



X5 Retail Group N.V.

**International Financial Reporting Standards
Consolidated Financial Statements**

31 December 2023

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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 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2023, and notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023 and its consolidated financial performance and its consolidated cash flows for 2023 in accordance with International Financial Reporting Standards (IFRSs) 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 ethical requirements of the Code of professional ethics for auditors and the Independence rules of auditors and audit organizations that are relevant to our audit of the consolidated financial statements in the Russian Federation together with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
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.

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

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

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

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



**NEW CHALLENGES
NEW SOLUTIONS**

Key audit matter

How our audit addressed the key audit matter

Impairment of stores and other non-current assets

The carrying amount of stores and other non-current assets, such as right-of-use assets, property, plant and equipment and intangible assets, excluding goodwill, as at 31 December 2023 approximated RUB 986 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.

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.

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

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

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

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

We reviewed disclosures in notes 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 2023. We also tested vendor allowances for the fourth quarter of 2023, 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.



**NEW CHALLENGES
NEW SOLUTIONS**

Emphasis of matter

We draw attention to Note 2.1 of the consolidated financial statements, which states that these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. These consolidated financial statements have not been prepared in accordance with Part 9 Book 2 of the Dutch Civil Code and does not replace consolidated financial statements prepared in accordance with Part 9 Book 2 of the Dutch Civil Code. Our opinion is not modified in respect of this matter.

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 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.



**NEW CHALLENGES
NEW SOLUTIONS**

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 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 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 Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ We plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units of the group as a basis for forming our opinion on the consolidated financial statements of the group. We are responsible for the direction, supervision and review of audit work performed for group audit purposes. We remain fully responsible for our audit opinion.

We communicate with the 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.



**NEW CHALLENGES
NEW SOLUTIONS**

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 Golovkina Marina Yurievna.

Golovkina Marina Yurievna,
acting on behalf of TSATR – Audit Services Limited Liability Company
on the basis of power of attorney dated 12 July 2023,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 21906100348)

21 March 2024

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, 1077 XV.

	Note	31 December 2023	31 December 2022
Assets			
Non-current assets			
Property, plant and equipment	10	364,396	315,612
Right-of-use assets	11	576,463	508,543
Investment properties	12	4,560	4,573
Goodwill	13	121,513	112,929
Other intangible assets	14	40,750	38,327
Other non-current assets		4,724	4,164
Deferred tax assets	30	30,063	27,482
		1,142,469	1,011,630
Current assets			
Inventories	15	236,826	208,661
Indemnification asset	7, 35	4,888	6,391
Trade, other accounts receivable and prepayments	17	27,924	21,382
Current income tax receivable		823	1,622
VAT and other taxes receivable	18	13,290	9,007
Short-term financial investments	9	116,076	50,067
Cash and cash equivalents	9	40,775	43,255
		440,602	340,385
Total assets		1,583,071	1,352,015
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	22	2,458	2,458
Share premium		46,127	46,127
Retained earnings		162,406	84,125
Other capital reserves		(1,651)	432
		209,340	133,142
Total equity		209,340	133,142
Non-current liabilities			
Long-term borrowings	21	127,396	147,386
Long-term lease liabilities	11	592,545	519,317
Deferred tax liabilities	30	5,336	6,954
Other non-current liabilities	7, 28	9,605	6,206
		734,882	679,863
Current liabilities			
Trade accounts payable		290,232	238,641
Short-term borrowings	21	100,833	87,146
Interest accrued		1,441	1,143
Short-term lease liabilities	11	78,416	71,843
Short-term contract liabilities	20	1,458	3,767
Current income tax payable		9,398	6,020
Provisions and other liabilities	19	157,071	130,450
		638,849	539,010
Total liabilities		1,373,731	1,218,873
Total equity and liabilities		1,583,071	1,352,015

Igor Shekhterman
Chief Executive Officer

21 March 2024

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

	Note	2023	2022
Revenue	24	3,145,859	2,605,232
Cost of sales	25	(2,377,819)	(1,970,036)
Gross profit		768,040	635,196
Selling, general and administrative expenses	25	(613,385)	(519,757)
Net impairment losses on financial assets	17	(97)	(346)
Lease/sublease and other income	26	23,643	23,025
Operating profit		178,201	138,118
Finance costs	27	(79,312)	(73,727)
Finance income	27	9,125	5,310
Net foreign exchange (loss)/gain		(4,154)	(2,032)
Profit before tax		103,860	67,669
Income tax expense	30	(25,267)	(22,481)
Profit for the year		78,593	45,188
Profit for the year attributable to:			
Equity holders of the parent		78,281	45,199
Non-controlling interests		312	(11)
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)			
	23	1,153.08	665.78
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)			
	23	1,153.08	665.78

Igor Shekhterman
Chief Executive Officer

21 March 2024



X5 Retail Group N.V.
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2023
(expressed in millions of Russian Roubles, unless otherwise stated)

	2023	2022
Profit for the year	78,593	45,188
Total comprehensive income for the year, net of tax	78,593	45,188
Total comprehensive income for the year attributable to:		
Equity holders of the parent	78,281	45,199
Non-controlling interest	312	(11)

Igor Shekhterman
Chief Executive Officer

21 March 2024

	Note	2023	2022
Profit before tax		103,860	67,669
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets, investment properties, other intangible assets and goodwill	25	165,956	164,731
Gain on disposal of property plant and equipment, investment properties and intangible assets and gain on derecognition of right-of-use assets		(1,475)	(2,276)
Finance costs, net	27	70,187	68,417
Net impairment losses on financial assets	17	97	346
Impairment of prepayments	17	23	412
Share-based compensation expense	29	65	13
Net foreign exchange loss		4,154	2,032
Other non-cash items		(1,156)	(576)
Net cash from operating activities before changes in working capital		341,711	300,768
Increase in trade, other accounts receivable and prepayments and VAT and other taxes receivable		(9,052)	(1,388)
Increase in inventories		(22,519)	(37,060)
Increase in trade payable		44,272	22,833
Increase in other accounts payable and contract liabilities		11,742	21,539
Net cash flows from operations		366,154	306,692
Interest paid		(80,414)	(73,067)
Interest received		8,854	5,276
Income tax paid		(25,317)	(17,977)
Net cash flows from operating activities		269,277	220,924
Cash flows from investing activities			
Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets		(103,852)	(59,554)
Acquisition of businesses, net of cash acquired	7	(18,449)	(5,495)
Proceeds from disposal of property, plant and equipment, investment properties and intangible assets		7,733	3,192
Proceeds from disposal of other investments		53	-
Purchase of other intangible assets		(13,194)	(14,121)
Proceeds from short-term financial investments		-	30,000
Payments for financial investments	9	(65,747)	(30,000)
Proceeds from principal portion of the net investment in the lease		54	-
Other payments for investing activities		(209)	-
Net cash flows used in investing activities		(193,611)	(75,978)
Cash flows from financing activities			
Proceeds from loans	21	183,594	148,974
Repayment of loans	21	(192,007)	(210,615)
Payments of principal portion of lease liabilities	11	(70,002)	(66,014)
Dividends paid to non-controlling interests		(33)	-
Net cash flows used in financing activities		(78,448)	(127,655)
Effect of exchange rate changes on cash and cash equivalents		302	(98)
Net (decrease)/increase in cash and cash equivalents		(2,480)	17,193
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	9	43,255	26,062
Net (decrease)/increase in cash and cash equivalents		(2,480)	17,193
Cash and cash equivalents at the end of the year	9	40,775	43,255

Igor Shekhterman
Chief Executive Officer

21 March 2024

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



X5 Retail Group N.V.
Consolidated Statement of Changes In Equity
for the year ended 31 December 2023
(expressed in millions of Russian Roubles, unless otherwise stated)

