	−	4,996
RUB Bonds X5 FINANSE LLC series 001P-09		−	5,100	−	4,996
RUB Bonds X5 FINANSE LLC series 001P-10		−	10,215	−	9,990
RUB Bonds X5 FINANSE LLC series 001P-11		−	10,025	−	9,998
RUB Bonds X5 FINANSE LLC series 001P-12	2023	9,609	9,991	9,989	9,999
RUB Bonds X5 FINANSE LLC series 002P-01	2024	9,951	−	9,998	−
RUB Bilateral Loans	2024	179,255	116,536	186,423	116,456
Total non-current borrowings		**198,971**	**186,256**	**206,571**	**184,921**
Total borrowings		**286,052**	**263,395**	**294,338**	**261,947**

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

In September 2021 the Group passed the put-option on the exchange-registered corporate bonds series BO-05 in the amount of RUB 390 and bought back RUB 381 from the issue. For the remaining RUB 9 the new annual rate for the next 3 semi-annual coupon periods was fixed at 0.01%.

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

The weighted average effective interest rate on X5's total borrowings for the year ended 31 December 2021 comprised 6.56% per annum (year ended 31 December 2020: 6.78%).

All borrowings at 31 December 2021 are shown net of related transaction costs of RUB 119 which are amortised over the term of the loans using the effective interest method (31 December 2020: RUB 98). Borrowing costs capitalised for the year ended 31 December 2021 amounted to RUB 24 (for year ended 31 December 2020: RUB 25). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was approximate to weighted average effective interest rate for the period.

Change in total borrowings in amount of RUB 32,391 in 2021 equals to the proceeds from borrowings in amount of RUB 132,345, repayment of borrowings in amount of RUB 99,585 (the Consolidated Statement of Cash Flows) and other non-cash movements in amount of RUB 447 plus amortisation of transaction costs in amount of RUB 78. Changes in lease liabilities which also form liabilities arising from financing activities are disclosed in the Note 11.

Change in total borrowings in amount of RUB 34,014 in 2020 equals to the proceeds from borrowings in amount of RUB 203,046, repayment of borrowings in amount of RUB 169,175 (the Consolidated Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 143. Changes in lease liabilities which also form liabilities arising from financing activities are disclosed in the Note 11.

In accordance with a few loan agreements, the Group maintains an optimal leverage ratio by tracking covenant: the maximum level of Net Debt/EBITDA pre-IFRS 16 (4.00/4.25 during 2 quarters after acquisition). At 31 December 2021 the Group complied with this covenant and Net Debt/EBITDA pre-IFRS 16 was equal to 1.67 (31 December 2020: 1.67). Metric EBITDA specified in all loan agreements is equal to EBITDA pre-IFRS 16 (for calculation please refer to Note 5).

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

22 SHARE CAPITAL

As at 31 December 2021 the Group had 190,000,000 authorised ordinary shares (31 December 2020: 190,000,000) of which 67,888,696 ordinary shares were outstanding (31 December 2020: 67,882,444) and 4,521 ordinary shares in amount of RUB 41 were held as treasury stock (31 December 2020: 10,774 ordinary shares in amount of RUB 92). The nominal par value of each ordinary share is EUR 1.

Dividends approved for distribution at the General Meeting in May 2020 have been paid in the amount of RUB 29,996 during the year ended 31 December 2020 (RUB 441.88 per share).

In December 2020 interim dividends proposed by the Supervisory Board for the nine months ended 30 September 2020 have been paid in amount of RUB 19,997 (RUB 294.58 per share).

Dividends approved for distribution at the General Meeting in May 2021 have been paid in the amount of RUB 30,006 during the year ended 31 December 2021 (RUB 441.99 per share).

In December 2021 interim dividends proposed by the Supervisory Board for the nine months ended 30 September 2021 have been paid in amount of RUB 20,000 (RUB 294.60 per share).

23 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

Earnings per share were calculated as follows:

	2021	2020
Profit attributable to equity holders of the parent	42,738	28,344
Weighted average number of ordinary shares in issue	67,886,315	67,883,361
Effect of share options granted to employees, number of shares	1,801	3,135
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,888,116	67,886,496
Basic earnings per share for profit (expressed in RUB per share)	**629.55**	**417.54**
Diluted earnings per share for profit (expressed in RUB per share)	**629.54**	**417.52**

24 REVENUE

	2021			
	Pyaterochka	Perekrestok	Other segments	Total
Revenue from sale of goods through own stores (at a point of time)	1,770,731	348,553	51,858	**2,171,142**
Revenue from sale of goods through franchisees (at a point of time)	22,946	389	–	**23,335**
Revenue from wholesale of goods (at a point of time)	372	1,596	3,558	**5,526**
Revenue from other services (over time)	969	562	3,285	**4,816**
Total	**1,795,018**	**351,100**	**58,701**	**2,204,819**

