O'KEY
GROUP OF COMPANIES

ANNUAL REPORT 2021

Content

About the Report

The Annual Report for 2021 (“the Report”) has been prepared by O’KEY Group S.A. (“O’KEY Group”, the ”Group”, or “the Company”).

This Report discloses information on the implementation of the Group’s strategy in 2021, presents the Group’s operating and financial results and describes the Group’s corporate governance framework and corporate social responsibility activities. The Report has been prepared based on consolidated IFRS financial statements for 2021.

The annual report should be read as an equivalent of the Directors’ report prepared as required by Luxembourg regulatory requirements except for Information for Shareholders and Investors section.

The Report has been prepared based on the information available to the Group as at the time when this Report was prepared, including information obtained from third parties. The Company reasonably believes that this information is complete and accurate as at the publication date of this Report; however, it does not make any representation or warranty that this information will not be updated, revised, or otherwise amended in the future.

This Report includes estimates or forward-looking statements related to operating, financial, economic, social and other measures that can be used to assess the performance of O’KEY Group S.A. The Company does not make any representation or warranty that the results anticipated by such forward-looking statements will be achieved. The Company shall not be liable to any individual or legal entity for any loss or damage which may arise from their reliance on such forward-looking statements.

FURTHER INFORMATION

Further information regarding O’KEY Group’s strategy, businesses and performance, approach to governance and risk management can be found at our corporate website www.okeygroup.lu.

An archive of annual and strategic reports as well as a full suite of additional information materials is available at www.okeygroup.lu.

Disclaimer

The current geopolitical situation and market volatility, attributable to the global economic environment, currency and stock markets, as well as substantial currency exchange fluctuations are likely affecting companies across all the sectors of the economy. We certainly monitor the possible impact of the evolving macroeconomic conditions and changes in the retail market on the O’KEY Group’s financial and operational results for the mid-term and beyond.
However, we see that the grocery retail is one of the most sustainable sectors of the economy and will always be in demand by customers. Moreover, we believe that the Group’s effective business model, which is based on two complementary retail formats and a strong online platform covering all customer needs and segments, is solidly positioned in the market and ensures a significant hedge against macroeconomic volatility.
We are also well set to address the possible changes in supply chain as approximately 80% of our procurement comes from local suppliers and producers. Our active development of own brands, long-time fruitful cooperation with a substantial number of innovative, sophisticated and fast-growing farms and producers, engagement into regional and national quality initiatives and programmes to support local producers enables us to weather all market headwinds and uncertainties.
Thus, O’KEY Group with its well-established corporate governance and management system is solidly positioned in the market and is perfectly set to resist macroeconomic turbulence and market volatility and serve the interests of its stakeholders.

About the Company

O'KEY Group is one of the leading Russian food retailers. Since the opening of our first hypermarket in St. Petersburg in 2002, we have continued to strive for excellence.

O'KEY Group develops two clearly positioned and complementary retail formats: O'KEY hypermarkets and DA! discounters. The Company also operates a fast-growing e-commerce platform for O'KEY hypermarkets. This well-balanced combination of formats allows us to meet different customer needs and purchasing models in all regions of presence and in all sales channels.

Our vision

The new hypermarket for the new era

The best value for money discounter

Our mission

We strive for excellence

We offer fresh and high-quality products to each family

We provide a simple and easy shopping experience

We aim to create an effective working environment

We take our social responsibility seriously and act accordingly

Our values

Outstanding results

Innovativeness

Impeccable service

Effective team

Atmosphere of professionalism

Overview

FINANCIAL & OPERATIONAL HIGHLIGHTS

Figures	2019	2020	2021	2020/2021, %
Group net retail revenue, RUB bn	163.1	172.7	185.2	7.2%
O'KEY net retail revenue, RUB bn	145.3	146.8	150.4	**2.5%**
DA! net retail revenue, RUB bn	17.9	26.0	34.8	**34.3%**
Group LFL net retail revenue	+0.9%	+5.4%	+3.7%	
O'KEY LFL net retail revenue	(0.4%)	+2.5%	1.4%	
DA! LFL net retail revenue	+14.9%	+27.8%	16.3%	
Total selling space, k m^2	598.3	599.5	625.6	4.4%
O'KEY selling space, k m^2	529.1	519.4	522.7	**0.6%**
DA! selling space, k m^2	69.3	80.2	102.9	**28.5%**
Total revenue, RUB bn	165.1	174.3	187.1	7.3%
OKEY revenue, RUB bn	147.1	148.3	152.3	**2.6%**
DA! revenue, RUB bn	17.9	26.0	34.8	**34.0%**

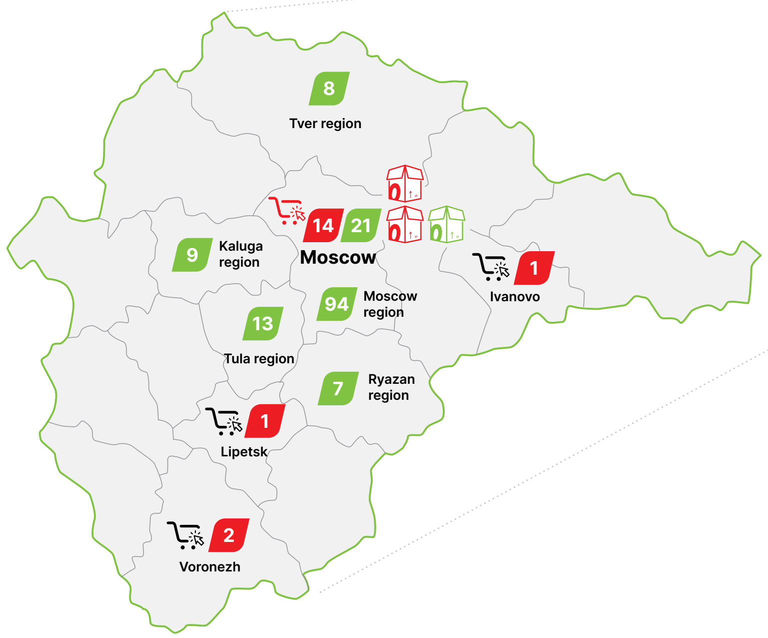
	2019	2020	2021	2021/2020, %
Group EBITDA, RUB bn	14.1	14.8	15.5	4.5%
OKEY EBITDA, RUB bn	14.3	**14.0**	**13.8**	-1.5%
DA! EBITDA, RUB bn	-0.2	**0.8**	**1.7**	**112.4%**

Our geography

100% online coverage in cities of presence

DISTRIBUTION CENTRES (DC)

- O'KEY online delivery
- Online delivery via partners
- O'KEY hypermarket
- DA! discounter
- O'KEY distribution centre
- DA! distribution centre



230 Total stores

78 Hypermarkets

152 Discounters

5 Total DCs

4 Hypermarkets

61% Centralisation rate

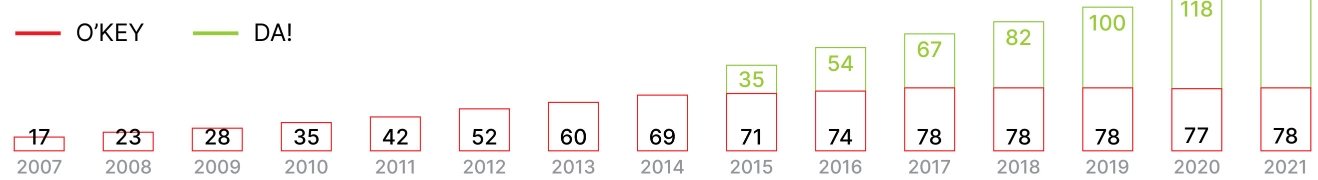
1 Discounter

100% Centralisation rate

O'KEY GROUP RETAIL SPACE IN 2021 (K M²)

	North-West	East	South	Central	Total
Hypermarkets	184.0	114.8	86.4	137.4	522.7
Discounter stores	-	-	-	102.9	102.9
Total	184.0	114.8	86.4	240.3	625.6

NUMBER OF STORES



Key events 2021

March 2021: O`KEY released a new omnichannel mobile web app fully aligned around the One Retail concept.

March 2021: O`KEY introduced new eco-friendly biodegradable packaging in its stores, which fully decomposes within one year.

April 2021: O`KEY launched a mutual project with Autonomous Non-commercial Organization Russian Quality System (Roskachestvo) devoted to Russian wine tasting.

May 2021: O`KEY became a partner of the Annual City Sport Festival ZSD fest in St. Petersburg.

June 2021: O`KEY made key appointments to the management team: a new Chief Operating Officer and a new Chief Commercial Officer assumed their positions.

June 2021: O`KEY solidified its presence in Russia's Central Federal District by acquiring a Karusel hypermarket in Moscow from X5 Retail Group.

July 2021: Expert RA affirmed a credit rating of 'ruA-' for O`KEY LLC, the main operating subsidiary of O`KEY Group S.A.

July 2021: O'KEY became a winner of Retail Week Awards in nomination "Best practices in wine category".

October 2021: O`KEY deployed SAP EWM (Extended Warehouse Management) and the SAP HANA (High-performance Analytic Appliance) in-memory database to automate its distribution centres.

October 2021: O`KEY won in the nomination category "Retail business. Hypermarkets" of the award "Quality of service and customers rights".

November 2021: O`KEY opened a second new concept hypermarket in Moscow, which replaced a former Karusel hypermarket at a site that the Company acquired from X5 Group in June 2021.

November 2021: O`KEY rolled out a new concept for two hypermarkets in St. Petersburg.

EVENTS AFTER 2021

February 2022: The Group announced it had entered into agreement with X5 Group to acquire and lease four Karusel hypermarkets in the Moscow metropolitan area.

Strategic Report

Delivering on our long-term strategy

O'KEY Group's operational activity is based on two shopping formats, hypermarkets and discounters, and a strong e-commerce platform with an omnichannel approach. The strategic priorities depend on the format, however all formats are focused on building an appealing value proposition and providing our customers with the best quality goods and superior service.

O'KEY hypermarkets	DA! discounters	E-commerce
Business development:		
• New concept stores aim to offer the most convenient and up-to-date shopping experience along with a well-balanced product range with focus on fresh and ultra-fresh categories • Continue the format development keeping up with the latest market trends • Look for the best opportunities to grow business: developing new enhanced hypermarkets; implement the latest technologies and solutions in retail, supply and logistics; extend network in key regions and optimise store portfolio	• Growth and expansion across the Central Federal District and the surrounding regions • Developing DA! discounters as a key growth driver for the Group's top- and bottom-line by steadily transforming and adapting its assortment to the different consumer demands	• Further development of the omnichannel approach, which enables increasing sales volumes by covering all customer segments and needs • Developing partnership with specialised delivery operators to seek for operational efficiencies
Deliver the best value proposition:		
• Increase operational efficiency • Increase the share of private label products and own products in total sales	• Focus on the "every day low price" concept • Offer the most competitive pricing on the market without compromising quality • Taking the lead in developing PLs portfolio for the whole Group	• Integrate IT-solutions with partners to unlock further operational and cost efficiency • Improve the productivity of e-commerce operations
Benefit from synergies between the formats:		
• Develop synergies with the discounter business in joint procurement and direct import of fresh products, as well as profiting from the private label expertise • Develop synergies with e-commerce by using an omnichannel approach. Benefit from increased number of orders placed through the website and the mobile app	• Benefit from synergies with O'KEY hypermarkets by using their purchasing power when forming branded assortments	• More efficient business organisation and logistics with O'KEY hypermarkets serving as pick-up points and an omnichannel delivery platform for online orders

Business model

O'KEY Group has developed a unique business model based on two clearly positioned and complementary retail formats (hypermarkets and discounters) and a fast-growing e-commerce platform with an omnichannel approach. Such a combination of formats enables us to fulfil the needs of different customer segments and to keep up to date with the most recent trends. Within the Group, all formats are integral parts of the business model. Therefore, such a business approach proved its efficiency and is fundamental for our future success.

We strive to develop and profit from synergies between the segments:

- O'KEY hypermarkets gain access to DA!'s private label expertise and its system for procurement and direct imports of fresh products;
- DA! discounters leverage O'KEY's advantages when purchasing branded assortment, and obtaining price advantages by purchasing additional volumes in private labels;
- O'KEY hypermarkets serve as pick-up points for online orders, which helps to maximise the efficiency of the delivery model and reduce logistics costs.

O'KEY hypermarkets

DA! discounters

E-commerce platform

O'KEY hypermarkets	DA! discounters	E-commerce platform
• One of the leaders in its segment with 20 years expertise in the market enhanced by the innovative store concept • Strong base for e-commerce growth	• A discount model unique for the Russian market and based on world leading practices, adapted for local consumers • Main driver of growth for the Group	• High growth potential segment adhering to a profitable growth strategy driven by changes in consumer behaviour
One of the retail market leaders in St. Petersburg, a strong presence in major Russian cities New hypermarket concept is being implemented to lead market trends	The discount concept with a premium appeal Fast-growing chain of stores in the most convenient locations offering high-quality products at the most attractive prices Strong expertise in fresh supply and own brands production Focus on centralisation and cost efficiency	Developing e-grocery since 2015 Among the top 10 grocery retailers in online in Russia A modern omnichannel mobile application
• A balanced range of goods with focus on fresh and ultra-fresh • Reduced number of non-food products • Superior customer service • Modern shopping environment	• Exceptional private label expertise (own brands account for c. 50% of the assortment) • Every day low price policy, which is largely supported by own brands, offers 20-30% cost saving to our customers • Comfortable and reasonably spacious layouts and interiors	• Online orders are fulfilled by the closest hypermarkets in Moscow and St. Petersburg and in partnership with delivery operators in all cities of operation • Omnichannel approach: unified bonus system and product range, delivery or pick-up option • Award-winning website and a modern mobile app
Present in **23** cities in **6** federal districts of Russia	Present in **6** regions of Central Federal District of Russia	**100%** coverage in all regions of presence
30 k SKUs	**~3.2 k** SKUs	**>30 k** available SKUs

KEY RESULTS AND PERSPECTIVES:

O'KEY hypermarkets	DA! discounters	E-commerce platform
Hypermarkets reformatting is aimed at further strengthening their market position and supporting long-term LFL growth	**+34.3%** YoY net retail revenue growth in 2021 **152** (+34 stores net) in 2021 DA! will remain the key growth driver for the Group's top- and bottom-line	**+93.7%** YoY total online sales growth in 2021 **446 k** active customers (+62% YoY) in 2021 Online sales reached **3.1%** of O'KEY retail revenue in 2021

Sustainable development

Sustainability approach

O'KEY Group is a business of people. Our sustainability approach ensures we are serving customers in a way that's good for our colleagues, customers, communities, and the planet too. By engaging with our customers, we create value for stakeholders. Every day more than 20 thousand employees and hundreds of suppliers across Russia work to serve millions of customers[1].

We understand the importance of a socially responsible business, so we strive to develop tailored approaches, implement international principles of transparency and support for local communities, and comply with labour relations and environmental safety standards.

O'KEY Group has a presence in various regions of Russia and our wide range of stakeholders includes customers, employees, shareholders and investors, suppliers, and representatives of local communities. We regularly develop mechanisms for interaction with representatives of regulatory and government authorities, the media, and NGOs. We believe that supporting partnerships ensures continuous progress and contributes to the development of our business as a whole. Our core purposes are directly integrated in our approach towards the sustainable development.

[1] According to O'KEY Group's internal data.

BENEFITS FOR OUR KEY STAKEHOLDERS:

INVESTORS AND SHAREHOLDERS

For shareholders, our business model provides steady, profitable growth. We believe we can continue to add value by maintaining our focus on shareholder value, loyalty and customer convenience, underpinned by rigorous capital discipline. O'KEY Group is listed on the London Stock Exchange since 2010. Additionally, O'KEY Group's global depositary receipts (GDRs) are accessible to a wider range of investors on Moscow Exchange since December 2020. The Group has a long-established practice of regularly returning cash to shareholders.

SUPPLIERS

O'KEY Group with local suppliers: more than 80% of our suppliers' production is located in Russia. It enables us to keep the necessary products in stock. We support innovative manufacturers and local enterprises in all regions of our footprint. The Group participates in several regional and national quality initiatives, in particular in the South and Central regions of Russia. We are applying a unified method of processing and approving direct imports supplies, new terms and conditions of collaboration with the State Veterinary Authority, which resulted in substantial cost savings.

O'KEY is focused on mutually beneficial collaboration with local suppliers and producers. This partnership enables us to provide our customers with an extended product range in the most important product categories, such as poultry meat, dairy products, sausages, bakery goods and confectionary. Our product assortment is also enhanced with local products, which are unique in terms of quality and organoleptic properties. Our activities encompass specialised trading and purchasing sessions in all cities of our presence, which enables us to establish direct dialogue and interaction with our potential suppliers. We are very careful in choosing out constant suppliers: our main criteria are a high quality of production capacities and a well-adjusted quality control system, as well as the highest quality characteristics of the products.

CUSTOMERS AND LOCAL COMMUNITIES

For many years we have been supplying a balanced assortment and offering our customers products of excellent quality at the best price by means of our own brands. O'KEY implemented a quality benchmarking procedure for all supplied products by using a risk oriented approach and consumer comparison of the whole product range. O'KEY provides help to local communities in the regions where we are present in the form of financial support for people who find themselves in a difficult life situation, through partnerships with foundations and nonprofit organisations and food aid. Our business model allows us to offer our customers products at the best prices. As our business continues to grow, we reinvest in our competitiveness and continue to improve our offerings.

As a socially responsible company, we strive to help vulnerable groups of people, as well as raise consumer awareness and draw their attention to the importance of caring for those people who need help most. We provide charitable assistance for children with disabilities, organise campaigns to collect products for low-income population segments, provide financial support and donation boxes for treatment of diseases, etc.

EMPLOYEES

The experience and expertise of our employees form key components of our business model, from customer service to our service culture. We want every employee in our business to understand the role they play in providing a high level of in-store service to internal and external customers every day. We are focused on personal and professional growth of our employees.

Our employees

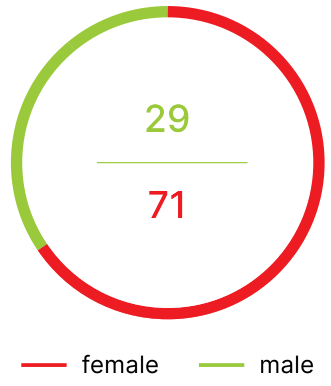
Creating value for our employees is core to O'KEY Group, since they are the key asset that drives the Company's fast-paced and effective growth. Shaping and developing human capital is part and parcel of the Group's strategic development and long-lasting success. O'KEY's HR Policy is focused on the continuous improvement of its HR processes and services, including onboarding, training and development, and professional recognition of the Group's specialists.

KEY INDICATORS

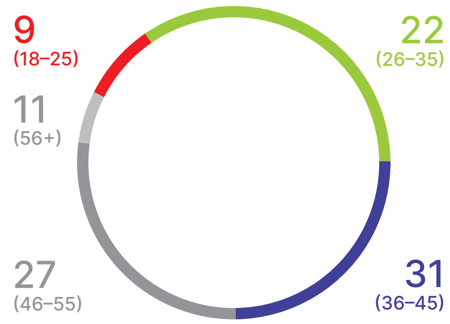
In 2021, the average number of Company employees amounted to 20,434 people. 17,116 of these were employees of O'KEY, and 3,318 were employees of DA! discounter business. The staff turnover ratio in our hypermarkets totaled 21%.

AVERAGE NUMBER OF EMPLOYEES, PEOPLE

BREAKDOWN OF STAFF BY GENDER, %



BREAKDOWN OF STAFF BY AGE, %



According to O'KEY Group's internal data.

CORPORATE CULTURE

O'KEY values

- Effective team
- Outstanding results
- Professional environment
- Excellent service
- Innovation

Just as in 2020, support of O'KEY's professional environment, recognition of contributions and best employees, traditions and service for our customers as well as provision of information to employees on necessary protective and preventive measures against COVID-19 remained the key focuses in shaping our corporate culture.

We continued to develop the "100% Professional" skills competition for various occupations, which was launched in 2018. In 2021, for the first time, it covered e-commerce employees, namely, pickers, and team competitions were organised for all pick points. To ensure employee safety amidst the COVID-19 pandemic, much of the competition was held online.

2018

3 professions

- cashier
- baker
- cook

12 winners

2019

4 professions

- cashier
- salesperson
- baker
- cook

16 winners

2020

7 professions

- cashier
- salesperson
- baker
- cook
- meat scaler
- seafood department employee
- baker-confectioner

401 winners

2021

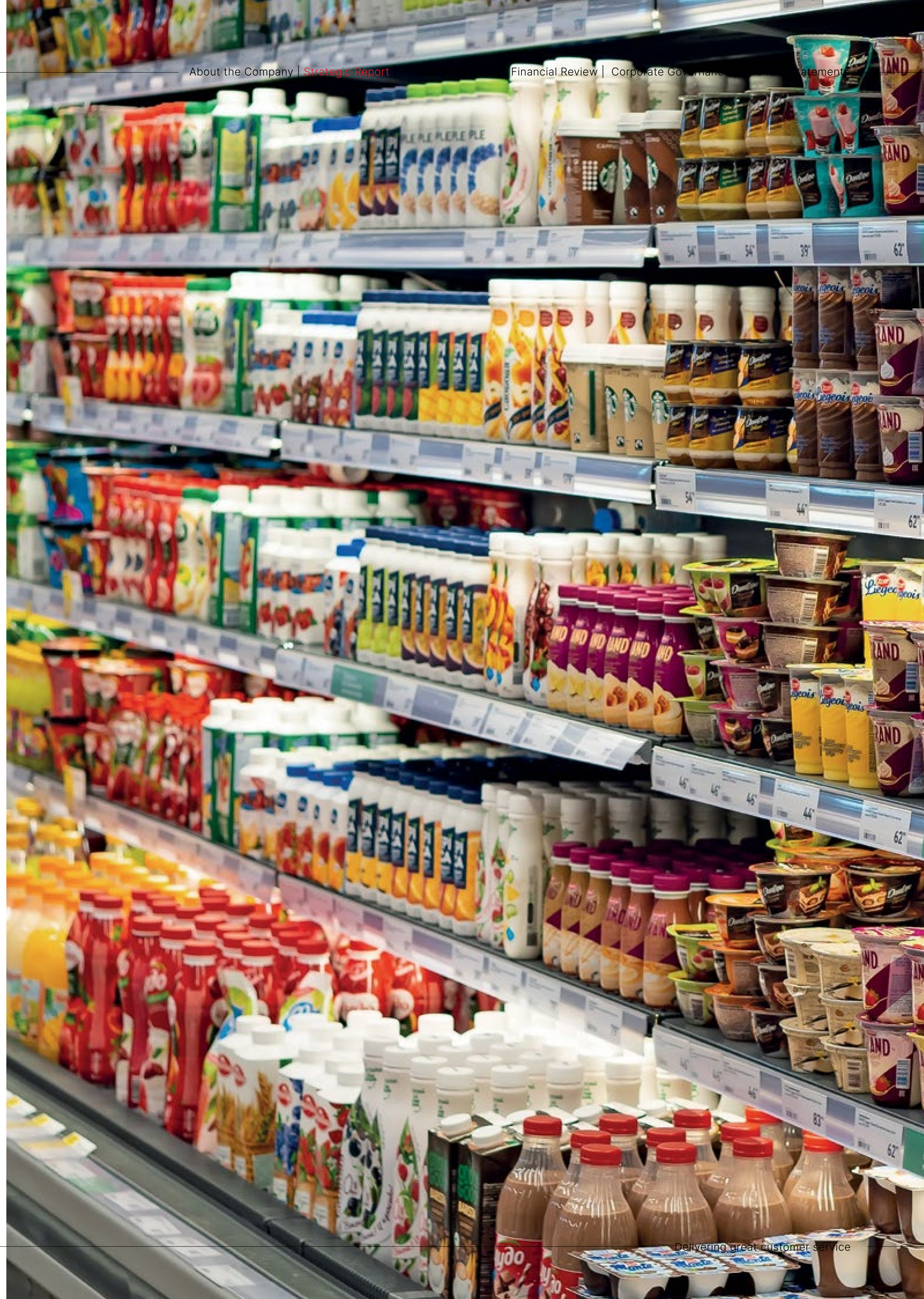
6 professions

- cashier
- counter salesperson
- cook
- seafood department employee
- baker
- picker

567 winners

Environmental responsibility

Environmental awareness is growing among our clients, the retail field is affected by changes in environmental legislation and by ESG-based investor valuations. In this regard, environmental responsibility has become a necessity for a sustainable position in the market. O'KEY Group is committed to a responsible attitude to resources and minimises its carbon footprint by implementing different measures.



Our communities

O'KEY provides assistance to vulnerable groups of people in its areas of operation. Among them are low-income families, single mothers, large families who find themselves in a difficult life situation, elderly people who need help, as well as children with disabilities. In 2021 we aided both independently and in partnership. For this purpose, we developed partnerships with different stakeholders, such as nonprofit organisations, volunteers and charitable foundations that distribute funds and food to people in need.