	Attributable to equity holders of the parent								
	Number of shares	Share capital	Share premium	Share-based payment reserve	Other capital reserves	Retained earnings	Total shareholders' equity	Non-controlling interests	Total
Balance as at 1 January 2022	67,888,696	2,458	46,127	118	-	38,926	87,629	-	87,629
Profit for the period	-	-	-	-	-	45,199	45,199	(11)	45,188
Total comprehensive income for the period	-	-	-	-	-	45,199	45,199	(11)	45,188
Share-based payment compensation (Note 29)	-	-	-	(3)	-	-	(3)	-	(3)
Transfer (Note 29)	-	-	-	(38)	38	-	-	-	-
Modification of share-based payments (Note 29)	-	-	-	(77)	-	-	(77)	-	(77)
Acquisition of subsidiaries (Note 7)	-	-	-	-	-	-	-	2,609	2,609
Purchase commitments for non-controlling interests' shares (Note 7)	-	-	-	-	(2,204)	-	(2,204)	-	(2,204)
Impact of changes in non-controlling interests with purchase commitments (Note 7)	-	-	-	-	2,598	-	2,598	(2,598)	-
Balance as at 31 December 2022	67,888,696	2,458	46,127	-	432	84,125	133,142	-	133,142
Balance as at 1 January 2023	67,888,696	2,458	46,127	-	432	84,125	133,142	-	133,142
Profit for the period	-	-	-	-	-	78,281	78,281	312	78,593
Total comprehensive income for the period	-	-	-	-	-	78,281	78,281	312	78,593
Acquisition of subsidiaries (Note 7)	-	-	-	-	-	-	-	(82)	(82)
Purchase commitments for non-controlling interests' shares (Note 7)	-	-	-	-	(2,280)	-	(2,280)	-	(2,280)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(33)	(33)
Impact of changes in non-controlling interests with purchase commitments	-	-	-	-	197	-	197	(197)	-
Balance as at 31 December 2023	67,888,696	2,458	46,127	-	(1,651)	162,406	209,340	-	209,340

Igor Shekhterman
Chief Executive Officer

21 March 2024

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

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 2023 the Group operated a retail chain of 24,472 proximity stores, supermarket, hypermarket, hard discounter, online hypermarket stores, dark kitchens, “Krasny Yar” & “Slata” stores and joint dark stores under the brand names “Pyaterochka”, “Perekrestok”, “Chizhik”, “Perekrestok Vprok”, “Mnogo Lososya”, “Krasny Yar”, “Slata”, “Pokupochka”, “Pokupalko”, “Victoria”, “Victoria-Kvartal”, “Deshevo” and “CASH” (each representing separate format except for “Pokupochka”, “Pokupalko”, “Victoria”, “Victoria-Kvartal”, “Deshevo” and “CASH” which are included in “Pyaterochka” format) in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Kazan, Samara, Nizhny Novgorod, Ekaterinburg, Perm, Voronezh, Rostov-on-Don, Chelyabinsk, Volgograd, Novosibirsk, Krasnoyarsk, Saratov (31 December 2022: 21,323 proximity stores, supermarket, hypermarket, hard discounter, online hypermarket stores, dark kitchens, “Krasny Yar” & “Slata” stores and joint dark stores under the brand names “Pyaterochka”, “Perekrestok”, “Karusel”, “Chizhik”, “Perekrestok Vprok”, “Mnogo Lososya”, “Krasny Yar” and “Slata”), with the following number of stores:

	31 December 2023	31 December 2022
“Pyaterochka” – Proximity store	21,308	19,164
“Chizhik” – Hard discounter	1,500	517
“Perekrestok” – Supermarket	972	971
“Krasny Yar” & “Slata” stores	610	595
“Mnogo Lososya” – Dark kitchen	70	54
Joint dark stores	9	7
“Perekrestok Vprok” – Online hypermarket	3	3
“Karusel” – Hypermarket	–	12
Total stores	24,472	21,323

As at 31 December 2023 and 31 December 2022 the principal shareholder exerting significant influence over the Company was CTF Holdings S.A. (“CTF”). As at 31 December 2023 and 31 December 2022 CTF directly owned 47.87% and 47.87% of total issued voting shares in the Company respectively. CTF is not an ultimate controlling party for the Group. As at 31 December 2023 and 31 December 2022 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). Trading on the London Stock Exchange is currently suspended.

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 2023 have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) 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. The Management Board prepared these consolidated financial statements on a going concern basis. In making this judgment, the Management Board considered the Group’s financial position, current intentions, profitability of operations, access to financial resources (Note 31) and the sanctions being imposed against certain entities and individuals in Russia. It furthermore considered consequences of the new Russian federal law No. 470-FZ *Law Specifics of the Regulation of Corporate Relations in Business Entities that are Economically Significant Organisations* and uncertainties associated with it, as described in Notes 35 and 36. On 21 March 2024, the Management Board authorised the consolidated financial statements for issue. Publication is on 22 March 2024.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

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

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 the Russian Federation (“CBRF”) at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency at period-end official exchange rates of the CBRF are recognised in 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, dark kitchens (Note 1), centralised functions and corporate centre 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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

2.7 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

(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.

	Useful lives
Brands “Victoria”, “Victoria-Kvartal”, “Deshevo”	3 years
Brands “Pokupochka”, “Pokupalko”	2 years
Brands “Krasny Yar”, “Baton”, “Slata”, “KhlebSol”	3 years
Private labels	1-8 years

(c) Software and other intangible assets

Expenditure on acquired patents, 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.

2.8 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Leases (continued)

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Inventories

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

The Group provides for estimated inventory losses (shrinkage) between 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.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

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.

2.12 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Value added tax (continued)

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 Social Fund of Russia pension, social and medical insurance payments 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

Stock unit plan

The Group receives services from Supervisory board members as consideration for conditional rights to receive the value of the GDRs in cash after vesting period of 3 years and fulfilment of service conditions. Share-based payment transactions under the stock unit plan are accounted for as cash-settled transactions.

The fair value of the 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 short term liabilities (Provisions and other liabilities) and in long term liabilities (Other non-current liabilities) and measured by reference to the market price of the GDRs which is determined at grant date. The liabilities are remeasured at each reporting date and at settlement date so that the ultimate liabilities equal to the cash payment on settlement date.

Service 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. No expense is recognised for awards that do not ultimately vest because service conditions have not been met.

The cumulative expense recognised for cash-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.

2.18 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 individual companies of the Group.

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

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

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

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, any known court or other rulings on such issues, and relevance and effect of a change in facts and circumstances or of new information in the context of applicable tax laws. Liabilities for penalties, interest and taxes other than 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.24 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Income and expense recognition (continued)

(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.

2.27 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2023 and 2022 were treated by the Group as business combinations.

Litigations

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

Tax legislation

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

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

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 2023 the Group recognised an impairment loss in the amount of RUB 1,149 (year ended 31 December 2022: a net impairment loss in the amount of RUB 4,905).

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 2023 the Group recognised a net impairment loss in the amount of RUB 231 (year ended 31 December 2022: a net impairment loss in the amount of RUB 232).

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 2023 the Group recognised a net impairment gain in the amount of RUB 258 (year ended 31 December 2022: a net impairment loss in the amount of RUB 1,451).

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).

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

Revenue recognition – Loyalty programmes

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

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

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

Any significant changes in customers' redemption patterns will impact the estimated redemption rate. As at 31 December 2023, the estimated liability for unredeemed points was RUB 1,109 (31 December 2022: RUB 3,487).

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.

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 2023 the Group did not recognise any impairment of brand and private labels (year ended 31 December 2022: Nil).

Lease term of contracts with extension options and termination options

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. For leases of retail stores the most relevant factors are profitability and revenue of particular stores, the value to the business in a particular region and investment strategy. For leases of distribution centres and offices the most relevant factors are the value to the business, significance of termination penalties and significance of leasehold improvements' 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.