	2020			
	Pyaterochka	Perekrestok	Other segments	Total
Revenue from sale of goods through own stores (at a point of time)	1,581,157	307,292	68,441	**1,956,890**
Revenue from sale of goods through franchisees (at a point of time)	16,017	438	–	**16,455**
Revenue from wholesale of goods (at a point of time)	215	1,156	963	**2,334**
Revenue from other services (over time)	926	574	847	**2,347**
Total	**1,598,315**	**309,460**	**70,251**	**1,978,026**

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

25 EXPENSES BY NATURE

	2021	2020
Cost of goods sold	1,580,063	1,427,974
Staff costs (Note 28)	218,948	188,863
Lease expenses (Note 11)	14,541	11,286
Depreciation, amortisation	145,554	132,877
Impairment of non-current assets	4,724	5,028
Other store costs	31,430	29,664
Utilities	47,935	41,940
Net impairment losses on financial assets	154	251
Other	67,775	52,163
Total	**2,111,124**	**1,890,046**

Other expenses included impairment of prepayments in amount to RUB 221 in 2021 (2020: RUB 237).

The fees listed below related to the procedures applied to the Group by Ernst & Young Accountants LLP, TSATR – Audit Services LLC and Other EY Network as referred to in article 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta):

	2021	2020
Audit of financial statements performed by Ernst & Young Accountants LLP	26	26
Audit of financial statements performed by TSATR – Audit Services LLC	44	46
Other assurance services performed by Other EY Network	7	–
Non-audit services by Other EY Network	43	40
Total	**120**	**112**

In addition to the statutory audit of the financial statements the EY member firm in Russia provided non-audit services in the areas of supply chain network design, retail pricing proof, business trainings and tax advisory.

26 LEASE/SUBLEASE AND OTHER INCOME

	2021	2020
Lease/sublease income (Note 11)	7,007	6,284
Income from sales of waste	8,412	3,820
Other	8,458	7,633
Total	**23,877**	**17,737**

27 FINANCE INCOME AND COSTS

	2021	2020
Interest expense on lease liabilities	40,562	39,916
Interest expense on borrowings	16,412	15,191
Interest income	(154)	(44)
Other finance costs, net	409	1,573
Total	**57,229**	**56,636**

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

28 STAFF COSTS

	2021	2020
Wages and salaries	171,225	147,148
Social security costs	47,634	41,655
Share-based payments expense	89	60
Total	**218,948**	**188,863**

Wages and salaries in 2021 included expenses of RUB 2,535 related to the long-term incentive programme (LTI) for key employees, including members of the Management Board, other key management and other key employees (2020: RUB 247).

Social security costs in 2021 included pension contributions amounted to RUB 32,052 (2020: RUB 28,024).

The number of employees as at 31 December 2021 amounted to 340,928 (31 December 2020: 339,716).

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Group considers all members of the Management Board, Executive Board and the Supervisory Board to be key management personnel as defined in IAS 24 *Related Party Disclosures*. The CEO is a member of both the Management Board and the Executive Board.

At the end of 2021 the Executive Board consisted of nine members. The total direct compensation for the CEO and other Executive Board members consists of a base salary, a performance related annual cash incentive (STI) and a performance related long-term cash incentive (LTI). Members of the Supervisory Board receive an annual base compensation in cash and share-based payments.

Total compensation of key management personnel:

	2021	2020
Management Board and Executive Board	1,558	1,543
Supervisory Board	198	162
Total	**1,756**	**1,705**

Remuneration of the Management Board

Service agreements with individual Management Board members

Igor Shekhterman

In 2021 the Company provided Igor Shekhterman with an annual base salary, participation in the annual cash incentive plan and participation in the Company's long-term incentive plan. The 2021 Annual General Meeting approved the re-appointment of Igor Shekhterman, for another two-year term, until the annual General Meeting of Shareholders in 2023, whereby his annual base salary was increased from RUB 70 million to RUB 120 million. The target pay-out under the annual cash incentive plan is 100% of base salary and is capped at 140% in the event of above-target performance. The target award under the long-term incentive plan is 100% of base salary per year for the period of the implementation of the long-term incentive plan. As disclosed when Mr. Shekhterman took office in 2015, he is entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, Mr. Shekhterman shall be entitled to the difference upon completion of his full term as CEO. Furthermore, Mr. Shekhterman is eligible to a termination compensation of up to USD 5,000,000 at the discretion of the Supervisory Board. Upon contract termination and subsequent compliance with non-competition obligations, Igor Shekhterman shall be entitled to an amount equal to the net annual base salary under his contract, payable in four quarterly instalments. In case of breach of the non-competition obligations, the agreement provides for a penalty in the amount of two annual base salaries on a net basis, and repayment of the termination compensation. The agreement with Igor Shekhterman may be terminated by either party with a notice period of three months.