Priorities of O'KEY charity programmes

- Help people in difficult life situations
- Help children with disabilities
- Help veterans of the Great Patriotic war
- Support children's artistic endeavours

Major charity partners in 2021

- AdVita
- Rusfond
- Step forward festival
- Local charity foundations

Directions of help

- Financial support
- Partnerships with foundations and nonprofit organisations to place fundraising opportunities and groceries in stores
- Food aid

SUPPORTING VULNERABLE GROUPS

As a socially responsible company, we strive to help vulnerable groups of people, as well as raise consumer awareness and draw their attention to the importance of caring for those people who need help most. We donated RUB 5.3 mln to charity in 2021.

The growth rate of inflation and the unstable economic situation associated with the pandemic had a negative impact on many social groups of people. Together with our customers and charitable foundations, O'KEY hypermarkets organised campaigns to collect products for low-income population segments, for example, large families with extremely low incomes, children lacking basic food, people who are forced to choose between buying food and medicine, the elderly and the disabled.

In the regions of the country, we held several Basket of Kindness campaigns, aiming at helping people in need. The Basket of Kindness campaign is organised by a Russian charity organisation Foodbank Rus, providing direct access to local communities and serving as an example of transparent and effective social work.

SUPPORT WITH TREATMENT

O'KEY Group strives to provide financial support in the treatment of diseases. One of the long-standing committed charity partners of O'KEY Group is AdVita, a St. Petersburg-based charity fund, specialised in helping children and adults suffering from cancer. Since 2016 in our hypermarkets in St. Petersburg, donation boxes have been placed next to counters so that our customers can help these people in need.

For several years already funds raised through special donation boxes are used primarily for diagnostics and treatment. In particular, various medications and consumables for laboratories are purchased. The laboratory of Raisa Gorbacheva Memorial Research Institute of Children Oncology, Hematology and Transplantation are participating in the programme.

Since 2017, O'KEY Group thanks to customers has raised over RUB 34 mln to support Rusfond. Through active cooperation with this charitable foundation we assist children in need of treatment and rehabilitation. Over these years, funds have been used to provide treatment for a total of 95 children from across Russia and to facilitate the development of the national bone marrow donor register programme.

In 2021, 19 children, wards of the Rusfond charitable foundation, received treatment for the amount of RUB 9 mln from funds raised in 2020 in the Good Purchase campaign.

40
donation boxes placed in hypermarkets

Over RUB
2
mln
raised through donation boxes in 2021

RUB
14.5
mln
raised since 2016

RUB
34
mln
raised since 2017

95
children received treatment since 2017

CHILD SUPPORT

Helping children is one of the priority areas of support for O'KEY Group. Following our priority goal we are aiming to stimulate the creative potential of children with disabilities.

In 2021, we provided charitable assistance to the Step Forward International Art Festival for such children. The festival is a sustainable platform for revealing the creative potential of children with disabilities. Academic symphony orchestras, conductors and famous artists took part in the concert programmes along with such children. O'KEY donated RUB 1.5 mln to support this festival, so that children could fulfil their potential, discover confidence and make a coveted dream come true.

VETERANS SUPPORT

O'KEY has been supporting veterans of the Great Patriotic War since 2002, holding an annual campaign to support those who helped to achieve freedom and peace for the country.

For many years, we have been helping veterans of the Great Patriotic War in all regions of our presence. On the eve of the great holiday, we provide veterans of the Great Patriotic War with gift cards for making purchases in our stores. In 2021, we provided about 4,000 veterans with such gifts.

Preventing corruption

O'KEY Group is committed to ensuring a high level of transparency in all its operations and procedures at every level, continuing to improve anti-corruption tools and promoting training on this topic for employees. We have zero tolerance for any type of corruption.

Operational Review

O'KEY hypermarket format

PERFORMANCE OVERVIEW

The O'KEY hypermarkets remain at the core of our business, offering customers a well-chosen and wide product range, which is designed to build an attractive customer value proposition. Our strategy, which is built around our customer's needs, ensures us a positioning among the biggest players in the Russian food retail market. We are convinced that hypermarkets will remain a competitive and potentially high-growth format and in recent years have made significant progress in transforming the chain and implementing our new hypermarket concept. It brings together the best practices from across the food retail industry and sets standards for quality across the board: from assortment strategy to customer service and layout design.

KEY PERFORMANCE INDICATORS

	2019	2020	2021
Number of stores	78	77	**78**
Selling space, k m²	529	519	**523**
Net retail revenue, RUB bn	145.3	146.8	**150.4**
Net retail revenue, %	-0.4%	1.0%	**2.5%**
LFL net retail revenue, %	-0.4%	2.5%	**1.4%**
LFL traffic, %	-1.8%	-14.2%	**-1.6%**
LFL average ticket, %	1.4%	19.5%	**3.1%**

HYPERMARKETS BUSINESS 2021 AT A GLANCE

6,700 m²	30 k SKUs	133.5 mln	81.2%
Average store selling space	Average product range	Clients shopped with us	Hypermarkets' share in O'KEY Group sales

As a part of its strategic programme to enhance the competitiveness of its hypermarkets, the Company is upgrading its O'KEY stores. The newly transformed stores show good progress in terms of traffic growth and sales density. We plan gradually to upgrade stores in key regions and locations depending on the competitive environment.

Apart from the new design, this means implementing a new approach towards product range, customer service and experience. We focused on the fresh and ultra-fresh categories, own brands and own production, wine and deli selection. At the same time, we are reducing the share of non-food categories as we see a steady trend for these products being increasingly purchased online.

The Group believes that hypermarkets will remain competitive in future on the basis of intelligent management of this format.

In 2021, we continued to focus on delivering an enhanced customer experience, maintaining high operational efficiency, impeccable quality of assortment and best service in every store of our chain. The right focus and developed customer value proposition (CVP) enabled us to show good operational and financial results. In 2021, we continued to evolve our unique value proposition by the following efforts:

- we strengthened the synergy of our hypermarket format with online and discounter formats by applying an omnichannel approach, acquiring private label expertise and an efficient system for procurement and direct imports of fresh products;
- we continued to develop our fresh and ultra-fresh assortment, which resulted in the increased shares of these categories in hypermarket revenue, comprising 52.1%;
- we went forward with development of our private labels: we introduced the O'KEY Selection brand in a wider assortment at highly competitive discounted prices;
- we reduced the number of non-food items in our assortment in line with the trend of purchasing the bulk of non-food products online;
- we heavily developed our loyalty program by offering a mutual program with Rosbank, offering a cardholder 5% discount in all O'KEY stores and 1.5% cashback in other stores;
- we continued the realization of our large-scale hypermarket transformation programme and opened three new concept stores;
- in our own production business we optimized our assortment of products and made a shift towards regular matrix adoption;
- we enhanced our quality control system and implemented large-scale changes in our supply chain management;
- we introduced a new voice picking system at our distribution centres, implemented a new transport management system (TMS), etc.;
- we continued implementation of digital solutions in our hypermarkets, such as self-checkout scanners integrated with our loyalty system, electronic price tags for some product categories, and self-checkout cash desks.

78
total number of hypermarkets

523
k m²
total selling space

In 2021 we delivered solid operational and financial standards in our hypermarket business, despite the challenges caused by economic instability and the epidemiological situation. O'KEY net retail revenue rose by 2.5% YoY to RUB 150.4 bn driven mainly by a 1.4% increase in LFL net retail revenue. As expected, Q4 2022 saw strong customer demand, with net retail revenue growth of 4.2% YoY.

As at 31 December 2021, the total number of hypermarkets was 78, with a total selling space of 523 k m². In 2021, we solidified our position in the Central Federal District of Russia by acquiring from X5 Group a Karusel hypermarket in Moscow, located at Ozernaya Street. Acquisition of the 25,000 sq m plot of land and the 9,800 sq m store is a part of the strategy to improve the efficiency of our hypermarket business and to prioritise development in key regions of operations.

In 2021, we launched two new concept stores in St. Petersburg and one in Moscow (replacing the Karusel hypermarket acquired in the second quarter of 2021) as a part of O'KEY Group's strategy of strengthening our market position and supporting long-term growth. Our new concept hypermarkets are showing real promise, with customer footfall and sales per square meter on the rise. As announced previously, we are planning a phased transformation of our whole portfolio of hypermarkets.

O'KEY is proceeding with the hypermarket transformation program as a part of the Group's strategy related to strengthening its market position and supporting its sustainable long-term growth. The programme aims at rebalancing the assortment with a specific focus on fresh and ultra-fresh categories, enhancing the quality and range of our food and non-food products under our own brands, maintaining an impeccable quality of assortment and best service, and renovating hypermarkets.

Our newly transformed hypermarkets are showing reasonably good progress in terms of customer traffic and sales density. In 2022 and beyond, we will rollout gradually the reformatting programme across all our hypermarket chain.

The innovations are also aimed at further improving the shopping experience in terms of updated new shop floor and product display layout. In our concepts we strive to make sure selling space is used as effectively as possible. Products from a single category are arranged into one compact zone to make for more comfortable and effective shopping. We also widened the aisles and updated our zoning and display standards, helping customers get their shopping done faster. Some zones feature special counters where you will find related products and ready-made solutions to ensure you get everything you need faster than ever.

The stores integrate the cutting-edge innovative IT solutions across the whole chain. They are also equipped with digital services - the O'KEY scan system, self-checkout counters and a digital sommelier.

Next to the ready-to-eat section, we launched a café area where customers can have a meal or enjoy a cup of coffee, warm up food and charge their devices.

+50%
increased selling space of fresh and ultra-fresh products

More than
5,000
SKUs
of fresh and ultra-fresh products

NEW HYPERMARKET CONCEPT

In November 2021, O'KEY has rolled out a new concept for its hypermarkets in St. Petersburg. Two newly renovated O'KEY hypermarkets have opened at 10/1 Bolshevik Avenue and 13 Bogatyrskiy Avenue. In November 2021, we have also rolled out a second new concept hypermarket in Moscow. The new store replaced a former Karusel hypermarket at a site that O'KEY acquired from X5 Group in the second quarter of 2021. The new concept leverages all latest retail and consumer behaviour trends as well as international best practices, in-house innovations and the Company's 20 years' experience in the retail sector.

The concept's key focus is refining the structure of the product mix, enhancing customer comfort on the shop floor and ensuring ever-improved service. We have grown the share of our fresh and ultra-fresh categories in the overall product range and increased their total selling space and their product range, which contributed to the growth of our customers' loyalty and satisfaction level. The stores feature even more impressive bakery, deli, cheese, sausages, meat and seafood counters.

We reduced selling space allocated for non-food products by 80%, while improving the look and feel of this section, focusing on high-quality and most popular items. The non-food area received a new attractive design, modern displays and promo stalls.

In 2022, we will continuously improve the operational efficiency of our hypermarkets and contribute to the enhanced product range and shopping experience. We strive to meet all customer needs, ensure the stable presence of all goods on the shelves and ensure the highest quality and freshness both in offline and online channels, which implies an omnichannel approach to our business.

While the omnichannel approach falls in line with market trends, the transformation of hypermarkets is a response to a key business challenge of our time – competition from convenience stores and online retailers. We believe that the hypermarket segment will remain commercially successful and continue to be the core pillar of the Group's business model in 2022 and in the medium term. Nevertheless, in line with the current market trends, it will require transformation across the whole chain, by improving floor and product display layout, enhancing our own production and private label ranges, increasing operational efficiency, offering competitive prices, maintaining an impeccable quality of products and introducing cutting-edge digital solutions.

We believe that this is the model for hypermarkets to follow going forward, with fresh products increasingly prioritised and non-food items mainly sold through online channels.

In 2022, we also plan to extend our network by opening four new hypermarkets in line with our latest requirements. We expect that this fresh start will strengthen O'KEY's market position and create a foundation for the long term.

Private labels

O'KEY OWN BRANDS

O'KEY private labels (PL) have earned an excellent reputation for outstanding quality and a wide selection of goods. Over the years we have been successful in our strategy of rapid development of own brands, delivering on a more balanced assortment and offering our clients goods of superior quality at a better price.

Our variety of private label products has three major brands covering the entry, medium and premium price segments.

O'KEY DAILY (That's what you need!)[1]	O'KEY	Selection of O'KEY
Entry segment 574 SKUs	Medium segment 1,178 SKUs	Premium segment 120 SKUs
1,872 private label SKUs available in O'KEY hypermarkets		

O'KEY own brands:

15–20%

cheaper than branded alternatives

Gold medals	Silver medals	Diploma
O'KEY Brie Cheese O'KEY lightly salted fillet-pieces of herring in oil O'KEY White-pink Marshmallow O'KEY Honey Chak-Chak O'KEY Selection Salted Fried Pistachios O'KEY Daily Turkey breast fillet, tray refrigerated	O'KEY Pistachio Ice-cream with almonds O'KEY Dried Apricot O'KEY Corn canned in grains O'KEY Cheese Creamy Lighter O'KEY Cheese Camembert O'KEY Cheese with blue mould	O'KEY Daily Smoked pork ribs

[1] "O'KEY DAILY" is applied for food categories, "That's what you need!" is applied for wine and non-food categories.

DA! OWN BRANDS

According to the latest research, our consumers have become more price conscious: they have changed the way they allocate their shopping budgets. We possess a good heritage of simplicity and superb execution through offering our clients a wide range of products under our own brands at highly competitive discounted prices.

We strive to offer all relevant private labels across all our product range (with the exceptions of cigarettes, sensitive goods and baby food) in order to motivate our customers to recurrent visits to our shops. We have achieved impressive results in optimizing our operating and advertising costs and applying the "every day low price" concept. Therefore, our private label products are less expensive than popular alternatives of comparable quality. We also enhance constantly our supply chain, giving emphasis to cost generating functions and passing all cost-saving advantages to our customers while maintaining good margins. All these factors enable us to build an appealing customer value proposition and maintain relatively lower prices than our competitors in the Russian discounter format.

DA! own brands:

20–30%

cheaper than branded products of the same quality

We are focused on the prudent selection of our own brands manufacturers and strive to develop long-term mutually beneficial collaborations with them in order to provide an impeccable quality of goods and ensure perfect packaging design close or similar to the branded assortment. To ensure all our private label manufacturers meet the highest quality standards we only work with innovative manufacturers, that share our commitment to quality.

Own production

Ready-to-eat and ready-to-cook food products turned into one of few segments that witnessed a surge in immense demand during the COVID-19 pandemic in recent years. With most people working from home, this category of products was flying off the shelves over the last few years. Moreover, the "time is a luxury" life-style trend created demand for high-quality ready-to-eat food of impeccable freshness. In line with those trends, O'KEY hypermarkets offer a well-chosen and extensive assortment of freshly prepared salads, hot meals, pastries and confectionery.

Quality and safety

O'KEY upholds the highest quality and safety standards through the whole supply chain with the goal of providing customers with the safest, highest-quality and freshest products. Our quality control system encompasses all stages of operation from production to consumption. In order to maintain the highest quality of goods in all our stores and assure that our products comply with the best retail standards, recent market trends and customer needs, we take an approach based on the principles of risk analysis and critical control points (HACCP). Our quality management system is complemented by internal quality standards which often go beyond the necessary requirements.

Quality and safety in O'KEY are supported by a special quality control department. Existing internal quality standards are based on the legal requirements of the Russian Federation and best international retail practice.

The principles of risk analysis and Critical Control Points (HACCP) are the main pillars of O'KEY's quality management system (QMS) ensuring the safety of our products. Our QMS is based on compliance with the key hygiene control measures at each stage of food production. Due to the constant changes in legislation and market dynamics we adopted and improved a variety of approaches to quality control, which helps the Company to integrate and conform the quality control system with the main cross-functional targets, customers' needs and our business objectives. Other additional quality standards are continuously adapted to the best international retail practices and the needs of our business.

The standard measures include preliminary quality control procedures, assortment monitoring both in stores and warehouses, and external and internal auditing of stores and the supply chain. The high quality and safety of our own production and private labels is confirmed by laboratory monitoring.

In 2021, due to the continuing COVID-19 pandemic, O'KEY maintained all measures to prevent the spread of the virus, improved hygiene in its stores and warehouses, supplied all its employees with personal protective equipment, etc. Within the year activities were reviewed and approved by the relevant authorities and bodies in all regions of our operations (on a monthly basis in some regions). All inspections were successfully passed due to the advanced approach of the Company to assuring the safety of its customers.

The Company actively participates in regional and national quality initiatives. O'KEY successfully passed the inspection audit as part of the voluntary certification "Made on Don" in the Southern region of Russia and took part in ACORT quality committee initiatives such as communication with authorities on legislative issues, participation in round tables with state control bodies and contributing to new normative document development procedures.

During the recent year, O'KEY stores successfully underwent 156 planned and unscheduled surveillance audits conducted by the authorities.

In 2021, we repositioned our own production, which is now considered to be a part of a trade enterprise and not a catering one. Hence, we developed and approved 34 regulatory documents, including 17 Company standards and technical instructions regarding the quality of our self-produced baked products, meat and fish.

In 2021, the Company kick-started a quality control project, which was extended to its own production and its suppliers in terms of risk evaluation and quality audit of their products. We conducted 12 audits of our own production facilities and intend to continue carrying out this project in 2022 according to the approved plan. We also conducted 99 audits of our private label products, compared to 35 in 2020.

Following the current legislative requirements, O'KEY changed from declaration of goods through external service providers to self-declaration, which resulted in increased efficiency of the whole declaration process as well as cost savings. During the year we conducted all necessary laboratory tests in terms of our own products and acquired 61 declarations for 4,205 SKUs.

In 2021, we also updated along with the recent statutory provisions the information, stated on the labels of our selection of cheeses, gastronomy as well as our fish, meat and fish products and worked out the unified production control programme for all our hypermarkets, discounters and distribution centres.

We developed and launched the approval mechanism for all our meat suppliers through the ART-TRADE platform and will benefit from final inspection information placed on the labels of our products by the quality of control department before they are supplied directly to the stores and distribution centres. It will enable us to download the necessary data in time, avoid suppliers' technical mistakes and meet all related deadlines.

In 2021, O'KEY implemented a quality benchmarking procedure for all supplied products by using a risk-oriented approach and consumer comparison of the whole product range by category.

We also developed and applied a unified method of processing and approving direct imports supplies, new terms and conditions of collaboration with the State Veterinary Authority, which resulted in cost savings (in particular for our Litvinovo distribution centre and our stores in the South and Central regions of Russia).

O'KEY distribution centres also started to identify animal origins for supplied goods, which resulted in increased transparency of purchases and ability to track the related inconsistencies and input them to the Mercury system.

Our efforts in the quality control area are regularly recognized by various awards. In 2021 O'KEY and "Selection of O'KEY" private label products and our ready-to-eat and ready-to-cook products won gold and silver medals at the prestigious international Quality Guarantee 2021 competition.

DA! discounter format

The growing trend to cost-consciousness has given rise to a new store format, which encouraged us to reinvigorate our DA! discount concept with a premium appeal. DA! business remains one of the fastest growing grocery chains in the Russian market and the key growth driver for the Group's top line. During the year, DA!'s net retail revenue surged by 34.3% YoY, comprising almost 19% of the Group's top line, with LFL figures rising by 16.3% in the same year.

DA! discounters leverage the best international practices, in-house innovations and the latest technologies in the retail sector. At the same time, DA! stores are specifically tailored for the needs and desires of our target customers. Every year our business model continues to show its effectiveness and enjoys strong recognition from our clients.

DA! stores have a well-balanced product range, covering all customer needs in terms of food items and the most popular non-food items. By synergising our supply chain with O'KEY hypermarkets and negotiating the most favourable procurement terms with suppliers, we ensure that our customers get the best value for money. On top of that, convenient store location, outstanding customer service, modern equipment and spacious shopping areas give DA! a competitive edge.

DA! discounters adhere to the "every day low price" policy, which is largely supported by our own brand products. The private label range offers clear cost advantages of 20–30% against branded goods of comparable quality, which creates a very strong appeal for price-sensitive customers.

Our own unique brands are specially created and sold exclusively by DA! In recent years DA!'s discounter segment has been growing rapidly and consistently by at least 30% YoY. We firmly believe that it will deliver two-digit revenue growth in the medium term.

KEY FIGURES OF 2021

	2019	2020	2021
Number of stores	100	118	**152**
Selling space, k m²	69.25	80.17	**102.9**
Net retail revenue, RUB bn	17.9	26.0	**34.8**
Net retail revenue, %	+31.7	+45.3%	**+34.3%**
LFL net retail revenue, %	+14.9%	+27.8%	**+16.3%**
LFL average ticket, %	+5.8%	+25.1%	**+6.6%**
LFL traffic, %	+8.6%	+2.2%	**+9.1%**

DISCOUNTER BUSINESS AT A GLANCE

677 m² Average store selling space	**18.8% Discounter share in Group revenue 2021**	**21% Share of owned space**	**RUB 34.8 bn Net retail revenue in 2021**
34 Net store opening in 2021	**3,180 SKUs Average product range**	**1,100 Private label SKUs**	**152 Discounters**

DA! DISCOUNTERS KEY PRINCIPLES

- We continue to adhere to the concept of a highly convenient store, meeting all needs of our customers and providing the highest possible level of service. We strive that our clients spend their time in our stores with smiles and pleasure.
- Our customers' wishes and rights are our main values and guidelines.
- We welcome any feedback from store visitors and consider every complaint or claim without any exception in the shortest possible time, providing a prompt response.
- We value our customers' convenience: our wide aisles and block layouts make shopping faster and more efficient. Our personnel are always open and friendly to the customer.
- We value our customers' time: we adhere to the principle of prompt and friendly service.
- Cleanliness in stores, correctness of price tags, friendliness and smartness of our personnel, convenience and speed of the whole shopping process ensure our customers' loyalty.
- We strive to respond to all current market trends as quickly as possible and are successful in offering our customers novelties in our product range on a weekly basis.

The DA! network has shown robust growth, transforming from a relatevely small local network with 35 stores in 2015 to the major fast mover of the Russian grocery market with 152 stores in Moscow, as well as in Smolensk, Tver, Yaroslavl, Ivanovo, Vladimir, Tula, Kostroma, Ryazan and Moscow regions. We expect the number of our discounters to double and their share in the Group's revenue to reach 40–50% in a 5 year horizon.

PERFORMANCE

In 2021, DA! discounters continuously demonstrated one of the fastest growth rates in the sector and remained one of the key drivers of the Group's performance. Despite all the challenges, attributed to the Covid-19 pandemic, we managed to achieve good financial results in 2021. Net retail revenue of the DA! discounters grew by 34.3% YoY to RUB 34.8 bn, comprising almost 19% of the Group's top line. LFL average ticket in discounter chain increased by 6.6%, LFL traffic was up by 9.1% along with a growth in selling space of 28.8%. In 2021, the Group opened 34 discounters across the Central Federal District, bringing the total number of DA! stores to 152.

- We adhere to an "every day low price" (EDLP) policy, largely supported by our own brand products, which offer clear cost advantages of 20–30% against branded goods of comparable quality.
- We are focused on supplying our customers with the freshest goods by improving quality control across supply chain and by expanding our assortment in the fresh and ultra-fresh categories.

In 2021, we:

- opened 34 new stores net of closures;
- significantly increased our product range to 3,180 SKUs with emphasis on fresh and ultra-fresh products and ready-to-eat products;
- introduced 112 new SKUs under our private labels and redesigned the packaging of 167 SKUs;
- continued the digital transformation of the chain through the development of a variety of IT infrastructure projects and the implementation of new software programmes;
- conducted 45 audits of new suppliers' plants and 648 tests of private label products;
- considerably improved the quality management system of our Bakery segment;
- optimised the storage system and shelf space in our distribution centre in Stupino in Moscow region.

In our discounters' marketing policy we strive to get closer to our clients and seek to meet all their changing preferences. According to the latest marketing research, our main customers are represented by young families with dependent children or young childless families, as well as working families of middle and older age with a middle level of income. All of them are partly promo-oriented but are willing to try fashionable new products. Likewise, 68% of our assortment is evaluated by customers as optimal and mostly good, which is 17% higher than the average figures in the whole discounter segment.

DA! discounters' profit from synergies with O'KEY hypermarkets in procurement, imports and relations with suppliers and producers, which is mainly the result of increased purchasing power, maintaining the economies of scale effect, as well as improving the quality of the goods we source.

The pandemic had a significant impact on changing consumer demand both regarding the balance between different categories and their structure. In recent years the ready-to-eat segment has rapidly developed and we were able to introduce it to our customers quickly by summer 2020 with separate stores placing these products. In 2021, we focused on meeting the real needs of our customers and continued to develop this segment. We expanded its range in our stores, including meat products and farm poultry.