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

Incremental borrowing rates for calculation of lease liability

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Because there are normally no 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 2023. Standards, Interpretations and amendments effective 1 January 2023 did not have a material impact on the financial position or performance of the Group.

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

- IFRS 17 *Insurance Contracts* including Amendments to IFRS 17;
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*;
- Amendments to IAS 1 *Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies*;
- Amendments to IFRS 17 *Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information*;
- Amendments to IAS 12 *Income taxes: International Tax Reform – Pillar Two Model Rules*.

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

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

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

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

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

Standards issued but not yet effective in the European Union	Effective for annual periods beginning on or after
Amendments to IFRS 16 <i>Leases: Lease Liability in a Sale and Leaseback</i>	1 January 2024
Amendments to IAS 1 <i>Presentation of Financial Statements:</i>	
• <i>Classification of Liabilities as Current or Non-current;</i>	
• <i>Classification of Liabilities as Current or Non-current – Deferral of Effective Date; and</i>	
• <i>Non-current Liabilities with Covenants</i>	1 January 2024
Amendments to IAS 7 <i>Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements</i>	1 January 2024*
Amendments to IAS 21 <i>The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability</i>	1 January 2025*

* Subject to EU endorsement.

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

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

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

5 SEGMENT REPORTING (continued)

The segment information for the year ended 31 December 2023, 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 2023	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	Adjustments and other unallocated	Total
Revenue (Note 24)	2,493,729	419,780	228,968	449	2,933	–	3,145,859
EBITDA pre-IFRS 16 excl. LTI	215,441	29,240	(9,252)	(8,505)	(11,423)	4,319	219,820
LTI							(5,056)
EBITDA pre-IFRS 16							214,764
Fixed lease expenses and fixed non-lease components of lease contracts							128,247
Gain on derecognition of right-of-use assets and lease liabilities							1,146
Depreciation, amortisation and impairment							(165,956)
Operating profit							178,201
Finance cost, net							(70,187)
Net foreign exchange result							(4,154)
Profit before income tax							103,860
Income tax expense							(25,267)
Profit for the year							78,593
Adjusted capital expenditure	113,516	14,970	18,613	1,254	72	–	148,425
31 December 2023							
Inventories	187,038	31,525	18,263	–	–	–	236,826

Year ended 31 December 2022	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	Adjustments and other unallocated	Total
Revenue (Note 24)	2,124,045	386,095	94,358	58	676	–	2,605,232
EBITDA pre-IFRS 16 excl. LTI	179,992	29,967	(6,090)	(6,370)	(9,256)	1,062	189,305
LTI							(2,517)
EBITDA pre-IFRS 16							186,788
Fixed lease expenses and fixed non-lease components of lease contracts							113,742
Gain on derecognition of right-of-use assets and lease liabilities							2,551
Reversal of adjustment for the proportion of the rights retained under sale and leaseback operations (Note 11)							(232)
Depreciation, amortisation and impairment							(164,731)
Operating profit							138,118
Finance cost, net							(68,417)
Net foreign exchange result							(2,032)
Profit before income tax							67,669
Income tax expense							(22,481)
Profit for the year							45,188
Adjusted capital expenditure	45,674	9,953	26,067	249	67	–	82,010
31 December 2022							
Inventories	169,190	28,136	11,335	–	–	–	208,661

6 SUBSIDIARIES

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

Company	Country	Nature of operations	Ownership (%)	
			31 December 2023	31 December 2022
Agrotorg LLC	Russia	Retailing	100	100
Trade House PEREKRIOSTOK JSC	Russia	Retailing	100	100
Agroaspect LLC	Russia	Retailing	100	100
X5 Nedvizhimost JSC	Russia	Assets holding company	100	100
KOPEYKA-MOSCOW Ltd	Russia	Retailing	100	100
Krasnoborskoe LLC	Russia	Assets holding company	100	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

7 ACQUISITION OF BUSINESSES

Acquisitions in 2023

Acquisition of Tamerlan

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

In the year ended 31 December 2023 the acquired business contributed revenue of RUB 18,899 from the date of acquisition. Net loss from the date of acquisition comprised RUB 330. If the acquisition had taken place at the beginning of the year, revenue of the Group would have been RUB 3,152,070. The Group considers impracticable to disclose the impact of the acquisition on the Group's net profit, since before the acquisition the acquired business did not prepare financial statements in accordance with the Group's accounting policy.

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

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 10)	4,611
Other intangible assets (Note 14)	188
Right-of-use assets (Note 11)	2,751
Inventories	2,449
Trade, other accounts receivable and prepayments	2,117
Current income tax receivable	80
VAT and other taxes receivable	48
Cash & cash equivalents	259
Lease liabilities (Note 11)	(2,751)
Deferred tax liabilities (Note 30)	(398)
Trade accounts payable	(2,455)
Short-term borrowings (Note 21)	(1,962)
Interest accrued	(2)
Current income tax payable	(96)
Provisions and other liabilities	(1,411)
Net assets acquired	3,428
Goodwill (Note 13)	4,557
Purchase consideration	7,985
Net cash outflow arising from the acquisition	7,726

7 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2023 (continued)

The Group assigned provisional fair values to net assets acquired. The Group will finalise the purchase price allocation within a 12-month period from the acquisition date which did not 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 7,985.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to this acquisition was allocated to Pyaterochka segment in amount of RUB 4,557.

Acquisition of Victoria

In August 2023 the Group acquired 100% of shares of Victoria Baltia LLC operating retail chain in Moscow, the Kaliningrad and Moscow region. At acquisition date the retail chain operated 119 stores under brands “Victoria”, “Victoria-Kvartal”, “Deshevo” and “CASH”.

In the year ended 31 December 2023 the acquired business contributed revenue of RUB 16,307 from the date of acquisition. Net loss from the date of acquisition comprised RUB 83. If the acquisition had taken place at the beginning of the year, revenue of the Group would have been RUB 3,168,150. The Group considers impracticable to disclose the impact of the acquisition on the Group’s net profit, since before the acquisition the acquired business did not prepare financial statements in accordance with the Group’s accounting policy.

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

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

The 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 8,500.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to this acquisition was allocated to Pyaterochka segment in amount of RUB 2,619.

7 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2023 (continued)

Other acquisitions

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

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

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

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

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

The purchase consideration for the reporting period comprised RUB 1,796 and RUB 669 as cash consideration and deferred consideration respectively.

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka segment in amount of RUB 1,974.

During the 12 months ended 31 December 2023 the Group transferred RUB 72 as deferred payments for the prior periods acquisitions.

Acquisition of Krasny Yar and Slata

During the 12 months ended 31 December 2023 the Group finalised determination of the deferred consideration and purchase price allocation for acquisition of Smart LLC (Krasny Yar) and Mayak LLC (Slata) effected in 4th quarter 2022 and updated fair value assessment of the purchase commitment for non-controlling interests' shares under put option recognised.

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

7 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2023 (continued)

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

	Provisional fair values at the acquisition date as at 31 December 2022	Finalised fair values at the acquisition date as at 31 December 2023	Effect of change in purchase price allocation on the consolidated statement of financial position as at 31 December 2023
Property, plant and equipment (Note 10)	2,342	2,342	–
Other intangible assets (Note 14)	1,863	1,863	–
Right-of-use assets (Note 11)	19,061	19,061	–
Indemnification asset	5,986	5,986	–
Inventories	4,761	4,752	(9)
Trade, other accounts receivable and prepayments	753	784	31
VAT and other taxes receivable	148	148	–
Cash and cash equivalents	531	531	–
Lease liabilities (Note 11)	(18,960)	(18,960)	–
Deferred tax liabilities (Note 30)	(424)	(384)	40
Trade accounts payable	(5,361)	(5,361)	–
Short-term borrowings (Note 21)	(1,819)	(1,819)	–
Interest accrued	(5)	(5)	–
Short-term contract liabilities (Note 20)	(26)	(26)	–
Current income tax payable	(2,115)	(2,115)	–
Provisions and other liabilities	(5,714)	(5,726)	(12)
Net assets acquired	1,021	1,071	50
Goodwill (Note 13)	7,674	7,355	(319)
Non-controlling interests measured at fair value	(2,609)	(2,527)	82
Purchase consideration	6,086	5,899	(187)

During the 12 months ended 31 December 2023 the Group transferred RUB 885 as deferred payment.

