

# Independent auditor’s report on the consolidated financial statements of PJSC Magnit and its subsidiaries for 2021

March 2022

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# Independent auditor’s report

## To the Shareholders and Board of Directors of PJSC Magnit

### Opinion

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

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

### Basis for opinion

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

### Key audit matters

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

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

# Independent auditor’s report

(continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of vendors allowances	
The Group receives various types of allowances from vendors in the form of volume rebates and other forms of payments that effectively reduce the cost of goods purchased from the vendor. We considered this matter to be of most significance in our audit because the recognition of vendor allowance requires judgement from management in the assessment of the level of fulfilment of the Group’s obligations under the vendor agreements and because these allowances are a substantial part of cost of sales and inventories. Information about accounting policy for vendor allowances is disclosed in Note 3 to the consolidated financial statements.	We compared a sample of accruals of volume rebates and other rebates, recorded based on management assumptions, to supporting documents from vendors and vendor agreements. We also compared the outstanding allowances receivable to the direct confirmations from vendors on a sample basis. We tested cut-off of vendor allowances recorded during a period shortly before and after year-end to supporting documents from vendors.
Valuation of goods for resale	
The Group has significant balance of goods for resale. In accordance with IAS 2 <i>Inventories</i> , inventories are recorded at the lower of cost and net realizable value. In estimating the carrying amount of goods for resale, the Group’s management uses judgments to estimate the net realizable value of goods for resale and the amount of handling costs to be included in the carrying amount of goods for resale. As a result, we believe that this matter is one of most significance in our audit. Information on goods for resale is disclosed in Note 13 to the consolidated financial statements.	We assessed the assumptions used by the Group’s management in the valuation of goods for resale. We assessed the Group’s methodology in respect of valuation of net realizable value, analysed the dynamics of goods for resale turnover ratios taking into consideration seasonality and other applicable factors. We compared carrying values of goods for resale with subsequent sales proceeds by certain type of goods. We verified the mathematical accuracy of goods for resale net realisable value calculation. We assessed the process of allocation of handling costs to the carrying amount of goods for resale. We analysed the structure of costs included in the value of goods for resale. We compared the amount of costs with supporting documents received from suppliers and the Group’s internal documents.
Impairment testing of property, plant and equipment and right-of-use assets	
Impairment testing for property, plant and equipment and right-to-use assets was one of the key audit matters because the balance of property, plant and equipment and right-to-use assets forms a significant portion of the Group’s assets at the reporting date, and the process of management’s assessment of the recoverable amount is complex and requires significant judgments, including judgements about future cash flows, capital expenditures and the discount rate. Information about property, plant and equipment, right-to-use assets and results of impairment testing is disclosed in Notes 8 and 9 to the consolidated financial statements.	Our audit procedures included an assessment of key management assumptions used by the Group, including those in respect of forecasted revenue and operating expenses. We also analyzed discount rates used by management of the Group. We engaged our internal valuation experts in performing these procedures. We also performed the sensitivity analysis of the impairment test with respect to changes in the key assumption and assessed the Group’s disclosures of these assumptions to which impairment testing is most sensitive, i.e., those that have the most significant impact on the recoverable amount of property, plant and equipment and right-of-use assets.

Key audit matter	How our audit addressed the key audit matter
Provisional purchase price allocation in business combination	
On 22 July 2021, the Group acquired control of DIXY Holding Limited through the purchase of 100% of ordinary shares. We considered assessing the provisional purchase price allocation to be one of the matters of most significance in the audit of the consolidated financial statements, due to the fact that the goodwill from this acquisition, represented by the excess of the remuneration paid over the fair value of identifiable net assets of the acquired company in the amount of 65,411,968 thousand rubles, is the significant asset for the Group. Determining the fair value of assets and liabilities acquired in business combination involves significant judgments and estimates by the management and is performed with participation of an independent appraiser. Information about this acquisition is disclosed in Note 7 to the consolidated financial statements.	In the course of the audit procedures, we read the sale-purchase agreement between the Group and the seller of DIXY Holding Limited shares, and other transaction documentation affecting the accounting of the business combination. We evaluated the methodology and assumptions behind the significant judgments involved in the determination of the provisional fair values of the identifiable assets acquired. We involved our valuation specialists to assess the methodology and assumptions used by management to value certain categories of assets and liabilities of the acquired subsidiary, and tested, on a sample basis, mathematical accuracy of the fair values of assets and liabilities of the subsidiary acquired. We assessed the disclosure of business combination in the consolidated financial statements.
Impairment testing of goodwill from acquisition of the SIA Group and the DIXY Group	
As at 31 December 2021, the balance of goodwill is 92,291,285 thousand rubles, including 25,511,824 thousand rubles related to acquisition of MF-SIA LLC (hereinafter SIA Group), and 65,411,968 thousand rubles related to acquisition of DIXY Holding Limited (hereinafter DIXY Group). As a result of these transactions, the Group obtained control over the SIA Group and the DIXY Group. Impairment testing of goodwill was one of the key audit matters because assessment of the recoverable amount of cash generating units to which goodwill is allocated includes numerous assumptions made by the Group’s management, including the estimated effect of synergies, determination of a cash-generating unit for impairment testing purposes, forecasted revenue and gross margin, long-term growth rates and discount rates and other. Information about goodwill is disclosed in Note 11 to the consolidated financial statements.	Our audit procedures included an assessment of assumptions used by the Group and reasonableness of forecasted data. We assessed the judgment used by management in testing goodwill for impairment with respect to goodwill allocation to the relevant cash-generating units. We also performed the sensitivity analysis of the impairment test with respect to changes in the key assumptions and assessed the Group’s disclosures of those assumptions that have the most significant impact on the recoverable amount of cash generating units to which goodwill is allocated.
Application of IFRS 16 Leases	
The application of IFRS 16 was one of the key audit matters because the effect of the standard is significant to the consolidated financial statements, as the Group has large number of lease contracts and significant judgments were made by the management in assessing initial value of right-to-use assets and related liabilities with respect to ability to extend these lease contracts and, thus, determine a lease term. Information about the application of IFRS 16 Leases is disclosed in Notes 3 and 9 to the consolidated financial statements.	We analyzed the list of lease agreements to which IFRS 16 is applied and compared, on a sample basis, data in agreements with the Group’s accounting records. We analyzed management’s judgments made to determine the lease term in agreements with extension options and to calculate the discount rates. We analyzed information on IFRS 16 application disclosed in the consolidated financial statements.

# Independent auditor’s report

(continued)

## Other information included in the Annual report of PJSC Magnit for 2021

Other information consists of the information included in the Annual report of PJSC Magnit for 2021 other than the consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information. The Annual report of PJSC Magnit for 2021 is expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 when it becomes available 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.

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

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

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

The Board of Directors are responsible for overseeing the Group’s financial reporting process.

## Auditor’s responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

# Independent auditor’s report

(continued)

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

The partner in charge of the audit resulting in this independent auditor’s report is I.Y. Ananyev.

I.Y. Ananyev,  
  
acting on behalf of Ernst & Young LLC  
on the basis of power of attorney dated 1 March 2022  
partner in charge of the audit resulting in this  
independent auditor’s report  
(main registration number 21906101744)  
  
3 March 2022

**Details of the auditor**

Name: Ernst & Young LLC  
Record made in the State Register of Legal Entities  
on 5 December 2002, State Registration Number 1027739707203.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya,  
77, building 1.  
Ernst & Young LLC is a member of Self-regulatory organization  
of auditors Association “Sodruzhestvo”. Ernst & Young LLC  
is included in the control copy of the register of auditors and audit  
organizations, main registration number 12006020327..

**Details of the audited entity**

Name: PJSC Magnit  
Record made in the State Register of Legal Entities on 12  
November 2003, State Registration Number 1032304945947.  
Address: Russia 350072, Krasnodar, Solnechnaya street, 15/5..

# Statement of management’s responsibilities for the preparation and approval of the consolidated financial statements

for the year ended 31 December 2021

The following statement is made with a view to the respective responsibilities of management in relation to the consolidated financial statements of PJSC Magnit and its subsidiaries (“the Group”).

Management is responsible for the preparation of these consolidated financial statements that present fairly the financial position of the Group as at 31 December 2021 and the results of its operations, cash flows and changes in shareholders’ equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

- Selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements of IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance;
- Making an assessment of the Group’s ability to continue as a going concern.

Management is also responsible for:

Designing, implementing and maintaining an effective and sound system of internal controls;

- Maintaining appropriate accounting records to ensure compliance of the consolidated financial statements of the Group with IFRS, local legislation and local GAAP;
- Preventing and detecting material misstatements due to fraud or error.

The consolidated financial statements of the Group for the year ended 31 December 2021 were approved by management on 3 March 2022.

On behalf of the management as authorised  
by the Board of Directors.

The Chief Executive Officer of PJSC Magnit

J.G. Dunning

3 March 2022

# Consolidated statement of financial position as at 31 December 2021

(In thousands of Russian rubles)

	Notes	31 December 2021	31 December 2020 (Note 4.1)*
Assets			
Non-current assets			
Property, plant and equipment	8	377,302,570	336,125,498
Advances paid for the purchase and construction of property, plant and equipment		1,614,644	387,846
Right-of-use assets	9	397,835,247	308,444,695
Intangible assets	10	19,249,279	5,506,252
Long-term net investments in sublease		18,635	—
Goodwill	11	92,291,285	26,879,317
Long-term financial assets	12	1,033,846	1,117,551
		889,345,506	678,461,159
Current assets			
Inventories	13	224,873,040	205,949,194
Trade and other receivables	14	11,726,775	8,563,822
Advances paid and other prepaid expenses	15	9,198,907	6,663,337
Taxes receivable, excluding income tax		164,084	75,650
Short-term net investments in sublease		8,404	—
Short-term financial assets		289,748	317,672
Income tax receivable		438,559	661,791
Cash and cash equivalents	16	73,398,608	44,699,581
		320,098,125	266,931,047
Total assets		1,209,443,631	945,392,206
Equity and liabilities			
Equity attributable to the shareholders of the parent			
Share capital	17	1,020	1,020
Share premium	17	87,326,641	87,390,921
Treasury shares	17	(15,028,071)	(16,021,596)
Share-based payments reserve	32	1,877,419	2,055,322
Retained earnings		104,808,170	109,463,257
Total equity		178,985,179	182,888,924

\* SOME OF THE ABOVE AMOUNTS ARE NOT CONSISTENT WITH CONSOLIDATED FINANCIAL STATEMENTS FOR 2020 AND REFLECT THE ADJUSTMENTS DESCRIBED IN NOTE 4.1.

THE ACCOMPANYING NOTES ON PAGES 14-79 ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

	Notes	31 December 2021	31 December 2020 (Note 4.1)*
Non-current liabilities			
Long-term payables	19	2,553,058	—
Long-term loans and borrowings	21	205,286,600	147,694,926
Long-term lease liabilities	9	396,043,533	316,141,855
Long-term advances received		57,080	—
Long-term government grants	22	2,363,865	2,167,641
Deferred tax liabilities	30	9,114,787	12,225,590
		615,418,923	478,230,012
Current liabilities			
Trade and other payables	19	240,771,082	184,324,892
Taxes payable, excluding income tax	20	14,718,445	11,854,351
Dividends payable	18	28,829,503	24,094,729
Short-term advances received		888,397	955,732
Contract liabilities	23	4,176,829	2,592,558
Short-term government grants	22	253,475	627,304
Short-term loans and borrowings	21	65,139,311	18,391,601
Short-term lease liabilities	9	60,262,487	41,432,103
		415,039,529	284,273,270
Total liabilities		1,030,458,452	762,503,282
Total equity and liabilities		1,209,443,631	945,392,206

\* SOME OF THE ABOVE AMOUNTS ARE NOT CONSISTENT WITH CONSOLIDATED FINANCIAL STATEMENTS FOR 2020 AND REFLECT THE ADJUSTMENTS DESCRIBED IN NOTE 4.1.

THE ACCOMPANYING NOTES ON PAGES 14-79 ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.



# Consolidated statement of comprehensive income for the year ended 31 December 2021

(In thousands of Russian rubles)

	Notes	2021	2020 (Note 4.1)*
Revenue	24	1,856,078,950	1,553,777,351
Cost of sales	25	(1,416,814,680)	(1,188,021,688)
Gross profit		439,264,270	365,755,663
Rental and sublease income		4,110,784	3,153,243
Selling, general and administrative expenses	26	(356,961,600)	(296,425,439)
Other income	29	24,742,259	17,069,195
Other expenses		(2,258,726)	(1,129,018)
Operating profit		108,896,987	88,423,644
Interest income	27	2,547,456	504,476
Finance costs	28	(49,125,469)	(44,772,274)
Foreign exchange gain/(loss)		280,745	(1,453,331)
Profit before income tax		62,599,719	42,702,515
Income tax expense	30	(14,493,857)	(9,709,223)
Profit for the year		48,105,862	32,993,292
Total comprehensive income for the year, net of tax		48,105,862	32,993,292
Profit for the year			
Attributable to:			
Shareholders of the parent		48,105,862	32,993,292
		48,105,862	32,993,292
Total comprehensive income for the year, net of tax			
Attributable to:			
Shareholders of the parent		48,105,862	32,993,292
		48,105,862	32,993,292
Earnings per share (in RUB per share)			
– basic profit for the year attributable to the shareholders of the parent	31	491.69	337.95
– diluted profit for the year attributable to the shareholders of the parent	31	488.78	336.07

THE ACCOMPANYING NOTES ON PAGES 14-79 ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

# Consolidated statement of cash flows for the year ended 31 December 2021

(In thousands of Russian rubles)

	Notes	2021	2020 (Note. 4.1)*
Cash flows from operating activities			
Profit before income tax		62,599,719	42,702,515
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	8, 9, 26	101,936,190	88,061,585
Amortization of intangible assets	10, 26	3,387,190	1,703,793
Loss/(gain) from disposal of property, plant and equipment		494,079	(1,165,190)
Loss from disposal of intangible assets	10	4,035	45,065
Changes in expected credit losses for receivables	14, 26	(103,510)	451,920
Impairment and write-offs of advances paid	15, 26	132,090	132,207
Provision for expected credit losses on financial assets		—	247,436
Expenses for inventories carried at net realizable value	13	2,904,292	597,351
Share-based payments reserve	32	840,399	876,076
Gain from cancellation of lease contracts	9, 29	(1,070,698)	(1,687,459)
Gain from Covid-19 related rent concessions	9, 29	(1,819,124)	(1,481,968)
Income from government grants	22	(242,801)	(664,257)
Foreign exchange (gain)/loss		(280,745)	1,453,331
Finance costs	28	49,125,469	44,772,274
Interest income	27	(2,547,456)	(504,476)
Operating profit before changes in operating assets and liabilities		215,359,129	175,540,203
(Increase)/decrease in trade and other receivables		(769,807)	4,021,037
Increase in advances paid and other prepaid expenses		(2,156,435)	(369,376)
(Decrease)/increase in advances received		(44,244)	14,583
Decrease in taxes receivable		76,435	1,388,557
(Increase)/decrease in inventories		(3,073,283)	12,327,041
Increase in long-term and short-term trade and other payables		22,600,579	4,098,609
Increase in tax payables		542,720	7,563,344
Increase in contract liabilities		1,323,063	1,535,847
Cash generated from operations		233,858,157	206,119,845

\* SOME OF THE ABOVE AMOUNTS ARE NOT CONSISTENT WITH CONSOLIDATED FINANCIAL STATEMENTS FOR 2020 AND REFLECT THE ADJUSTMENTS DESCRIBED IN NOTE 4.1.