On the other hand, the recent Covid-19 pandemic was not able to effect our DA! discounters' business badly due to the direct proximity of our stores to the local customers, who remained loyal to our brands and highly satisfied with our product mix. They even extended their shopping habits with DA! with bigger baskets. Our prudent management of the logistic chain and flexible cost control enabled us to overcome all difficulties of 2021, such as high freight rates, rising inflation and growing raw material costs, and to offer our customers an outstanding value proposition.

To ensure robust growth, DA! discounters remained focused on managing their balanced assortment and own brand portfolio and continued offering the best value for money to the clients. In 2021, we extended our DA! assortment by 260 SKUs in general to 3,180 SKUs, giving priority to the fast-moving consumer-needed products. We also increased the shelf space of several categories and installed special equipment (loose sweets, cosmetics).

In terms of our approach towards collaboration with suppliers we strive to work directly with manufacturers rather than with importers and distributors. We also aim to build long-term partnerships with our suppliers for our private labels, while our own brand product sales often exceed even A-branded product sales. On the other hand, we contribute to the development of local manufacturers by tapping into synergies with them and ensuring large-scale purchases.

LOCATION AND SERVICE AREAS OF DA! DISTRIBUTION CENTRE (DC)

1 DC in Stupino 60 k m²

152 stores

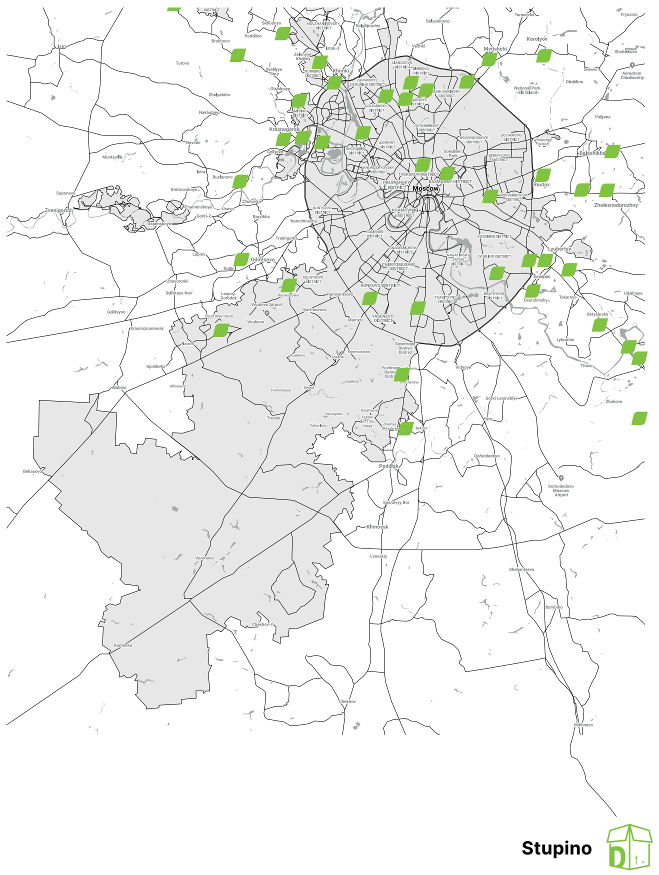
Fruits and vegetables

Fresh

FMCG

Non-Food

Alcohol



DA! IS IDEALLY POSITIONED TO GROW IN TODAY'S CHALLENGING ENVIRONMENT, AND WE EXPECT THE NUMBER OF OUR DISCOUNTERS AND THEIR SHARE IN THE GROUP'S REVENUE TO INCREASE SUBSTANTIALLY OVER A 5-YEAR PERIOD. HENCE, DA! IS SET TO REMAIN THE KEY GROWTH DRIVER FOR THE GROUP.

Financial Review

FY 2021 financial highlights

- Total Group revenue increased by 7.3% YoY to RUB 187.1 bn
- O'KEY revenue rose by 2.6% YoY to RUB 152.3 bn driven by LFL revenue growth and expansion
- DA! revenue soared by 34.0% YoY to RUB 34.8 bn, led by LFL revenue growth and selling space expansion
- Group gross profit increased by 7.2% to RUB 42.1 bn, and gross margin stood flat YoY at 22.5%
- Group EBITDA grew by 4.5% YoY to RUB 15.5 bn, with EBITDA margin amounting to 8.3%
- DA! discounters EBITDA more than doubled YoY to RUB 1.7 bn
- Group's net debt level improved YoY to a 3.38x interest-bearing liabilities to EBITDA ratio, as of December 31, 2021

GROUP PROFIT AND LOSSES HIGHLIGHTS IN FY 2021

RUB mln	FY 2021	FY 2020	Δ YoY, %
Total Group revenue	187,097	174,341	7.3%
O'KEY	152,260	148,341	2.6%
DA!	34,837	26,000	34.0%
Gross profit	42,119	39,288	7.2%
Gross profit margin, %	22.5%	22.5%	-
Selling, general and administrative expenses	(35,718)	(32,792)	8.9%
SG&A, % of revenue	19.1%	18.8%	0.3 pp
Other operating expenses, net	(1,410)	(1,457)	(3.3%)
Operating profit	4,991	5,039	(0.9%)
Finance costs, net	(4,798)	(4,884)	(1.8%)
Foreign exchange (loss)/gain	206	(1,787)	n/a
Net (loss)/profit	208	(1,444)	n/a
Group EBITDA	15,504	14,832	4.5%
Group EBITDA margin, %	8.3%	8.5%	(0.2 pp)
O'KEY EBITDA	13,839	14,048	(1.5%)
O'KEY EBITDA margin, %	9.1%	9.5%	(0.4 pp)
DA! EBITDA	1,665	784	112.4%
DA! EBITDA margin, %	4.8%	3.0%	1.8 pp

GROUP NET RETAIL REVENUE AND LFL REVENUE IN 12M 2021

RUB mln	12M 2021	12M 2020	YoY, %	LFL revenue,%
O'KEY Group	185,172	172,676	7.2%	3.7%
O'KEY hypermarkets	150,383	146,779	2.5%	1.4%
DA! discounters	34,789	25,896	34.3%	16.3%

GROUP REVENUE

RUB mln	FY 2021	FY 2020	Δ YoY, %
Total Group revenue	187,097	174,341	7.3%
Retail revenue	185,172	172,738	7.2%
Rental income	1, 925	1,603	20.1%

Group retail revenue rose by 7.2% YoY to RUB 185,172 mln in FY 2021 on the back of solid LFL performance of both O'KEY and DA!, supported by selling space expansion. Rental income rose by 20.1% YoY to RUB 1,925 mln in FY 2021. Total Group revenue increased by 7.3% YoY to RUB 187,097 mln.

GROUP GROSS PROFIT

In FY 2021, the Group gross profit rose by 7.2% YoY to RUB 42,119 mln, while gross margin stood flat YoY at 22.5%.

In FY 2021, logistic costs as a percentage of revenue increased by 0.4 pp YoY, due to a significant inflation of transportation tariffs.

However, that increase was fully offset by commercial margin improvement by 0.4 pp YoY in FY 2021. That was mainly led by ongoing assortment optimisation, as well as finding additional efficiencies in procurement and implementation of operational synergies between the formats.

Shrinkage costs as a percentage of revenue stood flat YoY, thanks to the efficient supply chain and despite the substantial share of 'fresh' and 'ultra-fresh' products in the mix which amounted to 52.1% of O'KEY's and over 60% of DA!'s net retail revenue in FY 2021.

GROUP SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

RUB mln	FY 2021	% of revenue	FY 2020	% of revenue	Δ YoY, pps
Personnel costs	15,388	8.2%	13,607	7.8%	0.4 pp
Depreciation and amortisation	8,904	4.8%	8,204	4.7%	0.05 pp
Communication and utilities	4,037	2.2%	3,720	2.1%	0.02 pp
Advertising and marketing	1,992	1.1%	2,124	1.2%	(0.15 pp)
Repairs and maintenance	1,399	0.7%	1,345	0.8%	(0.02 pp)
Insurance and bank commissions	1,094	0.6%	1,026	0.6%	-
Security expenses	730	0.4%	712	0.4%	-
Legal and professional expenses	709	0.4%	685	0.4%	-
Operating taxes	652	0.3%	735	0.4%	(0.07 pp)
Materials and supplies	409	0.2%	435	0.2%	-
Operating leases	313	0.2%	161	0.1%	0.07 pp
Other costs	51	0.0%	38	0.0%	-
Total SG&A	35,718	19.1%	32,792	18.8%	0.3 pp

The Group's Total SG&A expenses increased by 8.9% YoY to RUB 35,718 mln in FY 2021. SG&A expenses as a percentage of revenue rose by 0.3 pp YoY to 19.1% in FY 2021, mainly on the back of wages indexation.

Personnel costs rose by 13.1% YoY to RUB 15,388 mln, and, as a percentage of revenue, by 0.4 pp YoY to 8.2% in FY 2021, largely due to a wages indexation in the hypermarket segment in the beginning of 2021 and the acceleration of DA! discounters' openings partially offset by the chain ramp-up.

Communication and utilities expenses increased by 8.5% YoY to RUB 4,037 mln, and by 0.1 pp YoY as a percentage of revenue in FY 2021. The increase mainly resulted from utilities tariffs indexations, as well as growing number of stores.

Advertising and marketing expenses declined by 6.2% YoY to RUB 1,992 mln, and, as a percentage of revenue, by 0.15 pp YoY to 1.1%, on the back of the advertising channels mix optimisation towards the Internet and social media in response to the changing customer shopping habits and growing share of e-grocery market.

Repairs and maintenance expenses increased by 4.0% YoY to RUB 1,399 mln due mainly to hypermarket modernisation and discounter chain development. However, repairs and maintenance expenses, as a percentage of revenue, declined by 0.02 pp YoY to 0.7%.

Operating tax expenses decreased by 11.3% YoY to RUB 652 mln, and by 0.07 pp YoY as a percentage of revenue to 0.3%. The decline was mainly a result of a decline in cadastral value of the property owned, as well as a decrease in the amount of non-deductible VAT compared to 2020.

In 2020, the Group re-negotiated the terms of lease payments with some landlords for the period of the pandemic related lockdowns, which led to a decrease in variable rental costs. In 2021, the lease benefits were no longer valid, and variable rent expenses rose by 0.07 pp YoY to 0.2% of revenue.

Depreciation and amortisation expenses increased by 8.5% YoY to RUB 8,904, and by 0.05 pp YoY to 4.8% of revenue, driven primarily by the discounter chain expansion.

GROUP EBITDA AND EBITDA MARGIN

The Group's EBITDA grew by 4.5% YoY to RUB 15,504 mln. Group EBITDA margin stood at 8.3% in FY 2021.

O'KEY hypermarkets' EBITDA reduced slightly by 1.5% YoY due to the factors described above, and amounted to RUB 13,839 mln in FY 2021.

DA! discounters EBITDA grew by 112.4% YoY to 1,665 mln in FY 2021, compared to RUB 784 mln in FY 2020. As the business continued to ramp up, DA! EBITDA margin improved by 1.8 pp YoY to 4.8% in FY 2021 from 3.0% in FY 2020.

GROUP NET PROFIT

Other operating expenses (net of incomes) decreased by 3.3% YoY to RUB 1,410 mln in FY 2021. The decrease was mainly attributable to a year-on-year reduction of losses on non-current assets disposal, offset by a year-on-year increase in non-current assets impairment loss in FY 2021.

Net finance costs decreased by 1.8% YoY to RUB 4,798 mln in FY 2021, driven mainly by a decline in the weighted average interest rate. In addition, a substantial part of interest costs was attributable to non-current lease liabilities (under IFRS 16), which decreased in FY 2021.

In FY 2021, the Group recognised a net foreign exchange gain of RUB 206 mln, compared to a RUB 1,787 mln loss in FY 2020. The Group's foreign exchange net gain was mainly attributable to lease contracts in foreign currencies, as well as foreign exchange net gain from import operations, while USD-denominated intercompany loans with different functional currencies which were eliminated on consolidation had a relatively small impact on the Group's results. The foreign exchange gain / loss is of a non-cash nature.

In FY 2021, the Group recorded a net profit of RUB 208 mln, compared to a loss of RUB 1,444 mln in FY 2020.

GROUP CASH FLOW

RUB mln	FY 2021	FY 2020
Net cash from operating activities	**13,813**	11,946
Net cash used in investing activities	**(3,927)**	(3,755)
Net cash used in financing activities	**(8,137)**	(5,988)
Net increase in cash and cash equivalents	**1,749**	2,202
Effect of exchange rate on cash and cash equivalents	**(15)**	4

Net cash from operating activities amounted to RUB 13,813 mln in FY 2021, an increase compared to RUB 11,946 mln in FY 2020, driven mainly by revenue growth.

Net cash used in investing activities amounted to RUB 3,927 mln in FY 2021, almost flat in comparison with RUB 3,755 mln cash used in FY 2020. In FY 2021, the Group invested RUB 2.5 bn in the development of its hypermarket business and RUB 3.0 bn in the expansion of its discounter operations. Proceeds from sale of land plots and lease rights on land plots amounted to RUB 1.5 bn in FY 2021.

Net cash used in financing activities amounted to RUB 8,137 mln in FY 2021, compared to RUB 5,988 mln in FY 2020. The increase resulted from the Group's regular credit portfolio refinancing in FY 2021.

As of December 31, 2021, the Group had RUB 18,550 mln of undrawn, committed borrowing facilities available in Russian roubles on a fixed and floating rate basis until March 2022 – October 2027, in respect of which all conditions have been met. Proceeds from these facilities may be used to finance operating and investing activities if necessary.

Net increase in cash amounted to RUB 1,749 mln in FY 2021, versus a RUB 2,202 mln cash increase in FY 2020.

GROUP NET DEBT POSITION

RUB mln	As of 31 December 2021	As of 31 December 2020
EBITDA	**15,504**	14,832
Total debt	**37,817**	36,227
• Short-term debt[1]	**6,172**	4,419
• Long-term debt	**31,645**	31,808
Cash & cash equivalents	**9,448**	7,714
Net debt	**28,369**	28,514
Total lease liabilities	**24,063**	24,639
Short-term lease liabilities	**4,986**	4,472
Long-term lease liabilities	**19,077**	20,167
Total interest-bearing liabilities (net of cash & cash equivalents)	**52,432**	53,153
Total interest-bearing liabilities (net of cash & cash equivalents) / EBITDA	**3.38**	3.58

The Group's financial position remained stable during the reporting period.

As of 31 December 2021, the total interest-bearing liabilities (net of cash) to EBITDA ratio reduced to 3.38x from 3.58x as of December 31, 2020.

As of 31 December 2021 and during the twelve-month period then ended, the Group complied with all of its loan covenants.

Corporate Governance

Corporate governance system

O'KEY Group S.A. is a company incorporated under the Laws of the Grand Duchy of Luxembourg with Global Depositary Receipts (GDRs) listed on the London Stock Exchange and the Moscow Exchange, and as such is not required to comply with the UK Corporate Governance Code and the Russian Corporate Governance Code. The practices set out by the Group's internal policies are applied as our Corporate Governance Principles. The above principles are documented through a series of governance policies adopted by the Company.

O'KEY Group is committed to managing and conducting its operations in accordance with the applicable regulations of Luxembourg, and the London Stock Exchange and the Moscow Exchange with respect to disclosure under the Rules.

We recognise our obligation to our shareholders to adopt the highest standards of governance and control, both at the Board level and within our management teams, and aim to establish and support a corporate governance framework that is suitable for the development of our business and meets the requirements of our shareholders.

The most significant decisions affecting the life of the Company and the rights of shareholders, including approval of financial statements and the Annual Report, appointment of Directors, amendments of Articles and approval of the final dividend for the financial year are subject to review and approval at the Shareholders meeting.

The Board of Directors and its committees provide overall guidance for the business and strategic planning for the Group. It sets strategic goals and oversees their implementation by the CEO and senior Management of the Group.

The Management Board and the Chief Executive Officer are responsible for the day-to-day operations of the companies of the Group and implement the strategy approved by the Board of Directors.

OUR CORPORATE GOVERNANCE PRINCIPLES:

PROFESSIONALISM

We strive to appoint individuals with relevant skills and experience to the Board of Directors and its committees in order to enable them to discharge their respective duties and responsibilities effectively. The Board is supplied, in a timely manner, with information in a form and of a quality appropriate to allow it to discharge its duties.

EQUALITY

O'KEY Group's corporate governance system is designed to protect shareholders' rights and ensure equal treatment of all shareholders.

ACCOUNTABILITY

The Board of Directors is accountable to O'KEY Group's General Meeting of Shareholders and is responsible for:

- formulating the Group's strategy;
- establishing and maintaining systems which ensure due consideration of key decisions by experienced individuals, including in the areas of remuneration and incentives, internal control and risk management;
- holding management accountable for the successful implementation of the Group's strategy.

TRANSPARENCY

We strive to ensure the appropriate disclosure of reliable information on all significant issues related to our operations including financial status, social performance, operating results and ownership.

General Meeting of Shareholders

The General Meeting of Shareholders is O'KEY Group S.A.'s supreme governing body. The General Meetings of Shareholders are convened and held in accordance with Luxembourg legislative requirements and the Articles of O'KEY Group S.A. According to the Articles of O'KEY Group S.A., the annual General Meeting shall be held within six (6) months of the end of each financial year in the Grand Duchy of Luxembourg at the registered office of the Company, or at any such other place in the Grand Duchy of Luxembourg as may be specified in the convening notice of the meeting.

The next annual General Meeting will be held before 30 June 2022. A convening notice specifying the date, time, address of the meeting and the agenda will be sent and published no later than fourteen days before the meeting.

TRANSFER RESTRICTIONS

As of 31 December 2021, and the date hereof, to the knowledge of the Company all shares in issue in the Company are freely transferable, provided that the transfer formalities set out under Article 6 of the Articles are fulfilled.

CONTROL SYSTEM IN EMPLOYEE SHARE SCHEME

The Company does not have an employee share scheme allowing employees to acquire equity in the Company.

SPECIAL CONTROL RIGHTS

All the issued and outstanding shares of the Company have equal voting rights and there are no special control rights attached to shares of the Company.

The Caraden Shareholder (as defined in the Articles) has, under the condition of holding a minimum amount of shares in the Company, a specific right with respect to the appointment and removal of Directors as at least one Director (designated as the Caraden Director) must be appointed from a list of candidates proposed by the Caraden Shareholder and may be removed at the initiative of the Caraden Shareholder (additional information may be found under Article 8 of the Articles).

The supporting vote of the Caraden Shareholder is required, under certain conditions, to amend the provisions of the Articles relating to: (i) the rights and prerogatives of the Caraden Shareholder; and (ii) the appointment, removal, replacement, rights, prerogatives and positive vote of the Caraden Director (additional information may be found under Article 16.4 of the Articles).

VOTING RIGHTS

Each share issued and outstanding in the Company bears one vote.

The Articles do not provide for any voting restrictions.

In accordance with the Articles, a record date for the admission to a general meeting may be set by the Board (Article 15 of the Articles). Only those Shareholders as shall be shareholders of record on any such record date shall be entitled to be notified of and to vote at any general meeting and any adjournment thereof, or to give any such consent as the case may be.

In accordance with the Articles, the Board may determine such other conditions that must be fulfilled by Shareholders for them to take part in any meeting of shareholders in person or by proxy (Article 15 of the Articles).

SHAREHOLDERS' AGREEMENTS WITH TRANSFER RESTRICTIONS

The Company has no information about any agreements between shareholders, which may result in restrictions on the transfer of securities or voting rights.

Shareholders' documents

APPOINTMENT OF THE DIRECTORS, AMENDMENT OF THE ARTICLES

The rules governing the appointment and replacement of the directors and the amendment of the Articles are set out under Luxembourg Company Law and the Articles (in particular Articles 8, 15 and 16).

The consolidated version of the Articles is published under the Shareholders section of the Company website and is available at: https://okeygroup.lu/investors/shareholders/documents/.

SIGNIFICANT AGREEMENTS OR ESSENTIAL BUSINESS CONTRACTS

The Board is not aware of any significant agreements to which O'KEY Group S.A. is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid. The Board has considered essential business contracts and concluded that there are none.

Board of Directors

The Company's Board of Directors plays the key role in organising an efficient corporate governance system. The Board is vested with the broadest powers to manage the business of the Company and to authorise and perform all acts of disposal and administration falling within the purposes of the Company.

The Board is responsible for taking strategic decisions in respect of the operation and development of the Group, as well as overseeing the risk management and internal audit functions of the Group. The decisions related to the day-to-day operations of the Group are delegated to the management.

The Board is also a management body of O'KEY Group S.A. and is authorised to take all decisions in respect of O'KEY Group S.A., unless they are reserved for the General Meeting. The Board is not authorised to issue or buy back shares without approval of the shareholders meeting. The repurchase by the Company of its own shares is subject to the conditions set out in the Company Law and the Articles. There are five members of our Board, including one independent director. The General Meeting of Shareholders appoints the Board members by a simple majority of votes cast, for a period not exceeding six years or until their successors are elected[1].

Our current Board of Directors was elected at the General Meeting of Shareholders held on 13 October 2015 and re-appointed on 24 June 2020.

Our current Board of Directors was elected at the General Meeting of Shareholders held on 13 October 2015 and re-appointed on 24 June 2020.

MEETINGS OF THE BOARD OF DIRECTORS

Meetings of the Board of Directors are held regularly in compliance with the approved work schedule for the year. The Board's work schedule is determined on the basis of strategic planning and the reporting cycle. Whenever an urgent matter needs to be considered, Extraordinary Board meetings are organised, or, if a personal meeting cannot be organised due to short notice, the Board can adopt a circular resolution by a unanimous vote. It is the Board Chairman's responsibility to determine the Board's work plan and to include additional items in the plan.

In 2021, the Board of Directors worked on the following key tasks:
- preparation of the financial statements and the annual report, and review of the results for the year 2020;
- approval of the budget and business strategy for the year 2021;
- review of the quarterly financial results, approval of financial statements for six months of 2021 and monitoring of compliance with risk management strategy and determination of the Group's strategic and operational priorities.

MEETINGS OF THE BOARD OF DIRECTORS

Member	Board of Directors (2 meetings)	Audit Committee (5 meetings)	Remuneration Committee (1 meeting)
Heigo Kera	attended 2	attended 5	attended
Dmitrii Troitskii	2 by proxy	not a member	by proxy
Dmitry Korzhev	attended 2	attended 5	not a member
Boris Volchek	2 by proxy	attended 3, 2 by proxy	by proxy
Mykola Buinyckyi	attended 2	attended 5	not a member

[1] The rules governing the appointment and replacement of the Directors are set out under the Law of 10 August 1915 on Commercial Companies, as amended, and the Articles (in particular Articles 8, 15 and 16). The consolidated version of the Articles is published under the Shareholders section of the Company website, available at: https://okeygroup.lu/investors/shareholders/documents/

MEMBERS OF THE BOARD OF DIRECTORS OF O'KEY GROUP S.A. AS OF 31 DECEMBER 2021

Heigo Kera

Chairman Member of the Audit Committee,

Chair of the Remuneration Committee

Election
First elected to the Board of Directors in June 2010, and repeatedly re-elected since then
Education
University degree, Tallinn Technical University (Estonia)
Skills and Experience
2015–2017: CEO of O'KEY effective 1 May 2015
2008–present: owner and a Member of the Board of Directors of Silverko Consult OU
2002–2008: consultancy services, including research on retail markets in Belarus, Kazakhstan and China
Committee Membership
Member of the Remuneration Committee
Member of the Audit Committee
Shares in O'KEY
Mr Kera does not hold shares of O'KEY Group S.A.

Dmitrii Troitskii

Director

Member of the Remuneration Committee

Election
First elected to the Board of Directors in June 2010 and repeatedly re-elected since then
Education
University degree, State Marine Technical University of St. Petersburg
Skills and Experience
2005–2007: Member of the Board of Directors of the Ochakovo Dairy Plant
2005–2012: Member of the Supervisory Board of Bank St. Petersburg
2005–present: Development Director of Capital Group JSC (formerly Neva-Rus CJSC)
Committee Membership
Member of the Remuneration Committee
Shares in O'KEY
Mr Troitskii indirectly owns ca. 30.38% of the shares of O'KEY Group S.A.

Boris Volchek

Caraden Director

Member of the Audit and Remuneration Committee

Election
First elected to the Board of Directors in June 2010 and repeatedly re-elected since then
Education
University degree, Leningrad Institute of Railway Engineers (now St. Petersburg State University of Communications)
Skills and Experience
1995–present: President of the Union Group of Companies
2000–present: General Director of St. Petersburg Automobile Museum
Committee Membership
Member of the Remuneration Committee
Member of the Audit Committee
Shares in O'KEY
Mr Volchek indirectly owns ca. 29.53% of the shares of O'KEY Group S.A.