Acquisitions in 2022

Other acquisitions

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

In the year ended 31 December 2022 the acquired businesses contributed revenue of RUB 3,391 from the date of acquisition. If the acquisitions had taken place at the beginning of the year, revenue of the Group would have been RUB 2,607,521. The Group considers impracticable to disclose the impact of this factor on the Group's net profit, since before the acquisition the acquired businesses did not prepare financial statements in accordance with the Group's accounting policy.

7 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2022 (continued)

At 31 December 2022 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2023 the Group completed the purchase price allocation, which resulted in no changes in fair values at the acquisition date:

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

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

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 502.

During the 12 months ended 31 December 2022 the Group transferred RUB 369 as deferred payments for the prior periods acquisitions.

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 affected on the same terms, conditions and amounts as transactions between unrelated parties.

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

The following transactions were carried out with related parties:

	Relationship	2023	2022
CTF Holdings S.A.	Entity with significant influence over the Company		
Management services received		-	33
Other	Under control by the entity with significant influence over the Company		
Purchases from related parties		6,273	4,924
Other income		98	-
Other operating expenses		2	4
Bonuses from related parties		352	206
Other	Other		
Interest expenses		-	107
Variable rent		-	3

8 RELATED PARTY TRANSACTIONS (continued)

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

Relationship	31 December 2023	31 December 2022
Other		
Under control by the entity with significant influence over the Company		
Other receivables from related parties	6	52
Trade accounts payable	732	872
Trade accounts receivable	61	-

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Group considers all members of the Management Board, Executive Board and the Supervisory Board to be key management personnel as defined in IAS 24 *Related Party Disclosures*. The total direct compensation for members of the Management Board and the Executive Board consists of a base salary, a performance related short-term incentive and a performance related long-term incentive. Members of the Supervisory Board receive a fixed annual remuneration in cash and equity-based payments.

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

	2023	2022
Short-term employee benefits	1,659	1,158
Long-term employee benefits	678	458
Social security costs	322	232
Total	2,659	1,848

Total compensation of the Supervisory Board was as follows:

	2023	2022
Short-term remunerations	74	153
Equity-based compensation	65	13
Total	139	166

As at 31 December 2023 the total number of outstanding conditional rights awarded to members of the Supervisory Board (Note 29) under the Phantom Stock Unit Plan was 80,065 (31 December 2022: 38,925) and under Restricted Stock Unit Plan 13,448 (31 December 2022: 23,248).

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 2023 and 31 December 2022, 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.

9 CASH AND CASH EQUIVALENTS, SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2023	31 December 2022
Bank current account – Roubles	8,042	14,336
Bank current account – other currencies	652	1,577
Cash in transit – Roubles	17,480	17,457
Cash in hand – Roubles	13,130	9,759
Deposits – Roubles	434	126
Deposits – other currencies	1,037	-
Total	40,775	43,255

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

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

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

Short-term financial investments at 31 December 2023 represent irrevocable bank deposits in Russian Roubles with maturity not more than a year that earn interest income at the rates in the range of 16.5%-17.5% per annum (31 December 2022: at the rates in the range of 8.0%-9.0% per annum).

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

10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equip- ment	Refriger- ating equip- ment	Vehicles	Other	Construc- tion in progress*	Total
Cost							
At 1 January 2022	340,949	76,826	79,838	30,547	68,395	8,426	604,981
Additions	–	–	–	–	–	56,258	56,258
Transfers	18,548	10,400	6,454	4,468	9,553	(49,423)	–
Transfer to investment property	(1,605)	–	–	–	–	–	(1,605)
Assets from acquisitions	697	815	663	64	408	34	2,681
Disposals	(11,858)	(3,689)	(2,386)	(1,671)	(2,619)	(115)	(22,338)
At 31 December 2022	346,731	84,352	84,569	33,408	75,737	15,180	639,977
Additions	–	–	–	–	–	116,672	116,672
Transfers	27,913	28,639	10,945	10,833	17,273	(95,603)	–
Transfer to investment property	(517)	–	–	–	–	–	(517)
Assets from acquisitions	5,538	801	–	265	146	43	6,793
Disposals	(7,675)	(4,616)	(3,369)	(2,878)	(2,861)	(91)	(21,490)
At 31 December 2023	371,990	109,176	92,145	41,628	90,295	36,201	741,435
Accumulated depreciation and impairment							
At 1 January 2022	(139,875)	(36,199)	(38,122)	(14,754)	(43,794)	(93)	(272,837)
Depreciation charge	(29,678)	(11,789)	(9,842)	(4,917)	(11,295)	–	(67,521)
Impairment charge	(4,766)	(567)	(300)	–	(234)	(81)	(5,948)
Reversal of impairment	1,043	–	–	–	–	–	1,043
Transfer to investment property	911	–	–	–	–	–	911
Disposals	10,351	3,424	2,246	1,394	2,457	115	19,987
At 31 December 2022	(162,014)	(45,131)	(46,018)	(18,277)	(52,866)	(59)	(324,365)
Depreciation charge	(29,453)	(13,610)	(10,382)	(5,254)	(11,963)	–	(70,662)
Impairment charge	(2,318)	(401)	(374)	(29)	(140)	(38)	(3,300)
Reversal of impairment	2,104	–	–	–	40	7	2,151
Transfer to investment property	140	–	–	–	–	–	140
Disposals	6,196	4,157	3,225	2,584	2,791	44	18,997
At 31 December 2023	(185,345)	(54,985)	(53,549)	(20,976)	(62,138)	(46)	(377,039)
Net book value at 31 December 2023	186,645	54,191	38,596	20,652	28,157	36,155	364,396
Net book value at 31 December 2022	184,717	39,221	38,551	15,131	22,871	15,121	315,612
Net book value at 1 January 2022	201,074	40,627	41,716	15,793	24,601	8,333	332,144

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

10 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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 2023 and 31 December 2022.

Impairment test

At the end of 2023 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.

The resulting impairment charge arose primarily from underperforming stores. 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.

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 2024 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 9.37% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2022: 4.00% to 6.91%). For the years beyond the forecast period the long-term consumer price index forecast of 4.00% at 31 December 2023 is used (31 December 2022: 4.00%). 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)) – 16.52% (31 December 2022: 15.92%). 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 1,164 (31 December 2022: RUB 1,994), if 200 b.p. lower – increase by RUB 1,068 (31 December 2022: RUB 1,581). 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 117 (31 December 2022: RUB 157), lower – decrease by RUB 121 (31 December 2022: RUB 164).

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.

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

	Right-of-use assets (land and buildings)	Lease liabilities
At 1 January 2022	502,325	(577,363)
Additions	64,489	(64,059)
Acquisition of businesses (Note 7)	22,635	(22,467)
Depreciation expense	(75,958)	-
Impairment charge	(3,239)	-
Reversal of impairment	1,788	-
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(3,497)	6,048
Interest accrued	-	(49,880)
Payments	-	115,894
Effect of changes in foreign exchange rates	-	667
At 31 December 2022	508,543	(591,160)
Additions	138,068	(137,087)
Acquisition of businesses (Note 7)	18,617	(18,412)
Depreciation expense	(82,333)	-
Impairment charge	(2,220)	-
Reversal of impairment	2,478	-
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(6,690)	7,836
Interest accrued	-	(60,655)
Payments	-	130,486
Effect of changes in foreign exchange rates	-	(1,969)
At 31 December 2023	576,463	(670,961)

The expenses related to short-term leases for the year ended 31 December 2023 amounted to RUB 106 (31 December 2022: RUB 100). The expense related to variable lease payments not included in the measurement of lease liabilities for the year ended 31 December 2023 amounted to RUB 26,690 (31 December 2022: RUB 19,825). 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 2023 amounted to RUB 156,556 (2022: RUB 135,546).