THE ACCOMPANYING NOTES ON PAGES 14-79 ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated statement of cash flows  
for the year ended 31 December 2021

(In thousands of Russian rubles) (continued)

	Notes	2021	2020 (Note. 4.1)*
Income tax paid		(18,213,507)	(13,088,683)
Interest paid		(48,632,139)	(43,820,851)
Interest received		2,457,340	400,901
Net cash from operating activities		169,469,851	149,611,212
Cash flows from investing activities			
Purchase of property, plant and equipment		(52,781,645)	(28,136,397)
Purchase of intangible assets		(7,093,766)	(3,340,433)
Proceeds from sale of property, plant and equipment		1,050,808	2,069,928
Acquisition of a subsidiary, net of cash acquired	7	(68,148,804)	—
Loans provided		(11,495)	—
Loans repaid		230,674	196,832
Proceeds from government grants	22	65,196	190,269
Net cash used in investing activities		(126,689,032)	(29,019,801)
Cash flows from financing activities			
Proceeds from loans and borrowings	34	169,505,660	452,555,765
Repayment of loans and borrowings	34	(88,752,694)	(471,761,619)
Dividends paid	18	(48,115,232)	(29,871,472)
Repayment of lease liabilities	9	(46,719,526)	(35,715,802)
Net cash used in financing activities		(14,081,792)	(84,793,128)
Net increase in cash and cash equivalents		28,699,027	35,798,283
Cash and cash equivalents at the beginning of the year	16	44,699,581	8,901,298
Cash and cash equivalents at the end of the year	16	73,398,608	44,699,581

\* SOME OF THE ABOVE AMOUNTS ARE NOT CONSISTENT WITH CONSOLIDATED FINANCIAL STATEMENTS FOR 2020 AND REFLECT THE ADJUSTMENTS DESCRIBED IN NOTE 4.1.

Consolidated statement of changes  
in equity for the year ended  
31 December 2021

(In thousands of Russian rubles)

	Notes	Attributable to shareholders of the parent					
		Share capital	Share premium	Treasury shares	Provision for share-based payments	Retained earnings	Equity attributable to shareholders of the parent
Balance at 1 January 2020		1,020	87,379,413	(16,454,110)	1,623,268	115,983,223	188,532,814
Profit for the year		—	—	—	—	32,993,292	32,993,292
Total comprehensive income for the year		—	—	—	—	32,993,292	32,993,292
Dividends declared	18	—	—	—	—	(39,513,258)	(39,513,258)
Share-based payments	32	—	—	—	876,076	—	876,076
Transfer of rights to equity instruments for share based payments	17, 32	—	11,508	432,514	(444,022)	—	—
Balance at 31 December 2020		1,020	87,390,921	(16,021,596)	2,055,322	109,463,257	182,888,924
Balance at 1 January 2021		1,020	87,390,921	(16,021,596)	2,055,322	109,463,257	182,888,924
Profit for the year		—	—	—	—	48,105,862	48,105,862
Total comprehensive income for the year		—	—	—	—	48,105,862	48,105,862
Dividends declared	18	—	—	—	—	(52,850,006)	(52,850,006)
Share-based payments	32	—	—	—	840,399	—	840,399
Transfer of rights to equity instruments for share based payments	17, 32	—	(64,280)	993,525	(929,245)	—	—
Canceled rights to equity instruments for share based payments		—	—	—	(89,057)	89,057	—
Balance at 31 December 2021		1,020	87,326,641	(15,028,071)	1,877,419	104,808,170	178,985,179

THE ACCOMPANYING NOTES ON PAGES 14-79 ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

# Notes to the consolidated financial statements for the year ended 31 December 2021

(In thousands of Russian rubles)

## 1. Corporate information

Closed Joint Stock Company Magnit (Magnit) was incorporated in Krasnodar, the Russian Federation, in November 2003.

In January 2006, Magnit changed its legal form to Open Joint Stock Company Magnit. There was no change in the principal activities or shareholders as a result of the change to an Open Joint Stock Company. In 2014 Magnit changed its legal name to Public Joint Stock Company (the Company or PJSC Magnit) in accordance with changes in legislation.

PJSC Magnit and its subsidiaries (the “Group”) operate in the retail and distribution of consumer goods under the Magnit, the DIXY and the Megamart names. The Group’s retail operations are operated through convenience stores, cosmetic stores, supermarkets and other.

All of the Group’s operational activities are conducted in the Russian Federation. The principal operating office of the Group is situated at 15/5 Solnechnaya str., 350072, Krasnodar, the Russian Federation.

The principal activities of the Group’s subsidiaries all of which are incorporated in the Russian Federation, and the effective ownership percentages are as follows:

Company name	Principal activity	Ownership interest as at 31 December 2021	Ownership interest as at 31 December 2020
JSC Tander	Food retail and wholesale	100%	100%
LLC Retail Import	Import operations	100%	100%
LLC BestTorg	Food retail in Moscow and the Moscow region	100%	100%
LLC MFK	Other activities	100%	100%
LLC Selta	Transportation services for the Group	100%	100%
LLC TK Zelenaya Liniya	Greenhouse complex	100%	100%
LLC Tandem	Rent operations	100%	100%
LLC Alkotrading	Other operations	100%	100%
LLC ITM	IT services	100%	100%
LLC Logistika Alternativa	Import operations	100%	100%
LLC Zvezda	Assets holder, vehicles maintenance services for the Group	100%	100%
LLC TD–holding	Production and processing of food for the Group	100%	100%
LLC MagnitEnerg	Buyer of electric power for the Group	100%	100%
LLC Management Company Industrial Park Krasnodar	Management of production assets	100%	100%
LLC Kuban Confectioner	Production of food for the Group	100%	100%
LLC Kuban Factory of Bakery Products	Production of food for the Group	100%	100%

Company name	Principal activity	Ownership interest as at 31 December 2021	Ownership interest as at 31 December 2020
LLC Volshebnaya svezhest	Production of household chemicals for the Group	100%	100%
LLC Zelen Yuga <sup>1</sup>	Production of agricultural products for the Group	100%	100%
LLC Moskva na Donu	Production of agricultural products for the Group	100%	100%
LLC Magnit Pharma	Pharmaceutical license holder	100%	100%
LLC Magnit IT Lab	Innovative software product development	100%	100%
LLC MF-SIA	Management activities	100%	100%
LLC SIA International – Vladivostok <sup>2</sup>	Commission trade of medicines and medical products	—	100%
LLC SIA International – Nizhniy Novgorod <sup>2</sup>	Commission trade of medicines and medical products	—	100%
LLC SIA International – Khabarovsk <sup>2</sup>	Commission trade of medicines and medical products	—	100%
Stellary Cosmetic GmbH	Holder of intangible assets	100%	100%
LLC Gastronom Media <sup>3</sup>	Marketing services	100%	—
DIXY Holding Limited <sup>4</sup>	Investment holding	100%	—
JSC DIXY Group <sup>4</sup>	Investment holding	100%	—
JSC DIXY Ug <sup>4</sup>	Food retail and wholesale	100%	—
LLC Mit <sup>4</sup>	IT services	100%	—
LLC DIXY Snezhinsk <sup>4</sup>	Assets holder	100%	—
LLC Argument <sup>4</sup>	Assets holder	100%	—

<sup>1</sup> In 2021, MOROZNYE PRIPASY LLC WAS RENAMED TO ZELEN YUGA LLC; THE COMPANY ALSO CHANGED ITS CORE ACTIVITIES FROM FOOD PRODUCTION TO PRODUCTION OF AGRICULTURAL GOODS FOR THE GROUP.

<sup>2</sup> 2021, THE MANAGEMENT OF THE GROUP DECIDED TO LIQUIDATE A NUMBER OF THE SIA GROUP COMPANIES ENGAGED IN COMMISSION TRADE OF MEDICINES AND MEDICAL PRODUCTS. LIQUIDATION OF THESE COMPANIES DID NOT HAVE A SIGNIFICANT IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AND ITS OPERATIONS.

<sup>3</sup> DURING THE 12 MONTHS ENDED 31 DECEMBER 2021, THE COMPANY GASTRONOME MEDIA LLC WAS ESTABLISHED, THE MAIN ACTIVITY OF WHICH IS THE PROVISION OF MARKETING SERVICES. THIS CHANGE DID NOT HAVE ANY SIGNIFICANT IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AND ITS OPERATIONS.

<sup>4</sup> DURING THE 12 MONTHS ENDED 31 DECEMBER 2021, THE GROUP OBTAINED CONTROL OVER 100% OF ORDINARY SHARES OF DIXY HOLDING LIMITED, MORE DETAILS ON BUSINESS COMBINATION ARE DISCLOSED IN NOTE 7.



# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 2. Basis of preparation of the financial statements

### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

### Basis of accounting

The Group’s entities maintain their accounting records in Russian rubles (“RUB”) and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these consolidated financial statements in accordance with IFRS.

The consolidated financial statements are presented in Russian rubles and all values are rounded to the nearest thousand, except when otherwise indicated.

The consolidated financial statements have been prepared on a historical cost basis except for the use of fair value as deemed cost for certain property, plant and equipment as of the date of transition to IFRS or business acquisition date.

### Functional currency

The Russian ruble is the functional currency of the main companies within the Group and the currency in which these consolidated financial statements are presented.

### Going concern

In assessing whether the going concern assumption is appropriate for the Group, management considered cash flow projections for 2022, taking into account Russia’s current economic environment, the financial situation of the Group, undrawn loan facilities available to it, as well as planned expenditure on opening new stores and maintaining existing ones (Note 34).

Management considers that operating cash flows and the available sources of credit are sufficient to meet the Group’s liabilities during the next year. Thus, these consolidated financial statements have been prepared on a going concern basis.

## 3. Summary of significant accounting policies

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries). Control is achieved when the Group is entitled to, or is exposed to a variable return on the investment or is exposed to the risk of its change and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure to risk, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the shareholders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If the Group loses control over a subsidiary, it derecognizes the respective assets (including goodwill), liabilities, non-controlling interests, and other components of equity, and recognizes any resultant gain or loss in profit or loss. Any investment retained is recognized at fair value.

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs are expensed and included in administrative expenses as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts held by the acquiree.

If the business combination is achieved in stages the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss or other comprehensive income, as appropriate.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 3. Summary of significant accounting policies (continued)

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognized in the statement of comprehensive income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### Current versus non-current classification of assets and liabilities

The Group presents assets and liabilities in statement of financial position based on current/ non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### Fair value measurement

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

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

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

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

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

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

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

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

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

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

#### Revenue from contracts with customers

The Group is engaged in both retail and wholesale activities, goods are sold through a network of own stores and distribution centers. Revenue is recognized when control of the goods passes to the customer, i.e., sales to retail customers are recognized at the point of sale in stores and to wholesale customers – at the point of sale in distribution centres or stores, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Revenue is reduced by the expected amount of returns to which customers are entitled under Russian law within 14 days of the purchase except for certain categories of goods. The Group uses historical data on the term and frequency of returns from customers to estimate and recognize provisions for such returns at the time of sale. Because the level of returns has been steady for several years, it is highly probable that no significant changes in cumulative revenue recognized will occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 3. Summary of significant accounting policies (continued)

#### Customer loyalty program

For the purpose of promoting sales and building customer loyalty, the Group establishes promotion programs to allow customers accumulate loyalty points and exchange them for a discount on goods of the main assortment or for goods specially purchased for promotions.

The loyalty program gives rise to a separate performance obligation because it provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty points awarded to the customer based on their relative stand-alone selling price and recognizes that portion as a contract liability until the points are redeemed by the customer. Revenue is recognized when the customer redeems their loyalty points against goods. The relative stand-alone selling price of the loyalty points is estimated based on the probability that the customer will redeem their points. The Group updates its estimate of the number of loyalty points that will be redeemed regularly, and the adjusted balance of contract liabilities is charged against revenue.

Expenses related to loyalty programs in respect for goods purchased specially for the purpose of promotion and not sold in the retail chain, are recognized in selling expenses and classified as advertising expenses.

#### Revenue from advertising services and packaging materials

Revenue from advertising services is recognized in the reporting period, when the services were provided, because the customer simultaneously receives and consumes the benefits provided to them by the Group. Revenue from packaging materials is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group classifies such types of revenue within other income.

#### Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing major parts or components of the property, plant and equipment and borrowing costs for long-term construction projects given the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at certain intervals, the Group depreciates them separately based on their specific useful lives.