Dmitry Korzhev

Director

Member of the Audit Committee

Election
First elected to the Board of Directors in June 2010 and repeatedly re-elected since then
Education
University degree, State Marine Technical University of St. Petersburg
Skills and Experience
2005–2009: Member of the Supervisory Board of Bank Saint Petersburg
2005–present: General Director of Domestic Capital CJSC
2015–2019: Director of Capital Group JSC
2019–present: Commercial Director of Capital Group JSC
Committee Membership
Member of the Audit Committee
Shares in O'KEY
Mr Korzhev indirectly owns ca. 10.78% of the shares of O'KEY Group S.A.

Mykola Buinyckyi

Independent Director

Chair of the Audit Committee

Election
Elected to the Board of Directors in October 2015. He previously served on the Board between 2010-2013
Education
University degree, the University of Edinburgh, UK
A fellow of the Chartered Institute of Management Accountants
A Member of the Institute of British Management
Joint diploma in management accounting
Skills and Experience
Over 35 years in international financial management and over 20 years' experience in Russia
Seven years as a management consultant with Coopers & Lybrand
Committee Membership
Chairman of the Audit Committee
Shares in O'KEY
Mr Buinyckyi does not hold shares of O'KEY Group S.A.

Committees of the Board of Directors

The primary role of the Committees is to provide assistance to the Board in preparing and adopting decisions in its respective functional areas, as well as to ensure that matters brought for consideration by the Board of Directors are scrutinised prior to the Board meetings.

There are two committees on the Board of Directors: the Audit Committee and the Remuneration Committee.

AUDIT COMMITTEE

AUDIT COMMITTEE MEMBERS

As of 31 December 2021, the Audit Committee comprised:
- Mykola Buinyckyi, Committee Chairman, Independent Director of the Board of Directors;
- Boris Volchek, Committee Member, Non-executive Director of the Board of Directors;
- Dmitry Korzhev, Committee Member, Non-executive Director of the Board of Directors;
- Heigo Kera, Committee Member, Chairman of the Board of Directors;
- Ilya Ilin, Committee Member, Non-director, external consultant;
- Irina Nikiforova, Committee Member, Non-director, external consultant.

KEY AREAS

The Audit Committee oversees the internal audit function, the effectiveness of risk management and the internal controls of the Company and the Group. It also approves and monitors the performance of the internal audit plan for the year. The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities relating to the financial statements, including periodically reporting to the Board of Directors on its activities and the adequacy of internal control systems over financial reporting.

According to the Statute of the O'KEY Audit Committee, the Audit Committee shall consist of not fewer than three current members of the Board of Directors and shall be chaired by an independent director.

THE COMMITTEE'S REMIT INCLUDES:

- reviewing the IFRS financial statements for integrity and transparency;
- analysing financial reporting processes, including carrying out regular reviews and making recommendations;
- recommending appointment and remuneration of the Company's external auditor to the Board of Directors and maintaining an ongoing relationship with the external auditor; and
- analysing and supporting the internal audit system and risk management procedures, including drafting recommendations for their improvement.

ACTIVITIES IN 2021

During the reporting period, the Audit Committee held five meetings where it:

- fulfilled oversight responsibilities relating to the integrity of the Company's annual financial statements;
- fulfilled oversight responsibilities relating to the integrity of the Company's half yearly financial statements;
- reviewed reports prepared by the Internal Audit Department;
- reviewed the effectiveness of the Company's risk management and internal control systems;
- reviewed policies and procedures published by the Company;
- monitored reports per the Company's Whistleblowing Policy;
- planned and agreed the scope of the audit of financial statements for year ended 2021 with the external auditor of O'KEY Group;
- reviewed and approved provisions of non-audit services for the Company by the external auditor; and
- approved the Internal Audit plan for the year 2022.

PLANS FOR 2022

The Audit Committee and the Company continue to focus on the following areas in 2022:

- how the Company's management monitors compliance with the Group's risk management policies and procedures, and the adequacy of the risk management framework in relation to the risks faced by the Group;
- optimising internal business processes involved in the preparation of financial reporting.

REMUNERATION COMMITTEE

COMMITTEE MEMBERS:

- Heigo Kera, Committee Chairman, Chairman of the Board of Directors;
- Boris Volchek, Committee Member, Non-executive Director of the Board of Directors;
- Dmitrii Troitskii, Committee Member, Non-executive Director of the Board of Directors;
- Ilya Ilin, Committee Member, Non-director, external consultant; and
- Irina Nikiforova, Committee Member, Non-director, external consultant.

THE COMMITTEE'S REMIT INCLUDES:

- reviewing the compensation policy;
- advising on any benefit or incentive schemes; and
- making proposals to the full Board of Directors regarding the remuneration of Executive Directors and management (including the Chief Executive Officer).

ACTIVITIES IN 2021

During the reporting period, the Remuneration Committee held one meeting, where it:

- reviewed the report on the remuneration, bonuses and expenses of the Board;
- reviewed the amount of remuneration to be allocated to the management of the Group in 2021;
- approved the Remuneration Committee Report; and
- suggested the total maximum amount of remuneration of Directors for 2021 to be submitted for the approval of the shareholders of the Company.

PLANS FOR 2022:

In 2022 the Group plans to keep the remuneration and bonus policy in line with 2021.

REMUNERATION

Members of the Board of Directors of O'KEY Group S.A. receive remuneration of the amount approved by the General Meeting of Shareholders. Members of the Board and its Committees may be compensated for the expenses they incurred in the course of their duties, in accordance with the business and travel expenses policy of O'KEY Group S.A.

DIVERSITY

O'KEY Group is working on adoption of a diversity policy. However, as can be seen from the information on the senior management team, O'KEY Group aims to employ the members of the team most suitable and qualified for their post and function, irrespective of their age, gender or origin. The requirements of educational and professional backgrounds are such as to ensure that the members of the team possess the skills and experience necessary to perform their functions effectively.

CHANGES MADE TO THE SENIOR MANAGEMENT TEAM IN 2021

Name	Date	Change
Pavel Tomanek	05.07.2021	Chief Operational Officer
Morath Cristian Gunther	01.07.2021	Commercial Operations Director
Krikor Pombukhchan	01.09.2021	Marketing Director

Executive management

O'KEY Management Board brings together the best professionals with broad expertise and deep understanding of the Russian retail market. Within the country and worldwide, we recruit the most enthusiastic managers whose vision and perspective contribute to the development of our business.

In 2021, we further strengthened our team with professionals with solid retail backgrounds.

Armin Burger

Chief Executive Officer

Election
a member of the Management Board since 2013

Education
University of Freiburg, department of Economics

Skills and Experience
- 1990–1998: Various positions in Aldi GmbH
- 1999–2008: CEO of Hofer KG, Sattledt, Austria
- 2008–2011: Member of the Supervisory Board Aldi Süd
- 2012–2013: CEO and a Member of the Supervisory Board of Praktiker AG

Elena Polozova

Human Resources Director

Election
a member of the Management Board since 2015

Education
Lipetsk State Technical University, department of Psychology
Moscow International Higher School of Business (MIRBIS), MBA

Skills and Experience
- 2003–2013: HR business partner in Magnit
- 2013–2015: Senior HR, O'KEY

Krikor Pombukhchan

Marketing Director

Election
a member of the Management Board since 2021

Education
Practical marketing Kuban state University, Krasnodar, Economical and social planning department
International Management Institute Lync, Krasnodar
Open University of Great Britan

Skills and Experience
- 2010–2019: Various positions in Magnit
- 2019–2021: Commercial Director Fruits and Vegetables

Igor Shatsky

Logistic Director

Election
a member of the Management Board since 2020

Education
National Research Nuclear University MEPhI, MBA in Logistics

Skills and Experience
- 2011–2014: Various positions in SolPro and OZK Group
- 2014–2019: Director of development Logistics and Supply Chain processes
- 2019–2020: Logistics and Transport Director in Auchan

Konstantin Arabidis

Chief Financial Officer

Election
a member of the Management Board since 2016

Education
Peter the Great St. Petersburg Polytechnic University, department of Technical Cybernetics
University degree, St. Petersburg University, department of Economics
Member of ACCA

Skills and Experience
- Before 2012: Various positions in PwC
- 2012–2016: Various positions in O'KEY Group

Pavel Tomanek

Chief Operational Officer

Election
a member of the Management Board since 2021

Education
Masaryk University (Czech Republic)
Degree from the Leadership Development Centre (UK)

Skills and Experience
Before 2015:
- Chief Operations Officer in O'KEY GROUP
- Operations Director in Karusel X5 Retail Group
- Chief Operations Officer of EKO market
- Chief Operations Manager in LENTA
- Regional Director in Tesco
- Country Manager in Marionnaud Parfumeries
- 2015–2018: Head of Sales Department in O'KEY Group

Morath Cristian Gunther

Commercial Operations Director

Election
a member of the Management Board since 2021

Education
University of Applied Sciences in Germany, MBA

Skills and Experience
Before 2015:
- Chief Executive Officer in Moldretail Group SRL, Moldova
- Chief Commercial Officer in REWE, Romania
- Business Unit Manager Purchasing Dry Food in Edeka Group, Germany
- Commercial and Marketing Director in PLUS Discount, Romania
- Chief Executive Officer in Delta Distribution SA, Romania
- Chief Operating Officer in Censosud SA, Argentina and Chile
- 2012–2015: Chief Commercial Officer in X5 Retail Group Karusel
- 2018–2020: Commercial Director at J. A. Woll-Handles GmbH
- 2020–2021: Commercial Director for Alcohol, Beverages, Tobacco and Private Label categories in O'KEY Group

Svetlana Goncharuk

Supply Chain Director

Election
a member of the Management Board since 2020

Education
National University of Food Technologies, Kiev

Skills and Experience
- 2005–2011: Various positions in Supply Chain, Orangina Schweppes (Rosinka, Kiev)
- 2011–2015: X5 Retail Group, Supply Chain, Replenishment

Elena Remennikova

E-Commerce Director

Election
a member of the Management Board since 2015

Education
National University of Food Technologies, Kiev
Stockholm School of Economics Executive MBA

Skills and Experience
- 2000–2009: Federal purchasing director, X5 Retail Group
- 2010–2011: Chief Commercial Director, Utkonos
- 2011–2012: CEO of AMF international delivery of flowers and presents

Olga Kuzyakina

Real Estate Director

Election
a member of the Management Board since 2020

Education
PHD, Skolkovo Executive MBA
Heinrich Heine Universitat (Germany, Dusseldorf)

Skills and Experience
- 2013–2020: Real estate director in Aton Investment Group
- 2010–2013: Real estate director in Castorama
- 2007–2010: Cushman &Wakefield , Associate partner
- 2001–2007 Metro Cash&Carry, Project manager

Risk management

Our risk management system is aimed at providing a reasonable guarantee that the Company's strategic goals will be achieved in a timely manner and that the level of risks faced by the Group remains acceptable for management and shareholders. We operate a unified approach to risk management through the Group Risk Standard, which comprises a range of relevant tools and methodologies aimed at early risk detection and risk mitigation.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's Audit Committee oversees how the management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Internal Audit assists the Group's Audit Committee in its oversight role. The Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Identified risk areas are monitored quarterly and followed by a coordinated improvement programme.

The current situation places new challenges for the Russian economy, business community and O'KEY Group in particular. Our well-balanced business model offers a significant hedge against the market volatility. Nevertheless, due to the current unprecedented global geopolitical and economic turbulence, we believe, we are not in the position to identify and asses all the key risks that could have a material adverse effect on our business.

Despite the current situation, we strive to run our business smoothly providing our customers the best value proposition and impeccable service. Our well-balanced business model and established corporate governance system offer a significant hedge against market volatility and enable us to serve the interests of our stakeholders.

Board of Directors

- Overall responsibility for the establishment and oversight of the Group's risk management framework

Audit Committee

- Oversees how management monitors compliance with the Group's risk management policies and procedures
- Reviews the adequacy of the risk management framework in relation to the risks faced by the Group

Executive management

(CEO and Management Board)
- Oversees implementation of, and adherence to, risk management policies
- Monitors and manages risks relevant to job function
- Carries out risk identification and reporting
- Performs operational risk management

Internal Audit

- Assists the Group's Audit Committee in its oversight role
- Undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Regarding the internal controls in the area of accounting and financial reporting, the following should be noted.
- Staff involved in the Company's accounting and financial reporting are appropriately qualified and are kept up-to-date with relevant changes in International Financial Reporting Standards (IFRS). Additionally, specific training and written guidance on particular matters is provided where needed. Written guidance, regularly updated for business developments and regulatory changes, is available to all relevant staff members and provides a summary of the Company's accounting and financial reporting policies and procedures.
- Controls have been established in the processing of accounting transactions to ensure appropriate authorisations for transactions, effective segregation of duties and the complete and accurate recording of financial information.
- Completeness and timely recording of financial information is ensured through regular reviews, monitoring of specific key performance indicators, validation procedures by functional leaders and as an additional check, the process of internal and external audit.
- The Company relies on a comprehensive system of financial information and oversight. Strategic plans, business plans, budgets and the interim and full-year consolidated accounts of the Company are drawn up and brought to the Board for approval. The Board also approves all significant investments. The Board receives monthly financial reports setting out the Company's financial performance in comparison to the approved budget and prior year figures.
- Any weaknesses in the system of internal controls identified by either internal or external auditors are promptly and fully addressed.
- The external auditors perform a limited review of the Company's half-year consolidated financial statements and a full audit of the annual consolidated financial statements.

In accordance with the requirements of IFRS, we disclose detailed information on the market, credit and foreign exchange risk to which it is exposed, as well as strategy for managing the risks.

PRINCIPLE RISKS

Below we describe the key risks that could have a material adverse effect on our business, our financial and operational performance and, as a result, could affect our share price and our reputation. Additional risks not known to us or those risks that we currently consider immaterial may also impair our business operations. We do not expect to incur any risks that may jeopardise the continuity of our business.

#	Name of Risk	Definition & Potential Impact
1	Economic outlook	Our business is affected by uncertainties associated with changing economic conditions, particularly in the current environment of global economic instability. Therefore, we may face reduced customer demand as the income and purchasing power of our customers decreases under the impact of the weaker macroeconomic environment exacerbated by declining oil prices and sustained ruble volatility, as well as the coronavirus pandemic.
2	Competition risk	The retail sector in Russia is highly competitive. We face strong competition from other retailers (Russian and international), some of which are larger and have greater resources. Retail chains compete mainly over store locations, product ranges, price, service and store conditions. Some competitors might be more effective and faster in capturing certain market opportunities, which in turn may negatively impact our market share and our ability to achieve our performance and expansion targets.
3	Political risk	Political developments may adversely impact the macroeconomic environment and the market in which our company operates. Although political stability in Russia has improved, Russia is still a state whose political, economic and financial systems are rapidly developing and changing.
4	Regulatory risk	Our operations are subject to various government regulations and industry specific legislation with respect to quality, packaging, health and safety, labelling, distribution and other standards. Some regulations are still being developed in Russia. Current and future government regulations or changes thereto may require us to change the way we run our operations and could result in cost increases. Failure to comply with regulations can also lead to reputational damage.

#	Name of Risk	Definition & Potential Impact
5	Changing customer expectations	We strive to provide our customers with a wide range of goods and services, at competitive prices. However, we recognise that our customers' shopping habits and expectations are influenced by the economic environment and will change over time.
6	Employee recruitment and retention	Competition for highly qualified management and store personnel remains intense in Russia. To meet our expansion plans we need highly skilled employees. Our future success depends in part on our continued ability to hire and retain new employees. We understand that any inability to attract and retain highly qualified employees and key personnel in the future could have a material adverse effect on our business.
7	Supply chain risk	Our financial performance depends in part on reliable and effective supply chain management. We rely on third parties to supply us with merchandise and services. The third parties that supply us with merchandise and services also have other customers and may not have sufficient capacity to meet all of their customers' needs, including ours, during periods of excess demand. Shortages and delays could materially harm our business. Unanticipated increases in prices could also adversely affect our performance. Furthermore, we may be exposed to the risk of delays and interruptions to our supply chain because of natural disasters, in case we are unable to identify alternative sources of supply in a timely manner.

#	Name of Risk	Definition & Potential Impact
8	IT platform development	Execution of our strategic targets requires adaptation of current IT infrastructure to the changing business needs. As the business grows, the complexity of processes supporting it and diversity of tasks around such growth are increasing. Delayed or inappropriate decisions on development of the infrastructure can lead to failures in meeting Group goals and impede attainment of longer-term goals.
9	IT security threats	We are observing an increase in IT security threats and higher levels of professionalism in computer crime. Our systems and solutions, as well as those of our counterparties remain potentially vulnerable to attacks. Depending on their nature and scope, such attacks could potentially lead to the leakage of confidential information, improper use of our systems, manipulation and destruction of data, sales downtimes and supply shortages, which in turn could adversely affect our reputation, competitiveness, and business, financial and operational performance.
10	Providing sufficient level of financing	Recent changes in the macroeconomic situation might result in a liquidity squeeze and tightening of lending policies by Russian banks. Given the expansion programme in the coming periods, issues with availability of external financing or significant changes in its cost can negatively impact our Group's ability to execute its expansion programme.
11	Tax regulations	Russian tax law has complex tax rules, which may be interpreted in different ways and tax rules are subject to frequent changes. Examinations by tax authorities and changes in tax regulations could adversely affect our business, and financial and operational performance. Changes in tax law could result in higher tax expense and payments. Furthermore, legislative changes could materially impact tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities.
12	Changes in working capital	Inability to control and manage elements of the working capital can result in negative changes for the operating cash flow and lead to liquidity gaps and excessive reliance on external financing.
13	Risk of misstatements in financial statements	We face exposure to risks relating to failures in proper financial reporting and the classification of accounting entries, and risks of making inaccurate accounting estimates.
14	Risks of currency and interest rates volatility	We are exposed to fluctuations in exchange rates because of loans received in USD and contractual obligations in USD and EUR. Although measures are taken to minimise this risk, there can be no assurance that exchange rate and interest rate fluctuations will not negatively influence our results.

Information for Shareholders and Investors

SHARE CAPITAL

O'KEY Group S.A. share capital amounts to EUR 2,690,740 divided into 269,074,000 ordinary shares of a nominal value of EUR 0.01 each. As at the date of this report, the Company's share capital has remained unchanged since 30 November 2010.

All shares issued by the Company have equal rights as provided for by the law of 10 August 1915 on commercial companies, as amended (the "Company Law") and as set forth in the Articles, save for the special rights granted to the Caraden Shareholder.

The Company does not hold any of its own shares and has not acquired it during the 2021 financial year.

SIGNIFICANT SHAREHOLDINGS

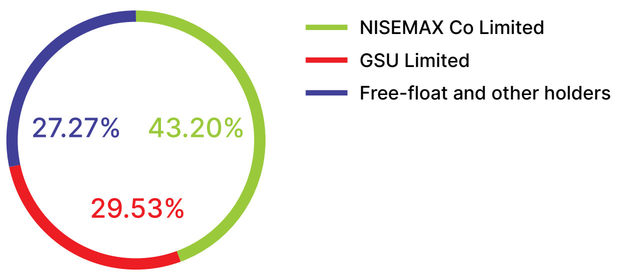
As of 31 December 2021, the three major indirect shareholders of the Group are its founders:

- Mr Dmitrii Troitskii (who indirectly owns approximately 30.38% of the outstanding share capital of O'KEY Group S.A.);
- Mr Dmitry Korzhev (who indirectly owns approximately 10.78% of the outstanding share capital of O'KEY Group S.A.);
- Mr Boris Volchek (who indirectly owns approximately 29.53% of the outstanding share capital of O'KEY Group S.A.)

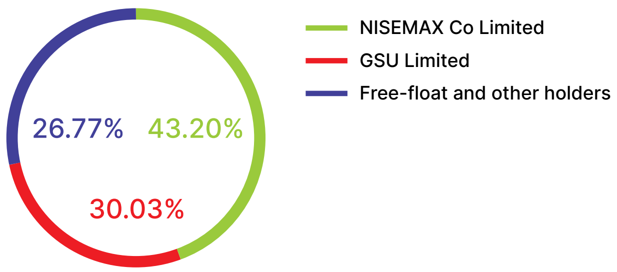
As of 31 March 2022, the three major indirect shareholders of the Group are its founders:

- Mr Dmitrii Troitskii (who indirectly owns approximately 30.38% of the outstanding share capital of O'KEY Group S.A.);
- Mr Dmitry Korzhev (who indirectly owns approximately 10.78% of the outstanding share capital of O'KEY Group S.A.);
- Mr Boris Volchek (who indirectly owns approximately 30.03% of the outstanding share capital of O'KEY Group S.A.)

SHARE CAPITAL STRUCTURE AS OF 31 DECEMBER 2021 DIRECT HOLDINGS:



SHARE CAPITAL STRUCTURE AS OF 31 MARCH 2022 DIRECT HOLDINGS:



GLOBAL DEPOSITARY RECEIPTS (GDRS)

Global Depositary Receipts (GDRs) are issued in respect of ordinary shares at a ratio of one ordinary share per one GDR. The GDRs are traded on the London Stock Exchange. On 9 December 2020, the GDRs were admitted to trading on the Moscow Exchange, the trading started on 14 December 2020.

The Company's depositary bank is The Bank of New York Mellon.

As of 31 December 2021, GDRs represented 41.89% of the Group's share capital, including 38.172% admitted to trading on the London Stock Exchange and Moscow Exchange.

On 15 February 2022, some amount of shares was converted to GDRs. As a result of this transaction, as of 15 February 2022, GDRs represented 50.22% of the Group's share capital, including 38.172% admitted to trading on the London Stock Exchange and Moscow Exchange.

No other securities have been issued by the Company.

STOCK EXCHANGE

As of 31 December 2021, O'KEY Group S.A. GDRs were traded on the London Stock Exchange and on the Moscow Exchange.

TRADING FLOOR OF O'KEY GROUP S.A. GDRS

Trading floor	Ticker code
London Stock Exchange	OKEY
Moscow Exchange	OKEY

O'KEY GROUP S.A. SECURITIES IDENTIFICATION NUMBERS

CUSIP[1]	Code
Regulation S GDRs	670866201
Regulation S GDRs	670866110
Rule 144A GDRs	670866102

ISIN[2]	Code
Regulation S GDRs	US6708662019
Regulation S GDRs	US6708661102
Rule 144A GDRs	US6708661029

1. CUSIP (Committee on Uniform Security Identification Procedures) – is an identification number given to the issue of shares for the purposes of facilitating clearing.
2. ISIN (International Securities Identification Number) – is an international identification number of the share.

O'KEY GROUP S.A. GDR PRICE PERFORMANCE AND TRADING VOLUMES ON LSE IN 2021

Source: The London Stock Exchange

O'KEY GROUP S.A. GDRS TRADING INFORMATION ON LONDON STOCK EXCHANGE

	2021	2020
Annual maximum price, USD	**0.94**	2.1
Annual minimum price, USD	**0.59**	1.2
Year-end price, USD	**0.59**	1.3
Trading volume (mln units)	**15.4**	9.2

Source: LSE, market transactions

O'KEY GROUP S.A. GDR PRICE PERFORMANCE AND TRADING VOLUMES ON MOEX IN 2021

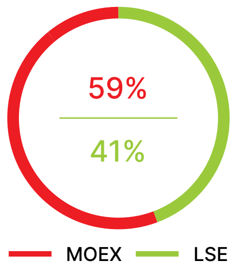
Source: Moscow Exchange

O'KEY GROUP S.A. GDRS TRADING INFORMATION ON MOSCOW EXCHANGE

	2021	2020[1]
Annual maximum price, RUB	**66.77**	67.80
Annual minimum price, RUB	**41.80**	62.75
Year-end price, RUB	**41.80**	63.99
Trading volume (mln units)	**22.1**	2.4

Source: MOEX, market transactions

O'KEY GROUP S.A. GDRS TRADING VOLUMES COMPOSITION IN 2021



Source: London Stock Exchange and Moscow Exchange

Russian individual investors constituted up to 100% of O'KEY trading volumes on MOEX in 2021

Source: MOEX

[1] O'KEY Group GDRs trading data appear starting from 14 December 2020, i.e. the start of the trading on MOEX.

CREDIT RATINGS

	Expert RA
Credit rating	ruA-
Outlook	Stable
Last rating date	2 July 2021

In July 2021, Expert RA affirmed the Company's credit rating of 'ruA-' with a stable outlook. The rating reflects the Group's stable position within the Russian food retail market, its strong liquidity and debt repayment capacity as well as high standards of corporate governance and risk management.

ANALYST COVERAGE

As of the end of 2021, four equity research analysts from leading international and Russian banks followed the Company on a regular basis. O'KEY's IR team monitors and communicates analyst consensus to the Company's top management.