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

28 STAFF COSTS (continued)

Remuneration of the Management Board (continued)

Frank Lhoëst

In 2021, the Company provided Frank Lhoëst with an annual base salary and participation in the annual cash incentive plan. Frank Lhoëst was re-appointed in 2019 for another four-year term, until the annual General Meeting of Shareholders in 2023. His annual base salary is EUR 315,000. The target pay-out under the annual cash incentive plan is 60% of base salary and is capped at 120% in the event of above-target performance. The agreement with Frank Lhoëst provides for a severance payment of six month's base salary, and may be terminated by either party with a notice period of two months.

Quinten Peer

In 2021, the Company provided Quinten Peer with an annual base salary and participation in the annual cash incentive plan. Quinten Peer was appointed in 2019 for a four-year term, until the annual General Meeting of Shareholders in 2023. His annual base salary amounts to EUR 275,000. The target pay-out under the annual cash incentive plan is 60% of base salary and is capped at 120% in the event of above-target performance. The agreement with Quinten Peer provides for a severance payment of six month's base salary and may be terminated by either party with a notice period of two months.

Expenses recognised for remuneration of the members of the Management Board:

Name	Year	Base salary[1]	Short-term incentive[2]	Long-term incentive[3]	Social security cost[4]	Total
I. Shekhterman	2021	104	88	122	44	**358**
	2020	74	59	108	34	**275**
F. Lhoëst	2021	27	16	–	1	**44**
	2020	27	17	–	–	**44**
Q. Peer	2021	24	15	–	1	**40**
	2020	23	15	–	–	**38**
Total	**2021**	**155**	**119**	**122**	**46**	**442**
	2020	**124**	**91**	**108**	**34**	**357**

1 The table reflects actual base salary amounts, including adjustments based on number of days spent on vacation, in accordance with Russian labour law.

2 Short-term incentives are based on results achieved in 2021 and payable in 2022. The short-term incentive levels are based on achievement of individual and group targets, resulting in payouts of 86.2% of base salary for Mr. Shekhterman (31 December 2020: 85.3%), 61.2% of base salary for Mr. Lhoëst (31 December 2020: 61.1%) and 63.2% of base salary for Mr. Peer (31 December 2020: 61.1%).

3 For Igor Shekhterman the expense recognised in 2021 for the long-term incentive award is based on the deferred payout under the 2018-2020 LTI programme and an accrual based on the probability of achieving the targets under the 2021-2023 LTI programme.

4 For the year ended 31 December 2021 statutory pension contributions amounted to RUB 29 (2020: RUB 22).

Remuneration of the Executive Board ('Other key management personnel')

Other key management personnel comprises all members of the Executive Board excluding the CEO. In accordance with the remuneration policy for the Executive Board, the total direct compensation of other key management personnel consists of a base salary, a performance-related annual cash incentive (STI) and a performance-related long-term cash incentive (LTI). Expenses recognised for remuneration of the Executive Board members (excluding the CEO):

	Year	Base salary[1]	Short-term incentive[2]	Long-term incentive[3]	Exit payment	Non-competition reward[4]	Social security cost[5]	Total
Other key management personnel	2021	314	236	416	–	–	150	**1,116**
	2020	296	218	446	70	3	153	**1,186**

1 Base salary remuneration reflects the increase in salary for some key management personnel, as well as fluctuation in base salary due to the number of days spent on vacation, in accordance with Russian labor law.

2 Short-term incentive for performance in the year 2021 (2020) paid in cash in 2022 (2021).

3 The expense recognised in 2021 for the long-term incentive award is based on the deferred payout under the 2018-2020 LTI programme and an accrual based on the probability of achieving the targets under the 2021-2023 LTI programme.

4 For other key management personnel the severance payment is structured as a non-competition reward payable in two equal installments after the expiry of the period of three months from the Termination Date and after the expiry of the period of six months from the Termination Date following contract termination, subject to compliance with non-competition conditions. The non-competition period for other key management personnel is six months.

5 For the year ended 31 December 2021 statutory pension contributions amounted to RUB 98 (2020: RUB 100).

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

28 STAFF COSTS (continued)

Remuneration of the Supervisory Board

The table below specifies the remuneration of the members of the Supervisory Board. Details on Supervisory Board remuneration in 2021 are reflected in the Remuneration Report in the Annual Report.