Historical cost information was not available in relation to buildings purchased prior to transition to IFRS (1 January 2004). Therefore, management used valuations performed by independent professional appraisers to establish the fair value as at the date of transition to IFRS and used that value as the deemed cost at that date.

Cost includes major expenditure for improvements which extend the useful lives of the assets or increase their revenue-generating capacity. Repairs and maintenance are charged to the consolidated statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The depreciation method applied to an asset is reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method is changed to reflect the changed pattern on a perspective basis as a change in an accounting estimate.

The estimated useful economic lives of the related assets are as follows:

	Useful life in years
Buildings	10-50
Machinery and equipment	>1-14
Vehicles	>1-10

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is reviewed regularly to determine whether its carrying value is recoverable and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income.

#### Government grants

A government grant is recognized when there is reasonable assurance that the entity will comply with the conditions attached to it, and that the grant will be received.

Government grants provided to finance specific expenses are recognized in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Grants provided to finance an asset are recognized in profit or loss on a straight-line basis over the expected useful life of that asset.

The benefit of a government loan at a below-market interest rate is treated as a government grant. The loan is recognized at fair value. The benefit of a below-market interest rate is measured as the difference between the fair value of the loan and cash received.

#### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalized software development costs, as well as websites and electronic applications that meet the criteria for recognition, are not capitalized, and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 3. Summary of significant accounting policies (continued)

The following useful lives are used in the calculation of amortization:

Description	Useful life in years
Licenses	>1-25
Software	>1-25
Trademarks	>1-10
Other	>1-7

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposa proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income.

#### Leases

##### Group as a lessee

The Group’s leases mainly include lease agreements for land and retail store premises.

The Group has applied a uniform recognition and measurement approach for all leases where it is a lessee, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities in relation to its obligation to make lease payments and right-of-use assets representing the right to use the underlying assets.

Below is a summary of the Group’s accounting policies for lease:

##### Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term.

The Group uses the following useful lives:

- buildings from 1 to 28 years;
- land from 1 to 54 years.

Depreciation of right-of-use assets is charged to profit or loss, except for depreciation of right-to-use assets capitalized to the carrying value of assets under construction during the construction and redesign period necessary to bring the property into a condition suitable for use in accordance with the objectives of the Group. Right-of-use assets are tested for impairment.

##### Lease liabilities

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

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

##### Short-term leases and leases of low-value assets

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

##### Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue from lease or sub-lease in the consolidated statement of comprehensive income.

The Group classifies a sublease contract as a finance lease if the lease term constitutes a major part of the useful life of the underlying asset or at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset even if title is not transferred upon expiry of the lease.

Finance leases under sublease contracts are capitalized at the commencement date of the lease at the fair value of future minimum lease payments as receivables within “Net investments in sublease” in the Group’s consolidated statement of financial position.

Lease payments are apportioned between interest (recognized as finance income) and a reduction in sublease receivables. At the same time, the Group recognizes a partial disposal of right-of-use assets related to leased premises at the proportionate share of subleased premises in total leased trade space.

##### Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 3. Summary of significant accounting policies (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive income. Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (CGU) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive income.

The following asset has specific characteristics for impairment testing:

**Goodwill**  
Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

#### Inventory

Inventory is stated at the lower of cost and net realizable value. Cost comprises the direct cost of goods, transportation, handling costs and is decreased by the amount of rebates and promotional bonuses received from suppliers, related to these goods. Cost of goods for resale is calculated using the weighted average method, cost of materials and supplies is calculated using cost per unit method, cost of fuel and lubricants calculated using the average cost method. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.

#### Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

#### Vendor allowances

The Group receives various types of allowances from vendors in the form of volume discounts (rebates) and other forms of payments that effectively reduce the cost of goods purchased from the vendor. Volume-related rebates received from suppliers are recorded as a reduction in the price paid for the products and reduce cost of goods sold in the period the products are sold.

#### Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with Russian tax legislation.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.



# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 3. Summary of significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognized as an expense or income in the consolidated statement of comprehensive income, except when they relate to items credited or debited outside profit or loss, either in other comprehensive income or directly in equity, in which case the tax is also either in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

#### Retirement benefit costs

The operating entities of the Group contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognized in the profit and loss as incurred. At the reporting date the Group did not have any pension plans accounted for in accordance with IAS 19 *Employee Benefits*.

#### Segment reporting

The Group’s business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different types of stores and in various states within the Russian Federation, the Group’s chief operating decision maker reviews the Group’s operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores, including both convenience stores, cosmetic stores, supermarkets and others, and determined that the stores have similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

#### Seasonality

The Group’s business operations are not influenced by seasonality factors, except for the increase of business activities before the New Year holidays.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of that asset, other borrowing costs are recognized in profit or loss in the period in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset (until the qualifying asset is put into operation).

#### Contract balances with customers

##### Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

##### Trade and other receivables

A receivable represents the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

##### Contract liabilities

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

#### Share-based payments

Certain employees (senior executives) of the Group receive remuneration in the form of share-based payments. Employees receive equity instruments as consideration for rendered services (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (Share-based payments reserve), over the period in which the service conditions and, where applicable, the performance conditions are fulfilled (the vesting period).

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 3. Summary of significant accounting policies (continued)

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group’s best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions.

Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity, any remaining element of the fair value of the award is expensed immediately through profit or loss.

For the measurement of the fair value of equity-settled transactions with employees, the Group uses a Monte-Carlo simulation model for the Share Option Plan.

#### Financial assets

##### Initial measurement

At initial recognition, the Group classifies all of its financial assets based on the business model for managing the assets and the asset’s contractual terms, measured at either: amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVPL).

With the exception of receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

The Group only measures loans given and receivables at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

##### Business model assessment

At the first stage the Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group’s business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- the expected frequency, value and timing of sales are also important aspects of the Group’s assessment.

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group’s original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

##### The solely payment of principal and interest test (SPPI test)

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

##### Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For all financial instruments measured at amortised cost and debt financial assets, interest income is recorded using the effective interest rate method. Interest income is recognized in the consolidated statement of comprehensive income.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 3. Summary of significant accounting policies (continued)

#### Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an original effective interest rate or approximation value. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

For trade and other receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group’s cash and cash equivalents have been assigned low credit risk based on the external credit ratings of major banks and financial institutions.

#### Derecognition of financial assets and liabilities

A financial asset is removed from the consolidated statement of financial position when:

- contractual rights to cash flows from this financial asset expire; or
- the Group transfers the financial asset (substantially all the risks and rewards of ownership of the financial asset): or (a) transfers contractual rights to receive cash flows from the financial asset; or (b) reserves contractual rights to receive cash flows from the financial asset while assuming contractual obligations to repay these cash flows to one or several beneficiaries under the contract.

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. When substantially all the risks and rewards are transferred, the Group derecognizes the financial asset. When the Group has not transferred all the risks and rewards and retained control over such financial asset, the financial asset continues to be recognized to the extent of the Group’s continuing involvement in such asset.

#### Financial liabilities and equity instruments issued by the Group

#### Treasury shares

If the Group reacquires its own equity instruments, those instruments (treasury shares) are recognized as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. On disposal the cost of treasury shares is written off using weighted average method. Treasury shares may be purchased and held by the Company or other subsidiaries of the Group. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

Treasury shares are used to settle share-based payments during the period.

#### Share premium

Share premium represents the difference between the fair value of consideration received and nominal value of the issued shares. Share premium also includes a difference between the carrying amount of treasury shares and fair value of consideration transferred in business combination.

#### Earnings per share

Earnings per share have been determined using the weighted average number of the Group’s shares outstanding during the 12 months ended 31 December 2021 and 2020. Diluted earnings per share have been determined using the weighted average number of the Group’s shares outstanding during the 12 months ended 31 December 2021 and 2020 increased by the expected number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

#### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

#### Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

#### Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. The right to offset should not be caused by a future event and should be legally enforceable in all the following cases:

- operating activity;
- default; and insolvency or bankruptcy of the Group or any of counterparties.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 3. Summary of significant accounting policies (continued)

#### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm’s length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

### 4. Summary of changes in accounting policies and disclosures

#### 4.1 Reclassification in the consolidated financial statements

The Group changed the presentation of certain items in the Group’s consolidated statement of financial position as of 31 December 2021, the consolidated statement of comprehensive income for 2021, and the consolidated statement of cash flows for the year ended 31 December 2021. The comparative amounts as at 31 December 2020 and for the year ended 31 December 2020 have been aligned with the newly adopted format of presentation.

The Group made the following changes with respect to comparative data in the consolidated statement of financial position as at 31 December 2020:

- RUB 23,252,598 thousand were reclassified from “Accrued expenses” to “Trade and other payables”;
- “Prepaid expenses” and “Advances paid” were combined into “Advances paid and other prepaid expenses”;
- RUB 387,846 thousand were reclassified from “Property, plant and equipment” to “Advances paid for the purchase and construction of property, plant and equipment”.

The Group made the following changes with respect to comparative data in the consolidated statement of comprehensive income for the year ended 31 December 2020:

- sub-title operating profit has been presented. Operating profit includes other income and other expenses, as these items relate to the Group’s main operating activities;
- “Selling expenses” and “General and administrative expenses” were combined into “Selling, General and administrative expenses”.

The Group made the following changes with respect to comparative data in the consolidated statement of cash flows for the year ended 31 December 2020:

- RUB 132, 207 thousand were reclassified from “Decrease in advances paid” to “Impairment and write-off of advances paid”;
- RUB 6,232,493 thousand were reclassified from “Increase in accrued expenses” to “Increase in long-term and short-term trade and other payables”;
- “Increase in prepaid expenses” and “Decrease/increase in advances paid” were combined into “Increase in advances paid and other prepaid expenses”.

Impact on the condensed consolidated statement of financial position as at 31 December 2020 (increase/(decrease) per line item):

	31 December 2020 as previously reported	Effect of eclassification	31 December 2020 as restated
Non-current assets			
Property, plant and equipment	336,513,344	(387,846)	336,125,498
Advances paid for the purchase and construction of property, plant and equipment	—	387,846	387,846
<b>Total non-current assets</b>	<b>678,461,159</b>	<b>—</b>	<b>678,461,159</b>
Current assets			
Advances paid and other prepaid expenses	—	6,663,337	6,663,337
Advances paid	5,581,366	(5,581,366)	—
Prepaid expenses	1,081,971	(1,081,971)	—
<b>Total current assets</b>	<b>266,931,047</b>	<b>—</b>	<b>266,931,047</b>
<b>Total assets</b>	<b>945,392,206</b>	<b>—</b>	<b>945,392,206</b>
Current liabilities			
Trade and other payables	161,072,294	23,252,598	184,324,892
Accrued expenses	23,252,598	(23,252,598)	—
<b>Total current liabilities</b>	<b>284,273,270</b>	<b>—</b>	<b>284,273,270</b>
<b>Total liabilities</b>	<b>762,503,282</b>	<b>—</b>	<b>762,503,282</b>
<b>Total equity and liabilities</b>	<b>945,392,206</b>	<b>—</b>	<b>945,392,206</b>

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 4. Summary of changes in accounting policies and disclosures (continued)

Impact of the changes on comparative data in the consolidated statement of comprehensive income for the year ended 31 December 2020 is presented below:

	2020 as previously reported	Effect of restatement	2020 as restated
Selling expenses	(16,887,124)	16,887,124	—
General and administrative expenses	(279,538,315)	279,538,315	—
Selling, general and administrative expenses	—	(296,425,439)	(296,425,439)

The table below shows the effect of changes on the consolidated statement of cash flows for the year ended 31 December 2020:

	2020 as previously reported	Effect of restatement	2020 as restated
Cash flows from operating activities			
Adjustments for:			
Impairment and write-off of advances paid	—	132,207	132,207
Cash flows from operating activities before changes in working capital	175,407,996	132,207	175,540,203
Increase in long-term and short-term trade and other payables	(2,133,884)	6,232,493	4,098,609
Increase in accrued expenses	6,232,493	(6,232,493)	—
Decrease/(increase) in advances paid	188,592	(188,592)	—
Increase in prepaid expenses	(425,761)	425,761	—
Increase in advances paid and other prepaid expenses	—	(369,376)	(369,376)
Cash flows from operating activities	206,119,845	—	206,119,845

## 4.2 New and amended standards and interpretations

Except for the changes mentioned above and the adoption of new standards and interpretations effective as of 1 January 2021, the accounting policies adopted in the preparation of the annual consolidated financial statements for 2021 are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020.

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

*Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*  
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- provide temporary relief to entities from having to meet the separately identifiable requirement when a risk-free interest rate instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

*Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16*  
On 28 May 2020, the IASB issued *Covid-19-Related Rent Concessions* – amendment to IFRS 16 *Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. The Group applied this practical expedient in the consolidated financial statements.

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

*IFRS 17 Insurance Contracts*  
In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.



# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 4. Summary of changes in accounting policies and disclosures (continued)

The core of IFRS 17 is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach);
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

*Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 Comparative Information*  
The amendments are a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendments are aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

IFRS 17 incorporating the amendments are effective for annual reporting periods beginning on or after 1 January 2023.

IFRS 17 is not applicable to the Group.

*Amendments to IAS 1 Classification of Liabilities as Current or Non-current*  
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement;
- that a right to defer must exist at the end of the reporting period;
- that classification is unaffected by the likelihood that an entity will exercise its deferral right;
- that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact which the amendments will have on current practice and whether existing loan agreements may require renegotiation.

In November 2021 the IASB proposed amendments to IAS 1 *Presentation of Financial Statements* to improve the information companies provide about long-term debt with covenants.

IAS 1 requires a company to classify a liability as non-current only if the company has a right to defer settlement of the liability for at least 12 months after the reporting date. However, such a right is often subject to the company complying with covenants after the reporting date. For example, a company might have long-term debt that could become repayable within 12 months if the company fails to comply with covenants after the reporting date.

The proposed amendments would specify that, in such a situation, covenants would not affect the classification of a liability as current or non-current at the reporting date. Instead, a company would:

- present non-current liabilities that are subject to covenants on the statement of financial position separately from other non-current liabilities; and disclose information about the covenants in the notes to its financial statements, including their nature and whether the company would have complied with them based on its circumstances at the reporting date.