Company	Analyst	Phone number
Aton	Victor Dima	+7 (495) 213–03–44
Gazprombank	Marat Ibragimov	+7 (495) 980–41–87
Raiffeisen Bank	Egor Makeev	+7 (495) 221–98–51
Sberbank CIB	Mikhail Krasnoperov	+7 (495) 933–98–38

Source: Company

DIVIDENDS

DIVIDEND POLICY

To determine the recommended amount of dividends that will be payable, the Group's Board of Directors abides by the dividend policy. The general meeting of shareholders, upon recommendation of the Board of Directors, determines how the remainder of the annual net profits of the Company should be disposed of, including by way of stock dividend, it being understood that the remaining net profits of the Company left after payment of dividends shall be used for business development of the Company and its subsidiaries and the development of the retail business of the Group in Russia. Interim dividends may be declared and paid (including by way of staggered payments) by the Board of Directors, subject to observing the terms and conditions provided by law either by way of a cash dividend or by way of an in kind dividend.

Period	Record date	Amount of dividend per GDR (USD cents, gross)	Amount of accrued dividend (USD, gross)
Interim dividends 2011	12.09.2011	9.9481	26,767,750.594
Interim dividends 2012	23.02.2012	10.254	27,590,847.96
Interim dividends 2013	15.02.2013	18.953	50,997,595.22
Interim dividends 2014	18.02.2014	22.670	60,999,075.80
Interim dividends 2014	17.10.2014	7.433	20,000,270.42
Interim dividends 2015	11.09.2015	8.920	24,001,400.80
Interim dividends 2016	08.07.2016	8.548	23,000,445.52
Interim dividends 2017	20.01.2017	9.167	24,666,013.58
Interim dividends 2018	25.01.2018	12.367	33,276,381.58
Interim dividends 2019	03.10.2019	0.05635	15,162,319.90
Interim dividends 2020	04.11.2020	0.028275	7,608,067.35
Interim dividends 2021	Not declared and distributed		

TAXATION

As a general rule, the Company withholds 15% WHT from the dividend paid from Luxembourg for distribution to the holders of GDRs.

This information is provided for information purposes only. Potential and current investors should seek the advice of professional consultants on tax matters related to investments in the shares and GDRs of the Company.

Management and Directors Responsibility Statement

We confirm, to the best of our knowledge, that the consolidated financial statements which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of O'KEY Group S.A., and the undertakings included in the consolidation taken as a whole, and that the consolidated Directors' report includes a fair review of the development and performance of the business and the position of O'KEY Group S.A. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Luxembourg, 11 April 2022

Dmitry Korzhev

Member of the Board of Directors

Mykola Buinyckiy

Member of the Board of Directors

Heigo Kera

Chairman

Konstantin Arabidis

CFO

Financial Statements

Independent Auditor's Report

To the Shareholders of O'KEY GROUP S.A.

Report on the audit of the consolidated financial statements.

OUR OPINION

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of O'KEY GROUP S.A. (the "Company") and its subsidiaries (the "Group") as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

WHAT WE HAVE AUDITED

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

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.

PricewaterhouseCoopers, Société coopérative, 2 rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg T : +352 494848 1, F : +352 494848 2900, www.pwc.lu

Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)

R.C.S. Luxembourg B 65 477 – TVA LU25482518

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.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
RECOGNITION OF BONUSES FROM SUPPLIERS	
Refer to Notes 4, 20 and 33 to the consolidated financial statements of the Group. The Group receives various types of bonuses from suppliers relating to purchase of goods for resale. The bonuses are provided inthe form of volume discounts, slotting fees and other counter payments. Recognition of these bonuses leads to a significant reduction to the cost of goods sold and inventory value. While the major portion of the bonuses is recognised and settled within the year, a material amount of RUB 2,169,396 thousand remains outstanding within trade and other receivables as at the reporting date. Recognition of bonuses from suppliers that are not settled as at the reporting date was one of the matters of most significance in our audit because their impact on the Group's cost of goods sold, inventory and trade and other receivable balances is material, the number of underlying contracts with suppliers is large and their terms can be complex. Further, calculation of the period-end accrual for certain supplier bonuses and allocation of bonuses to inventory cost requires making estimates and applying judgments.	Our audit procedures to address the key audit matter included the following: • Understanding, evaluation of design and testing of relevant control activities that the Group has established in relation to recognition of bonuses from suppliers. • Understanding and evaluation of the accounting policy applied by the Group for accounting for bonuses from suppliers. • Reading significant contracts with suppliers and understanding of the terms that entitle the Group to bonuses from suppliers. • Performing a retrospective analysis of prior year bonuses receivable against subsequent settlements to assess accuracy of the Group's estimates in the current year. • Performing analytical procedures over the accuracy and existence of the bonuses recognised in the current year based on historical data. • Agreeing bonuses receivable as at the reporting date to external confirmations obtained from suppliers on a sample basis, or alternative procedures through tracing the amounts recognised against underlying agreements and other relevant documentation. • Performing analytical procedures to assess allocation of bonuses to the goods that remain in stock at the reporting date. • Confirming that the accounting policy for offsetting of bonuses receivable from suppliers against trade payables is in line with IFRS and that the factual offsetting is in line with the accounting policy. • Considering adequacy of disclosures of information about the bonuses from suppliers in the consolidated financial statements of the Group.

NON-CURRENT ASSETS IMPAIRMENT ASSESSMENT

Refer to Notes 4, 14, 15 and 16 to the consolidated financial statements of the Group.

As at 31 December 2021, the carrying value of the Group's non- current assets for which IAS 36 requires an assessment of whether there is any indication of impairment exceeds 60% of total assets. These non-current assets are primarily attributable to the Group's stores in operation and groups of assets held for future stores construction.

As at the reporting date, the Group assessed whether there is any indication that the carrying value of the non-current assets may not be recoverable or the impairment recognised in prior periods may not exist or may have decreased and tested for impairment or reversal of impairment those cash-generating units (CGUs) represented by individual stores and groups of assets held for future stores construction where such indications were noted.

As at 31 December 2021 the recoverable amount of the CGUs was determined based on value in use.

Based on the results of the impairment tests performed as at 31 December 2021 and during the year ended 31 December 2021, the impairment loss of RUB 1,045,583 thousand and reversal of impairment of RUB 293,164 thousand were identified and recognised.

This is one of the key audit matters due to the magnitude of the carrying value of the non-current assets that require the assessment of any indication of impairment, judgement exercised by the Group in determining whether or not there is a specific indication of impairment and judgements applied in the calculation of the recoverable amount of these assets.

In addition, strong competition in the Russian retail market, political, economic tension and continued undulating COVID-19 outbreaks underpin the uncertainty of accounting estimates and the risk of significant adjustments in future periods to the carrying value of the Group's non-current assets recognised in the consolidated financial statements.

Our audit procedures to address the key audit matter included the following:

- We obtained understanding and evaluated the design of the Group's relevant control activities around the impairment review.
- We also considered the Group's approach to determination of CGUs and identification of indication that these CGUs represented by the Group's stores or groups of assets held for future stores construction may be impaired or impairment recognised in prior periods may not exist or may have decreased.
- For those significant CGUs where indication of impairment was identified or where there was an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased, we assessed whether the value in use approach applied by the Group to determine recoverable amount in each particular case is appropriate in the circumstances. We further obtained and analysed underlying calculations prepared by the Group for the impairment tests.

Our audit procedures were carried out with the involvement of internal valuation experts and included:

- Reviewing the adequacy and consistency of methods applied to measurement of value in use, and the calculations' mathematical accuracy.
- Evaluating the reasonableness of the Group's key assumptions and forecasts in the prior period, in order to assess the accuracy of the Group's forecasts for future periods.
- Verifying the appropriateness of budgets of the CGUs for projected periods used in the measurement of value in use through inquiries of the Group, corroborating the Group's explanations, examining supporting documentation and comparing inputs against available external industry data.
- Analysing and assessing in detail the key assumptions that significantly affect future cash flows of the CGUs and the discount rate applied by the Group to measure the recoverable amount, by comparing it to the weighted-average cost of capital determined for the Group with due regard to its inherent risks, as well as considering whether the continued COVID-19 pandemic had an impact on these key assumptions by analysing the Group's performance and the Russian retail industry dynamics in the current year.
- Re-performing sensitivity analysis of the results of the Group's assessment to reasonably possible changes to key assumptions.

We have tested the presentation and disclosure of information about the impairment test as carried out by the Group in the consolidated financial statements for its consistency with requirements of IAS 36 and its adequacy in the context of the consolidated financial statements as a whole.

RECOVERABILITY OF DEFERRED TAX ASSETS RECOGNISED FOR THE CARRYFORWARD OF UNUSED TAX LOSSES

Refer to Notes 4, 12 and 33 to the consolidated financial statements of the Group.

As at 31 December 2021, the carrying value of the Group's deferred tax assets amounts to RUB 4,895,412 thousand, including RUB 3,399,908 thousand arising on the accumulated tax losses carried forward by LLC Fresh Market that develops the Group's chain of discounter stores under the DA! brand starting from 2015.

A deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

The Group performed the assessment of and concluded on the recoverability of the deferred tax assets. This analysis was based on the long-term financial projections for LLC Fresh Market, which includes estimates of its future profits.

This area was significant to our audit because of the history of tax losses generated by LLC Fresh Market, the complexity and subjectivity of the recoverability assessment and long-term budgeting process, which is based on assumptions that are inherently uncertain and affected by the expected pace of new openings of the discounters. In addition, we considered the overall impact of the COVID-19 pandemic on the Russian economy that increases the degree of uncertainty of these assumptions.

The audit procedures we have performed to address the key audit matter consisted of the following:

- Understanding and evaluation of design of relevant control activities that the Group has in place in relation to recognition of current and deferred income taxes and long- term budget preparation.
- Comparing the Group's forecasts in the long-term budget prepared in prior year to actual performance to assess adequacy of the Group's estimates in the current year.
- Assessing accuracy of the deferred tax calculations.
- Considering whether there are any limitations to the amount and timing of utilisation of the unused tax loss as established by the Russian tax legislation.
- Obtaining the long-term budget prepared by the Group for LLC Fresh Market and challenging the expected future profits and assumptions regarding future earnings as reflected therein, including by comparing to actual results to date and industry trends.
- Considering to what extent the COVID-19 pandemic impacted the performance of LLC Fresh Market in the current year by analysing its revenue and consumer behavior, expenses and the pace of new stores openings, as well as its impact on the ability of the discounters segment to adhere to the long-term budget.
- Analysing the treatment of differences between accounting and tax books in the planning of future taxable profit.
- Considering adequacy of disclosures on the deferred tax positions and assumptions used in assessing recoverability of the deferred tax assets from tax losses carry forward in the consolidated financial statements.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the directors' report but does not include the consolidated financial statements and our audit report thereon.

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 identified above 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 THE BOARD OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors 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, the Board of Directors 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 the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

RESPONSIBILITIES OF THE "RÉVISEUR D'ENTREPRISES AGRÉÉ" FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The objectives of our audit 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 audit 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 the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit 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 audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to 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.

From the matters communicated with those charged with governance, we determine those matters thatwere of most significance in the audit of the consolidated financial statements of the current period andare therefore the key audit matters. We describe these matters in our audit 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 consequencesof doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The directors' report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

PricewaterhouseCoopers, Société cooperative Represented by

Andrei Chizhov

Luxembourg, 11 April 2022

Consolidated Financial Statements for the year ended 31 December 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

'000 RUB	Note	31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Investment property	13	1,947,218	1,897,449
Property, plant and equipment	14	41,617,139	41,252,458
Construction in progress	14	1,772,089	2,784,595
Right-of-use assets	15	20,190,899	20,601,991
Intangible assets	16	1,330,376	1,269,804
Deferred tax assets	12	4,895,412	4,709,712
Other non-current assets	18	959,428	507,746
Total non-current assets		**72,712,561**	**73,023,755**
Current assets			
Inventories	19	19,877,175	16,460,125
Trade and other receivables	20	3,590,570	3,042,208
Prepaid income tax		59,055	58,882
Prepayments	17	1,159,164	1,092,150
Other current assets		-	63,250
Cash and cash equivalents	21	**9,447,998**	**7,713,568**
Total current assets		**34,133,962**	**28,430,183**
Total assets		**106,846,523**	**101,453,938**

'000 RUB	Note	31 December 2021	31 December 2020
EQUITY AND LIABILITIES			
Equity	22		
Share capital		119,440	119,440
Legal reserve		10,597	10,597
Additional paid-in capital		8,555,657	8,555,657
Hedging reserve		-	(155,056)
Retained earnings		3,393,474	3,185,645
Translation reserve		1,774,457	1,761,152
Total equity		**13,853,625**	**13,477,435**
Non-current liabilities			
Loans and borrowings	24	31,644,919	31,808,417
Lease liabilities	25	19,077,160	20,166,661
Deferred tax liabilities	12	514,428	559,741
Total non-current liabilities		**51,236,507**	**52,534,819**
Current liabilities			
Loans and borrowings	24	6,171,694	4,418,673
Interest accrued on loans and borrowings	24	149,445	204,467
Lease liabilities	25	4,985,877	4,472,445
Trade and other payables	26	29,954,756	25,928,027
Current income tax payable		494,619	418,072
Total current liabilities		**41,756,391**	**35,441,684**
Total liabilities		**92,992,898**	**87,976,503**
Total equity and liabilities		**106,846,523**	**101,453,938**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

'000 RUB	Note	2021	2020
Revenue	6	187,097,352	174,341,169
Cost of goods sold		(144,978,269)	(135,053,236)
Gross profit		**42,119,083**	**39,287,933**
General, selling and administrative expenses	8	(35,718,427)	(32,792,114)
Other operating income and expenses, net	9	(1,409,812)	(1,457,222)
Operating profit		**4,990,844**	**5,038,597**
Finance income	10	68,430	86,846
Finance costs	10	(4,866,815)	(4,971,224)
Foreign exchange gain/(loss)	11	205,888	(1,786,951)
Profit/(loss) before income tax		**398,347**	**(1,632,732)**
Income tax (expense)/benefit	12	(190,518)	188,668
Profit/(loss) for the year		**207,829**	**(1,444,064)**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		13,305	556,255
Items that are or may be reclassified subsequently to profit or loss:			
Derecognition of hedge/change in fair value of hedge		193,820	577
Income tax on items within other comprehensive income	12	(38,764)	(115)
Other comprehensive income for the year, net of income tax		**168,361**	**556,717**
Total comprehensive income/(loss) for the year		**376,190**	(887,347)
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share (in RUB per share)	23	0.8	(5.4)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2020		**119,440**	**10,597**	**8,555,657**	**(155,518)**	**5,233,827**	**1,204,897**	**14,968,900**
Comprehensive loss for the year								
Loss for the year		-	-	-	-	(1,444,064)	-	(1,444,064)
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	556,255	556,255
Change in fair value of hedge	22	-	-	-	577	-	-	577
Income tax on items within other comprehensive income		-	-	-	(115)	-	-	(115)
Total other comprehensive income		-	-	-	462	-	556,255	556,717
Total comprehensive loss for the year		-	-	-	462	(1,444,064)	556,255	(887,347)
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Dividends declared		-	-	-	-	(604,118)	-	(604,118)
Total transactions with owners recorded directly in equity		-	-	-	-	(604,118)	-	(604,118)
Balance at 31 December 2020		**119,440**	**10,597**	**8,555,657**	**(155,056)**	**3,185,645**	**1,761,152**	**13,477,435**
Balance at 1 January 2021		**119,440**	**10,597**	**8,555,657**	**(155,056)**	**3,185,645**	**1,761,152**	**13,477,435**
Comprehensive income for the year								
Profit for the year		-	-	-	-	207,829	-	207,829
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	13,305	13,305
Derecognition of hedge		-	-	-	193,820	-	-	193,820
Income tax on items within other comprehensive income		-	-	-	(38,764)	-	-	(38,764)
Total other comprehensive income		-	-	-	155,056	-	13,305	168,361
Total comprehensive income for the year		-	-	-	155,056	207,829	13,305	376,190
Balance at 31 December 2021		**119,440**	**10,597**	**8,555,657**	**-**	**3,393,474**	**1,774,457**	**13,853,625**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

'000 RUB	Note	2021	2020
Cash flows from operating activities			
Cash receipts from customers		215,729,790	201,037,196
Other cash receipts		728,693	462,954
Interest received		63,156	53,117
Cash paid to suppliers and employees		(197,644,782)	(185,135,037)
Taxes other than on income		(637,466)	(696,595)
Other cash payments		(50,286)	(91,602)
VAT paid		(3,976,782)	(3,507,733)
Income tax paid		(398,860)	(176,610)
Net cash from operating activities		**13,813,463**	**11,945,690**
Cash flows from investing activities			
Purchase of property, plant and equipment (excluding VAT)		(4,909,241)	(3,625,557)
Purchase of intangible assets (excluding VAT)		(561,541)	(481,331)
Repayment of loan granted to related party		-	346,025
Proceeds from sale of subsidiaries		180,000	-
Proceeds from sale of investment property (excluding VAT)	13	1,135,430	-
Proceeds from sale of property, plant and equipment (excluding VAT)		228,414	5,773
Net cash used in investing activities		**(3,926,938)**	**(3,755,090)**
Cash flows from financing activities			
Proceeds from loans and borrowings		13,133,144	11,450,000
Repayment of loans and borrowings		(11,550,024)	(7,125,405)
Interest paid on loans and borrowings		(2,930,762)	(2,893,597)
Repayment of principal amount of lease liabilities		(4,660,511)	(4,455,487)
Interest paid on lease liabilities		(1,917,591)	(2,031,117)
Dividends paid	22	-	(604,118)
Other financial payments		(211,319)	(328,472)
Net cash used in financing activities		**(8,137,063)**	**(5,988,196)**
Net increase in cash and cash equivalents		**1,749,462**	**2,202,404**
Cash and cash equivalents at the beginning of the year	21	7,713,568	5,507,079
Effect of exchange rate fluctuations on cash and cash equivalents		(15,032)	4,085
Cash and cash equivalents at the end of the year	**21**	**9,447,998**	**7,713,568**

1. BACKGROUND

(A) THE GROUP AND ITS OPERATIONS

These consolidated financial statements for the year ended 31 December 2021 have been prepared for O'KEY GROUP S.A. (the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated and is domiciled in Luxembourg. The Company is a public limited company (société anonyme) and was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

The Company does not have an immediate parent or an ultimate controlling party.

As at 31 December 2021 and 2020, the Company's major indirect shareholders are Mr. Troitskii, Mr. Volchek and Mr. Korzhev.

As at 31 December 2021 global depository receipts ("GDRs") represented 41.89% of the Company's shares, 38.172% of the Company's shares were admitted to trading on the London Stock Exchange in the form of GDRs (as at 31 December 2020 GDRs represented 38.172% of the Company's shares, all of them were admitted to trading on the London Stock Exchange). On 15 February 2022, some ordinary shares were converted into GDRs and as a result, GDRs share reached 50.22% in the Company's shares, 38.172% of the Company's shares were admitted to trading on the London Stock Exchange in the form of GDRs. Starting 14 December 2020, the Company's GDRs are also traded on Moscow Exchange. Temporary trading suspension of admission to trading is disclosed in Note 34The Company's registered address is at 6, rue Jean Monnet, L-2180 Luxembourg.

The Group's principal business activity is operation of retail chains in Russia under the brand names "O'KEY" (hypermarkets) and "Da!" (discounter stores). At 31 December 2021, the Group operated 230 stores including 152 discounter stores (31 December 2020: 195 stores including 118 discounter stores) in major Russian cities, including but not limited to Moscow and towns in Moscow region, St. Petersburg, Murmansk, Nizhniy Novgorod, Rostov-on-Don, Krasnodar, Lipetsk, Ekaterinburg, Novosibirsk, Krasnoyarsk, Ufa, Astrakhan and Surgut.

(B) BUSINESS ENVIRONMENT

The Group's operations are primarily located in the Russian Federation which displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The Russian economy continued to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

In 2021 ongoing political tension in the region escalated as a result of further developments of the situation with Ukraine which have negatively impacted commodity and financial markets, and increased volatility, particularly with regard to foreign exchange rates. Since December 2021, the circumstances have been deteriorating and the situation remains highly unstable. There is increased volatility in the financial and commodity markets. There is an expectation of further sanctions and limitations on business activity of companies operating in the region, as well as consequences on the economy in general, but the full nature and possible effects of these are unknown (Note 34).

COVID-19 In March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Russian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. Some of the above measures were subsequently relaxed, however, as of 31 December 2021, the global infection levels remain high, vaccination rate is relatively low, and there is a risk that the Russian authorities would impose additional restrictions in subsequent periods, including due to emerging new variants of the virus.

In 2021 the Russian economy demonstrated positive dynamics in recovery from the pandemic. This trend was also supported by the global economic recovery and higher prices on global commodity markets. However, higher prices on certain markets in Russia and globally also contribute to the inflation in Russia.

The Group promptly addressed the situation with the further spread of COVID-19 and undertook necessary measures to maintain safe and smooth operations of its stores and supply chain, with focus on safety of customers and employees, supply chain and store replenishment, e-commerce and online orders, as well as social responsibility initiatives. These measures allowed the Group to overcome the challenges in response to COVID-19 pandemic and fully satisfy consumer demand by creating a safe, convenient, and pleasurable shopping experience across all its formats and sales channels.

As the Group primarily operates in the food retail market, overall customer demand did not encounter significant deterioration, and even on the contrary for certain types of goods. Further, entities supplying food and essential goods for individuals fell out of scope of the restrictions imposed by Russian government authorities to contain the virus. A number of new restrictions such as QR codes and others were introduced by the local governments in 4Q 2021 with no material impact on the Group's overall performance.

As a result of the pandemic, the Group continues to incur certain additional expenses related to COVID-19 (purchase of sanitisers, masks and gloves, plastic screens at cash desks, employees vaccination) to protect customers and employees, however no material impact on the financial result is noted.

Nonetheless in 2021, rental income of the Group in its turn demonstrated recovery to almost the pre-pandemic level on the back of return of the tenants to the normal operational activities and absence of lockdowns in most regions. The volume of sales of self-produced catering products also recovered due to the increased traffic level.

While there is still a high degree of uncertainty regarding the further pandemic development and its duration, management of the Group continues to evaluate related risks and believes in further positive development of the Group's performance including its expansion plans. The Group successfully refinanced its maturing borrowings and ensured its stable liquidity position by increasing cash balances and retaining available undrawn credit facilities. Coupled with the continuous operational improvement, the above evidenced that the COVID-19 outbreak did not have any notable impact on the Group's activities.

Overall, the Group's operating business model proved its flexibility and resilience in the turbulent macroeconomic environment caused by the pandemic, which is supported by sustainable growth of revenue in the hypermarkets segment and an ongoing impressive increase of sales in the discounters segment, as disclosed in Note 6.

The impact of the COVID-19 downturn on the overall economic environment has been considered by the Group in assessing impairment of its non-current assets, as detailed in Note 14, updating fair values of the investment properties held by the Group disclosed in Note 13, as well in the analysis of the financial risks including the credit and liquidity risks to which the Group is exposed, as disclosed in Note 28.

Management of the Group continues to follow applicable government policies and recommendations and will do utmost to continue the Group's operations in the best and safest possible way. However, the future effects of the current situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of investment properties and financial instruments at fair value.

These consolidated financial statements were authorised for issue by the Board of Directors on 11 April 2022.

Any changes to these consolidated financial statements after issue require approval of the Board of Directors.

3. FUNCTIONAL AND PRESENTATION CURRENCY

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and the Group's subsidiaries outside of the Russian Federation is the US Dollar ("USD") and the functional currency of the Group's Russian subsidiaries is the Russian Rouble ("RUB"). The consolidated financial statements are presented in RUB, which is the Group's presentation currency. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

The results and financial position of the Group entities, which functional currencies are different from RUB, are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at the date of transaction;
- components of equity are translated at the historic rate;
- all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2021 the principal rates of exchange used for translating foreign currency balances were USD 1 = RUB 74.2926; EUR 1 = RUB 84.0695 (31 December 2020: USD 1 = RUB 73.8757; EUR 1 = RUB 90.6824).

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Management also exercises certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgments 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 within the next financial year include:

Tax legislation. The Group is subject to taxation in several jurisdictions. The major part of the tax burden refers to the Russian tax legislation, which is subject to varying interpretations when being applied to the transactions and activities of the Group. Significant judgement is required in determining whether the tax positions and interpretations the Group has taken can be sustained. Refer to Note 30.

Bonuses from suppliers. The Group receives various bonuses from suppliers which represent a significant reduction in cost of goods sold and inventory cost. The calculation of these amounts is in part dependent on an estimation of whether the amounts due under agreements with suppliers have been earned at the reporting date based on inventory purchased and other conditions. In particular, estimates and judgements are applied in determining the period-end accrual for the supplier bonuses that are conditional on the volume of promotional or marketing activities provided. The allocation of the bonuses to inventory cost also has some element of judgement in relation to the attribution of the bonuses earned to the cost of specific goods received from suppliers based on the proportion of goods purchased.

Determination of recoverable amount of non-current assets. For those non-current assets where impairment indicators exist as at reporting date, the Group estimates the recoverable amount being the higher of their value in use and fair value less costs of disposal. For details of impairment assessment performed as at 31 December 2021 refer to Notes 14–16.