In accordance with the remuneration policy for the Supervisory Board, as approved by the Annual General Meeting of Shareholders held on 12 May 2021, members of the Supervisory Board receive remuneration in cash and an annual award of Restricted Stock Units (RSUs).

Expenses recognised for remuneration of the members of the Supervisory Board:

	Base remuneration[1]		Share-based compensation[2]	
	2021	**2020**	**2021**	**2020**
P. Demchenkov	30	22	22	13
G. King	22	21	21	13
S. DuCharme	12	21	19	20
N. Shouraboura	17	12	11	6
M. Kuchment	10	10	10	6
R. Brasher[3]	7	–	2	–
A. Tynkovan[3]	8	–	2	–
K.-H. Holland[4]	3	8	2	5
A. Torbakhov[4]	–	8	–	(3)
M. Fridman[1]	–	–	–	–
A. Elinson[1]	–	–	–	–
Total	**109**	**102**	**89**	**60**

1 The annual membership allowance for remunerated Supervisory Board members is determined and paid in Euro, as follows: chairman EUR 250,000; members EUR 100,000; additional fee for vice-chair EUR 50,000; members chairing a committee EUR 100,000 and committee members EUR 16,000 per committee. Mikhail Fridman, Andrei Elinson and Marat Atnashev, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.

2 Based on 100% of the board member's fixed annual remuneration, divided by the average market value of a GDR on the relevant award date. RSU awards are subject to a three-year vesting period and a further two-year lock-in period. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders. The share-based compensation reflects the accrued amounts related to the Restricted Stock Unit Plan and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

3 Richard Brasher and Alexander Tynkovan were appointed as members of the Supervisory Board on 12 May 2021.

4 Andrei Elinson stepped down as member of the Supervisory Board on 12 May 2020, Alexander Torbakhov stepped down on 3 July 2020, Karl-Heinz Holland stepped down on 12 May 2021.

Restricted Stock Units

Furthermore, in 2021 the Annual General Meeting of Shareholders approved the RSU awards under tranche 12, meaning that the Supervisory Board members Stephan DuCharme, Petr Demchenkov, Geoff King, Mikhail Kuchment, Nadia Shouraboura, Richard Brasher and Alexander Tynkovan were awarded a number of RSUs with award date 19 May 2021, equal to 100% of the gross annual remuneration of the relevant Supervisory Director in 2021, divided by USD 31.36, the volume weighted average closing market price of one GDR over the thirty immediately preceding calendar days of 19 May 2021. The RSUs awarded under tranche 12 will vest on 19 May 2024, followed by a lock-in period ending on 19 May 2026.

The number of RSUs awarded and outstanding to the members of the Supervisory Board is shown below. For the calculation of the intrinsic value and further details please refer to Note 29.

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

28 STAFF COSTS (continued)

Remuneration of the Supervisory Board (continued)

Restricted Stock Units awarded and outstanding to members of the Supervisory Board:

Restricted Stock Units awarded and outstanding to members of the Supervisory Board

	Tranche	RSUs awarded in 2017	RSUs awarded in 2018[3]	RSUs awarded in 2019[4]	RSUs awarded in 2020	RSUs awarded in 2021	Year of vesting	RSUs vested	Value on vesting date[1]	Vested GDRs after tax	GDRs locked-up as per 31 December 2021[2]	End of lock-up period	RSUs outstanding as per 31 December 2021	RSUs outstanding as per 31 December 2020
S. DuCharme	8	9,631	–	–	–	–	2020	9,631	21	9,631	9,631	2022	–	–
	9	–	9,977	–	–	–	2021	9,977	23	9,977	9,977	2023	–	9,977
	10	–	–	9,722	–	–	2022	–	–	–	–	2024	9,722	9,722
	11	–	–	–	9,335	–	2023	–	–	–	–	2025	9,335	9,335
	12	–	–	–	–	5,133	2024	–	–	–	–	2026	5,133	–
G. King	8	8,026	–	–	–	–	2020	8,026	18	5,433	5,433	2022	–	–
	9	–	9,977	–	–	–	2021	9,977	23	5,300	5,300	2023	–	9,977
	10	–	–	9,373	–	–	2022	–	–	–	–	2024	9,373	9,373
	11	–	–	–	9,211	–	2023	–	–	–	–	2025	9,211	9211
	12	–	–	–	–	9,747	2024	–	–	–	–	2026	9,747	–
P. Demchenkov	8	5,618	–	–	–	–	2020	5,618	12	3,803	3,803	2022	–	–
	9	–	7,982	–	–	–	2021	7,982	18	4,240	4,240	2023	–	7,982
	10	–	–	8,942	–	–	2022	–	–	–	–	2024	8,942	8,942
	11	–	–	–	9,800		2023	–	–	–	–	2025	9,800	9,800
	12	–	–	–	–	13,448	2024	–	–	–	–	2026	13,448	–
M. Kuchment	8	3,210		–	–	–	2020	3,210	7	2,173	2,173	2022	–	–
	9	–	3,991	–	–	–	2021	3,991	9	3,991	3,991	2023	–	3,991
	10	–	–	4,099	–	–	2022	–	–	–	–	2024	4,099	4,099
	11	–	–	–	4,274	–	2023	–	–	–	–	2025	4,274	4,274
	12	–	–	–	–	4,523	2024	–	–	–	–	2026	4,523	–
KH. Holland 4	9	–	1,995	–	–	–	2021	1,995	5	1,304	–	2021	–	1,995
	10	–	–	3,749	–	–	2021	2,498	–	1,633	–	2021	–	3,749
	11	–	–	–	3,684	–	2021	1,228	–	802	–	2021	–	3,684
N. Shouraboura	9	–	1,995	–	–	–	2021	1,995	5	1,502	1,502	2023	–	1,995
	10	–	–	4,099	–	–	2022	–	–	–	–	2024	4,099	4,099
	11	–	–	–	4,274	–	2023	–	–	–	–	2025	4,274	4,274
	12	–	–	–	–	7,798	2024	–	–	–	–	2026	7,798	–
R. Brasher5	12	–	–	–	–	3,245	2024	–	–	–	–	2026	3,245	–
A. Tynkovan5	12	–	–	–	–	3,425	2024	–	–	–	–	2026	3,425	–