The IASB expects that these proposals will improve the information a company provides about non-current liabilities with covenants by enabling investors to assess whether such liabilities could become repayable within 12 months.

The proposals also address feedback from stakeholders about the classification of debt as current or non-current when applying requirements introduced in 2020 that are not yet in effect. Consequently, the IASB is also proposing to defer the effective date of those requirements to align with the proposed amendments.

The IASB proposed to defer the effective date to no earlier than 1 January 2024. Comments are due to be received by the IASB by 21 March 2022.

*Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*  
The IASB has amended IAS 12, Income Taxes, to require companies to recognise deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations.

Paragraphs 15 and 24 of IAS 12 were amended to include an additional condition where the initial recognition exemption is not applied. According to the amended guidance, a temporary difference that arises on initial recognition of an asset or liability is not subject to the initial recognition exemption if that transaction gave rise to equal amounts of taxable and deductible temporary differences. Paragraph 22A has been added to provide further clarification of this principle. Paragraphs 22(b) and 22(c) of IAS 12 have also been amended.

These amendments might have a significant impact on the preparation of financial statements by companies that have substantial balances of right-of-use assets, lease liabilities, decommissioning, restoration and similar liabilities. The impact for those affected would be the recognition of additional deferred tax assets and liabilities.

These amendments should be applied for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments should be applied on a modified retrospective basis. The Group is currently assessing the impact on the consolidated financial statements.

*Reference to the Conceptual Framework – Amendments to IFRS 3*  
In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations – Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

*Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use*  
In May 2020, the IASB issued *Property, Plant and Equipment: Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 4. Summary of changes in accounting policies and disclosures (continued)

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

*Amendments to IAS 37 Onerous Contracts – Costs of Fulfilling a Contract*  
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

*IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter*  
As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS.

This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

The amendment is not applicable to the Group.

*IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities*  
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have material impact on the consolidated financial statements of the Group.

*Amendments to IAS 41 Agriculture – Taxation in fair value measurements*  
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 *Agriculture*. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have material impact on the consolidated financial statements of the Group.

*Amendments to IAS 8 Definition of Accounting Estimates*  
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have material impact on the consolidated financial statements of the Group.

*Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies*  
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group’s accounting policy disclosures.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 5. Significant accounting judgements and estimates

In the application of the Group’s accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Judgements

#### Lease term for contracts with a renewal option

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Under some of its leases, the Group has the option to lease the assets for an additional term, generally of one to ten years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

#### Valuation of inventory

Management reviews inventory balances to determine if the inventories can be sold at a price equal to or greater than their carrying amount plus costs to sell. The review also identifies slow-moving inventories that are written-off if obsolete or during physical inventory counts.

#### Impairment of non-current assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Management necessarily applies judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use, future cash flows are estimated for each store based on cash flow projections using the latest forecast information available.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and future return on sales. Due to their subjective nature, these estimates will likely differ from actual future results of operations and cash flows, and it is possible that these differences could be material.

#### Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

#### Useful lives of property, plant and equipment and intangible assets

The Group’s property, plant and equipment and intangible assets are depreciated using the straight-line method over their estimated useful lives, which are determined based on the Group management’s business plans and estimates related to those assets.

The Group’s leasehold improvements in convenience stores used under leases are depreciated using the straight-line method over their estimated useful life beyond the legal expiry dates of lease agreements assuming leases will be renewed.

The Group’s management periodically reviews the appropriateness of the useful economic lives. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefits to the Group, historical information on similar assets and industry tendencies and changes in the Group’s development strategy.

#### Taxation

The Group is subject to income tax and other taxes. Significant judgment is required in determining the liability for income tax and other taxes due to the complexity of the Russian tax legislation. There are many transactions and calculations for which the ultimate tax position determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

#### Expected credit losses (hereinafter “ECLs”) for trade and other receivables and contract assets

The Group uses a provision matrix to calculate ECLs for long-term, trade and other receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

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

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 5. Significant accounting judgements and estimates (continued)

Assessment of the correlation between historical observable default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and forecast economic conditions. The Group's credit loss experience and forecast economic conditions are not necessarily indicative of the customer's actual default in the future.

### Incremental borrowing rate

The Group determines lease liabilities by discounting lease payments and applying interest rate implicit in lease contracts. If the rate cannot be readily determined, the Group applies its incremental borrowing rate, adjusted to take into account the specific terms and conditions of a lease and to reflect the interest rate that the Group would pay to borrow:

- over a similar term to the lease term;
- the amount needed to obtain an asset of a similar value to the right-of-use asset;
- in a similar economic environment.

## 6. Balances and transactions with related parties

The Group enters into transactions with related parties in the ordinary course of business.

The Group purchases materials, information and consulting services from related parties, receives loans from them, places deposits, receives income from renting premises, and performs transactions with financial assets and recognizes income on them.

Related parties of the Group are represented by the shareholders that have significant influence over the Group, and companies, which are the members of the same Group with shareholders (other related parties).

As at 31 December 2020 and for the period from 1 January 2021 to 26 November 2021, Bank VTB PJSC was a shareholder of the Group and had a significant influence over the Group.

On 26 November 2021 the share of votes held by Bank VTB PJSC on the Company's shares was reduced to 7.727%, of which 7.72% is held by VTB Group companies under the repurchase agreement with Marathon Retail LLC. Starting from the above date, Bank VTB PJSC and VTB Group companies ceased to be related parties of the Group.

On 26 November 2021, the share of votes held by Marathon Group on the Company's shares was increased to 24.99%, of which Marathon Retail LLC owns 18.94%. In respect of 3.49% of the Company's voting shares the right to dispose votes is held by Marathon Retail LLC on the basis of the repurchase agreements concluded with VTB Group. Marathon Group will also receive right to dispose 4.23% of the Company's voting shares after the Federal Antimonopoly Service (FAS) of Russia upholds the respective motion of Marathon Retail LLC on the basis of the above mentioned repurchase agreements.

Marathon Retail LLC is the Group's shareholder having a significant influence on the Group starting from 26 November 2021. Marathon Group companies are included in other related parties of the Group.

Transactions with related parties can be carried out on terms different to transactions with third parties.

Related parties' balances as at 31 December 2021 and 31 December 2020 are presented as follows:

	Shareholders		Other related parties	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Long-term financial assets (Note 12)	—	—	1,014,994	—
Other receivables (Note 14)	—	2,567	—	3,114
Short-term financial assets (Note 12)	—	—	200,000	—
Other payables (Note 19)	—	20,583	—	165,670
Advances received	—	11,890	—	492

The Group's transactions with related parties for the years ended at 31 December 2021 and 31 December 2020 are presented as follows:

	Shareholders		Other related parties	
	2021	2020	2021	2020
Interest income (Note 27)	702,834	49,429	9,282	—
Selling, general and administrative expenses	91,329	91,134	734,420	79,228
Rent and utilities income	35,105	28,839	442	2,041
Other income	4,378	61	38,579	23,998
Purchases of inventory	—	—	1,241,667	564,472
Loans receivable repayment	—	—	200,000	—
Finance costs	—	309,193	7,909	—
Repayment of loans received, incl. finance costs	—	33,509,193	—	—

No guarantees have been given to or received from related parties.

No significant expense has been recognized in the period for expected credit losses on amounts due from related parties.

Short-term remuneration of the key management and members of the Board of Directors of the Group for 2021 amounted to RUB 2,101,606 thousand (2020: RUB 1,733,030 thousand).

Payments to the Group's management include remuneration under an employment contracts, social contributions and payments to members of the Board of Directors of the Group. The Group also accrued share-based payments to its key management personnel for 2021, information on these accruals is disclosed in the Note 32.



# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 7. Business combination

### Acquisition of holding company “DIXY Holding Limited”

On 22 July 2021, the Group acquired control over DIXY Holding Limited by purchasing 100% of its ordinary shares. DIXY Holding Limited is registered in the Republic of Cyprus, has a permanent establishment and tax residence in the Russian Federation. DIXY Holding Limited is a holding company of DIXY Group, which includes the following legal entities: “DIXY Group” JSC, “DIXY-Yug” JSC, “DIXY-Snezhinsk” LLC, “MIT” LLC, “Argument” LLC which are located in the Russian Federation (“DIXY Group”). Shares and securities of DIXY Group companies are not admitted to organized trading.

DIXY Group is primarily engaged in food retail in the Russian Federation. As at the acquisition date, DIXY Group operated 2,438 convenient stores under the “DIXY” brand and 39 supermarkets under the “Megamart” brand.

The Group’s management expects that acquisition of the retail business of DIXY will significantly increase the Group’s competitiveness in the Russian food retail sector. Strong presence in the strategically important Moscow and Northwestern regions will significantly enhance the market position, including a significant growth of the market share in Moscow and St. Petersburg. The Group also expects to enjoy synergy gains in purchases, category management and business processes, leading to an increase in the shareholder value of the Group taken as a whole.

#### Assets acquired and liabilities assumed

The assets and liabilities of the DIXY Group, recognised in the financial statements as at 31 December 2021, were based on a provisional assessment of their fair value, since independent appraisal of DIXY Group’s property, plant and equipment, intangible assets, and assessment of the favorable and unfavorable terms of the lease when compared to market for the following adjustments of the right-of-use assets and assessment of the other assets and liabilities had not been completed by the date when the 2021 financial statements were approved for issue by the Board of Directors.

In connection with this the Group was in the process of completion of assessment and purchase price allocation at the reporting date. The Group plans to complete its fair value measurement of assets and liabilities of DIXY Group by July 2022.

The information about provisional fair values of identifiable assets and liabilities of DIXY Group at the date of acquisition is disclosed below:

	Provisional fair value recognized on acquisition
<strong>Assets</strong>	
Property, plant and equipment (Note 8)	36,140,434
Advances paid for the purchase and construction of property, plant and equipment	445,933
Right-of-use assets (Note 9)	76,676,831
Intangible assets (Note 10)	7,189,391
Long-term net investments in sublease	16,730
Short-term net investments in sublease	11,519
Inventories	18,754,855
Trade and other receivables	2,298,083
Advances paid and other prepaid expenses	511,225
Taxes receivable, excluding income tax	164,869
Cash and cash equivalents	27,967,922
	<strong>170,177,792</strong>
<strong>Liabilities</strong>	
Long-term loans and borrowings	236,741
Long-term lease liabilities (Note 9)	69,143,140
Deferred tax liabilities (Note 30)	771,108
Trade and other payables	30,094,440
Taxes payable, excluding income tax	2,321,374
Income tax payable	60,971
Short-term advances received	33,989
Contract liabilities	261,208
Short-term loans and borrowings	22,858,887
Short-term lease liabilities (Note 9)	13,691,176
	<strong>139,473,034</strong>
<strong>Total identifiable net assets measured at fair value</strong>	<strong>30,704,758</strong>
Goodwill arising on acquisition (Note 11)	65,411,968
<strong>Consideration transferred on acquisition</strong>	<strong>(96,116,726)</strong>

The fair value of trade and other receivables is RUB 2,298,083 thousand. The gross amount of trade and other receivables under the contract is RUB 2,757,330 thousand, the amount equaled to RUB 459,247 thousand is not expected to be received at the acquisition date.



# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 7. Business combination (continued)

The Group measured the acquired lease liabilities using the present value of the remaining lease payments as at the acquisition date. Right-of-use assets were measured in the amount equal to the amount of lease liabilities adjusted to reflect favorable and unfavorable terms of the lease when compared with market.

A deferred tax asset consists mainly of the asset recorded in respect of right-of-use assets and lease liabilities. The deferred tax asset will be realized in subsequent periods upon recognition of depreciation of the right-of-use asset and finance expenses related to the lease liability within profit or loss for the period. A deferred tax liability resulted mainly from a difference between the carrying amounts of property, plant and equipment and intangible assets determined for tax and financial reporting purposes. The deferred tax asset and deferred tax liability are presented in the consolidated financial statements on a net basis.

The goodwill of RUB 65,411,968 thousand is attributable to the business concentration in the strategically important Moscow and Northwestern regions and expected synergies arising from the acquisition. The total amount of goodwill is allocated to the Group’s activities under the next groups of cash generating units: “Magnit convenience”, “Magnit Semeyniy”, “DIXY” and “Megamart”, including stores and warehouses related to them. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, DIXY Group contributed RUB 133,940,617 thousand of revenue and RUB 2,382,943 thousand of profit before tax of the Group.

If the business combination had taken place at the beginning of the year, the Group’s revenue would have been RUB 2,019,502,746 thousand. The effect of this factor on the Group’s profit before tax cannot be estimated, as DIXY Group did not report under the Group’s accounting policies before the merger.

### Cash flow analysis for acquisitions

Transaction support costs (included in cash flows from operating activities)	(778,191)
Net cash acquired in business combination (included in cash flows from investing activities)	27,967,922
Cash paid	(96,116,726)
<b>Net cash flows on acquisition</b>	<b>(68,926,995)</b>

Transaction costs of RUB 778,191 thousand were included in selling, general and administrative expenses.

### Fair value of each type of consideration paid on acquisition

Cash paid on acquisition	87,575,153
Adjustment of transaction price	8,541,573
<b>Total consideration paid</b>	<b>96,116,726</b>

At the date of obtaining control the Group paid RUB 87,575,153 thousand in cash for the shares acquisition of DIXY Holding Limited. This amount represented the initial consideration under the contract for the purchase of DIXY Holding Limited’s shares (the “Contract”) reduced by RUB 1,424,847 thousand due to the exclusion of the 148 DIXY Group’s stores from the transaction in order to comply with legislation on competition protection and trade.

In addition, the Contract provided for an adjustment of the consideration depending on the difference between the target and actual values of net debt and net working capital according to DIXY Holding Limited’s consolidated financial statements at the time of completing the transaction. The adjusted consideration amounted to RUB 8,541,573 thousand and was fully paid by the Group in cash to the previous owner.

The Contract also provided a condition about contingent consideration, the fair value of which the Group estimated as insignificant.