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

As at 31 December 2023 potential future cash outflows of RUB 4,243 (undiscounted) (31 December 2022: RUB 3,529) 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 2023 and 31 December 2022 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 2023 there were no sale and leaseback transactions.

11 LEASES (continued)

Group as a lessee (continued)

In 2022 the Group completed a sale and leaseback transaction in respect of a number of stores located in Bashkortostan. The cash proceeds amounted to RUB 970 recognised in the consolidated statement of cash flows, the loss from sale amounted to RUB 25 recognised in the consolidated statement of profit or loss for the year ended 31 December 2022. When measuring the lease liability, the Group included fixed lease payments per lease agreements 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 14 years.

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 2023	31 December 2022
Within 1 year	1,769	3,382
Between 1 and 2 years	392	638
Between 2 and 3 years	238	432
Between 3 and 4 years	203	315
Between 4 and 5 years	148	212
Later than 5 years	131	364
Total	2,881	5,343

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2023 amounted to RUB 8,113 (2022: RUB 7,214) (Note 26). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2023 amounted to RUB 192 (2022: RUB 221).

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

Impairment test

At the end of 2023 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 2023 and 31 December 2022:

Cost	2023	2022
Cost at 1 January	9,047	7,909
Assets from acquisitions	506	–
Transfer from fixed assets	517	1,605
Disposals	(1,058)	(467)
Cost at 31 December	9,012	9,047
Accumulated depreciation and impairment		
Accumulated depreciation and impairment at 1 January	(4,474)	(3,448)
Depreciation charge	(154)	(176)
Impairment charge	(587)	(483)
Reversal of impairment	356	251
Transfer from fixed assets	(140)	(911)
Disposals	547	293
Accumulated depreciation and impairment at 31 December	(4,452)	(4,474)
Net book value at 31 December	4,560	4,573
Net book value at 1 January	4,573	4,461

12 INVESTMENT PROPERTIES (continued)

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 2023 and 31 December 2022.

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

Management estimates that the fair value of investment property at 31 December 2023 amounted to RUB 5,902 (31 December 2022: RUB 6,861). 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 2023 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).

13 GOODWILL

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

Cost	2023	2022
Gross book value at 1 January	173,708	172,099
Acquisition of businesses (Note 7)	8,831	8,176
Disposal	–	(6,567)
Gross book value at 31 December	182,539	173,708
Accumulated impairment losses		
Accumulated impairment losses at 1 January	(60,779)	(67,071)
Impairment charge	(247)	(275)
Disposal	–	6,567
Accumulated impairment losses at 31 December	(61,026)	(60,779)
Carrying amount at 1 January	112,929	105,028
Carrying amount at 31 December	121,513	112,929

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 impairment charge recognised for the year ended 31 December 2023 was attributable to dark kitchens operating segment.

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

31 December 2023	Pyaterochka	Perekrestok	Other	Total
Goodwill	90,408	23,334	7,771	121,513
31 December 2022	Pyaterochka	Perekrestok	Other	Total
Goodwill	81,258	23,334	8,337	112,929

13 GOODWILL (continued)

Goodwill impairment test (continued)

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 2024 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 9.37% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2022: 4.00% to 6.91%). For the years beyond the forecast period the long-term consumer price index forecast of 4.00% at 31 December 2023 is used (31 December 2022: 4.00%). 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)) – 16.52% (31 December 2022: 15.92%). 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 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.

14 OTHER INTANGIBLE ASSETS

Other intangible assets comprise the following:

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

14 OTHER INTANGIBLE ASSETS (continued)

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 2022: RUB 4,029), brands "Krasny Yar", "Baton", "Slata", "KhlebSol" with the carrying amount of RUB 1,054 (31 December 2022: RUB 1,630), brands "Pokupochka", "Pokupalko" with the carrying amount of RUB 98 and brands "Victoria", "Victoria-Kvartal", "Deshevo" with the carrying amount of RUB 362. Brand "Karusel" was disposed of in 2023 (31 December 2022: carrying amount of RUB 42).

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 2023 and 31 December 2022.

Impairment test

At the end of 2023 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.

15 INVENTORIES

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

16 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortised cost
31 December 2023	
Assets as per consolidated statement of financial position	
Short-term financial investments	116,076
Trade and other receivables excluding prepayments	19,186
Cash and cash equivalents	40,775
Total	176,037

	Financial liabilities at amortised cost
31 December 2023	
Liabilities as per consolidated statement of financial position	
Lease liabilities	670,961
Borrowings	228,229
Interest accrued	1,441
Trade, other current and non-current payables excluding statutory liabilities and advances	410,181
Total	1,310,812

	Financial assets at amortised cost
31 December 2022	
Assets as per consolidated statement of financial position	
Short-term financial investments	50,067
Trade and other receivables excluding prepayments	15,462
Cash and cash equivalents	43,255
Total	108,784

16 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Financial liabilities at amortised cost
31 December 2022	
Liabilities as per consolidated statement of financial position	
Lease liabilities	591,160
Borrowings	234,532
Interest accrued	1,143
Trade, other current and non-current payables excluding statutory liabilities and advances	324,382
Total	1,151,217

17 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2023	31 December 2022
Trade accounts receivable	14,593	13,123
Other receivables	5,292	3,117
Allowance for expected credit losses of trade and other receivables	(699)	(778)
Total trade and other accounts receivable	19,186	15,462
Prepayments	6,413	4,631
Advances made to trade suppliers	2,873	2,076
Allowance for impairment of prepayments and advances	(548)	(787)
Total prepayments	8,738	5,920
Total	27,924	21,382

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.

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 2023	Estimated total gross carrying amount at default 31 December 2023	Expected credit loss 31 December 2023	Expected credit loss rate at 31 December 2022	Estimated total gross carrying amount at default 31 December 2022	Expected credit loss 31 December 2022
Not overdue – 1 month	0.17%	13,848	23	0.16%	12,582	20
1-6 months	2.01%	548	11	2.80%	214	6
6-12 months	36.36%	22	8	40.32%	62	25
Over 1 year	77.71%	175	136	75.85%	265	201
Total		14,593	178		13,123	252

17 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Trade receivables (continued)

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

	2023	2022
At 1 January	(252)	(185)
Addition of allowance for expected credit losses	(91)	(308)
Release of allowance for expected credit losses	56	30
Trade receivables written off as uncollectable	109	211
At 31 December	(178)	(252)

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.