[1] Vesting date is 19 May of each respective year of vesting. If 19 May falls in a weekend, vesting date is the immediately following business day.

[2] Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.

[3] 2018 RSUs for Karl-Heinz Holland and Nadia Shouraboura were effectively awarded on in 2019, as both were appointed as Supervisory Board member after the award date in 2018. The awards were based on a 6/12 pro rata factor.

[4] Karl Heinz Holland stepped down from the Supervisory Board on 12 May 2021. As per the RSU Plan rules all of the RSUs awarded in 2019 under tranche 9 (i.e. 1995 RSUs), two third of the RSUs awarded in 2019 under tranche 10 (i.e. 2,499 RSUs), one third of the RSUs awarded in 2020 under tranche 11 (i.e. 1,228 RSUs) vested on 12 May 2021. The lock-up on vested GDRs (i.e. 5,722 RSUs) under tranches 9, 10 and 11 has been lifted as per 12 May 2021. After tax, Mr. Holland was entitled to immediate release of 3,739 GDRs relating to awards under tranches 9-11.

[5] The awards made under tranche 12 are based on a 9/12 pro rata factor, as both Richard Brasher and Alexander Tynkovan were appointed as Supervisory Board member during 2021.

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

29 SHARE-BASED PAYMENTS

Restricted Stock Unit plan

Members of the Supervisory Board are entitled to annual awards of restricted stock units (RSUs) under the Group's Restricted Stock Unit Plan (RSU Plan) approved at the AGM in 2010. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders.

During the year ended 31 December 2021, a total number of 47,319 RSUs were awarded under tranche 12 of the RSU Plan and will vest in 2024. In 2021 39,643 RSUs vested. Upon vesting these RSUs were converted into GDRs registered in the participant's name. The GDRs are kept in custody during a two-year lock-in period during which the GDRs cannot be traded. In accordance with the RSU Plan rules the lock-in restrictions do not apply in case of accelerated release of GDRs, if and when a Supervisory Board member ceases to be a member of the Supervisory Board.

In total, during the year ended 31 December 2021 the Group recognised expense related to the RSU Plan in the amount of RUB 89 (expense during the year ended 31 December 2020: RUB 60). At 31 December 2021 the equity component was RUB 118 (31 December 2020: RUB 104). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding were as follows:

	2021		2020	
	Number of conditional rights	**Weighted average fair value, RUB**	**Number of conditional rights**	**Weighted average fair value, RUB**
Outstanding at the beginning of the period	**116,479**	**2,025.96**	**109,751**	**1,987.74**
Awarded during the period	47,319	2,243.40	48,536	2,185.02
Vested during the period	(39,643)	1,878,34	(28,940)	2,105.86
Forfeited during the period	(3,707)	2,127.76	(12,868)	2,120.24
Outstanding at the end of the period	**120,448**	**2,156.84**	**116,479**	**2,025.96**

30 INCOME TAX

	2021	2020
Current income tax charge	22,190	23,463
Deferred income tax benefit	(4,186)	(6,137)
Income tax charge for the year	**18,004**	**17,326**