## 8. Property, plant and equipment

Property, plant and equipment as at 31 December 2021 consisted of the following:

	Land	Buildings	Machinery and equipment	Vehicles	Assets under construction	Total
<b>Cost</b>						
At 1 January 2021	14,004,986	338,225,881	145,154,891	31,422,940	10,544,806	<b>539,353,504</b>
Business combination (Note 7)	1,780,495	23,174,463	7,828,741	3,183,630	173,105	<b>36,140,434</b>
Additions	7,965	—	27,089,474	7,720,440	21,443,872	<b>56,261,751</b>
Transfers	—	21,932,653	—	—	(21,932,653)	—
Disposals	(28,151)	(7,050,674)	(7,986,901)	(3,500,811)	(69,469)	<b>(18,636,006)</b>
<b>At 31 December 2021</b>	<b>15,765,295</b>	<b>376,282,323</b>	<b>172,086,205</b>	<b>38,826,199</b>	<b>10,159,661</b>	<b>613,119,683</b>
<b>Accumulated depreciation and impairment</b>						
<b>At 1 January 2021</b>	—	(81,519,114)	(101,032,702)	(19,966,404)	(709,786)	<b>(203,228,006)</b>
Depreciation for the year	—	(21,311,126)	(20,959,033)	(4,514,778)	—	<b>(46,784,937)</b>
Impairment for the year	(95,059)	(2,677,689)	(45,049)	—	(393,610)	<b>(3,211,407)</b>
Reversal of impairment losses	—	307,322	8,210	—	586	<b>316,118</b>
Disposals	—	6,909,170	7,322,178	2,859,771	—	<b>17,091,119</b>
<b>At 31 December 2021</b>	<b>(95,059)</b>	<b>(98,291,437)</b>	<b>(114,706,396)</b>	<b>(21,621,411)</b>	<b>(1,102,810)</b>	<b>(235,817,113)</b>
<b>Net book value</b>						
<b>At 1 January 2021</b>	<b>14,004,986</b>	<b>256,706,767</b>	<b>44,122,189</b>	<b>11,456,536</b>	<b>9,835,020</b>	<b>336,125,498</b>
<b>At 31 December 2021</b>	<b>15,670,236</b>	<b>277,990,886</b>	<b>57,379,809</b>	<b>17,204,788</b>	<b>9,056,851</b>	<b>377,302,570</b>

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 8. Property, plant and equipment (continued)

Property, plant and equipment as at 31 December 2020 consisted of the following\*:

	Land	Buildings	Machinery and equipment	Vehicles	Assets under construction	Total
Cost						
At 1 January 2020	14,013,576	327,078,060	136,281,849	37,228,490	10,183,421	524,785,396
Additions	—	—	12,972,082	1,301,557	15,486,523	29,760,162
Transfers	—	14,965,156	—	—	(14,965,156)	—
Disposals	(8,590)	(3,817,335)	(4,099,040)	(7,107,107)	(159,982)	(15,192,054)
At 31 December 2020	14,004,986	338,225,881	145,154,891	31,422,940	10,544,806	539,353,504
Accumulated depreciation and impairment						
At 1 January 2020	—	(65,460,025)	(85,932,297)	(22,288,558)	—	(173,680,880)
Depreciation for the year	—	(18,795,931)	(18,657,366)	(4,539,806)	—	(41,993,103)
Impairment for the year	—	(1,315,750)	(13,064)	—	(812,743)	(2,141,557)
Reversal of impairment losses	—	288,314	11,904	—	—	300,218
Disposals	—	3,764,278	3,558,121	6,861,960	102,957	14,287,316
At 31 December 2020	—	(81,519,114)	(101,032,702)	(19,966,404)	(709,786)	(203,228,006)
Net book value						
At 1 January 2020	14,013,576	261,618,035	50,349,552	14,939,932	10,183,421	351,104,516
At 31 December 2020	14,004,986	256,706,767	44,122,189	11,456,536	9,835,020	336,125,498

\* THE GROUP HAS CHANGED THE CLASSIFICATION AND DISCLOSURE BY GROUP OF PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2020, AND FOR THE YEAR ENDED 31 DECEMBER 2020 IN ORDER TO PRESENT MORE ACCURATE AND RELEVANT INFORMATION TO USERS.

The rate used to determine the amount of borrowing costs eligible for capitalization was approximate to weighted average effective interest rate for the period.

The information on interest expenses included in the cost of qualifying assets is disclosed in Note 28.

### Impairment of non-current assets, except for goodwill

Based on observed external evidence of impairment of non-current assets, except for goodwill, as at 31 December 2021, the Group made a conclusion on the unfavourable market and economic conditions in the market where the Group operated.

The Group performed the impairment test of non-current assets, including property, plant and equipment, right-of-use assets and intangible assets, to assess whether there are indicators of possible impairment. Based on the impairment testing for 2021,the Group recognized impairment losses in the consolidated statement of comprehensive income of RUB 3,211,407 thousand for the tested assets, the total amount of the impairment losses is attributable to the Group’s property, plant, and equipment (as for 2020: in the amount of RUB 2,973,036 thousand, including impairment of property, plant and equipment in the amount of RUB 2,141,557 thousand, right-of-use assets in the amount of RUB 831,479 thousand rubles). As for 2021 the amount of reversals of impairment losses of property, plant and equipment amounted to RUB 316,118 thousand, right-of-use assets – RUB 524,004 thousand (as for 2020: the amount of reversals of impairment losses of property, plant and equipment in the amount of RUB 300,218 thousand, right-of-use assets in the amount of RUB 303,769 thousand).

### Group approach for impairment testing

The evaluation was performed at the lowest level of aggregation of assets that is able to generate independent cash inflows (CGU), which is generally at the individual store level.

In determining units that generate substantially independent cash inflows management of the Group considered a number of factors, including how it controls performance of CGUs, how it makes decisions about liquidation of assets or continuance of CGUs operations.

The Group compared recoverable amount of an individual CGU with its carrying amount for the purpose of impairment test. The recoverable amount is measured as the higher of its fair value less costs of disposal and its value in use. From practical point of view, the Group does not disclose impairment by individual CGU due to significant volume of information.

### Main assumptions

Future cash flows are based on the current budgets and forecasts for 5 years period approved by the management along with terminal value of forecasted free cash flows that are expected to be generated beyond the forecast period.

One of the main assumptions applied in the model of the expected cash flows is increase of revenue by 4.6% (mainly driven by CPI) (2020: 4.2%).

Cash flow forecasts for capital expenditure are based on the past experience and include ongoing capital expenditure required to maintain the level of economic benefits from CGU in its current position.

Pre-tax discount rate represents the Group’s pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets and is equal to 13.63%. (2020: 12.81%).

The Group’s management believes that all of its estimates are reasonable and consistent with the way the Group manages its assets and operations and reflect management’s best knowledge.

### Sensitivity analysis

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows. If the revised estimated discount rate consistently applied to the discounted cash flows had been 0.5% higher than management’s estimates, the impairment of non-current assets would increase by RUB 215,959 thousand. If the revised estimated discount rate consistently applied to the discounted cash flows had been 0.5% lower than management’s estimates, the impairment of non-current assets would decrease by RUB 165,022 thousand. If the revenue rate of growth had been 0.5% lower than management’s estimates, the impairment of non-current assets would increase by RUB 227,541 thousand.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 9. Lease

### Group as a lessee

Right-of-use assets and lease liabilities  
As at 31 December 2021, right-of-use assets consisted of the following:

	Buildings	Land	Other assets	Total
Cost				
As at 1 January 2021	516,163,117	4,871,966	—	521,035,083
Business combination (Note 7)	76,155,720	314,473	206,638	76,676,831
Additions	50,127,475	128,908	1,035	50,257,418
Modification	16,238,489	(4,143)	2,438	16,236,784
Indexation*	2,401,868	26,633	—	2,428,501
Derecognition	(7,224,184)	(29,688)	—	(7,253,872)
As at 31 December 2021	653,862,485	5,308,149	210,111	659,380,745
Accumulated depreciation and impairment				
As at 1 January 2021	(211,716,722)	(873,666)	—	(212,590,388)
Depreciation for the year	(53,133,875)	(141,250)	(25,321)	(53,300,446)
Reversal of impairment losses (Note 8)	524,004	—	—	524,004
Derecognition	3,815,483	5,849	—	3,821,332
As at 31 December 2021	(260,511,110)	(1,009,067)	(25,321)	(261,545,498)
Net book value				
As at 1 January 2021	304,446,395	3,998,300	—	308,444,695
As at 31 December 2021	393,351,375	4,299,082	184,790	397,835,247

\* REVALUATION OF RENTAL PAYMENTS THAT DEPEND ON THE INDEX (LINKED TO CPI).

In 2021 depreciation of a right-of-use assets in the amount of RUB 520,478 thousand was capitalized to the value of property, plant and equipment.

As at 31 December 2020, right-of-use assets consisted of the following:

	Buildings	Land	Total
Cost			
As at 1 January 2020	481,831,850	5,872,964	487,704,814
Additions	36,623,382	100,272	36,723,654
Modification	10,554,431	(148,910)	10,405,521
Indexation*	1,373,791	17,664	1,391,455
Derecognition	(14,220,337)	(970,024)	(15,190,361)
As at 31 December 2020	516,163,117	4,871,966	521,035,083
Accumulated depreciation and impairment			
As at 1 January 2020	(173,221,982)	(916,620)	(174,138,602)
Depreciation for the year	(43,811,248)	(152,540)	(43,963,788)
Impairment for the year (Note 8)	(831,479)	—	(831,479)
Reversal of impairment losses (Note 8)	303,769	—	303,769
Derecognition	5,844,218	195,494	6,039,712
As at 31 December 2020	(211,716,722)	(873,666)	(212,590,388)
Net book value			
As at 1 January 2020	308,609,868	4,956,344	313,566,212
As at 31 December 2020	304,446,395	3,998,300	308,444,695

\* REVALUATION OF RENTAL PAYMENTS THAT DEPEND ON THE INDEX (LINKED TO CPI).

In 2020 depreciation of a right-of-use assets in the amount of RUB 264,355 thousand were capitalized to the value of property, plant and equipment.

The information about impairment test performed is disclosed in Note 8.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 9. Lease (continued)

Lease liabilities

Set out below are the carrying amounts of Group’s lease liabilities and their movements during the period:

	2021	2020
At 1 January	357,573,958	357,210,159
Business combination (Note 7)	82,834,316	—
Additions and other increase	50,252,704	36,459,462
Modification	16,236,784	10,405,521
Indexation*	2,428,501	1,391,455
Payments	(46,719,526)	(35,715,802)
Interest accrued (Note 28)	33,613,620	30,771,302
Interest paid	(33,613,620)	(30,771,302)
Derecognition	(4,503,238)	(10,838,108)
Rent concessions due to Covid-19 pandemic (Note 29)	(1,819,124)	(1,481,968)
Foreign exchange loss	21,645	143,239
At 31 December	456,306,020	357,573,958

\* REVALUATION OF RENTAL PAYMENTS THAT DEPEND ON THE INDEX (LINKED TO CPI).

	Year of maturity	31 December 2021
Short-term liabilities	2022	60,262,487
Long-term liabilities	2023-2071	396,043,533
Total		456,306,020

	Year of maturity	31 December 2020
Short-term liabilities	2021	41,432,103
Long-term liabilities	2022-2069	316,141,855
Total		357,573,958

Set out below are the are the amounts recognized in the consolidated statement of comprehensive income ((income)/ expenses):

	2021	2020
Depreciation and impairment of right-of-use assets (Note 26)	52,255,964	44,227,143
Interest expenses on the lease (Note 28)	33,613,620	30,771,302
Foreign exchange loss	21,645	143,239
Gain from cancelation of lease contracts (Note 29)	(1,070,698)	(1,687,459)
Gain from Covid-19 related rent concessions (Note 29)	(1,819,124)	(1,481,968)
Lease expenses related to short-term lease (Note 26)	653,668	267,715
Lease expenses related to lease of low-value assets (Note 26)	78,306	79,410
Variable lease payments (Note 26)	2,006,546	1,081,701
	85,739,927	73,401,083

## 10. Intangible assets

As at 31 December 2021, intangible assets consisted of the following:

	Licenses	Software	Trademarks	Other	Total
Cost					
At 1 January 2021	301,620	6,861,127	34,180	99,345	7,296,272
Business combination (Note 7)	70,755	1,577,879	5,540,757	—	7,189,391
Additions	241,631	9,604,561	7,087	91,582	9,944,861
Disposals	(65,192)	(1,371,284)	(176)	(41,813)	(1,478,465)
At 31 December 2021	548,814	16,672,283	5,581,848	149,114	22,952,059
Accumulated amortisation and impairment					
At 1 January 2021	(125,306)	(1,600,621)	(12,559)	(51,534)	(1,790,020)
Amortisation for the year	(111,674)	(2,418,208)	(815,197)	(42,111)	(3,387,190)
Disposals	63,184	1,369,257	176	41,813	1,474,430
At 31 December 2021	(173,796)	(2,649,572)	(827,580)	(51,832)	(3,702,780)
Net book value					
At 1 January 2021	176,314	5,260,506	21,621	47,811	5,506,252
At 31 December 2021	375,018	14,022,711	4,754,268	97,282	19,249,279

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 10. Intangible assets (continued)

Part of the Group’s software is under development and integration as at 31 December 2021.

As at 31 December 2020, intangible assets consisted of the following:

	Licenses	Software	Trademarks	Other	Total
Cost					
At 1 January 2020	503,881	4,622,012	32,592	99,373	5,257,858
Additions	81,115	3,220,423	1,606	37,289	3,340,433
Disposals	(283,376)	(981,308)	(18)	(37,317)	(1,302,019)
At 31 December 2020	301,620	6,861,127	34,180	99,345	7,296,272
Accumulated amortisation and impairment					
At 1 January 2020	(160,946)	(1,125,834)	(9,190)	(47,211)	(1,343,181)
Amortisation for the year	(233,281)	(1,427,274)	(3,387)	(39,851)	(1,703,793)
Disposals	268,921	952,487	18	35,528	1,256,954
At 31 December 2020	(125,306)	(1,600,621)	(12,559)	(51,534)	(1,790,020)
Net book value					
At 1 January 2020	342,935	3,496,178	23,402	52,162	3,914,677
At 31 December 2020	176,314	5,260,506	21,621	47,811	5,506,252

Amortization expense is included in selling, general and administrative expenses (Note 26). The information about impairment test performed is disclosed in Note 8.