Recoverability of deferred tax asset. Significant judgment is required in assessment of recoverability of deferred tax asset on tax losses of LLC Fresh Market, the Group's entity that develops a discounter chain and does not yet generate profit. The Group performs analysis of future taxable profit to cover the accumulated tax losses on the basis of the long-term budget for the entity. Recognition of the deferred tax asset is contingent on the ability of the Group management to adhere to the long-term budget. Refer to Note 12.

Lease term. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

If the contractual lease term does not align with the economics of the transaction, management considers whether there are any non-contractual enforceable rights beyond the written agreement to determine the lease term with reference to mutual understanding between the parties, respective laws and regulations and other relevant factors. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The Group leases land and trade and other premises based on the lease agreements with various termination and extension options. To determine the lease term the management has applied judgement in performing its 'reasonably certain' assessment and determined that it is reasonably certain that the extension options will be exercised or termination options will not be exercised during the lease period which is based on the Group's business plan with the respective planning horizon.

Most extension options in leases of trade premises have been included in the lease liability, because the Group is unlikely to replace the assets within the Group's planning horizon.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, e.g. asset reconstruction, renovation and other, which affects this assessment, and that is within the control of the lessee.

For lease agreements of trade and other premises with various extension and termination options, where the lease period is based on the Group's business plan with the respective planning horizon, the Group also performs its 'reasonably certain' reassessment and determines that it is reasonably certain that the extension options will be exercised or termination options will not be exercised closer to the end of the lease term, usually six months before the end of the lease. Six-month period is considered to be sufficient to make a decision to vacate the property or continue with the lease. The financial effect of revising the lease terms to reflect the effect of exercising extension and termination options was included in the 'Modifications and reassessments' captions in Notes 15 and 25.

An increase in the lease term by 1 year for the leases assuming extension options at the reporting date would have increased the balances of right-of-use assets and lease liabilities by RUB 3,356,000 thousand and RUB 3,849,350 thousand, respectively (31 December 2020: by RUB 2,220,886 thousand and RUB 2,378,052 thousand, respectively).

A decrease of the lease term by 1 year for the leases assuming extension options at the reporting date would have decreased the balances of right-of-use assets and lease liabilities by RUB 3,396,092 thousand and RUB 3,946,326 thousand, respectively (31 December 2020: by RUB 2,225,313 thousand and RUB 2,447,850 thousand, respectively).

This analysis assumes that all other variables, in particular incremental borrowing rate, remain constant.

Discount rates used for determination of lease liabilities. The Group uses its incremental borrowing rate as a base for calculation of the discount rate because the interest rate implicit in the lease cannot be readily determined. In 2021, the Group's incremental borrowing rate applied to lease liabilities denominated in Russian Roubles ranged from 6 to 9%, and for contracts denominated in other currencies from 2 to 5% (2020: from 8 to 10% and from 4 to 6%, respectively).

An increase in the discount rate by 100 basis points at the reporting date would have decreased the balances of right-of-use assets and lease liabilities by RUB 683,997 thousand and RUB 672,583 thousand, respectively (31 December 2020: by RUB 854,900 thousand and RUB 811,287 thousand, respectively).

A decrease of the discount rate by 100 basis points at the reporting date would have increased the balances of right-of-use assets and lease liabilities by RUB 900,502 thousand and RUB 866,895 thousand, respectively (31 December 2020: by RUB 793,945 thousand and RUB 729,732 thousand, respectively).

This analysis assumes that all other variables, in particular lease term, remain constant.

5. NEW OR REVISED STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP

The following amendments to standards became effective from 1 January 2021, but did not have any material impact on the Group:

- Covid-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020.
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021).
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

6. SEGMENT INFORMATION

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocate resources and assess the performance for the entity. The CODM has been determined as the CEO of the Group and the Board of Directors of the Company.

The Group is engaged in management of retail stores located in the Russian Federation. Although the Group is not exposed to concentration of sales to individual customers, all of the Group's sales are made in the Russian Federation. As such, the Group is exposed to the economic development in Russia, including the development of the Russian retail industry. The Group has no significant non-current assets outside the Russian Federation.

The Group identified its operating segments in accordance with the criteria set in IFRS 8, Operating Segments, and based on the way the operations of the Group are regularly reviewed by the CODM to analyse performance and allocate resources within the Group.

The Group has two operating segments that also represent reportable segments: "O'KEY" and "DA!". Each segment has similar format of their stores which is described below:

- O'KEY – chain of modern style hypermarkets under the "O'KEY" brand;
- DA! – chain of discounter stores in Moscow and Central region.

The core assortment of goods in the stores of each segment is different, and the segments are managed separately. For each of the segments, the CODM of the Group reviews internal management reports at least on a monthly basis.

All business components within each reportable segment demonstrate similar characteristics:

- the products and customers;
- the business processes are integrated and uniform: the components manage their operations centrally. Purchasing, logistics, finance, HR and IT functions are centralised;
- the components' activities are mainly limited to Russia which has a uniform regulatory environment.

The CODM assesses the performance of the operating segments based on revenue and earnings before interest, tax, depreciation and amortisation adjusted for certain one-off items outlined below ("EBITDA"). The "EBITDA" term is not defined in IFRS. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements. The accounting policies used for the segment reporting are the same as the accounting policies applied for the consolidated financial statements (Note 33).

Basis of segmentation used in these consolidated financial statements is consistent with that used in the prior year.

The segment information for the years ended 31 December 2021 and 31 December 2020 is as follows:

'000 RUB	O'Key		Da!		Total	
	2021	2020	2021	2020	2021	2020
External revenue						
Sales of trading stock	144,630,730	141,494,065	34,788,867	25,949,806	179,419,597	167,443,871
Sales of self-produced catering products	5,752,677	5,294,242	-	-	5,752,677	5,294,242
Revenue from contracts with customers	150,383,407	146,788,307	34,788,867	25,949,806	185,172,274	172,738,113
Rental income	1,877,061	1,553,026	48,017	50,030	1,925,078	1,603,056
Total revenue	152,260,468	148,341,333	34,836,884	25,999,836	187,097,352	174,341,169
Inter-segment revenue	319,596	186,055	1,925,606	1,975,627	2,245,202	2,161,682
EBITDA	13,839,469	14,048,236	1,664,997	783,732	15,504,466	14,831,968

A reconciliation of EBITDA to profit/(loss) for the year is as follows:

'000 RUB	Note	2021	2020
EBITDA		15,504,466	14,831,968
Revaluation of investment property	9, 13	(97,796)	(191,500)
Net loss from disposal of non-current assets and net impairment of non-current assets	9	(996,429)	(750,423)
Loss from write-off of receivables and impairment of receivables	9	(317,855)	(311,660)
Depreciation and amortisation	8	(8,904,143)	(8,203,742)
Finance income	10	68,430	86,846
Finance costs	10	(4,866,815)	(4,971,224)
Foreign exchange gain/(loss)	11	205,888	(1,786,951)
Other one-off items		(197,399)	(336,046)
Profit/(loss) before income tax		398,347	(1,632,732)
Income tax (expense)/benefit	12	(190,518)	188,668
Profit/(loss) for the year		207,829	(1,444,064)

7. PRINCIPAL SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2021 and 31 December 2020, all wholly owned are as follows:

Subsidiary	Country	Nature of operations
LLC O'KEY	Russian Federation	Retail
LLC Fresh Market	Russian Federation	Retail and real estate
JSC Dorinda	Russian Federation	Real estate
LLC O'KEY management	Russian Federation	Managing company
LLC O'KEY Logistics	Russian Federation	Import operations

8. GENERAL, SELLING AND ADMINISTRATIVE EXPENSES

'000 RUB	Note	2021	2020
Personnel costs		15,387,753	13,607,430
Depreciation and amortisation	14–16	8,904,143	8,203,742
Communication and utilities		4,036,544	3,719,594
Advertising and marketing		1,992,459	2,124,128
Repairs and maintenance costs		1,398,746	1,344,905
Insurance and bank commissions		1,094,159	1,026,333
Security expenses		730,438	711,905
Legal and professional expenses		708,968	685,233
Operating taxes		651,760	734,678
Materials and supplies		408,653	434,625
Variable lease expenses and expenses relating to short-term and low value leases		353,397	161,148
Other costs		51,407	38,393
Total general, selling and administrative expenses		**35,718,427**	**32,792,114**

Total employee benefits expense for the year ended 31 December 2021 included in the cost of goods sold and general, selling and administrative expenses is RUB 18,405,339 thousand (2020: 16,390,792 thousand).

During the year ended 31 December 2021 the Group employed ca. 21 thousand employees on average (2020: ca. 20 thousand employees on average). Approximately 95% of the employees (2020: 95% of the employees) are store and warehouse employees and the remaining part is office employees.

Fees billed to the Group by PricewaterhouseCoopers, Société coopérative, the Company's independent auditors, and affiliated companies thereof are as follows:

'000 RUB	2021	2020
Fees for statutory audit of annual and consolidated accounts	18,796	18,586
Fees charged for other assurance services	5,249	5,677
Fees charged for tax advisory services	2,025	443
Total auditors' remuneration	**26,070**	**24,706**

9. OTHER OPERATING INCOME AND EXPENSES, NET

'000 RUB	Note	2021	2020
Gain from modification of leases	15,25	82,725	56,092
Net loss from disposal of non-current assets		(244,010)	(484,879)
Reversal of impairment of non-current assets	14,15	293,164	-
Impairment of non-current assets	14	(1,045,583)	(265,544)
Impairment of receivables		(58,304)	(75,025)
Loss from write-off of receivables		(259,551)	(236,635)
Loss from revaluation of investment property	13	(97,796)	(191,500)
Sundry income and expense, net		(80,457)	(259,731)
Total other operating income and expenses, net		**(1,409,812)**	**(1,457,222)**

10. FINANCE INCOME AND FINANCE COSTS

'000 RUB	2021	2020
Recognised in profit or loss		
Interest income on bank deposits	60,595	68,314
Other finance income	7,835	18,532
Total finance income	**68,430**	**86,846**
Interest expense on loans and borrowings	(2,990,720)	(3,005,532)
Interest expense on lease liabilities (Note 25)	(1,875,913)	(1,965,692)
Reclassification from hedging reserve	(182)	-
Total finance costs	**(4,866,815)**	**(4,971,224)**
Net finance costs recognised in profit or loss	**(4,798,385)**	**(4,884,378)**

During 2021 the Group has capitalised borrowing costs in the amount of RUB 81,673 thousand (2020: RUB 201,029 thousand) arising on financing directly attributable to the construction of the Group's new stores. The capitalisation rate was 7.7% (2020: 8.1%).

11. FOREIGN EXCHANGE GAIN / (LOSS)

The Group's risk management policy is to receive loans and borrowings in the same currency in which revenues are generated (RUB). As at 31 December 2021, the share of the Group's USD-denominated loans and borrowings approximated 3% of total loans and borrowings (31 December 2020: 3%). The Group's exposure to currency risk is disclosed in Note 28.

'000 RUB	2021	2020
Foreign exchange loss on financial items	(461,167)	(2,490,019)
Foreign exchange gain on financial items	600,713	1,040,625
Net foreign exchange gain/(loss) on financial items	**139,546**	**(1,449,394)**
Foreign exchange gain/(loss) on operating items	66,342	(337,557)
Total foreign exchange gain/(loss)	**205,888**	**(1,786,951)**

In 2021 substantial amount of the foreign exchange gain relates to lease contracts in foreign currencies. Another major part of the foreign exchange gain arose on import operations. The residual impact is attributable to USD-denominated intercompany loans between Group entities with different functional currencies which are eliminated on consolidation.

In 2020 substantial amount of the foreign exchange losses related to USD-denominated intercompany loans between Group entities with different functional currencies which are eliminated on consolidation. Another major part of the foreign exchange loss arose on lease contracts in foreign currencies while the residual impact was attributable to import operations.

12. INCOME TAX

INCOME TAX RECOGNISED IN PROFIT OR LOSS

'000 RUB	2021	2020
Current tax expense	(460,295)	(313,343)
Deferred tax benefit	269,777	502,011
Total income tax (expense)/benefit	**(190,518)**	**188,668**

RECONCILIATION BETWEEN THE TAX (EXPENSE)/BENEFIT AND PROFIT OR LOSS MULTIPLIED BY APPLICABLE TAX RATE

The income tax rate applicable to the majority of the Group's 2021 and 2020 income is 20%, the income tax rate established by the Russian tax legislation. A reconciliation between the expected and the actual taxation benefit/charge is provided below.

'000 RUB	2021	2020
Profit/(loss) before income tax	**398,347**	**(1,632,732)**
Theoretical income tax at applicable tax rate of 20%	(79,669)	326,546
Effect of income taxed at different rates	(17,561)	(102,701)
Tax effect of items which are not deductible for taxation purposes:		
• Inventory shrinkage expenses	(64,151)	(82,077)
• Other non-deductible expenses	(84,771)	(35,507)
Adjustments to current income tax for previous periods	55,634	82,407
Income tax (expense)/benefit for the year	**(190,518)**	**188,668**

DEFERRED TAX ASSETS AND LIABILITIES

(A) DEFERRED TAXES IN RESPECT OF SUBSIDIARIES

The Group has not recorded a deferred tax liability in respect of temporary differences of RUB 28,053,090 thousand (31 December 2020: RUB 27,357,614 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. If the temporary difference reversed in form of distributions remitted to the Company, then an enacted tax rate of 5–15% would apply.

(B) RECOGNISED DEFERRED TAX ASSET ON TAX LOSS CARRIED FORWARD

Deferred tax asset recognised in respect of tax loss carried forward relates to the losses accumulated by the Group's subsidiary LLC Fresh Market that develops a discounter chain and does not yet generate profit.

Starting from 1 January 2017 the amendments to the Russian tax legislation became effective in respect of tax loss carry forwards. The amendments affect tax losses incurred and accumulated since 2007 that have not been utilised. The 10-year expiry period for tax loss carry-forwards that was in effect prior to 2017 no longer applies, and the accumulated tax losses can now be carried forward for utilisation in future periods without any time limitation, with exception of limitation on utilisation of tax loss carry forwards that applies during the period from 2017 to 2024. The amount of losses that can be utilised each year during this period is limited to 50% of annual taxable profit.

The Group determined that future taxable profits will be available at LLC Fresh Market in the foreseeable future against which its accumulated losses can be utilised. In making this assessment the Group considered that according to the discounter chain's long-term budget the deferred tax asset of RUB 3,399,908 thousand on accumulated losses generated by LLC Fresh Market as at 31 December 2021 will be utilised in full by 2028. In 2021 no corrections to the Group's long-term plan for number of opening of new stores were made. The Group is following its long-term budget approved in prior years with insignificant changes on revenue and expenses planned for 2022 in order to reflect changes noted in 2021 with no impact on total net profit in monetary terms.

Recognition of the deferred tax asset is contingent on the ability of the Group management to adhere to the key assumptions made in the long-term budget. These key assumptions in the discounter chain's long-term budget covering 2022-2028 include annual expansion by approximately 45–50 new discounter stores per year; annual growth in revenue comparable with past dynamics of the discounter chain; and gradual decrease of share of semi-fixed costs due to economies of scale.

In addressing the sensitivity of the timing of full utilisation of the deferred tax asset attributable to LLC Fresh Market, the Group estimated that if the pace of openings of new discounter stores in each of the years from 2022 to 2028 is lower by 20% as compared to the chain expansion rate reflected in the segment's long-term budget, with all other assumptions held constant, the timing of full utilisation of the deferred tax asset would shift from 2028 to 2029. The Group believes that any such shift does not affect the probability that the deferred tax asset would be fully utilised, since the tax losses can be carried forward indefinitely and have no expiry date under the Russian tax legislation.

(C) MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

'000 RUB	1 January 2021	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2021
Tax effect of deductible/ (taxable) temporary differences and tax loss carry forwards				
Investment property	133,394	19,559	-	152,953
Property, plant and equipment	(1,520,221)	55,822	-	(1,464,399)
Construction in progress	(258,363)	184,940	-	(73,423)
Right-of-use assets	(2,961,959)	52,798	-	(2,909,161)
Intangible assets	(91,784)	(4,295)	-	(96,079)
Other non-current assets	217,576	(71,985)	-	145,591
Inventories	321,283	(53,652)	-	267,631
Trade and other receivables and payables	194,409	(16,074)	(38,764)	139,571
Long-term investments	5,785	-	-	5,785
Lease liabilities	4,927,822	(115,215)	-	4,812,607
Tax loss carry-forwards	3,182,029	217,879	-	3,399,908
Net deferred tax assets	**4,149,971**	**269,777**	**(38,764)**	**4,380,984**
Recognised deferred tax assets	4,709,712	-	-	4,895,412
Recognised deferred tax liabilities	(559,741)	-	-	(514,428)

'000 RUB	1 January 2020	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2020
Tax effect of deductible/ (taxable) temporary differences and tax loss carry forwards				
Investment property	95,094	38,300	-	133,394
Property, plant and equipment	(1,356,590)	(163,631)	-	(1,520,221)
Construction in progress	(281,641)	23,278	-	(258,363)
Right-of-use assets	(3,277,162)	315,203	-	(2,961,959)
Intangible assets	(109,967)	18,183	-	(91,784)
Other non-current assets	240,783	(23,207)	-	217,576
Inventories	326,963	(5,680)	-	321,283
Trade and other receivables and payables	139,734	54,790	(115)	194,409
Long-term investments	5,785	-	-	5,785
Lease liabilities	5,024,469	(96,647)	-	4,927,822
Tax loss carry-forwards	2,840,607	341,422	-	3,182,029
Net deferred tax assets	**3,648,075**	**502,011**	**(115)**	**4,149,971**
Recognised deferred tax assets	4,175,871			4,709,712
Recognised deferred tax liabilities	(527,796)			(559,741)

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

13. INVESTMENT PROPERTY

(A) RECONCILIATION OF CARRYING AMOUNT

'000 RUB	Note	
Investment properties at fair value as at 1 January 2020		**1,249,969**
Transfer from property, plant and equipment and construction in progress	14	836,801
Expenditure on subsequent improvements		2,179
Fair value gains less losses	9	(191,500)
Investment properties at fair value as at 31 December 2020		**1,897,449**
Investment properties at fair value as at 1 January 2021		**1,897,449**
Transfer from property, plant and equipment and construction in progress and right-of-use assets	14,15	1,338,629
Expenditure on subsequent improvements		7,844
Fair value gains less losses	9	(97,796)
Disposals		(1,198,908)
Investment properties at fair value as at 31 December 2021		**1,947,218**

The trade premises of the Group included in investment property are subject to operating leases. As at 31 December 2021 the Group's investment property comprises three buildings and six land plots (31 December 2020: three buildings and six land plots).

During the year ended 31 December 2021 the Group revised its plans in respect of three land plots and concluded that these land plots will not be used for construction of new stores in the future. As a result, the associated property, plant and equipment, construction in progress and right-of-use assets were transferred to investment property and fair valued at the date of the transfer, with net gain on revaluation included in other operating income and expenses. As at 31 December 2021 two of these three land plots were sold in 2021 (land plots in Moscow and in St. Petersburg).

Another one land plot in Ulyanovsk was also sold in August 2021.

Total proceeds according to the agreements comprised RUB 1,135,430 thousand. The main part of the proceeds is the sale of land plot on Vasilyevsky Island in St. Petersburg.

(B) MEASUREMENT OF FAIR VALUE

The investment properties are valued annually on 31 December at fair value, by an independent, professionally qualified valuator who has recent experience in valuing similar properties in the Russian Federation.

The carrying values of investment properties at 31 December 2021 and 31 December 2020 agree to the valuations reported by the external valuators with the use of a combination of the market approach with reference to comparable prices for orderly transactions with similar properties and the income approach with reference to estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions underlying the estimation of the fair value with reference to the income approach are those relating to: the annual net rent rate of RUB 898–11,872 per sq. m. (31 December 2020: RUB 830–11,342 per sq. m.); expected occupancy of 88.0–100% in the subsequent years (31 December 2020: 89.9–100%); and appropriate discount rate of 12.4% – 16.4% (31 December 2020: 14.8% – 15.0%).

These valuations are regularly compared to actual market yield data and actual transactions by the Group, and those reported by the market.

The fair value measurement of investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

14. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Total property, plant and equipment	Construction in progress	Total property, plant and equipment and construction in progress
Cost							
Balance at 1 January 2020	**4,901,189**	**40,042,676**	**8,539,655**	**16,009,852**	**69,493,372**	**2,976,838**	**72,470,210**
Additions	60,679	443,312	-	1,527,408	2,031,399	2,272,857	4,304,256
Transfers	-	672,825	798,813	385,190	1,856,828	(1,856,828)	-
Transfer to investment property	(760,741)	-	-	-	(760,741)	(76,060)	(836,801)
Disposals	(65,732)	(10,741)	(181,439)	(801,906)	(1,059,818)	(282,539)	(1,342,357)
Balance at 31 December 2020	**4,135,395**	**41,148,072**	**9,157,029**	**17,120,544**	**71,561,040**	**3,034,268**	**74,595,308**
Balance at 1 January 2021	**4,135,395**	**41,148,072**	**9,157,029**	**17,120,544**	**71,561,040**	**3,034,268**	**74,595,308**
Additions	480,093	706,457	-	1,097,733	2,284,283	3,393,564	5,677,847
Transfers	-	470,374	1,473,980	851,649	2,796,003	(2,796,003)	-
Transfer to investment property (Note 13)	(583,790)	-	-	(16,753)	(600,543)	(516,557)	(1,117,100)
Disposals	(296,659)	(29,930)	(44,292)	(780,078)	(1,150,959)	(140,411)	(1,291,370)
Balance at 31 December 2021	**3,735,039**	**42,294,973**	**10,586,717**	**18,273,095**	**74,889,824**	**2,974,861**	**77,864,685**
Depreciation and impairment losses							
Balance at 1 January 2020	**-**	**(10,717,277)**	**(3,806,563)**	**(13,007,357)**	**(27,531,197)**	**-**	**(27,531,197)**
Depreciation for the year	-	(1,318,813)	(1,083,731)	(1,203,509)	(3,606,053)	-	(3,606,053)
Impairment losses	(15,871)	-	-	-	(15,871)	(249,673)	(265,544)
Disposals	-	881	72,497	771,161	844,539	-	844,539
Balance at 31 December 2020	**(15,871)**	**(12,035,209)**	**(4,817,797)**	**(13,439,705)**	**(30,308,582)**	**(249,673)**	**(30,558,255)**

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Total property, plant and equipment	Construction in progress	Total property, plant and equipment and construction in progress
Balance at 1 January 2021	**(15,871)**	**(12,035,209)**	**(4,817,797)**	**(13,439,705)**	**(30,308,582)**	**(249,673)**	**(30,558,255)**
Depreciation for the year	-	(1,355,776)	(1,157,987)	(1,457,892)	(3,971,655)	-	(3,971,655)
Transfers to investment property (Note 13)	15,871	-	-	11,709	27,580	-	27,580
Reversal of impairment through profit or loss	-	150,000	49,299	-	199,299	-	199,299
Impairment losses	(92,484)	-	-	-	(92,484)	(953,099)	(1,045,583)
Disposals	92,484	3,550	22,746	754,377	873,157	-	873,157
Balance at 31 December 2021	**-**	**(13,237,435)**	**(5,903,739)**	**(14,131,511)**	**(33,272,685)**	**(1,202,772)**	**(34,475,457)**
Net book value							
At 1 January 2020	**4,901,189**	**29,325,399**	**4,733,092**	**3,002,495**	**41,962,175**	**2,976,838**	**44,939,013**
At 31 December 2020	**4,119,524**	**29,112,863**	**4,339,232**	**3,680,839**	**41,252,458**	**2,784,595**	**44,037,053**
At 31 December 2021	**3,735,039**	**29,057,538**	**4,682,978**	**4,141,584**	**41,617,139**	**1,772,089**	**43,389,228**

Depreciation expense of RUB 3,971,655 thousand has been charged to selling, general and administrative expenses (2020: RUB 3,606,053 thousand).

During the year ended 31 December 2021, the Group revised its plans in respect of five land plots and associated property, plant and equipment and construction in progress, and considered them for future sale. As a result, one land plot in Rostov and one land plot and associated right of use assets in Moscow region were sold in 2021. Three land plots and associated property, plant and equipment and construction in progress were reclassified to investment property. One group of assets is located in St. Petersburg and two others are located in Moscow region (Note 13).

IMPAIRMENT ASSESSMENT

At the end of each reporting period, the Group assesses whether there is any indication that its non-current assets including property, plant and equipment, right-of-use assets and other non-current assets may be impaired. Where the non-current assets relate to the Group's stores, these stores are treated as separate CGUs, and impairment assessment is performed in respect of the aggregate carrying value of the non-current assets attributable to these CGUs with reference to their actual and anticipated performance and other relevant factors, including impact of COVID-19 on each particular CGU where noted, as outlined in Note 1.