The theoretical and effective tax rates are reconciled as follows:

	2021	2020
Profit before taxation	**60,742**	**45,670**
Theoretical tax at the effective statutory rate*	**12,148**	**9,134**
Tax effect of items which are not deductible or assessable for taxation purposes		
Current tax on dividends distributed by the Group's subsidiaries	5,305	5,087
Change in deferred tax liability associated with investments in subsidiaries	(1,580)	(2,451)
Expenses on inventory shortage	337	215
Unrecognised tax loss carry forwards for the year	153	338
Effect of income taxable at rates different from standard statutory rates	14	(138)
Other non-deductible expense	1,627	5,141
Income tax charge for the year	**18,004**	**17,326**

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

As at 31 December 2021 37 Russian subsidiaries of the Group were the members of the CGT (consolidated group of taxpayers) with X5 Corporate Center LLC acting as a responsible CGT member.

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

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 items for the year ended 31 December 2021:

	1 January 2021	Credited/ (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2021
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	5,487	(118)	–	5,369
Right-of-use assets and lease liabilities	18,506	1,365	244	20,115
Property, plant and equipment and investment property	276	57	–	333
Other intangible assets	52	1	–	53
Inventories	2,293	133	–	2,426
Accounts receivable	27	4	–	31
Accounts payable	7,997	2,490	–	10,487
Other	396	41	–	437
Gross deferred tax assets	**35,034**	**3,973**	**244**	**39,251**
Less offsetting with deferred tax liabilities	(14,576)	(1,628)	–	(16,204)
Recognised deferred tax assets	**20,458**	**2,345**	**244**	**23,047**
Tax effects of taxable temporary differences				
Right-of-use assets and lease liabilities	(11)	(42)	–	(53)
Property, plant and equipment and investment property	(9,559)	1,155	–	(8,404)
Investments into subsidiary	(1,580)	1,580	–	–
Other intangible assets	(4,880)	(1,926)	–	(6,806)
Accounts receivable	(1,149)	(549)	–	(1,698)
Accounts payable	(4)	2	–	(2)
Other	(162)	(7)	–	(169)
Gross deferred tax liabilities	**(17,345)**	**213**	**–**	**(17,132)**
Less offsetting with deferred tax assets	14,576	1,628	–	16,204
Recognised deferred tax liabilities	**(2,769)**	**1,841**	**–**	**(928)**

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

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 items for the year ended 31 December 2020:

	1 January 2020	Credited/ (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2020
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	5,537	(50)	–	5,487
Right-of-use assets and lease liabilities	15,442	2,489	575	18,506
Property, plant and equipment and investment property	402	(126)	–	276
Other intangible assets	121	(69)	–	52
Inventories	2,107	186	–	2,293
Accounts receivable	11	16	–	27
Accounts payable	6,621	1,376	–	7,997
Other	375	21	–	396
Gross deferred tax assets	**30,616**	**3,843**	**575**	**35,034**
Less offsetting with deferred tax liabilities	(14,138)	(438)	–	(14,576)
Recognised deferred tax assets	**16,478**	**3,405**	**575**	**20,458**
Tax effects of taxable temporary differences				
Right-of-use assets and lease liabilities	(40)	29	–	(11)
Property, plant and equipment and investment property	(11,125)	1,566	–	(9,559)
Investments into subsidiary	(4,031)	2,451	–	(1,580)
Other intangible assets	(3,293)	(1,587)	–	(4,880)
Accounts receivable	(849)	(300)	–	(1,149)
Accounts payable	(3)	(1)	–	(4)
Other	(298)	136	–	(162)
Gross deferred tax liabilities	**(19,639)**	**2,294**	**–**	**(17,345)**
Less offsetting with deferred tax assets	14,138	438	–	14,576
Recognised deferred tax liabilities	**(5,501)**	**2,732**	**–**	**(2,769)**

At 31 December 2021 unrecognised deferred tax liability on unremitted earnings of certain subsidiaries amounted to RUB Nil for which the deferred tax liability was not recognised (2020: RUB 3,834).

Management believes that the future taxable profits in tax jurisdictions that suffered a loss in the current or preceding years will be available to utilise the deferred tax asset of RUB 5,369 recognised at 31 December 2021 for the carry forward of unused tax losses (31 December 2020: RUB 5,487).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards at 31 December 2021 of RUB 3,206 (31 December 2020: RUB 2,949). At 31 December 2021 these unused tax losses have no time restrictions for carry forward. At 31 December 2020 unused tax losses in the amount of 905 were available for carry forward for a period not less than two years, unused tax losses in the amount of 2,044 had no time restrictions for carry forward.