## 11. Goodwill

Goodwill as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Goodwill as at 1 January	26,879,317	26,879,317
Goodwill arising on acquisition (Note 7)	65,411,968	—
Goodwill as at 31 December	92,291,285	26,879,317

Carrying amount of goodwill allocated to each of the cash generated units:

	As at 31 December 2021	As at 31 December 2020
Stores “Magnit convenience”, “Magnit Semeyniy”, “DIXY” and “Megamart”	65,411,968	—
Stores “Magnit Cosmetic” and “Magnit Pharmacy”	25,511,824	25,511,824
Manufactory company TD-holding LLC	1,367,493	1,367,493
Total	92,291,285	26,879,317

### Groups of CGUs comprising next stores “Magnit convenience”, “Magnit Semeyniy”, “DIXY” and “Megamart”

As at the reporting date, the Group performed annual impairment testing of goodwill arising on acquisition of DIXY Group. For impairment testing purposes, goodwill was allocated to the groups of CGUs comprising “Magnit convenience”, “Magnit Semeyniy”, “DIXY: and “Megamart” formats.

In assessing goodwill impairment, the carrying value of the assets of the groups of CGUs, to which the amount of goodwill was attributable was compared to the estimated value in use.

Future cash flows were determined based on the forecast of free cash flows for five years subject to the effect of their terminal value.

The pre-tax discount rate was determined based on the weighted average cost of capital of the Group and amounted to 13.63%.

As a result of the analysis no impairment was identified for the goodwill.

### Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of the value in use is most sensitive to the following assumptions:

- gross margin;
- discount rate;
- revenue growth.



# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 11. Goodwill (continued)

### Gross margin

The gross margin included in the forecast of the Group’s activities in the “Magnit convenience”, “Magnit Semeyniy”, “DIXY” and “Megamart” stores is in accordance with the approved strategic development plans and expected increased volume of sales. A decrease in consumer demand may lead to a decrease in gross margin. A decrease in gross margin by 5% would result in a decrease in expected free cash flow, but would not cause an impairment losses.

### Discount rate

An increase in the pre-tax discount rate by i.e. + 0.5%, to 14.13%, would reduce the expected discounted cash flows but would not cause an impairment loss.

### Revenue growth

Revenue growth for the forecast period being in the range from 2.0% to 7.4%. The forecast is based on Group’s activities in the “Magnit convenience”, “Magnit Semeyniy”, “DIXY” and “Megamart” stores. The Group forecast of the expected volume of sales is based on the approved strategic development plan for the forecast period, as well as indicators of the expected consumer price index. The expected consumer price index is 4.6%. The Group’s management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management’s best knowledge.

A decrease in customer demand may lead to decline in sales. A decrease in revenue by 5% would result in a decrease in expected operating cash flows but would not cause any impairment loss.

### Groups of CGUs comprising next stores “Magnit Cosmetic” and “Magnit Pharmacy”

As at the 31 December 2021 and 2020, the Group performed annual impairment testing of goodwill arising on acquisition of SIA Group. For impairment testing purposes, goodwill was allocated to the groups of CGUs comprising “Magnit Cosmetic” and “Magnit Pharmacy” formats. In assessing goodwill impairment, the current carrying amounts of assets of the CGU group comprising “Magnit Cosmetic” and “Magnit Pharmacy” stores, to which the entire amount of goodwill was allocated, were compared to the estimated value in use.

Future cash flows were determined based on the forecast of free cash flows for five years subject to the effect of their terminal value.

The pre-tax discount rate was determined based on the weighted average cost of capital of the Group and amounted to 13.63% (2020: 12.81%).

As a result of the analysis no impairment was identified for the goodwill.

### Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of the value in use is most sensitive to the following assumptions:

- gross margin;
- discount rate;
- revenue growth.

### Gross margin

The gross margin included in the forecast of the Group’s activities in the “Magnit Cosmetic” and “Magnit Pharmacy” formats is in accordance with the approved strategic development plan and expected increased volume of sales. A decrease in consumer demand may lead to a decrease in gross margin. A decrease in gross margin by 5% would result in a decrease in expected operating cash flows but would not cause an impairment loss.

### Discount rate

An increase in the pre-tax discount rate by i.e. + 0.5%, to 14.13%, would reduce the expected discounted cash flows but would not cause an impairment loss.

### Revenue growth

Revenue growth for the forecast period being in the range from 3.1% to 5.8% (2020: 2.2% to 10.7%). The forecast is based on Group’s activities in the “Magnit Cosmetic” and “Magnit Pharmacy” formats. The Group forecast of the expected volume of sales is based on the approved strategic development plan for the forecast period, as well as indicators of the expected consumer price index. The expected consumer price index is 4.6% (2020: 4%). The Group’s management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management’s best knowledge.

A decrease in customer demand may lead to decline in sales. A decrease in revenue by 5% would result in a decrease in expected operating cash flows but would not cause any impairment loss.

### Manufactory company TD-holding LLC

The Group performed its annual impairment test of goodwill related to the acquisition of TD-holding LLC as of 31 December 2021 and 2020. In assessing whether the goodwill has been impaired, the carrying value of cash generating unit was compared with its estimated value in use.

Value in use was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows for five years approved by the management of the Group, plus terminal value, and by taking into account inflation 4.6% (2020: 4%), demand for goods produced by TD-holding LLC, as well as other macroeconomic assumptions. Pre-tax discount rate was determined based on the weighted average cost of capital of the Group and amounted to 13.63% (2020: 12.81%).

The impairment test did not reveal any impairment of goodwill.

The Group’s management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management’s best knowledge.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 12. Long-term financial assets

As at 31 December 2021 non-current financial assets comprise the long-term loan issued amounted to RUB 1,014,994 thousand (as at 31 December 2020: RUB 1,117,551 thousand) and other financial assets in the amount of RUB 18,852 thousand. As at 31 December 2021, the amount of the long-term loan issued is classified as a loan issued to the related party (Note 6), as at 31 December 2020 this amount was not related to balances with related parties. As at 31 December 2021 and 31 December 2020 the current portion of the long-term loan amounted to RUB 200,000 thousand (Note 6).

Interest income recognized with respect to the long-term loan issued for the year ended 31 December 2021 amounted to RUB 97,645 thousand (for the year ended 31 December 2020 to RUB 95,992 thousand), including RUB 9,282 thousand reflected as operations with other related parties (Note 6).

The long-term loan is recognized at amortized cost. The contract expires on 31 December 2024, accrued interest is payable on the specified date.

The Group did not recognize any expected credit loses for impairment of the long-term loan issued.

## 13. Inventory

Inventory as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Goods for resale (at lower of cost and net realisable value)	211,925,870	194,944,876
<b>Materials and supplies (at cost price)</b>	12,947,170	11,004,318
	<b>224,873,040</b>	<b>205,949,194</b>

Materials and supplies are represented by spare parts, packaging materials and other materials used in supermarkets, stores and warehouses, as well as semi-finished goods of own production.

During 2021 year the Group wrote down inventories to their net releasable value, which resulted in recognition of expenses within “Cost of goods sold” in the consolidated statement of comprehensive income in the amount of RUB 2,904,292 thousand (2020: RUB 597,351 thousand).

## 14. Trade and other receivables

Trade and other receivables as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Other receivables – third parties	6,738,519	5,224,320
Trade receivables – third parties	6,399,234	4,848,309
Other receivables – related parties (Note 6)	—	5,681
Expected credit losses	(1,410,978)	(1,514,488)
	<b>11,726,775</b>	<b>8,563,822</b>

Other receivables mainly relate to vendor allowances.

Trade receivables are non-interest bearing and are generally repaid on a short-term basis within 90 days.

Trade receivables are mainly represented by accounts receivables from wholesale customers of the Magnit Pharma.

The Group uses a provision matrix to calculate expected credit losses (ECLs) for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group’s historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analysed.

The ECLs calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

As at 31 December 2021 the Group made an analysis of pandemic Covid-19 influence on the ECLs and did not identify significant deterioration of credit quality of the Group’s main customers, so there was no need for the revision of the provision matrix for ECLs.

Set out below is the information about the expected credit losses on the Group’s trade and other receivables as at 31 December 2021:

	Current	Overdue				Total
		<90 days	90-180 days	180-360 days	>360 days	
2021						
ECL rate	0.1-3%	3-5%	10-20%	50%	100%	
Carrying amount before ECLs	7,805,827	3,835,113	223,697	196,116	1,077,000	<b>13,137,753</b>
ECLs	76,127	115,053	44,740	98,058	1,077,000	<b>1,410,978</b>

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 14. Trade and other receivables (continued)

Set out below is the information about the expected credit losses on the Group’s trade and other receivables as at 31 December 2020:

	Current	Overdue				Total
		<90 days	90-180 days	180-360 days	>360 days	
2020						
ECL rate	0.1-3%	3-5%	10-20%	50%	100%	
Carrying amount before ECLs	3,910,007	4,485,359	255,116	354,015	1,073,813	10,078,310
ECLs	89,077	123,568	51,023	177,007	1,073,813	1,514,488

Set out below is the movement in the allowance for expected credit losses:

	2021	2020
As at 1 January	(1,514,488)	(1,062,568)
Accrual of provision for expected credit losses	(296,251)	(668,262)
Reversal	351,310	186,314
Receivables written off as uncollectable	48,451	30,028
As at 31 December	(1,410,978)	(1,514,488)

## 15. Advances paid and other prepaid expenses

Advances paid and other prepaid expenses as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Advances to third party suppliers	7,946,501	5,694,059
Other prepaid expenses	1,213,862	1,143,496
Advances for customs duties	962,755	617,903
Impairment of advances paid	(924,211)	(792,121)
	9,198,907	6,663,337

## 15. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Cash on hand, in RUB	2,761,656	2,080,093
Cash in banks, in RUB	6,078,224	9,348,609
Cash in banks, in foreign currency	4,632	935
Cash in transit, in RUB	5,068,673	1,599,303
Cash placed on accounts with minimum account balance, in RUB	16,130,000	9,160,000
Deposits, in RUB	43,355,423	22,510,641
	73,398,608	44,699,581

Cash in transit represents cash collected by banks from the Group’s stores and not deposited in bank accounts and bank card payments being processed as at 31 December 2021 and 2020.

As at 31 December 2021, cash of RUB 43,355,423 thousand was placed in rubles deposits, and cash of RUB 16,130,000 thousand in rubles was placed on accounts with minimum account balance maturing in January 2022. Interest accrued as at 31 December 2021 was immaterial.

As at 31 December 2020, cash of RUB 22,510,641 thousand was placed in rubles deposits, and cash of RUB 9,160,000 thousand in rubles was placed on accounts with minimum account balance maturing in January 2021. Interest accrued as at 31 December 2020 was immaterial.

## 17. Share capital, share premium and treasury shares

	2021 No. ('000)	2020 No. ('000)
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850
Issued and fully paid share capital (par value of RUB 0.01 each)*	101,911	101,911
Treasury shares	3,983	4,246

\* ALL SHARES, INCLUDING TREASURY SHARES, HAVE THE SAME VOTING AND DIVIDEND RIGHTS.

	2021	2020
Share premium at 1 January	87,390,921	87,379,413
Transfer of rights to equity instruments under share-based payments program (Note 32)	(64,280)	11,508
Share premium at 31 December	87,326,641	87,390,921

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

17. Share capital, share premium and treasury shares (continued)

	2021 No. ('000)	2020 No. ('000)
Balance of shares outstanding at beginning of financial year	97,665	97,550
Transfer of treasury shares under share-based payments program (Note 32)	222	74
Transfer of treasury shares under employment contract with the Company's President (Note 32)	41	41
<b>Balance of shares outstanding at the end of financial year</b>	<b>97,928</b>	<b>97,665</b>

In 2021, the Group did not acquire any treasury shares on the open market.

In 2021, the Group transferred 222,449 treasury shares to key management personnel as compensation under the Long-term management incentive program (Note 32). The fair value of the compensation was RUB 756,794 thousand. The difference of RUB 81,558 thousand between the carrying amount of the treasury shares and the fair value of compensation granted under the long-term incentive program was recognized as a reduction of share premium.

In 2021, the Group transferred 41,177 treasury shares to the Company's President under his employment contract (Note 32). The fair value of the consideration transferred was RUB 172,451 thousand. The difference of RUB 17,278 thousand between the carrying amount of the treasury shares and the fair value of consideration transferred was recognized as an increase of share premium.

In 2020, the Group did not acquire any treasury shares on the open market.

In 2020, the Group transferred 73,597 treasury shares to key management personnel as compensation under the Long-term management incentive program (Note 32). The fair value of the compensation was RUB 271,571 thousand. The difference of RUB 5,770 thousand between the carrying amount of the treasury shares and the fair value of compensation granted under the long-term incentive program was recognized as a reduction of share premium.

In 2020, the Group transferred 41,177 treasury shares to the Company's President under his employment contract (Note 32). The fair value of the consideration transferred was RUB 172,451 thousand. The difference of RUB 17,278 thousand between the carrying amount of the treasury shares and the fair value of consideration transferred was recognized as an increase of share premium.

18. Dividends declared

In 2021, the Group declared dividends to shareholders relating to 2020 and the 9 months of 2021.

	2021
Dividends declared for 2020 and for 9 months 2021 (RUB 245.31 and RUB 294.37 per share)	52,850,006

In 2020, the Group declared dividends to shareholders relating to 2019 and the 9 months of 2020.

	2020
Dividends declared for 2019 and for 9 months 2020 (RUB 157 and RUB 245.31 per share)	39,513,258

In 2021, the Group paid dividends of RUB 48,115,232 thousand (2020: RUB 29,871,472 thousand).