For the CGUs subject to impairment testing, recoverable amount was determined based on either value-in-use or fair value less costs of disposal approach, depending on characteristics of particular CGUs.

Value in use calculations were prepared using cash flow projections based on financial budgets and forecasts approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using an expected growth rate for each particular CGU which depends on its maturity and other relevant factors. The discount rates are post-tax and reflect management's estimate of the risks specific to the Group.

Fair value less costs of disposal calculations were based on available information about most recent prices in an active market for similar assets in the comparable location and condition, and other relevant information. For determination of market values, an independent appraiser who holds recognised and relevant professional qualifications and has recent experience in the valuation of assets in the same location and category was engaged by the Group.

As the result of the impairment test performed as at 31 December 2021, the Group recognised an impairment loss in the amount of RUB 953,099 thousand, in respect of construction in progress, which belongs to O'Key segment (2020: impairment loss of RUB 265,544 thousand was recognised, in respect of certain land plots and associated construction in progress, all of which belongs to O'Key segment). Impairment loss in the amount of RUB 92,484 thousand was also recognised for one land plot sold during 2021 (which belongs to O'Key segment).

The total recoverable amount of the impaired assets determined based on value in use approach as of 31 December 2021 amounted to RUB 707,347 thousand (31 December 2020: the total recoverable amount of the impaired assets determined based on the fair value less costs of disposal approach amounted to RUB 2,501,185 thousand).

The total recoverable amount of the assets for which impairment was reversed as of 31 December 2021 is RUB 950,828 thousand. Reversal of impairment in the amount of RUB 293,164 thousand was done for non-current assets belonging to O'Key segment (Note14, Note 15). No reversal of impairment was noted as of 31 December 2020.

The post-tax discount rate used in the assessment under the value in use approach as at 31 December 2021 was 11.9% (31 December 2020: 10.9%). If the revised estimated post-tax discount rate applied to the discounted cash flows of the CGUs had been 200 basis points higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment by RUB 133,000 thousand (2020: if the estimated post-tax discount rate had been 200 basis points higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment by RUB 312,000 thousand).

PLEDGED ASSETS

At 31 December 2021, trade stores with carrying value of RUB 8,020,647 thousand have been pledged to third parties as collateral for bank borrowings (31 December 2020: trade stores were pledged with carrying value of RUB 2,305,513 thousand).

15. RIGHT-OF-USE ASSETS

The Group leases various trade premises, land and other assets. Rental contracts are typically made for fixed periods of 3 to 49 years but may have extension and early termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The table below presents the right-of-use assets by class of underlying assets:

'000 RUB	Trade premises	Land	Other	Total
Balance at 1 January 2020	**15,069,404**	**4,487,947**	**1,955,046**	**21,512,397**
Additions	776,708	158,862	467,585	1,403,155
Modifications and reassessments	1,713,826	64,312	98,043	1,876,181
Depreciation	(3,211,079)	(239,137)	(642,735)	(4,092,951)
Disposals	(13,583)	(83,208)	-	(96,791)
Balance at 31 December 2020	**14,335,276**	**4,388,776**	**1,877,939**	**20,601,991**
Balance at 1 January 2021	**14,335,276**	**4,388,776**	**1,877,939**	**20,601,991**
Additions	1,126,071	-	137,217	1,263,288
Modifications and reassessments	2,987,565	(154,938)	268,302	3,100,929
Depreciation	(3,533,798)	(202,601)	(725,315)	(4,461,714)
Reversal of impairment through profit or loss	-	93,865	-	93,865
Transfers to investment property (Note 13)	-	(249,109)	-	(249,109)
Disposals	-	(158,351)	-	(158,351)
Balance at 31 December 2021	**14,915,114**	**3,717,642**	**1,558,143**	**20,190,899**

The group 'Other' is mostly represented by office premises and warehouses.

Modifications and reassessments for the year ended 31 December 2021 were driven by the 'reasonably certain' reassessment of the lease term for some of the Group's leases of trade premises in discounter segment, with extension and termination options, six months before the end of the lease, as well as by the modification of a number of other leases, that changed either the consideration for the lease, contractual lease term, or both.

The Group revised its plans in respect of two leased land plots in Moscow and concluded that the land plots will not be used for construction of the Group's new stores in the future. As a result, the right-of-use asset associated with the one leased land plot was transferred to investment property and the Group's subsidiary holding rights for lease of another land plot was sold in April 2021.

Depreciation expense of RUB 4,287,507 thousand (2020: RUB 3,986,627 thousand) has been charged to general, selling and administrative expenses. During 2021 the Group has capitalised depreciation of right of use assets in the amount of RUB 174,207 thousand (2020: RUB 106,324 thousand).

Right-of-use assets are assessed for indication of potential impairment as at each reporting date. For those assets where impairment indicators exist, the Group estimates recoverable amount being the higher of their value in use and fair value less costs of disposal, on either individual asset or CGU level.

No indicators of impairment were identified for the Group's right-of-use assets that are attributable to individual leased assets and do not relate to stores in operation as at 31 December 2021 and 2020.

For those right-of-use assets that relate to the Group's stores and are therefore assessed for impairment on the store level together with the other non-current assets attributable to the stores, impairment assessment has been performed as disclosed in Note 14. No impairment attributable to the right-of-use assets was identified as at 31 December 2021 and 31 December 2020.

As the result of the impairment test performed as at 31 December 2021, the Group recognised an impairment reversal in the amount of RUB 93,865 thousand, in respect of right of use asset related to the leased land plot for trade premise, which belongs to O'Key segment. No reversal of impairment as at 31 December 2020 was made.

16. INTANGIBLE ASSETS

'000 RUB	Software	Other intangible assets	Total
Cost			
Balance at 1 January 2020	**2,011,725**	**193,009**	**2,204,734**
Additions	507,457	90,108	597,565
Disposals	(552,515)	(16,012)	(568,527)
Balance at 31 December 2020	**1,966,667**	**267,105**	**2,233,772**
Balance at 1 January 2021	**1,966,667**	**267,105**	**2,233,772**
Additions	639,930	68,999	708,929
Disposals	(642,539)	(19,672)	(662,211)
Balance at 31 December 2021	**1,964,058**	**316,432**	**2,280,490**
Amortisation and impairment losses			
Balance at 1 January 2020	**(811,485)**	**(101,064)**	**(912,549)**
Amortisation for the year	(577,860)	(33,202)	(611,062)
Disposals	551,964	7,679	559,643
Balance at 31 December 2020	**(837,381)**	**(126,587)**	**(963,968)**
Balance at 1 January 2021	**(837,381)**	**(126,587)**	**(963,968)**
Amortisation for the year	(618,459)	(26,522)	(644,981)
Disposals	642,510	16,325	658,835
Balance at 31 December 2021	**(813,330)**	**(136,784)**	**(950,114)**
Carrying amounts			
At 1 January 2020	**1,200,240**	**91,945**	**1,292,185**
At 31 December 2020	**1,129,286**	**140,518**	**1,269,804**
At 31 December 2021	**1,150,728**	**179,648**	**1,330,376**

Amortisation of RUB 644,981 thousand has been charged to selling, general and administrative expenses (2020: RUB 611,062 thousand).

No indicators of impairment were identified for the Group's intangible assets as at 31 December 2021 and 31 December 2020.

17. PREPAYMENTS

'000 RUB	31 December 2021	31 December 2020
Prepayments for goods	**379,413**	363,358
Prepayments for variable lease payments – third parties	**44,890**	65,320
Prepayments for services	**441,122**	245,045
VAT on prepayments	**174,532**	156,333
Other prepayments	**119,207**	262,094
Total prepayments	**1,159,164**	**1,092,150**

18. OTHER NON-CURRENT ASSETS

'000 RUB	31 December 2021	31 December 2020
Financial assets within other non-current assets		
Long-term refundable deposits to lessors	**336,248**	201,269
Total financial assets within other non-current assets	**336,248**	**201,269**
Other non-current assets		
Prepayments for non-current assets	**623,180**	306,477
Total other non-current assets	**959,428**	**507,746**

19. INVENTORIES

'000 RUB	31 December 2021	31 December 2020
Goods for resale	**19,369,928**	16,176,223
Raw materials and consumables	**1,133,862**	818,322
Write-down to net realisable value	**(626,615)**	(534,420)
Total inventories	**19,877,175**	**16,460,125**

The Group tested the inventories for obsolescence and wrote down the inventories to their net realisable value, which resulted in a decrease of the carrying value of inventories by RUB 626,615 thousand as at 31 December 2021 (31 December 2020: RUB 534,420 thousand). The write down to net realisable value was determined by applying percentages of discount on sales and write-offs of slow-moving goods to the appropriate aging of the goods. The percentages of discount were based on the management's best estimate following the experience of the discount sales.

20. TRADE AND OTHER RECEIVABLES

'000 RUB	31 December 2021	31 December 2020
Financial assets within trade and other receivables		
Trade receivables	**311,490**	256,780
Bonuses receivable from suppliers	**2,169,396**	1,953,121
Other financial receivables	**256,338**	311,961
Total financial assets within trade and other receivables	**2,737,224**	**2,521,862**
Other receivables		
VAT receivable	**818,993**	465,439
Prepaid taxes other than income tax	**34,353**	54,907
Total trade and other receivables	**3,590,570**	**3,042,208**

The Group's exposure to credit and currency risks and credit loss allowance as at 31 December 2021 and 31 December 2020 related to trade and other receivables are disclosed in Note 28.

21. CASH AND CASH EQUIVALENTS

'000 RUB	31 December 2021	31 December 2020
Cash on hand	230,731	234,215
Bank current accounts	2,913,701	2,694,611
Term deposits	5,980,805	4,607,909
Cash in transit	322,761	176,833
Total cash and cash equivalents	9,447,998	7,713,568

Term deposits had original maturities of less than three months.

The Group's exposure to currency risk related to cash and cash equivalents is disclosed in Note 28.

22. EQUITY

As at 31 December 2021 and 31 December 2020, the Company's authorised, issued and fully paid share capital of RUB 119,440 thousand, the RUB equivalent of EUR 2,691 thousand, is represented by 269,074,000 ordinary shares with a par value of 0.01 EUR each. Each share is entitled to one vote, except as may be otherwise provided by the Articles of incorporation or by applicable law.

In accordance with Luxembourg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. As at 31 December 2021 and 2020, the legal reserve was formed in full.

Additional paid-in capital represents the excess of contributions received over par value of shares issued. There were no movements in additional paid-in capital during the years ended 31 December 2021 and 31 December 2020.

In October 2020, the Company declared and paid interim dividends to shareholders in the amount of RU B 604,118 thousand (USD 7,608 thousand). Dividends declared were recognised as distribution to owners in the consolidated statement of changes in equity. No dividends were declared and paid in 2021.

23. EARNINGS / (LOSS) PER SHARE

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. The Company has no dilutive potential ordinary shares; therefore, the diluted earnings/(loss) per share equals the basic earnings / (loss) per share.

Earnings / (loss) per share is calculated as follows:

'000 RUB	2021	2020
Profit / (loss) for the year	207,829	(1,444,064)
Weighted average number of ordinary shares in issue (thousands)	269,074	269,074
Basic and diluted earnings/(loss) per ordinary share (in RUB per share)	**0.8**	**(5.4)**

24. LOANS AND BORROWINGS

'000 RUB	Currency	31 December 2021		31 December 2020	
		Maturity	Carrying value	Maturity	Carrying value
Non-current loans and borrowings					
Secured bank loans	RUB	2025-2027	11,694,919	2022-2025	3,970,588
Unsecured bank facilities	RUB	2023-2025	9,950,000	2022-2024	12,837,829
Unsecured bonds	RUB	2023-2024	10,000,000	2022-2024	15,000,000
Total non-current loans and borrowings			31,644,919		31,808,417
Current loans and borrowings					
Secured bank loans	RUB	2022	1,158,824	2021	529,412
Unsecured bank facilities	RUB	2022	1,033,333	2021	1,578,594
Unsecured bonds	RUB	2022	2,837,671	2021	1,175,155
Unsecured loans from related parties (Note 31)	USD	On demand	1,139,016	On demand	1,132,624
Unsecured loans from third parties	RUB	2022	2,850	2021	2,888
Total current loans and borrowings			6,171,694		4,418,673
Unsecured bonds interest	RUB		144,483		203,426
Secured bank loans	RUB		2,398		-
Unsecured loans interest	RUB		2,564		1,041
Interest accrued on loans and borrowings			**149,445**		**204,467**
Total current loans and borrowings, including interest accrued			6,321,139		4,623,140
Total loans and borrowings			37,966,058		36,431,557

Information about property, plant and equipment pledged as collateral for the Group's loans and borrowings is disclosed in Note 14.

As at 31 December 2021 the Group had RUB 18,550,000 thousand (31 December 2020: RUB 12,400,000 thousand) of undrawn committed borrowing facilities available in RUB on fixed and floating rate basis until March 2022-October 2027 in respect of which all conditions have been met. Proceeds from these facilities may be used to finance operating and investing activities, if necessary.

In 2021 the Group repaid bonds issued during 2016-2017 and due in 2021 in the amount of RUB 1,175,155 thousand.

The following issues of unsecured bonds were also placed by the Group on Moscow exchange in 2019-2020:

- an issue made in April 2019 in the amount of RUB 5,000,000 thousand bearing coupon rate of 9.35% p.a. and maturing in April 2029 with an option for the bondholders to claim early repayment in April 2022. In October and November 2021 bonds were partially repaid in the amount of RUB 2,162,329 thousand.
- an issue made in December 2019 in the amount of RUB 5,000,000 thousand bearing coupon rate of 7.85% p.a. and maturing in November 2024;
- an issue made in November 2020 in the amount of RUB 5,000,000 thousand bearing coupon rate of 7.50% p.a. and maturing in October 2030 with an option for the bondholders to claim early repayment in November 2023.

No bonds issue was placed during 2021.

COMPLIANCE WITH LOAN COVENANTS

The Group monitors compliance with loan covenants on an ongoing basis. Where noncompliance is unavoidable in management's view, the Group requests waiver letters from the banks before the year-end, confirming that the banks waive their rights to demand early redemption.

At 31 December 2021 and 31 December 2020 and during the years then ended the Group complied with all its loan covenants.

25. LEASE LIABILITIES

'000 RUB	2021	2020
Balance at 1 January	24,639,106	25,122,343
Additions	1,225,111	1,403,155
Modifications and reassessments	3,018,204	1,820,089
Repayment	(6,578,102)	(6,486,604)
Interest expense	1,917,591	2,031,117
Foreign exchange (gain)/loss	(158,873)	749,006
Balance at 31 December	**24,063,037**	**24,639,106**
Non-current lease liabilities	**19,077,160**	**20,166,661**
Current lease liabilities	**4,985,877**	**4,472,445**

Interest expense in the amount of RUB 1,875,913 thousand (2020: RUB 1,965,692 thousand) has been charged to finance costs.

Total cash outflow for leases in 2021 amounted to RUB 7,014,011 thousand (2020: RUB 6,648,964 thousand).

Some property leases contain variable payment terms that are linked to sales generated by a store. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Expense relating to variable lease payments not included in lease liabilities included in selling, general and administrative expenses for 2021 was RUB 337,885 thousand (2020: RUB 143,515 thousand).

Expenses relating to short-term leases and to leases of low-value assets that are not included in lease liabilities, both included in selling, general and administrative expenses, amounted to RUB 1,371 thousand (2020: RUB 2,055 thousand) and RUB 14,140 thousand (2020: RUB 15,578 thousand), respectively.

26. TRADE AND OTHER PAYABLES

'000 RUB	31 December 2021	31 December 2020
Financial liabilities at amortised cost		
Trade payables	27,109,929	23,252,925
Other financial payables	190,008	265,984
Total financial liabilities at amortised cost	**27,299,937**	**23,518,909**
Financial liabilities at fair value		
Interest rate swap liability	-	193,821
Total financial liabilities at fair value	**-**	**193,821**
Payables to staff	1,387,210	1,116,824
Taxes payable other than income tax	785,391	710,438
Advances received from lessees	407,139	283,339
Contract liability related to gift cards	75,079	104,696
Total trade and other payables	**29,954,756**	**25,928,027**

The Group's contract liabilities relate to contracts with customers for periods of less than one year. RUB 104,696 thousand of revenue was recognised in the current reporting period related to the contract liabilities as at 31 December 2020, all of which related to gift cards.

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 28.

27. RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

The table below sets out an analysis of liabilities from financing activities and the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the consolidated statement of cash flows:

'000 RUB	Note	Loans and borrowings	Lease liabilities	Interest rate swap liability	Total
Balance at 1 January 2021		**36,431,557**	**24,639,106**	**193,821**	**61,264,484**
Cash flows from financing activities					
Proceeds from loans and borrowings		13,133,144	-	-	13,133,144
Repayment of loans and borrowings		(11,550,024)	-	-	(11,550,024)
Interest paid on loans and borrowings		(2,930,762)	-	-	(2,930,762)
Repayment of principal amount of lease liabilities		-	(4,660,511)	-	(4,660,511)
Interest paid on lease liabilities		-	(1,917,591)	-	(1,917,591)
Other financial payments		(211,319)	-	-	(211,319)
Total cash flows from financing activities		**(1,558,961)**	**(6,578,102)**	**-**	**(8,137,063)**
Non-cash changes					
Additions to lease liabilities	25	-	1,225,111	-	1,225,111
Modifications and reassessments of lease liabilities	25	-	3,018,204	-	3,018,204
Accrued interest	10,25	3,072,393	1,917,591	-	4,989,984
Derecognition of hedge	26	-	-	(193,821)	(193,821)
Effect of changes in foreign exchange rates		21,069	(158,873)	-	(137,804)
Total non-cash changes		**3,093,462**	**6,002,033**	**(193,821)**	**8,901,674**
Balance at 31 December 2021		**37,966,058**	**24,063,037**	**-**	**62,029,095**

'000 RUB	Note	Loans and borrowings	Lease liabilities	Interest rate swap liability	Dividends payable	Total
Balance at 1 January 2020		**31,930,159**	**25,122,343**	**194,398**	**-**	**57,246,900**
Cash flows from financing activities						
Proceeds from loans and borrowings		11,450,000	-	-	-	11,450,000
Repayment of loans and borrowings		(7,125,405)	-	-	-	(7,125,405)
Interest paid on loans and borrowings		(2,893,597)	-	-	-	(2,893,597)
Repayment of principal amount of lease liabilities		-	(4,455,487)	-	-	(4,455,487)
Interest paid on lease liabilities		-	(2,031,117)	-	-	(2,031,117)
Dividends paid	22	-	-	-	(604,118)	(604,118)
Other financial payments		(328,472)	-	-	-	(328,472)
Total cash flows from financing activities		**1,102,526**	**(6,486,604)**	**-**	**(604,118)**	**(5,988,196)**
Non-cash changes						
Additions to lease liabilities	25	-	1,403,155	-	-	1,403,155
Modifications and reassessments of lease liabilities	25	-	1,820,089	-	-	1,820,089
Accrued interest	10.25	3,206,561	2,031,117	-	-	5,237,678
Dividends declared	22	-	-	-	604,118	604,118
Changes in fair value of interest rate swap	26	-	-	(577)	-	(577)
Effect of changes in foreign exchange rates		192,311	749,006	-	-	941,317
Total non-cash changes		**3,398,872**	**6,003,367**	**(577)**	**604,118**	**10,005,780**
Balance at 31 December 2020		**36,431,557**	**24,639,106**	**193,821**	**-**	**61,264,484**

28. FINANCIAL RISK MANAGEMENT

(A) OVERVIEW

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(B) CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, trade receivables, bonuses receivable and other financial receivables.

(I) Exposure to credit risk

The carrying amounts of financial assets in the consolidated statement of financial position represent the Group's maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

	Note	Carrying amount	
'000 RUB		31 December 2021	31 December 2020
Loans issued		-	63,250
Long-term refundable deposits to lessors	18	336,248	201,269
Trade and other receivables	20	2,737,224	2,521,862
Cash and cash equivalents	21	9,217,267	7,479,353
Total		**12,290,739**	**10,265,734**

Due to the fact that the Group's principal activities are located in the Russian Federation, the credit risk is mainly associated with its domestic market. The credit risks associated with foreign counterparties are considered to be remote, as there are only few foreign counterparties and they were properly assessed for creditworthiness.

(II) Trade and other receivables

The Group has no considerable balance of trade receivables because the majority of its customers are retail consumers, who are not provided with any credit. The Group's trade receivables primarily include receivables from tenants and receivables connected to provision of services. Other receivables are primarily represented by bonuses receivable from suppliers. The Group manages credit risk in respect of those bonuses receivable by maintaining a stable suppliers base and monitoring collectability of amounts due on an ongoing basis.

To measure the ECL for trade and other receivables, those have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2021 and 31 December 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The ECL for bonuses receivable from suppliers is determined on portfolio level based on historical default percentages applied to the total amount of bonuses receivable from suppliers, adjusted to reflect relevant current and forward-looking information.

The credit loss allowance as at 31 December 2021 determined with the use of provision matrix is summarised in the table below.

'000 RUB	Gross amount	ECL	Carrying amount
Trade receivables	332,703	(21,213)	311,490
Bonuses receivable from suppliers	2,185,494	(16,098)	2,169,396
Other financial receivables	285,470	(29,132)	256,338
Total	**2,803,667**	**(66,443)**	**2,737,224**

When preparing the provision matrix for the balances receivable as at 31 December 2021, the Group considered the extent to which the COVID-19 outbreak in the reporting period has affected the industry in which the Group operates and its debtors and concluded that there was no notable deterioration of the debtors' credit profile that would require a significant adjustment to the calculated expected credit loss rates with regard to forward-looking information.

The credit loss allowance as at 31 December 2020 determined with the use of provision matrix is summarised in the table below.

'000 RUB	Gross amount	ECL	Carrying amount
Trade receivables	271,003	(14,223)	256,780
Bonuses receivable from suppliers	2,012,244	(59,123)	1,953,121
Other financial receivables	322,098	(10,137)	311,961
Total	2,605,345	(83,483)	2,521,862

(III) Cash and cash equivalents

The Group assesses credit risk for cash and cash equivalents based on external ratings that are available publicly. Cash and cash equivalents are mainly held with banks which are rated from Baa3 to Ba3 based on Moody's rating.

(C) LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. The Group's liquidity risk management objectives are as follows:

- Maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
- Maintaining financial stability: the Net Debt / EBITDA ratio should not exceed 5.0, where Net Debt is the total of long-term and short-term loans and borrowings and lease liabilities less cash and cash equivalents as presented in the consolidated financial statements. Requirements for the respective ratio were decreased in 2021 to the level 5.0 from previously used 5.5 due to the signing of the new long-term loan agreement;
- Monitoring of compliance with debt covenants;
- Planning: timely preparation of operating, investing and financing cash flow forecasts on rolling basis.

(I) Exposure to liquidity risk

The table below shows liabilities at 31 December 2021 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments. Such undiscounted cash flows may differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amounts are based on discounted cash flows. Where the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

31 December 2021 '000 RUB	Carrying amount	Contractual cash flows	Demand and less than 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years
Financial liabilities at amortised cost						
Secured bank loans	12,856,141	16,689,291	1,029,019	1,120,722	12,677,323	1,862,227
Unsecured bonds	12,982,154	14,587,568	3,449,979	386,904	10,750,685	-
Unsecured bank facilities	10,985,897	12,689,941	673,762	1,162,315	10,853,864	-
Unsecured loans from related parties	1,139,016	1,146,213	1,146,213	-	-	-
Unsecured loans from third parties	2,850	2,891	41	2,850	-	-
Lease liabilities	24,063,037	34,892,651	3,425,963	3,408,019	14,897,149	13,161,520
Trade and other payables	27,299,937	27,299,937	27, 299,937	-	-	-
Total future payments, including future principal and interest payments	**89,329,032**	107,308,492	37,024,914	6,080,810	49,179,021	15,023,747

As at 31 December 2021, the Group's current liabilities exceeded its current assets by RUB 7,622,429 thousand (31 December 2020: RUB 7,011,501 thousand). An excess of current liabilities over current assets is usual for the retail industry. The Group uses excess of trade and other payables over inventory to finance its operating and investing activities. The Group has reviewed its cash flow forecasts in the context of current and projected market conditions, as well as available undrawn credit facilities disclosed in Note 24, and is confident that it will be able to meet its obligations as they fall due.