31 FINANCIAL RISK MANAGEMENT

Financial risk management is a part of integrated risk management and internal control framework described in "Corporate Governance" section of this Annual Report. The primary objectives of the financial risk management are to establish risk limits, and then ensure that exposure to risks stays within these limits.

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

(a) Market risk

Currency risk

Group is exposed to foreign exchange risk arising from foreign currency denominated assets and liabilities with respect to import purchases and lease liabilities mainly in USD and EUR. As at 31 December 2021 the Group had trade accounts payable denominated in USD in the amount of RUB 7,827 and in EUR in the amount of RUB 2,163 (31 December 2020: denominated in USD in the amount of RUB 4,762 and in EUR in the amount of RUB 1,574) and leases denominated in USD in the amount of RUB 7,028 and in EUR in the amount of RUB 3,506 (31 December 2020: denominated in USD in the amount of RUB 9,855 and in EUR in the amount of RUB 4,794). As at 31 December 2021 the Group did not have any other significant assets and liabilities denominated in foreign currency and the exposure for the Group was estimated as not significant.

Interest rates risk

As at 31 December 2021 the Group had no floating interest-bearing assets (31 December 2020: Nil), but had 16% (31 December 2020: 28%) share of borrowings with floating interest rates based on the Key rate of the Central Bank of the Russian Federation. As at 31 December 2020, additionally to the borrowings with floating interest rates the Group had financial instruments limiting the corridor of rate fluctuations for share of borrowings.

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

(b) Credit risk

Financial assets, which are potentially subject to credit risk, consisted principally of cash and cash equivalents and short-term financial investments held in banks, trade and other receivables (Note 9 and Note 17). Due to the nature of its main activities (retail sales to individual customers) the Group had no significant concentration of credit risk. Cash was placed in financial institutions which were considered at the time of deposit to have low risk of default (Note 9).

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

(c) Liquidity risk

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

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

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

31 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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

Year ended 31 December 2021	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	111,953	389,062	289,176
Borrowings	107,339	223,397	–
Trade payables	212,949	–	–
Other financial liabilities	75,683	1,442	–
Total	**507,924**	**613,901**	**289,176**

Year ended 31 December 2020	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	105,141	369,835	260,555
Borrowings	90,435	197,530	–
Trade payables	170,909	–	–
Other financial liabilities	64,627	1,935	–
Total	**431,112**	**569,300**	**260,555**

At 31 December 2021 the Group had net current liabilities of RUB 206,373 (31 December 2020: RUB 202,400) including short-term borrowings of RUB 87,767 (31 December 2020: RUB 77,026). At 31 December 2021 the Group had available bank credit lines of RUB 482,263 (31 December 2020: RUB 457,086). At 31 December 2021 the Group had RUB registered bonds programme available for issue on MOEX of RUB 190,000 (31 December 2020: RUB 200,000).

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

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

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

The Group has assessed the impact of climate related matters on its financial statements as not material.

32 OPERATING ENVIRONMENT OF THE GROUP

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The COVID-19 worldwide outbreak was also increasing uncertainties. Mobility restrictions, quarantines and similar lockdown measures implemented in Russia to cope with the pandemic affected the operations of the Group leading to less frequent customer visits to stores but larger purchases and shift towards digitalisation. From the beginning of COVID-19 pandemic the Group has taken necessary measures to avoid direct impact of the pandemic on its operations with a special focus on protection of the health of employees and customers and uninterrupted business processes. The Group introduced measures such as mandatory body temperature checks for all employees entering its premises, provided masks and disposable gloves to operational personnel, introduced additional disinfection hours daily for all stores as well as additional disinfection in stores and other premises. The Group has assessed a potential impact of the COVID-19 outbreak on its going concern (Note 2), impairment of non-current assets (Notes 10, 13) and allowance for expected credit losses (Note 17). There have been no modifications to financial liability contracts and covenants.

The future stability of the Russian economy is largely dependent upon the impact and span of the COVID-19 and the impact of the sanctions being imposed as result of the events subsequent to the reporting date (Note 36). Should the economy be in a long-term recession after the pandemic and the sanctions, that may affect the Group's financial position, cash flows and results of operations.

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

33 CAPITAL RISK MANAGEMENT

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

In accordance with a few loan facilities the Group maintains an optimal leverage ratio by tracking covenant: the maximum level of Net Debt/EBITDA pre-IFRS 16 (4.00/4.25 during two quarters after acquisition). Net debt is calculated as the sum of short-term and long-term borrowings less cash and cash equivalents. Reconciliation of EBITDA pre-IFRS 16 to operating profit is performed in Note 5. This ratio is included as covenants into some of Group's loan agreements (Note 21). At 31 December 2021 the Group complied with the requirements under the loan facilities.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Financial assets carried at amortised cost

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

The carrying amount of cash and cash equivalents and trade and other financial receivables approximates their fair value.