As at 31 December 2021, dividends payable were RUB 28,829,503 thousand (31 December 2020: RUB 24,094,729 thousand). Dividends payable as at 31 December 2021 were paid in January 2022.

19. Short-term and long-term trade and other payables

Short-term trade and other payables consisted of the following as at 31 December 2021 and 2020:

	2021	2020
Trade payables to third parties	182,054,322	145,281,458
Accrued expenses and other payables to third parties	36,758,261	21,530,784
Accrued staff costs	21,958,499	17,326,397
Accrued expenses and other payables to related parties (Note 6)	—	186,253
	<b>240,771,082</b>	<b>184,324,892</b>

As at 31 December 2021 and 2020 long-term payables consisted of the following:

	2021	2020
Other long-term payables	2,553,058	—
	<b>2,553,058</b>	<b>—</b>

Average trade payables turnover was 42 days in 2021 and 43 days in 2020. Interest may be charged on the outstanding balance based on market rates in accordance with individual agreements with vendors, however no significant amounts of interest were charged to the Group during the reported year. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

As at 31 December 2021 and 2020 trade and other payables denominated in foreign currencies totaled:

	2021	2020
US dollars	7,960,592	8,488,173
Euros	4,211,822	1,910,746
Pounds sterling	366	—
	<b>12,172,780</b>	<b>10,398,919</b>

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 20. Taxes payable excluding income tax

Taxes payable excluding income tax as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Value added tax	8,210,562	8,251,995
Social insurance contributions	4,194,626	1,790,088
Personal income tax	1,642,159	1,226,450
Property tax	598,069	520,401
Other taxes	73,029	65,417
	14,718,445	11,854,351

## 21. Loans and borrowings

Long-term and short-term loans and borrowings as at 31 December 2021 and 2020 consisted of the following:

	Year of maturity 2021	2021	Year of maturity 2020	2020
Long-term loans and borrowings				
Unsecured bonds	2023-2024	60,553,270	2022-2023	70,897,128
Unsecured bank loans	2023-2027	147,857,070	2022-2027	79,614,330
Less: current portion of long-term loans and borrowings		(3,123,740)		(2,816,532)
Total long-term loans and borrowings		205,286,600		147,694,926
Short-term loans and borrowings				
Unsecured bonds	2022	30,467,826	2021	10,296,260
Unsecured bank loans	2022	31,547,745	2021	5,278,809
Current portion of long-term loans and borrowings		3,123,740		2,816,532
Total short-term loans and borrowings		65,139,311		18,391,601

The Group’s loans and borrowings as at 31 December 2021 and 31 December 2020 bear market interest rates. All loans, borrowings and bonds are denominated in Russian rubles. Loans and borrowings were received at fixed rates.

The Group has complied with all covenants set out in the loan agreements as of 31 December 2021 and 31 December 2020.

## 22. Government grants

	2021	2020
At 1 January	2,794,945	3,268,933
Received during the year	65,196	190,269
Recognized in profit or loss	(242,801)	(664,257)
At 31 December	2,617,340	2,794,945
Short-term	253,475	627,304
Long-term	2,363,865	2,167,641

The government grants were received to reimburse a part of the direct costs incurred for the construction and modernization of property, plant and equipment. The government grants were received as benefit from obtaining loans at a below-market interest rate.

## 23. Contract liabilities

Contract liabilities as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Short-term liabilities to the customers under loyalty program	2,775,444	2,148,681
Short-term advances received from customers	1,401,385	443,877
	4,176,829	2,592,558

Changes to the short-term liabilities to the customer loyalty program include the following:

	2021	2020
At 1 January	2,148,681	810,214
Deferred during the year	13,450,995	12,235,191
Recognized as revenue during the year	(12,824,232)	(10,896,724)
At 31 December	2,775,444	2,148,681



# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 24. Revenue from contracts with customers

Revenue for the years ended 31 December 2021 and 2020 consisted of the following:

	2021	2020
Retail	1,807,751,911	1,510,070,771
Wholesale	48,327,039	43,706,580
	1,856,078,950	1,553,777,351

Revenue from contracts with customers is represented by the amounts disclosed in the table above and advertising income and income from sales of packing materials (Note 29) and for the 2021 amounted to RUB 1,872,793,927 thousand (2020: RUB 1,562,939,358 thousand).

## 25. Cost of sales

Cost of sales for the years ended 31 December 2021 and 2020 consisted of the following:

	2021	2020
Cost of goods sold	1,371,109,693	1,149,730,128
Transportation expenses	45,704,987	38,291,560
	1,416,814,680	1,188,021,688

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.

Cost of goods sold includes losses due to inventory shortages, as well as transportation costs.

In 2021, staff costs, including payroll, social contribution expenses and related provisions totaling to RUB 32,519,074 thousand (2020: RUB 28,727,412 thousand) were included in cost of sales.

## 26. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2021 and 2020 consisted of the following:

	2021	2020*
Staff costs	166,606,430	139,885,603
Depreciation and impairment of right-of-use assets (Note 9)	52,255,964	44,227,143
Depreciation and impairment of property, plant and equipment (Note 8)	49,680,226	43,834,442
Utilities and communication services	34,252,210	28,826,999
Advertising	11,474,781	7,627,912
Bank charges	9,022,470	7,108,373
Repair and maintenance	8,192,322	6,731,558
Packaging and raw materials	5,500,153	4,861,131
Amortisation of intangible assets (Note 10)	3,387,190	1,703,793
Taxes, other than income tax	2,944,221	2,924,806
Rent (Note 9)	2,738,520	1,428,826
Security	1,659,216	1,790,229
Accrual of expected credit losses and impairment of advances paid (Notes 14, 15)	28,580	584,127
Other expenses	9,219,317	4,890,497
	356,961,600	296,425,439

\* THE GROUP HAS CHANGED THE COMPARATIVE HISTORICAL DATA FOR THE YEAR ENDED 31 DECEMBER 2020 FOR CLASSIFICATION AND DISCLOSURE OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES IN ORDER TO PRESENT MORE ACCURATE AND RELEVANT INFORMATION TO THE USERS.

In 2021 staff costs include payroll amounted to RUB 130,825,254 thousand (2020: RUB 109,078,576 thousand), social contribution expenses amounted to RUB 34,572,909 thousand (2020: RUB 30,104,070 thousand) and also other staff costs in amount RUB 1,208,267 thousand (2020: RUB 702,957 thousand).

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 27. Interest income

Interest income for the years ended 31 December 2021 and 2020 consisted of the following:

	2021	2020
Interest on deposits	2,442,234	392,391
Interest on loans issued	105,222	112,085
	2,547,456	504,476

In 2021, interest on deposits in the amount of RUB 702,834 thousand (2020: RUB 49,429 thousand), interest on loans issued in the amount of RUB 9,282 thousand are reflected as transactions with related parties (Note 6).

## 28. Finance costs

Finance costs for the years ended 31 December 2021 and 2020 consisted of the following:

	2021	2020
Interest on loans and borrowings	9,821,407	8,462,099
Interest on bonds	5,687,902	5,669,013
Interest on lease liabilities (Note 9)	33,613,620	30,771,302
Other finance costs	211,467	—
<b>Total interest expense for financial liabilities</b>	<b>49,334,396</b>	<b>44,902,414</b>
Less amounts included in the cost of qualifying assets	(208,927)	(130,140)
	49,125,469	44,772,274

## 29. Other income

Other income for the years ended 31 December 2021 and 2020 consisted of the following

	2021	2020
Sales of packing materials	8,885,560	3,790,327
Advertising income	7,829,417	5,371,680
Fines and penalties	4,260,095	2,626,926
Gain from Covid-19 related rent concessions (Note 9)	1,819,124	1,481,968
Gain from cancellation of lease contracts (Note 9)	1,070,698	1,687,459
Gain from the sale of property, plant and equipment	—	1,165,190
Other income	877,365	945,645
	24,742,259	17,069,195

## 30. Income tax

The Group’s income tax expense for the years ended 31 December 2021 and 2020 was as follows:

	2021	2020
<b>Consolidated statement of comprehensive income</b>		
Current tax	18,341,283	13,728,393
Adjustments in respect of current income tax of previous year	34,485	(171,081)
Deferred tax	(3,881,911)	(3,848,089)
<b>Income tax expense reported in the consolidated statement of comprehensive income</b>	<b>14,493,857</b>	<b>9,709,223</b>

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 30. Income tax (continued)

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2021 is as follows:

	At 1 January 2021	Recorded in the consolidated statement of comprehensive income, 2021	Business combination (Note 7)	At 31 December 2021
<b>Deferred tax assets</b>				
Right-of-use assets / lease liabilities	(12,105,870)	(763,269)	(1,248,647)	(14,117,786)
Accrued expenses	(1,879,458)	(743,102)	(544,008)	(3,166,568)
Inventory	(1,475,351)	(3,536,078)	(107,809)	(5,119,238)
Advances paid	(188,570)	6,652	—	(181,918)
Other	(564,183)	13,476	(427,524)	(978,231)
<b>Total deferred tax asset</b>	<b>(16,213,432)</b>	<b>(5,022,321)</b>	<b>(2,327,988)</b>	<b>(23,563,741)</b>
Including offset with deferred tax liability	16,213,432	5,022,321	2,327,988	23,563,741
<b>Net deferred tax asset</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	27,885,979	918,754	1,744,203	30,548,936
Intangible assets and other prepaid expenses	390,401	223,169	1,354,893	1,968,463
Trade and other receivables	162,642	(1,513)	—	161,129
<b>Total deferred tax liability</b>	<b>28,439,022</b>	<b>1,140,410</b>	<b>3,099,096</b>	<b>32,678,528</b>
Including offset with deferred tax asset	(16,213,432)	(5,022,321)	(2,327,988)	(23,563,741)
<b>Net deferred tax liability</b>	<b>12,225,590</b>	<b>(3,881,911)</b>	<b>771,108</b>	<b>9,114,787</b>

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2020 is as follows:

	At 1 January 2020	Recorded in the consolidated statement of comprehensive income, 2020	At 31 December 2020
<b>Deferred tax assets</b>			
Right-of-use assets / lease liabilities	(10,915,536)	(1,190,334)	(12,105,870)
Accrued expenses	(834,430)	(1,045,028)	(1,879,458)
Inventory	(962,839)	(512,512)	(1,475,351)
Advances paid	(131,884)	(56,686)	(188,570)
Other	(258,737)	(305,446)	(564,183)
<b>Total deferred tax asset</b>	<b>(13,103,426)</b>	<b>(3,110,006)</b>	<b>(16,213,432)</b>
Including offset with deferred tax liability	13,103,426	3,110,006	16,213,432
<b>Net deferred tax asset</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Deferred tax liabilities</b>			
Property, plant and equipment	28,608,661	(722,682)	27,885,979
Prepaid expenses and intangible assets	319,556	70,845	390,401
Trade and other receivables	173,278	(10,636)	162,642
Other	75,610	(75,610)	—
<b>Total deferred tax liability</b>	<b>29,177,105</b>	<b>(738,083)</b>	<b>28,439,022</b>
Including offset with deferred tax asset	(13,103,426)	(3,110,006)	(16,213,432)
<b>Net deferred tax liability</b>	<b>16,073,679</b>	<b>(3,848,089)</b>	<b>12,225,590</b>

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 30. Income tax (continued)

The income tax expense for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax. Below is a reconciliation of theoretical income tax at 20% to the actual expense recorded in the Group’s consolidated statement of comprehensive income:

	2021	2020
Profit before tax	62,599,719	42,702,515
Theoretical income tax expense at 20%	(12,519,944)	(8,540,503)
Adjustments for:		
Non-taxable income or non-deductible expenses for tax purposes	(1,585,999)	(1,141,221)
Unrecognized deferred tax assets related to losses carried forward of Group companies	(353,429)	(198,580)
(Charge)/reversal of income tax liability as a result of filing amended tax returns	(34,485)	171,081
Income tax expense	(14,493,857)	(9,709,223)
Effective income tax rate	23.15%	22.74%

As at 31 December 2021 unrecognized deferred tax assets in respect of previous years losses received by the Group companies amounted to RUB 4,179,305 thousand (as of 31 December 2020: RUB 3,825,876 thousand).

Temporary taxable differences associated with investments in associates, disclosed in Note 7, for which no deferred tax liability has been recognized, as for 31 December 2021 amounted to RUB 1,867,875 thousand (as for 31 December 2020: none). The Group doesn’t expect to sell its investments in subsidiaries in the foreseeable future, all investments in subsidiaries are controlled by the Group.

The Group intends to apply 0% tax rate to applicable dividend income in accordance with Russian Tax Code, since participation in the capital of subsidiaries is more than 50% and they are owned by the Group for more than one year (except for DIXY Group, see Note 7 for information about business combination).

### 31. Earnings per share

Earnings per share for the years ended 31 December 2021 and 2020 have been calculated on the basis of the net profit attributable to shareholders for the year and the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to shareholders for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares:

	2021	2020
Profit for the year attributable to shareholders of the parent	48,105,862	32,993,292
Weighted average number of shares (in thousands)	97,838	97,629
Basic earnings per share (in RUB)	491.69	337.95
Effects of dilution from share options on number of shares (in thousands)	582	545
Weighted average number of ordinary shares adjusted for the effect of dilution (in thousands)	98,420	98,174
Diluted earnings per share (in RUB)	488.78	336.07

### 32. Share-based payments

#### Long-term incentive program for key management personnel

The Group has a long-term incentive program for its key management (“Program”). In accordance with the Program regulations, the Group grants key management personnel the right to receive equity instruments based on the results of their work for 2018, 2019, 2020, 2021, and 2022, if the Program conditions are met.

The long-term incentive Program for key management personnel of the Group consists of a share options (share component) and share value appreciation rights (option component).

The maximum number of shares that can be purchased by participants during the period of the Program is 3,510,638.

#### Share value appreciation rights

Options provide transfer of a variable number of shares depending on the excess of the market value of the Group’s shares over the strike price.