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 2023	Estimated total gross carrying amount at default 31 December 2023	Expected credit loss 31 December 2023	Expected credit loss rate at 31 December 2022	Estimated total gross carrying amount at default 31 December 2022	Expected credit loss 31 December 2022
Not overdue – 1 month	1.56%	3,778	59	0.41%	1,930	8
1-6 months	3.90%	1,078	42	11.98%	668	80
6-12 months	75.86%	58	44	43.37%	83	36
Over 1 year	99.47%	378	376	92.20%	436	402
Total		5,292	521		3,117	526

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

	2023	2022
At 1 January	(526)	(634)
Addition of allowance for expected credit losses	(232)	(270)
Release of allowance for expected credit losses	170	202
Other receivables written off as uncollectable	67	176
At 31 December	(521)	(526)

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:

	2023	2022
At 1 January	(787)	(561)
Addition of allowance for prepayments and advances to trade suppliers impairment	(316)	(545)
Release of allowance for prepayments and advances to trade suppliers impairment	293	133
Prepayments and advances to trade suppliers written off as uncollectable	262	186
At 31 December	(548)	(787)

17 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Prepayments and advances made to trade suppliers (continued)

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 2023	31 December 2022
VAT receivable	13,013	8,794
Other taxes receivable	277	213
Total	13,290	9,007

19 PROVISIONS AND OTHER LIABILITIES

	31 December 2023	31 December 2022
Other accounts payable and accruals	41,578	34,212
Accrued salaries and bonuses	38,657	28,266
Payables to landlords	2,438	1,771
Accounts payable for property, plant and equipment, other intangible assets and acquisition of businesses	28,190	15,837
Total financial instruments	110,863	80,086
Taxes other than income tax	37,402	37,872
Provisions and liabilities for non-income tax uncertainties	6,748	10,696
Advances received	2,058	1,796
Total non-financial instruments	46,208	50,364
Total	157,071	130,450

There were no significant amounts of other payables to foreign counterparties as at 31 December 2023 and 31 December 2022.

20 CONTRACT LIABILITIES

	31 December 2023	31 December 2022
Short-term contract liabilities		
Short-term contract liabilities related to loyalty programmes	1,109	3,487
Advances received from wholesales customers	76	42
Advances received from other customers	273	238
Total	1,458	3,767

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

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

21 BORROWINGS

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

Current	Final maturity year*	Fair value		Carrying value	
		2023	2022	2023	2022
RUB Bonds X5 Finance series BO-05		-	9	-	9
RUB Bonds X5 Finance series 001P-01		-	96	-	96
RUB Bonds X5 Finance series 001P-02		-	7	-	8
RUB Bonds X5 Finance series 001P-03		-	51	-	48
RUB Bonds X5 Finance series 001P-12	2024	1,494	9,906	1,566	9,996
RUB Bonds X5 Finance series 002P-01	2024	9,626	-	9,997	-
RUB Bilateral Loans	2024	87,022	76,989	89,270	76,989
Total current borrowings		98,142	87,058	100,833	87,146

Non-current	Final maturity year*	Fair value		Carrying value	
		2023	2022	2023	2022
RUB Bonds X5 Finance series 002P-01		-	9,860	-	9,992
RUB Bonds X5 Finance series 002P-02	2025	19,296	19,972	19,975	19,956
RUB Bonds X5 Finance series 002P-03	2025	13,545	13,930	13,983	13,969
RUB Bonds X5 Finance series 003P-02	2026	20,342	-	19,968	-
RUB Bonds X5 Finance series 003P-03	2026	9,849	-	9,970	-
RUB Bilateral Loans	2026	63,650	101,279	63,500	103,469
Total non-current borrowings		126,682	145,041	127,396	147,386
Total borrowings		224,824	232,099	228,229	234,532

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

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

The weighted average effective interest rate on Group's total borrowings for the year ended 31 December 2023 comprised 8.61% per annum (year ended 31 December 2022: 8.64%).

All borrowings at 31 December 2023 are shown net of related transaction costs of RUB 116 which are amortised over the term of the loans using the effective interest method (31 December 2022: RUB 129). Borrowing costs capitalised for the year ended 31 December 2023 amounted to RUB 22 (for year ended 31 December 2022: RUB 13). 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 6,303 in 2023 equals to the proceeds from borrowings in amount of RUB 183,594, repayment of borrowings in amount of RUB 192,007 (the Consolidated Statement of Cash Flows), increase due to acquisitions during the year recorded as part of the purchase price allocation (Note 7) in the amount of RUB 1,962 and other non-cash movements in amount of RUB 70 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 59,806 in 2022 equals to the proceeds from borrowings in amount of RUB 148,974, repayment of borrowings in amount of RUB 210,615 (the Consolidated Statement of Cash Flows), increase due to acquisitions during the year recorded as part of the purchase price allocation (Note 7) in the amount of RUB 1,819 and other non-cash movements in amount of RUB 70 plus amortisation of transaction costs in amount of RUB 86. 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 2023 the Group complied with this covenant and Net Debt/EBITDA pre-IFRS 16 was equal to 0.87 (31 December 2022: 1.02). Metric EBITDA specified in all loan agreements is equal to EBITDA pre-IFRS 16 (for calculation please refer to Note 5).

22 SHARE CAPITAL

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

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:

	2023	2022
Profit attributable to equity holders of the parent	78,281	45,199
Weighted average number of ordinary shares in issue	67,888,696	67,888,696
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,888,696	67,888,696
Basic earnings per share for profit (expressed in RUB per share)	1,153.08	665.78
Diluted earnings per share for profit (expressed in RUB per share)	1,153.08	665.78

24 REVENUE

	2023					Total
	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	
Revenue from sale of goods through own stores (at a point of time)	2,444,089	417,252	218,900	-	-	3,080,241
Revenue from sale of goods through franchisees (at a point of time)	46,920	1,686	-	-	-	48,606
Revenue from wholesale of goods (at a point of time)	512	-	5,801	-	2,922	9,235
Revenue from other services (over time)	2,208	842	4,267	449	11	7,777
Total	2,493,729	419,780	228,968	449	2,933	3,145,859

	2022					Total
	Pyaterochka	Perekrestok	Other segments	Corporate centre	Centralised functions	
Revenue from sale of goods through own stores (at a point of time)	2,089,270	385,025	87,798	-	-	2,562,093
Revenue from sale of goods through franchisees (at a point of time)	33,523	470	-	-	-	33,993
Revenue from wholesale of goods (at a point of time)	-	-	3,571	-	676	4,247
Revenue from other services (over time)	1,252	600	2,989	58	-	4,899
Total	2,124,045	386,095	94,358	58	676	2,605,232

25 EXPENSES BY NATURE

	2023	2022
Cost of goods sold	2,276,777	1,893,469
Staff costs (Note 28)	315,800	248,368
Lease expenses (Note 11)	26,796	19,925
Depreciation, amortisation	164,039	153,950
Impairment of non-current assets	1,917	10,781
Other store costs	40,290	34,693
Utilities	65,394	54,147
Net impairment losses on financial assets	97	346
Other	100,191	74,460
Total	2,991,301	2,490,139

Other expenses included impairment of prepayments in amount of RUB 23 in 2023 (2022: RUB 412).

The fees listed below related to the procedures applied to the Group by accounting firms and external auditors as referred to in article 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta):

	2023	2022
Audit of financial statements	82	77
Other assurance services performed by other companies being part of external auditor's network	4	4
Non-audit services by other companies being part of external auditor's network	124	48
Total	210	129

In addition to the statutory audit of the financial statements the members of the group, comprising the external auditor entity in Russia, provided non-audit services in the areas of retail pricing proof and business trainings.

26 LEASE/SUBLEASE AND OTHER INCOME

	2023	2022
Lease/sublease income (Note 11)	8,113	7,214
Income from sales of waste	8,046	8,391
Gain on derecognition of right-of-use assets and lease liabilities	1,146	2,551
Other	6,338	4,869
Total	23,643	23,025

27 FINANCE INCOME AND COSTS

	2023	2022
Interest expense on lease liabilities	60,654	49,877
Interest expense on borrowings	19,754	22,535
Interest income	(9,102)	(5,248)
Other finance (income)/costs, net	(1,119)	1,253
Total	70,187	68,417

28 STAFF COSTS

	2023	2022
Wages and salaries	248,307	194,883
Social security costs	67,428	53,472
Share-based payments expense	65	13
Total	315,800	248,368

28 STAFF COSTS (continued)

Wages and salaries include expenses for outstaffing and outsourcing services. Wages and salaries in 2023 included expenses of RUB 4,329 related to the long-term incentive programme (LTI) for key employees, including members of the Management Board, other key management and other key employees (2022: RUB 2,171). The liability for LTI in amount of RUB 3,615 (including social security costs) was included in other non-current liabilities in the consolidated statement of financial position as at 31 December 2023 (31 December 2022: RUB 3,869) and in amount of RUB 5,504 (including social security costs) in provisions and other liabilities in the consolidated statement of financial position (31 December 2022: RUB 105).