31 December 2020 '000 RUB	Carrying amount	Contractual cash flows	Demand and less than 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years
Financial liabilities at amortised cost						
Secured bank loans	4,500,000	5,390,612	118,716	644,810	4,627,086	-
Unsecured bonds	16,378,581	19,246,035	1,970,788	622,575	16,652,672	-
Unsecured bank facilities	14,417,464	16,875,293	1,092,285	1,472,420	14,310,588	-
Unsecured loans from related parties	1,132,624	1,140,319	1,140,319	-	-	-
Unsecured loans from third parties	2,888	2,888	38	2,850	-	-
Lease liabilities	24,639,106	37,344,787	3,289,905	3,287,534	15,796,555	14,970,793
Trade and other payables	23,518,909	23,518,909	23,518,909	-	-	-
Financial liabilities used in hedging activity						
Interest rate swap	193,821	193,821	101,458	92,363	-	-
Total future payments, including future principal and interest payments	84,783,393	103,712,664	31,232,418	6,122,552	51, 386,901	14,970,793

(D) MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Management sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Thus, the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial assets and liabilities and amounts on foreign exchange rate gains or losses. The Group ensures that its exposure is kept to an acceptable level by keeping the proportion of financial assets and liabilities in foreign currencies to total financial liabilities at an acceptable level. From time to time the Group converts assets and liabilities from one currency to another.

(I) Currency risk

The Group holds its business in the Russian Federation and mainly collects receivables nominated in Russian Roubles. However, financial assets and liabilities of the Group are also denominated in other currencies, primarily US Dollar, as well as Euro.

Exposure to currency risk

The Group's exposure to currency risk in relation to the USD, the major foreign currency for the Group's Russian subsidiaries, was as follows based on notional amounts:

'000 RUB	31 December 2021	31 December 2020
Trade and other receivables	**1,320**	31,955
Cash and cash equivalents	**28,921**	60,981
Lease liabilities	**(324,892)**	(466,669)
Trade and other payables	**(389,016)**	(432,400)
Total	**(683,667)**	(806,133)

Apart from the above, the Group's exposure to the currency risks in relation to the USD arises on USD denominated intragroup loans between the Group entities with different functional currencies. While these intragroup loans are eliminated upon consolidation, related foreign exchange gains and losses are recognised in the consolidated profit or loss. Refer to Note 11.

The Group's exposure to currency risk in relation to the EUR was as follows based on notional amounts:

'000 RUB	31 December 2021	31 December 2020
Trade and other receivables	**1,636**	2,013
Cash and cash equivalents	**26,573**	330
Lease liabilities	**(2,142,710)**	(2,491,676)
Trade and other payables	**(233,153)**	(239,375)
Total	**(2,347,654)**	**(2,728,708)**

Sensitivity analysis

A 20% weakening/strengthening of the RUB against the USD at 31 December 2021 would have decreased/increased equity and profit or loss by RUB 136,733 thousand (31 December 2020: 20% weakening/strengthening of the RUB against the USD would have decreased/increased equity and profit or loss by RUB 161,227 thousand).

A 20% weakening/strengthening of the RUB against the EUR at 31 December 2021 would have decreased/increased equity and profit or loss by RUB 469,531 thousand (31 December 2020: 20% weakening/strengthening of the RUB against the EUR would have decreased/increased equity and profit or loss by RUB 545,742 thousand).

This analysis was performed only for the foreign currency denominated monetary balances in the consolidated statement of financial position related to the Group's entities whose functional currency is the RUB and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

(II) Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments at their carrying amounts was:

'000 RUB	31 December 2021	31 December 2020
Fixed rate instruments		
Cash and cash equivalents	**8,894,506**	7,302,520
Loans and borrowings	**(37,966,058)**	(36,431,557)
Lease liabilities	**(24,063,037)**	(24,639,106)

(E) OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amounts receivable and payable do not always meet the criteria for offsetting in the consolidated statement of financial position. This is because, while generally there is an intention to settle on net basis, the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand, unless otherwise stated in the agreement.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2021		
Gross amounts before offsetting	4,319,091	28,881,804
Amounts offset	(1,581,867)	(1,581,867)
Net amounts presented in the consolidated statement of financial position	**2,737,224**	**27,299,937**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,728,810)	(1,728,810)
Net amount	**1,008,414**	**25,571,127**

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2020		
Gross amounts before offsetting	4,718,504	25,715,551
Amounts offset	(2,196,642)	(2,196,642)
Net amounts presented in the consolidated statement of financial position	**2,521,862**	**23,518,909**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,258,042)	(1,258,042)
Net amount	**1,263,820**	**22,260,867**

The net amounts presented in the consolidated statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

Amounts offset comprise mainly trade payables for goods and bonuses receivable from suppliers.

(F) CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements, except for statutory requirement in relation to minimum level of share capital and requirement in respect of positive net assets of LLC "O'KEY" for external loan agreement; the Group follows all requirements.

29. CAPITAL COMMITMENTS

The Group has capital commitments to acquire property, plant and equipment, mostly relating to construction of stores, and intangible assets amounting to RUB 586,007 thousand as at 31 December 2021 (31 December 2020: RUB 742,609 thousand). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

30. CONTINGENCIES

(A) LEGAL PROCEEDINGS

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, the management is of the opinion that no material losses will be incurred in respect of claims outstanding.

(B) TAX CONTINGENCIES

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The management has implemented internal controls to comply with current TP legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of the TP rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group applies its judgement in interpretations of such uncertain areas. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities.

The impact of any of the challenges mentioned above cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

In addition to the above matters, management estimates that as at 31 December 2021, the Group has other possible obligations of approximately RUB 2,400,000 thousand (31 December 2020: RUB 1,900,000 thousand) from exposure to other than remote tax risks arising from certain transactions. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the Group's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

31. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties of the Group fall into the following categories:
- The Company's major indirect shareholders (Note 1);
- Other related parties under control of the major indirect shareholders;
- Members of the Board of Directors of the Company and other key management personnel.

(A) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management received the following remuneration during the year, which is included in personnel costs:

'000 RUB	2021	2020
Short-term employee benefits:		
Salaries and short-term bonuses	**449,958**	403,752
Social security contributions	**16,386**	16,874
Other short-term payments	**20,000**	4,621
Long-term employee benefits:		
Long-term service bonus	**170,497**	50,071
Total	**656,841**	**475,318**

In addition, members of the Company's Board of Directors received remuneration in the amount of RUB 62,264 thousand for the year ended 31 December 2021 (2020: RUB 77,031 thousand) which is included in legal and professional expenses.

(B) TRANSACTIONS WITH OTHER RELATED PARTIES

(I) Revenue

'000 RUB		Income		Receivables
	2021	2020	31 December 2021	31 December 2020
Sale of services	1,751	1,883	2,871	35
Total	**1,751**	**1,883**	**2,871**	**35**

All outstanding balances with other related parties are to be settled in cash within six months of the reporting date. None of the balances are secured or impaired.

(II) Expenses

'000 RUB		Expenses
	2021	2020
Variable lease expenses and expenses relating to short-term and low value leases	**91,219**	98,180
Interest expense on lease liabilities	**61,423**	95,919
Interest expense on loans and borrowings	**84,239**	89,854
Other services received	**56,875**	-
Total	**293,756**	**283,953**

Leases with other related parties

Lease liabilities under related party arrangements were as follows:

'000 RUB	31 December 2021	31 December 2020
Lease liabilities due to other related parties, including:	**514,100**	934,736
Current lease liabilities	**468,815**	436,924
Non-current lease liabilities	**45,285**	497,812

Terms of the leases with other related parties are such that the Group pays rentals which include the reimbursement of all operating expenses related to the hypermarkets leased and nearby leased areas and a certain percentage of the Group's retail revenue from the operation of these hypermarkets.

(III) Loans and borrowings

'000 RUB	31 December 2021	31 December 2020
Loans and borrowings	1,139,016	1,132,624

The loans from other related parties are denominated in USD, bear interest at 7.44% per annum and are payable on demand but not later than 2026 (31 December 2020: bear interest at 8% per annum and are payable on demand but not later than 2026). In 2021 accrued and fully paid interest amounted to RUB 84,239 thousand and the rest of the movement of the loan is attributable to foreign currency translation difference within other comprehensive loss.

(IV) Loans given

'000 RUB	31 December 2021	31 December 2020
Interest receivable	-	53,784
Total	-	53,784

32. FAIR VALUE DISCLOSURES

Fair value measurements are analysed and categorised by level in the fair value hierarchy as follows:

- Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(A) RECURRING FAIR VALUE MEASUREMENTS

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

Investment property. Fair value of the investment property is updated by the Group annually on 31 December applying the income approach and market approach. Refer to Note 13.

(B) NON-RECURRING FAIR VALUE MEASUREMENTS

As at 31 December 2021, recoverable amount of some of the Group's non-current assets tested for impairment was determined on the basis of the fair value less costs of disposals approach. Refer to Note 14.

(C) ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE BUT FOR WHICH FAIR VALUE IS DISCLOSED

Fair value was determined by the Group for initial recognition of financial assets and liabilities which are subsequently measured at amortised cost.

Fair value of the Group's financial assets and liabilities measured at amortised cost approximates their carrying amounts. Fair value of the Group's bonds listed on Moscow exchange was determined based on active market quotations (Level 1 fair value). Fair value of the Group's other financial assets and liabilities at amortised cost belongs to Level 2 measurements in the fair value hierarchy.

There were no transfers between the levels of the fair value hierarchy or changes in valuation techniques for fair value measurements during 2021 and 2020.

33. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies set out below have been consistently applied to all the periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(A) BASIS OF CONSOLIDATION

(I) Subsidiaries

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct the 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 the investor's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(II) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the cost cannot be recovered.

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognised in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognised in other comprehensive income.

(B) FOREIGN CURRENCY

(I) Foreign currency transactions and balances

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF including foreign exchange gains and losses on borrowings and cash and cash equivalents, as well as any other foreign exchange gains and losses are recognised in profit or loss as a separate line item.

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

(II) Foreign operations

The assets and liabilities of foreign operations are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2005 the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

(C) FINANCIAL INSTRUMENTS

(I) Non-derivative financial assets and financial liabilities – initial recognition

Non-derivative financial instruments represented by cash and cash equivalents, loans given, trade and other receivables and lease receivables are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost (AC), resulting in an immediate accounting loss.

(II) Non-derivative financial assets – classification and subsequent measurement

All of the Group's non-derivative financial assets belong to the AC measurement category. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

(III) Financial assets impairment – credit loss allowance for ECL

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Group measures ECL and recognises net impairment losses on financial assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade and lease receivables. For other financial assets the Group applies a three stage model for impairment, based on changes in credit quality since initial recognition.

(IV) Financial assets – write-off

Non-derivative financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(V) Financial assets – derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(VI) Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments, if any (iii) financial liabilities at FVOCI: this classification is applied to financial instruments carried at fair value (swaps).

(VII) Financial liabilities – derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

(VIII) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

(IX) 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 with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

(X) Trade and other receivables

Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

(XI) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

(XII) Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at AC using the effective interest method.

(XIII) Capitalisation of borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial 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 on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

(D) TRANSACTIONS WITH OWNERS

(I) Ordinary shares/share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid-in capital in equity.

(II) Distributions to owners/ contributions from owners

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

(E) PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

(I) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other operating income and expense" in profit or loss.

(II) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(III) Depreciation

Land and construction in progress are not depreciated. Other items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

Buildings	30 years
Machinery and equipment, auxiliary facilities	2–20 years
Leasehold improvements	the lowest of the useful life or the term of underlying lease
Other fixed assets	2–10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(F) INVESTMENT PROPERTY

Investment property is property held by the Group to earn rental income or for capital appreciation or both, including land held for a currently undetermined future use, and which is not occupied by the Group. Properties that are mainly occupied by the Group and insignificant portion of which is leased out to third parties mainly for offering additional customer service are presented within property, plant and equipment.

Investment property, including assets under construction for future use as investment property, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss within "other operating income and expenses". If fair value of investment property under construction is not reliably determinable, the Group measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Fair value of the Group's investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Market value of the Group's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same location and category.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

Earned rental income is recorded in profit or loss for the year within revenue.

(G) INTANGIBLE ASSETS

(I) Intangible assets

Intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets primarily include capitalised computer software, patents and licenses. Acquired computer software, licenses and patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

(II) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(III) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

software	1–7 years
other intangible assets	1–5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(H) LEASES

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct asset. If the supplier has a substantive substitution right, then the
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset.

The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purposes the asset is used is predetermined, the Group has the right to direct the use of the asset if either:

- The Group has the right to operate the asset; or
- The Group designed the asset in a way that predetermines how and for what purpose it will be used.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The estimated useful lives of right-of-use asset are as follows:

Trade premises	3–17 years
Land	2–47 years
Other	1–5 years

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The following variable payments are not included in the calculation of lease liability:

- payments under land lease agreements, the calculation of which depends on the cadastral value of the land plot and other coefficients established by government decrees;
- payments for utilities and other services, determined upon the fact of consumption;
- variable lease payments that depend on turnover.

Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

The right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs.

The lease liability is measured at amortised cost using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments. It is remeasured when there is (i) a change in future lease payments arising from a change in an index or a rate;(ii) a change in the lease term depending on the reassessment of whether the Group will exercise extension or termination options; and (iii) lease modifications, when the modification is not accounted for as a separate lease. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and refrigeration equipment.

Some property leases contain variable payment terms that are linked to sales generated by a store. Such variable lease payments are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

The Group presents right-of-use assets and lease liabilities in the separate lines in the consolidated statement of financial position.

Lease payments including repayment of principal lease liability and accrued interest are classified consistently with payments of other financial liabilities in the consolidated statement of cash flows.

Lease payments which were not included in the measurement of the lease liabilities (including certain variable payments, short-term leases and leases of low-value assets) are presented as operating cash flows.

(I) INVENTORIES

Cost of goods for resale includes costs of purchase (comprising of the purchase price, including import duties and other non-recoverable taxes, transport and handling costs, and any other directly attributable costs, less relevant supplier discounts, bonuses and similar items), as well as other costs such as internal handling, packaging and transport to the extent that it directly relates to bringing the goods to the location and condition ready for sale.

Where the goods for resale assume conversion, which is the case for the Group's self-produced catering products, their cost also includes items specifically attributable to units of production (for example, direct labour, direct expenses and sub-contracted work), as well as a systematic allocation of fixed and variable

The cost of inventories is based on the moving weighted average principle.

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(J) IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss within other operating income and expenses. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

In testing a cash-generating unit for impairment, the Group identifies all the corporate assets that relate to the cash-generating unit under review. If a portion of the carrying amount of a corporate asset can be allocated on a reasonable and consistent basis to that unit, the Group compares the carrying amount of the unit, including the portion of the carrying amount of the corporate asset allocated to the unit, with its recoverable amount. If a corporate asset cannot be allocated on a reasonable and consistent basis to the cash-generating unit, the Group assesses the impairment of this corporate asset on an individual basis.

(K) EMPLOYEE BENEFITS

(I) Short-term employee benefits

Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are measured on an undiscounted basis and accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

A liability is recognised for the amount expected to be paid under short-term bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(II) Long-term employee benefits

Long-term employee benefits represent long-term service bonuses. Long-term employee benefits are expensed evenly during the periods in which they are earned by employees.

(L) PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(M) REVENUE

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of VAT, returns and discounts.

(I) Revenue from contracts with customers

Revenue from contracts with customers is represented by sales of trading stock, including retail sales of goods and sales of self-produced catering products. The major source of sales of trading stock is retail revenue.

Revenue from sale of goods and self-catering products is recognised when control of the goods and products has transferred to the customer, normally for the customers it is occurred in the store at the point of sale. No element of financing is deemed present, as payment of the transaction price is due immediately.

In accordance with the Russian consumer protection legislation, the customers have the right of return of goods in a range of categories within 14 days after the purchase. Such estimated returns are assessed at each reporting date. Based on historical data about returns, it is probable that a significant reversal in the cumulative revenue recognised will not occur.

Gift cards and award points issued by the Group are recorded as a contract liability within trade and other payables upon sale when prepaid by customers until they are redeemed or expire.

In the reporting period, the Group's hypermarkets business maintained a loyalty program where retail customers were able to accumulate award points on purchases of certain goods which entitled them to a discount on future purchases in the hypermarkets. Also, from time to time, the Group holds promotional campaigns where the Group provides discount coupons to the customers that purchase goods with total value above a pre-determined amount. The discount coupons entitle the customers to a free purchase or a discount on selected goods immediately after the campaign ends. Such award points and coupons represent a material right to the customers and give rise to a separate performance obligation to deliver the customers additional or discounted goods. The total transaction price is allocated on the portfolio basis to the initial and the additional performance obligations on a relative stand-alone selling price basis. The estimated stand-alone selling price of the award points is determined with reference to the extent to which future performance is not expected to be required because the customer does not redeem the points awarded.

(II) Rental income

The Group leases out trade premises under operating lease. Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

(N) COST OF GOODS SOLD

Cost of goods sold includes the cost of goods for resale and self-produced catering products sold to customers.

The Group receives various types of bonuses from suppliers of goods, primarily in the form of volume discounts, slotting fees and counter services to suppliers related to the purchases made. These bonuses decrease the cost of the goods and are recorded as reduction of cost of sales as the related goods are sold.

Losses from inventory shortages are recognised in cost of goods sold.

(O) FINANCE INCOME AND COSTS

Finance income comprises interest income on issued loans and bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and lease liabilities and unwinding of the discount on provisions, if any. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(P) INCOME TAX

Income taxes have been provided in the consolidated financial statements in accordance with the respective legislation enacted or substantively enacted by the end of the reporting period. Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they are recognised in other comprehensive income or directly in equity because they relate to transactions that are also recognised, in the same accounting period, in other comprehensive income or directly in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Taxes other than on income are recorded within general, selling and administrative expenses or cost of sales, based on their function.

Deferred tax is recognised in respect of tax loss carried forward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. This exemption is not applied to initial recognition of lease assets and liabilities under IFRS 16. A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies, therefore deferred tax assets and liabilities are offset only within the individual companies of the Group.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(Q) EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of participating shares outstanding during the year.

(R) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Operating segments whose revenue, results or assets are ten percent or more of all the segments are reported separately.

(S) VALUE ADDED TAX

Input VAT is generally reclaimable against sales VAT when the right of ownership on purchased goods is transferred to the Group or when the services are rendered to the Group. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which has not been settled at the balance sheet date (VAT deferred) is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

(T) PRESENTATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS

The Group reports cash flows from operating activities using direct method. Cash flows from investing activities are presented net of VAT. VAT paid to suppliers of non-current assets and VAT in proceeds from sale of non-current assets are presented in line "VAT paid" within cash flows from operating activities.

(U) NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and amendments to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2022 or later, and which the Group has not early adopted:

- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021, the effective date subsequently modified to 1 January 2023 by the Amendments to IFRS 17 as discussed below).
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Amendment to IFRS 4 – deferral of IFRS 9 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

The Group is currently assessing the impact of the new standards and amendments to standards on its consolidated financial statements.

Certain amendments to standards have been issued by the International Accounting Standards Board (IASB) that are mandatory for annual periods beginning on or after 1 January 2022 and not endorsed by EU:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).
- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).
- Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

34. EVENTS SUBSEQUENT TO THE REPORTING DATE

The constant tense situation in Ukraine has intensified with further conflict escalation since February 2022 and remains unstable. Since February 2022, USA, EU and several other countries imposed sanctions on many Russian legal entities and individuals. Consequently, there has been increased volatility in the financial and commodity markets. In March 2022, following further escalation in the region, the Rouble exchange rate reached 120 RUB for 1 USD and 132 RUB for 1 EUR, before falling back to 75 RUB for 1 USD and 82 RUB for 1 EUR as of the date of these consolidated financial statements, compared to year-end exchange rates of 74 RUB and 84 RUB respectively. The Group's exposure to foreign currency risk as of 31 December 2021 is disclosed in Note 28. In March 2022, the London Stock Exchange temporally suspended the admission to trading of the Group's GDRs in order to maintain orderly markets, which has not been resumed as of the date of these consolidated financial statements. The Group's GDRs and bonds remain admitted to trading on Moscow Exchange.

The Group is thoroughly analysing the possible influence of the evolving macroeconomic conditions and changes in the retail market on the Group's financial and operational results in mid-term and beyond. The Group is currently revising its portfolio of suppliers and making necessary adjustments to its supply chain and logistics in order to secure the interrupted supply and products on offer. However, the Group has historically been primarily focused on local supply, and believes that business model, which is based on two complementary retail formats and a strong online platform covering all customer needs and segments, is solidly positioned in the market. Moreover, the grocery retail is one of the most sustainable sectors of the economy and will always be in demand by customers. Management firmly intends to fulfil the Group's plans, including in respect of the number of stores that are planned to be opened in accordance with Group's long-term budget.

Despite volatility on the capital market, under existed undrawn credit lines the Group has already obtained re-financing for unsecured bonds on demand, if repayment will be requested in Q2 2022. Overall, management believes that the Group's ability to attract financing remains sustainable, as retail industry is expected to be among key industries for the Russian government and banks to support. It is not possible to determine how long the increased volatility in the financial market will last or at what level it will eventually level out. It is not possible for the management to predict with any degree of certainty an impact of this uncertainty on the Group's operations. Whilst these uncertainties may affect the future dividend income of the shareholders in the near future, they do not affect the Group's ability to continue its operations in the foreseeable future.

Glossary

Average ticket – The figure calculated by dividing total sales, net of VAT, at all stores during the relevant year by the number of tickets in that year

Alternative Transients Program (ATP) – a universal program system for simulation of transient phenomena of electromagnetic as well as electromechanical nature, which is used within the DA! discounters network

Business Intelligence (BI) – comprises the strategies and technologies used by enterprises for the data analysis of business information. BI technologies provide historical, current, and predictive views of business operations

Content management system (CMS) – computer software used to manage the creation and modification of digital content

Corporate Social Responsibility – Responsible attitude in managing our impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community, and the environment

Customer value proposition (CVP) – a business or marketing statement that describes why a customer should buy a product or use a service

Endpoint Detection and Response (EDR) -a cybersecurity technology that continually monitors an "endpoint" (e.g. mobile, phone, laptop, Internet-of-things devices) to mitigate malicious cyber threats., which is used within the DA! discounter chain

Every day low price (EDLP) – a pricing strategy promising consumers a low price without the need to wait for sale price events or comparison shopping

ERP (Enterprise Resource Planning) – A modular software system designed to integrate the main functional areas of an organisation's business processes into a unified system

Extended warehouse management (SAP EWM) – IT system, which is used to efficiently manage inventory in the warehouse and for supporting processing of goods movement, which is used on the Company's' distribution centres

Global Depositary Receipt (GDR) – a bank certificate issued in more than one country for shares in a foreign company

Global Food Safety Initiative (GFSI) – A private organisation, established and managed by the international trade association the Consumer Goods Forum under Belgian law in May 2000, the GFSI maintains a scheme to benchmark food safety standards for manufacturers as well as farm assurance standards

HACCP (Hazard Analysis and Critical Control Points) – A systematic preventive approach to food safety from biological, chemical, and physical hazards in production processes that can cause the finished product to be unsafe, and designs measurements to reduce these risks to a safe level

High-performance Analytical Appliance in-memory database (HANA) – an in-memory data platform that is deployable as an on-premises appliance, or in the cloud, which is used on the Company's' distribution centres

LFL (like–for–like) The method of comparing current year sales figures to prior year's sales figures excluding the expansion effect

Network Traffic Analysis (NTA) – a method of monitoring network availability and activity to identify anomalies, including security and operational issues, which is used within the DA! discounter chain

Net revenue – The amount of a company's gross revenue plus all negative revenue items

Planogram – A diagram that shows how and where specific retail products should be placed on retail shelves or displays in order to increase customer purchases

Point of Sale (POS) platform – A system which allows the processing and recording of transactions between a company and their consumers, at the time in which goods and/or services are purchased

Private label (PL) – Brand owned not by a manufacturer or producer, but by a retailer or supplier, who gets its goods made by a contract manufacturer under its own label

Real disposable income – The post-tax and benefit income available to households after an adjustment has been made for price changes

Retail Predictive Application Server (RPAS) – Configurable software platform for developing forecasting and planning applications

Selling space – The area inside stores used to sell products, excluding areas rented out to third parties, own–production areas, storage areas and the space between store entry and the cash desk line

SKU (stock keeping unit) – A number assigned to a particular product to identify the price, product options and manufacturer of the merchandise

Stakeholder – Any individual, group, or party with an interest in an organisation and the outcomes of its actions

Traffic – The number of tickets issued for the period under review

Transport management system (TMS) - software for planning and executing the physical movement of goods in the supply chain

Abbreviations

ACORT – Association of retail trade companies

CEO – Chief Executive Officer

CJSC – Closed joint stock company

CRM – Client Relationship Management

DC – Distribution centre

EBITDA – Earnings before interest, taxes, depreciation and amortisation

FD – Federal district

FMCG – Fast-moving consumer goods

FY – Financial year

GDR – Global depositary receipt

HR – Human resources

IFRS – International Financial Reporting Standards

IPO – Initial Public Offering

IT – Information Technology

JSC – Joint Stock Company

k – A thousand

KPI – Key Performance Indicators

LLC – Limited Liability Company

m² – Square metre

NGO – Non-governmental organisation

p.p. – Percentage point

Q – Quarter of the year

RUB – Russian rouble

SG&A – Selling, general and administrative expenses

WMS – warehouse management system

YoY – Year Over Year

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