Liabilities carried at amortised cost

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

The fair value of bonds traded on the MOEX and the SE is determined based on active market quotations and amounted to RUB 77,366 at 31 December 2021 (31 December 2020: RUB 75,221). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 78,484 at 31 December 2021 (31 December 2020: RUB 73,853) (Note 21). The fair value of long-term borrowings amounted to RUB 179,255 at 31 December 2021 (31 December 2020: RUB 116,536). The measurement is classified in level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using interest rate of similar instruments available on the market. The sensitivity analysis shows that the increase/decrease of the market interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 2,470 at 31 December 2021 (31 December 2020: RUB 1,273). The fair value of short-term borrowings was not materially different from their carrying amounts.

35 COMMITMENTS AND CONTINGENCIES

Capital expenditure commitments

At 31 December 2021 the Group contracted for capital expenditure for the acquisition of property, plant and equipment and intangible assets of RUB 7,659 (net of VAT) (31 December 2020: RUB 7,144).

Legal contingencies

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued at 31 December 2021.

35 COMMITMENTS AND CONTINGENCIES (continued)

Tax contingencies, commitments and risks

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

In 2021 Russian legislative authorities performed further update of state taxation system and continue to diligently collaborate with foreign tax authorities in the framework of an international tax information exchange which makes corporate operations more transparent. After the speech of the Russian President in 2020 about the intention to increase withholding tax rate on dividends and interest paid from Russia to the so-called "offshore jurisdictions" it is generally known that the Russian Ministry of Finance sent letters to finance ministries of some foreign jurisdictions regarding proposed changes to the current tax rates provided in Double Tax Treaties (DTTs), including Cyprus, Luxembourg, Malta and the Netherlands.

In the second half of 2020 it was officially announced by the Russian Ministry of Finance, Russia signed a Protocol to amend the double tax treaties with Cyprus, Luxembourg and Malta. The parties agreed to raise the basic tax rate on dividends and interest to 15% with exceptions for public companies for which the rate stays 5%. The changes related to DTTs with Cyprus and Malta come into force from 1 January 2021, with Luxemburg from 1 January 2022 and would not apply retrospectively. In May 2021 the Federal law of denunciation the DTT with the Netherlands was adopted, as a result respective DTT expires starting from 2022. These changes would not apply retrospectively to income paid prior to 2022. Besides that, the Russian Ministry of Finance plans to change tax agreements with Hong Kong, Singapore and Switzerland.

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

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

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

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

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

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

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

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

35 COMMITMENTS AND CONTINGENCIES (continued)

Tax contingencies, commitments and risks (continued)

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies not only for the periods open for tax audit but also for which the three years' tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist.

Management estimates that possible exposure in relation to the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times more than accrued liabilities and provisions reflected on the statement of financial position at that date. This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability.

In 2021 the Group made net accrual of provisions and liabilities for tax uncertainties attributable to income tax and non-income tax risks in amount of RUB 3,076 including net accrual of non-income tax provision of RUB 1,891, income tax provision of RUB 914 and net accrual of indemnification asset of RUB 271.

In 2020 the Group made net accrual of provisions and liabilities for tax uncertainties attributable to income tax and non-income tax risks in amount of RUB 5,286 including net accrual of non-income tax provision of RUB 1,882, income tax provision of RUB 3,373 and net accrual of indemnification asset of RUB 31.

At the same time management has recorded liabilities for income taxes in the amount of RUB 2,443 (31 December 2020: RUB 2,384) and provisions for taxes other than income taxes in the amount of RUB 6,049 at 31 December 2021 (31 December 2020: RUB 4,202) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2020	**2,738**
Release of provision	(431)
Accrual of provision	5,717
Offset of provision	(1,438)
Balance at 31 December 2020	**6,586**
Release of provision	(982)
Accrual of provision	4,058
Offset of provision	(1,170)
Balance at 31 December 2021	**8,492**

36 SUBSEQUENT EVENTS

Since late February 2022 a number of countries (including the US, UK and EU) imposed new sanctions against certain entities and individuals in Russia as a result of the official recognition of the Donetsk People Republic and Lugansk People Republic by the Russian Federation. Announcements of potential additional sanctions have been made following military operations initiated on 24 February 2022. Such sanctions can directly impact the sanctioned entities and individuals, and entities under their control. The Group is not subject to any sanctions or restrictions at the moment, but is likely to encounter challenges due to sanctions on financial system and certain imports into Russia. For the management considerations of the potential risks arisen from recent geopolitical changes please refer to the section "How we manage risk" of the Annual report.