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

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

29 SHARE-BASED PAYMENTS

Phantom Stock Unit Plan

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

During the year ended 31 December 2023 a total number of 45,629 PSUs were awarded under tranche 2 and will vest in 2026.

During the year ended 31 December 2022 a total number of 38,925 PSUs were awarded under tranche 1 of the PSU Plan and will vest in 2025.

In total during year ended 31 December 2023 the Group recognised expense related to the PSU Plan in the amount of RUB 50 (year ended 31 December 2022: 10).

At 31 December 2023 the carrying amount of liability related to PSU was RUB 56 (31 December 2022: 10). The fair value of services received in return for the conditional PSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding under the PSU Plan:

	2023			2022		
	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB
Outstanding at the beginning of the period	38,925	1,049.50	1,500.50	–	–	–
Awarded during the period	45,629	1,482.41	1,464.50	38,925	1,049.50	1,049.50
Vested during the period	(2,993)	1,283.12	1,505.50	–	–	–
Forfeited during the period	(1,496)	1,283.12	1,505.50	–	–	–
Outstanding at the end of the period	80,065	1,283.12	2,035.10	38,925	1,049.50	1,500.50

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

29 SHARE-BASED PAYMENTS (continued)

Phantom Stock Unit Plan (continued)

Details of the conditional rights outstanding under the RSU Plan:

	2023			2022		
	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB	Number of conditional rights	Weighted average fair value at grant date, RUB	Market value, RUB
Outstanding at the beginning of the period	23,248	2,218.76	1,500.50	120,448	2,156.84	1,959.50
Vested during the period	(9,800)	2,218.76	1,464.50	(46,704)	2,114.72	1,264.50
Forfeited during the period	–	–	–	(50,496)	2,167.29	1,130.00
Outstanding at the end of the period	13,448	2,218.76	2,035.10	23,248	2,218.76	1,500.5

Expenses recognised for the RSU Plan were as follows:

	2023	2022
Equity settled RSU expenses	–	(3)
Cash settled RSU expenses	15	6
Total	15	3

At 31 December 2023 the carrying amount of liability related to RSU was RUB 24 (31 December 2022: the carrying amount of liability RUB 24 and the equity component RUB 38). 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.

30 INCOME TAX

	2023	2022
Current income tax charge	27,888	21,186
Deferred income tax (benefit)/charge	(4,310)	1,295
Windfall tax	1,689	–
Income tax charge for the year	25,267	22,481

The theoretical and effective tax rates are reconciled as follows:

	2023	2022
Profit before taxation	103,860	67,669
Theoretical tax at the effective statutory rate*	20,772	13,534
Tax effect of items which are not deductible or assessable for taxation purposes		
Expenses on inventory shortage	475	400
Unrecognised tax loss carry forwards for the year	13	16
Effect of income taxable at rates different from standard statutory rates	(477)	(6)
Adjustments in respect of current income tax of previous years	–	1,600
Deferred tax expenses arising from deferred tax asset write down	206	1,599
Effect of windfall tax	1,689	–
Other non-deductible expense	2,589	5,338
Income tax charge for the year	25,267	22,481

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

As at 31 December 2022 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. At 1 January 2023 the CGT agreement was terminated and the former members of the CGT started accounting for income tax on a standalone basis.

30 INCOME TAX (continued)

Deferred income tax

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

	1 January 2023	Credited/ (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2023
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	2,694	1,810	13	4,517
Lease liabilities*	119,822	12,059	4,224	136,105
Property, plant and equipment and investment property	642	(469)	238	411
Other intangible assets	164	389	–	553
Inventories	2,579	522	18	3,119
Accounts receivable	270	(204)	–	66
Accounts payable	13,392	2,295	239	15,926
Other	703	(471)	1	233
Gross deferred tax assets	140,266	15,931	4,733	160,930
Less offsetting with deferred tax liabilities	(112,784)	(13,843)	(4,240)	(130,867)
Recognised deferred tax assets	27,482	2,088	493	30,063
Tax effects of taxable temporary differences				
Right-of-use assets*	(98,961)	(10,342)	(3,723)	(113,026)
Property, plant and equipment and investment property	(11,854)	(2,150)	(402)	(14,406)
Other intangible assets	(6,697)	(240)	(114)	(7,051)
Inventories	(10)	(11)	13	(8)
Accounts receivable	(1,766)	953	(626)	(1,439)
Accounts payable	(340)	266	8	(66)
Other	(110)	(97)	–	(207)
Gross deferred tax liabilities	(119,738)	(11,621)	(4,844)	(136,203)
Less offsetting with deferred tax assets	112,784	13,843	4,240	130,867
Recognised deferred tax liabilities	(6,954)	2,222	(604)	(5,336)

* Upon adoption of amendments to IAS 12 (Note 4) the Group disclosed separately deferred tax assets in relation to lease liabilities and deferred tax liabilities in relation to right-of-use assets starting from 1 January 2022.

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 2022:

	1 January 2022	Credited/ (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2022
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	5,369	(2,675)	–	2,694
Lease liabilities*	117,280	(2,113)	4,655	119,822
Property, plant and equipment and investment property	333	309	–	642
Other intangible assets	53	111	–	164
Inventories	2,426	133	20	2,579
Accounts receivable	31	239	–	270
Accounts payable	10,487	2,802	103	13,392
Other	437	261	5	703
Gross deferred tax assets	136,416	(933)	4,783	140,266
Less offsetting with deferred tax liabilities	(113,369)	5,240	(4,655)	(112,784)
Recognised deferred tax assets	23,047	4,307	128	27,482
Tax effects of taxable temporary differences				
Right-of-use assets*	(97,218)	2,813	(4,556)	(98,961)
Property, plant and equipment and investment property	(8,404)	(3,233)	(217)	(11,854)
Investments into subsidiary	–	–	–	–
Other intangible assets	(6,806)	397	(288)	(6,697)
Inventories	–	(10)	–	(10)
Accounts receivable	(1,698)	(50)	(18)	(1,766)
Accounts payable	(2)	(338)	–	(340)
Other	(169)	59	–	(110)
Gross deferred tax liabilities	(114,297)	(362)	(5,079)	(119,738)
Less offsetting with deferred tax assets	113,369	(5,240)	4,655	112,784
Recognised deferred tax liabilities	(928)	(5,602)	(424)	(6,954)

* Upon adoption of amendments to IAS 12 (Note 4) the Group disclosed separately deferred tax assets in relation to lease liabilities and deferred tax liabilities in relation to right-of-use assets starting from 1 January 2022.

The temporary differences associated with investments in the Group's subsidiaries, for which a deferred tax liability was not recognised at 31 December 2023 amounted to RUB 113,533 (2022: RUB 35,252).

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 4,517 recognised at 31 December 2023 for the carry forward of unused tax losses (31 December 2022: RUB 2,694).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards at 31 December 2023 of RUB 8,958 (31 December 2022: RUB 7,984). At 31 December 2023 and 31 December 2022 unused tax losses 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 2023 the Group had trade accounts payable denominated in USD in the amount of RUB 7,039, in EUR in the amount of RUB 1,154 and in CNY in the amount of RUB 1,270 (31 December 2022: denominated in USD in the amount of RUB 8,140, in EUR in the amount of RUB 2,307 and in CNY in the amount of RUB 354) and leases denominated in USD in the amount of RUB 4,595 and in EUR in the amount of RUB 3,041 (31 December 2022: denominated in USD in the amount of RUB 4,523 and in EUR in the amount of RUB 2,532). As at 31 December 2023 the Group did not have any other significant assets and liabilities denominated in foreign currency and the exposure for the Group was estimated as not significant.

Interest rates risk

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

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

If the Key rate had been 100 b.p. higher the profit before tax for the year ended 31 December 2023 would have been RUB 183 lower. If the Key rate had been 100 b.p. lower the profit before tax for the year ended 31 December 2023 would have been RUB 183 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 customers and reverse franchise schemes only those counterparties 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.

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 2023	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	143,241	484,906	393,093
Borrowings and Interest accrued	124,041	150,088	–
Trade payables	290,232	–	–
Other financial liabilities	112,169	16,774	–
Total	669,683	651,768	393,093

Year ended 31 December 2022	During 1 year	In 1 to 5 years	Over 5 years
Lease liabilities	122,886	418,196	318,224
Borrowings and Interest accrued	104,323	157,776	–
Trade payables	238,641	–	–
Other financial liabilities	80,086	10,957	–
Total	545,936	586,929	318,224

At 31 December 2023 the Group had net current liabilities of RUB 198,247 (31 December 2022: RUB 198,625) including short-term borrowings of RUB 100,833 (31 December 2022: RUB 87,146). At 31 December 2023 the Group had available bank credit lines of RUB 549,740 (31 December 2022: RUB 475,020). At 31 December 2023 the Group had RUB registered bonds programme available for issue on MOEX of RUB 170,000 (31 December 2022: RUB 156,000).

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 optimising the cost of funding and the drawdown periods within revolving credit facilities as well as extending existing credit facilities or obtaining new credit lines. The Group manages liquidity requirements by the use of both short-term and long-term projections and maintaining the availability of funding. Based on the review of the current liquidity position of the Group management 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

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

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

Management believes it is taking 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 presented in Note 5. This ratio is included as covenants into some of Group's loan agreements (Note 21). At 31 December 2023 and 31 December 2022 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 Moscow stock exchange (MOEX) is determined based on active market quotations and amounted to RUB 74,152 at 31 December 2023 (31 December 2022: RUB 53,831). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 75,459 at 31 December 2023 (31 December 2022: RUB 54,074) (Note 21).

The fair value of bilateral loans amounted to RUB 150,672 at 31 December 2023 (31 December 2022: RUB 178,268). 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 of the market interest rate by 10% leads to the decrease of fair value of bilateral loans by RUB 1,142 at 31 December 2023 (31 December 2022: RUB 1,304), the decrease of the market interest rate by 10% leads to the increase of fair value of bilateral loans by RUB 1,183 (31 December 2022: RUB 1,304).

35 COMMITMENTS AND CONTINGENCIES

Capital expenditure commitments

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

Legal contingencies

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued at 31 December 2023.

35 COMMITMENTS AND CONTINGENCIES (continued)

Legal contingencies (continued)

On 4 August 2023, the law *Specifics of the Regulation of Corporate Relations in Business Entities that are Economically Significant Organisations* (the "Law") was signed by the President of the Russian Federation and subsequently published. The Law provides for the possibility of suspension by a relevant court of non-Russian holding companies' corporate rights in relation to Russian organisations controlled by them and included in the list of economically significant organisations, as approved by the Government of the Russian Federation. Any actions of Entitled Parties under the Law may result in significant changes to the corporate structure of the Group, and the Company losing control over its assets (operating companies) and subsequent redistribution of its subsidiary shares to the Company's shareholders and beneficiaries.

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.

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/expenses from those transactions exceed RUB 1 billion per year. Moreover, starting from 1 January 2022, a threshold of RUB 120 million applies for cross-border transactions to be classified as controlled for transfer pricing purposes.

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

In the end of 2023 the Federal Law № 539-FZ on changes to the Russian Federation Tax Code was adopted. Most of the amendments affected the regulation of transfer pricing rules in Russia. As a result of such amendments, the Russian Tax Code has been changed significantly in a number of transfer pricing aspects, especially in terms of significantly increased penalties and the administrative burden on businesses to facilitate transfer pricing compliance. The law also introduces a withholding tax at a rate of 15% on the income paid to a foreign company providing intra-group services to a Russian company. The new transfer pricing rules, as well as changes regarding withholding tax, apply to transactions leading to income /expenses recognised/paid from 1 January 2024.

On 8 August 2023 the President of Russia signed Edict No. 585 ("the Edict") suspending the effect of certain articles of Double Taxation Treaties (hereinafter – "DTTs") including provisions concerning the taxation of all kinds of income (including dividends, interest, royalties, business profits, miscellaneous income, etc.) with "unfriendly" countries. The Edict applies to tax treaties signed by Russia with 38 countries.

According to the Law No. 539-FZ benefits previously provided for by DTTs that have been suspended are being preserved for certain types of income for a certain period (until the end of 2025). The amendments can be applied retroactively to income which was paid starting from 8 August 2023. No relief will apply to transactions between related parties.

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.

35 COMMITMENTS AND CONTINGENCIES (continued)

Tax contingencies, commitments and risks (continued)

In May 2021 the Federal Law on denunciation of the DTT with the Netherlands was adopted, as a result respective DTT expired starting from 2022. These changes do not apply retrospectively to income paid prior to 2022. MLI standards came into effect on 1 January 2021. The MLI requires the setting of minimum standards – rules that must be observed in order to benefit from reduced rates under a tax treaty. The Russian Federation adopted the following standards:

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

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

The simplified limitation on benefits means that reduced rates under a tax treaty may be enjoyed only by “qualified persons” (individuals, a state or political subdivision thereof, public companies, pension funds, non-profit 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.

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

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

On 4 August 2023, Federal Law No. 414-FZ *On Windfall Tax* was adopted. The Law establishes the procedure for determining and paying a one-off tax on excess (windfall) profits. The Law is effective from 1 January 2024. According to the Law, Russian entities whose average profit for 2021-2022 exceeds RUB 1 billion shall file a windfall tax return with the tax authorities before 25 January 2024 and pay windfall tax calculated at a rate of 10% before 29 January 2024.

The Law also provides for the option of voluntarily making an “advance payment” during the period from 1 October through 30 November 2023. The advance payment will form a tax credit that the taxpayer can use to reduce the tax amount. The amount of such tax credit cannot exceed ½ of the amount of tax payable. The Group has applied the option of reducing the tax amount by making an advance payment.

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.

36 SUBSEQUENT EVENTS

In March 2024, X5 Corporate Center LLC, the Company's primary subsidiary in Russia, has been included in a list of companies that are subject to the Law (as defined under Note 35 above).

The list was published by the Government of the Russian Federation and permits management, certain shareholders or a Russian governmental entity (the "Entitled Parties"), to commence legal proceedings that could have potential consequences for the Company, its Russian subsidiaries and its shareholders. If the relevant court is honoring a claim in favor of a claimant under the Law, it shall result in a loss of X5 Retail Group N.V.'s control over its Russian subsidiaries followed by a redistribution of the shares in the primary Russian subsidiary to the Company's DR holders or their beneficiaries, and the return of non-distributed shares in the Russian subsidiary to the Company or a cash compensation to the Company for DR holders who will not participate in the redistribution of shares in the primary Russian subsidiary.

Consequently, as a result of a relevant court honoring a claim of an Entitled Party, the ownership, structure and governance of the Group may be materially impacted. Given the unprecedented nature of the Law, the current circumstances create uncertainty for structure, ownership and the governance of the Group as it is outside the control of the Management Board. The board is currently not aware of the intent of any Entitled Party to initiate court proceedings under the Law. As such, it is currently not possible to estimate the potential impact of the Law, and the inclusion in the list mentioned above, on structure, ownership and governance of the Group. Whereas potential actions under the Law impact the going concern of the Company, the Management Board currently estimates that the Group's primary business in Russia will not be directly impacted by the Law and any actions thereunder.