The Program participant receives the right to exercise options when all of the following conditions are met:

- excess of the market value of the Group’s shares at the date of calculation over the strike price;
- growth of the Group’s consolidated EBITDA (Profit before interest, taxes, depreciation and amortization) of 10% CAGR (total comprehensive annual growth rate for calculating interest using the compound interest formula) compared to EBITDA for the year ended 31 December 2018 (determined based on the audited published consolidated financial statements of the Group for 2019);
- program participant continues to work in the Group on the exercise date of the option.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 32. Share-based payments (continued)

### Share options

Share-based payment to the participant of the Program of a fixed number of shares depending on the fulfillment of the conditions for achieving the goals of the Program.

The date of granting the right corresponds to the date of conclusion of the contract with the Program participant.

The Program participant receives the right to shares if all of the following conditions are met:

- Group’s consolidated EBITDA growth of 10% CAGR compared to EBITDA for the year ended 31 December 2018 (determined based on the audited published consolidated financial statements of the Group for 2019);
- a Program participant continues to work in the Group on the exercise date of the option.

To assess the fair value of share-based payments to employees, the Group uses Monte Carlo simulation. In determining fair value, the Group has used the following assumptions:

	2021	2020
Dividend income (%)	9	6
The expected average volatility for the period (%)	25.65	30.27
Average risk-free interest rate for the period (%)	8.20	4.42
Estimated time for exercise of options (years)	4	5
Weighted average share price (RUB)	4,893	4,637
Applicable model	Monte-Carlo	Monte-Carlo

### Movement for the period

For the year ended 31 December 2021, the Group recognized an expense in respect of share-based payments in the amount of RUB 821,238 thousand (2020: RUB 971,718 thousand) in the consolidated statement of comprehensive income.

In 2020, under the decision of the Board of Directors based on the analysis of the fulfillment of non-market terms of the Program in 2019, the rights to the payment of the 1/3 of the 2019 tranche were not transferred to the Participants of the Program. Following the decision, service expenses of RUB 202,323 thousand recognized earlier with respect to the 1/3 of the 2019 tranche were reversed in the consolidated financial statements for the year ended 31 December 2020.

As at the reporting date, the management of the Group expects that with respect to all tranches the Program targets will be achieved.

During 2021, the Group transferred 222,449 treasury shares (2020: 73,597 treasury shares) repurchased from shareholders as a compensation to key management personnel under the Long-term remuneration of key employees of the Group.

The fair value of the consideration transferred was RUB 756,794 thousand (2020: RUB 271,571 thousand). The difference between the carrying amount of the treasury shares and the fair value of the consideration transferred under the Program in the amount of RUB 81,558 thousand reflected as a decrease in share premium (2020: RUB 5,770 thousand recorded as an decrease in share premium).

The weighted average fair value per share at the execution was RUB 3,350 in 2021 (2020: RUB 3,690).

### Share-based payments under the employment contract with the Company’s President

According to the terms of the employment contract concluded with the Company’s President, the President is entitled to the Company’s equity instruments provided that he continues to work in the Group on the exercise date of the option.

The number of shares of the Company to which the rights will be transferred is fixed and amounts to 164,710 ordinary shares of the Company.

In 2021 the Group recognized an expense in the consolidated statement of comprehensive income in respect of share-based payments of RUB 19,161 thousand (2020: RUB 106,681 thousand).

During 2021, the Group transferred 41,177 treasury shares (2020: 41,177 shares) repurchased from shareholders under the terms of the employment agreement entered into with the Company’s President. The fair value of equity instruments provided during the period was RUB 172,451 thousand (2020: RUB 172,451 thousand).

The difference between the carrying amount of the treasury shares and the fair value of the consideration given to the President in the amount of RUB 17,278 thousand (2020: RUB 17,278 thousand) was recorded as an increase in share premium.

The weighted average price per share at the execution date was RUB 4,188 in 2021 (2020: RUB 4,188).

## 33. Contingencies, commitments and operating risks

### Operating environment

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including sanctions-imposed consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing behavior.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.



# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

### 33. Contingencies, commitments and operating risks (continued)

As the Covid-19 outbreak continues there remains uncertainty about further developments of pandemic duration and the extent of the possible economic recovery in the nearest future. Government continues to take various measures, the future stability of the Russian economy is also largely dependent upon the impact and span of the Covid-19, the measures taken to contain the spread of the virus and further government reforms.

In a number of Russian regions, retail companies were required to ensure that employees are vaccinated against Covid-19. The Magnit Group is taking every effort to encourage vaccination in order to keep its employees healthy and its business running smoothly. Covid-19 vaccination statistics and restrictions differ from region to region in Russia.

The Group’s management continuously assesses the risks, as well as the consequences of the pandemic and the measures taken by the government. To date, the Group’s management has not identified a significant negative impact of the pandemic, either on the supply chain or on the activities of the Group’s chain of stores.

#### Tax legislation

The Group’s main subsidiaries, from which the Group’s income is derived, operate in Russia. Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

A number of the relevant Russian tax, currency and customs legislations are vaguely and contradictory formulated, which may lead to different interpretations (which, in particular, may apply to legal relations in the past), selective and inconsistent application, as well as frequent and in some cases unpredictable changes. In practice the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments, It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, additional taxes, penalties and interest may be imposed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

It is not possible to determine the amounts of constructive claims or evaluate probability of their negative outcome.

Management believes that as at 31 December 2021 and at 31 December 2020, it had properly construed the relevant legislation, and the probability that the Group will retain its position with regard to tax, currency and customs law is assessed as high. As at 31 December 2021 and 2020, the Group accrued no provisions for tax positions.

#### Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, neither of which, individually or in aggregate, had a material adverse effect on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group’s financial position, operating results and cash flows.

#### Capital commitments

As at 31 December 2021 and 2020, the Group entered in a number of agreements related to the acquisition of property, plant and equipment. Capital commitments are presented net of VAT:

	31 December 2021	31 December 2020
Within 1 year	5,538,208	2,536,645
	<b>5,538,208</b>	<b>2,536,645</b>

### 34. Financial risk management objectives and policies

#### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt to equity ratio.

The capital structure of the Group consists of loans and borrowings disclosed in Note 21, cash and cash equivalents disclosed in Note 16 and equity attributable to shareholders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 17.

#### Debt-to-equity ratio

Management reviews the Group’s capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target debt-to-equity ratio in 2021 of 3.65 (2020: 2.62).

The debt-to-equity ratio as at 31 December 2021 and 2020 was as follows:

	2021	2020
Loans and borrowings (Note 21)	270,425,911	166,086,527
Long-term and short-term lease liabilities (Note 9)	456,306,020	357,573,958
Cash and cash equivalents (Note 16)	(73,398,608)	(44,699,581)
<b>Net debt</b>	<b>653,333,323</b>	<b>478,960,904</b>
Equity	178,985,179	182,888,924
<b>Net debt-to-equity ratio</b>	<b>3.65</b>	<b>2.62</b>

Debt is defined as long-term and short-term loans and borrowings and also long-term and short-term lease obligations. Equity includes all capital and reserves of the Group.

The change in the target net debt-to-equity ratio is due to an increase in net debt in 2021.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 34. Financial risk management objectives and policies (continued)

### Fair values

Set out below is a comparison by class of carrying amount and fair value of the Group’s financial instruments that are recorded in the consolidated financial statements.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	Carrying amount		Fair value	
	2021	2020	2021	2020
Long-term loans (Note 21)	145,376,171	77,795,398	138,170,569	79,179,985
Bonds (Note 21)	59,910,429	69,899,528	57,953,500	70,373,951

The fair value of loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Long-term loans and borrowings are categorized as Level 2 within the fair value hierarchy. For quoted bonds (Level 1) the fair value was determined based on quoted market prices. No transfers occurred between levels in the hierarchy during the reporting period.

As at 31 December 2021 and 2020, the fair value of the Group’s financial instruments, except as described above, approximates their carrying value.

Set out below are changes in liabilities arising from financing activities:

	1 January (Note 21)	Proceeds from loans and borrowings	Business combination (Note 7)	Repayment of loans and borrowings	Finance costs (Note 28)	Interest paid	31 December (Note 21)
<b>2021</b>							
Short-term and long-term loans and borrowings	166,086,527	169,505,660	23,095,628	(88,752,694)	15,509,309	(15,018,519)	270,425,911
<b>2020</b>							
Short-term and long-term loans and borrowings	184,210,818	452,555,765	—	(471,761,619)	14,131,112	(13,049,549)	166,086,527

Information about changes in lease liability are presented in Note 9.

	As at 1 January	Dividends declared	Dividends paid	As at 31 December
<b>2021</b>				
Dividends payable (Note 18)	24,094,729	52,850,006	(48,115,232)	28,829,503
<b>2020</b>				
Dividends payable (Note 18)	14,452,943	39,513,258	(29,871,472)	24,094,729

### Foreign currency risk management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group’s exposure to the risk of changes in foreign exchange rates relates primarily to the Group’s operating activities (when purchases are denominated in a different currency from the Group’s functional currency).

As at 31 December 2021 and 2020 the foreign currency balances were presented by trade and other payables disclosed in Note 19.

### Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant. The Group’s exposure to foreign currency changes for all other currencies is not material.

	Change in USD exchange rate	Effect on profit before tax	Change in euro exchange rate	Effect on profit before tax
<b>2021</b>	+15.00%	(1,194,089)	+15.00%	(631,773)
	-15.00%	1,194,089	-15.00%	631,773
<b>2020</b>	+16.00%	(1,381,542)	+16.00%	(339,500)
	-16.00%	1,381,542	-16.00%	339,500

The Group manages its foreign currency risk by scheduling payments to foreign suppliers close to the date of transfer of ownership of goods to the Group.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 34. Financial risk management objectives and policies (continued)

### Interest rate risk management

The Group is exposed to insignificant interest rate risk as the Group’s entities borrow funds at the fixed rates.

### Credit risk management

Credit risk is the risk that a counterparty will not meet its contract obligations on time, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and other receivables) and investing activities (cash, short-term loans).

In determining the recoverability of trade and other receivables and contract assets the Group uses a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating) and the likelihood of default over a given time horizon. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

### Trade and other receivables

Customer credit risk is managed by the Group by dealing with creditworthy counterparties, who have a good long-term credit history. The Group’s exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

### Cash and cash equivalents

Credit risk from investing activities is managed by the Group’s treasury department in accordance with the Group’s policy. Investments of surplus funds are made only with approved counterparties. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as presented in the consolidated statement of financial position.

### Offsetting of financial assets and financial liabilities

The Group offsets its financial assets and financial liabilities when all the conditions for offset are met. The effect of the offsetting as at 31 December 2021:

As at 31 December 2021	Gross amount of recognized financial assets and liabilities	Gross amount of recognized financial liabilities and assets offset in the consolidated statement of financial position	Net amount of financial assets and liabilities presented in the consolidated statement of financial position
Financial assets			
Trade and other receivables	22,975,111	(11,248,336)	11,726,775
	22,975,111	(11,248,336)	11,726,775
Financial liabilities			
Trade and other payables	(252,019,418)	11,248,336	(240,771,082)
	(252,019,418)	11,248,336	(240,771,082)

The effect of the offsetting as at 31 December 2020:

As at 31 December 2020	Gross amount of recognized financial assets and liabilities	Gross amount of recognized financial liabilities and assets offset in the consolidated statement of financial position	Net amount of financial assets and liabilities presented in the consolidated statement of financial position
Financial assets			
Trade and other receivables	19,765,158	(11,201,336)	8,563,822
	19,765,158	(11,201,336)	8,563,822
Financial liabilities			
Trade and other payables	(195,526,228)	11,201,336	(184,324,892)
	(195,526,228)	11,201,336	(184,324,892)

### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built a liquidity risk management framework for management of the Group’s short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

# Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

## 34. Financial risk management objectives and policies (continued)

### Liquidity risk management (continued)

The following tables summarise the maturity profile of the Group’s financial liabilities based on contractual undiscounted payments. The table includes both interest and principal cash flows.

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
2021						
Trade and other payables and long-term payables	165,814,593	74,956,489	—	2,913,008	—	243,684,090
Dividends payable	28,829,503	—	—	—	—	28,829,503
Long-term and short-term lease liabilities	8,131,999	16,239,147	73,312,099	329,070,610	196,635,694	623,389,549
Long-term and short-term loans and borrowings	942,770	21,230,436	57,303,441	218,725,131	203,103	298,404,881
	203,718,865	112,426,072	130,615,540	550,708,749	196,838,797	1,194,308,023
2020						
Trade and other payables	146,749,260	37,575,632	—	—	—	184,324,892
Dividends payable	24,094,729	—	—	—	—	24,094,729
Long-term and short-term lease liabilities	5,753,427	11,512,811	52,770,481	257,214,471	165,920,031	493,171,221
Long-term and short-term loans and borrowings	386,931	17,229,596	9,146,323	158,419,180	430,394	185,612,424
	176,984,347	66,318,039	61,916,804	415,633,651	166,350,425	887,203,266

As at 31 December 2021, the Group has net current liabilities of RUB 94,941,404 thousand (31 December 2020: RUB 17,342,223 thousand), including the carrying amount of short-term loans and borrowings in the amount of RUB 65,139,311 thousand (31 December 2021: RUB 18,391,601 thousand).

Additionally to the current loans the Group has access to financing facilities of RUB 261,811,137 thousand remained unused at 31 December 2021 (2020: RUB 280,612,664 thousand). The Group expects to meet its other obligations from operating cash flows and proceeds from maturing financial assets.

## 35. Subsequent events

On 14 January 2022 the share of votes held by Marathon Group on the Company’s shares increased to 29.23%. the increase of share occurred as the result of the acquisition of additional 4.23% of votes due to the satisfaction of the corresponding application of Marathon Retail LLC by the FAS of Russia. This amount includes votes on the Company’s shares transferred to VTB Group under the repurchase agreements concluded between Marathon Retail LLC and VTB Group.

In February 2022, certain countries announced new packages of sanctions against the public debt of the Russian Federation, a number of Russian banks and organizations, as well as personal sanctions against a number of individuals.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, as well as a significant depreciation of the ruble against the US dollar and the euro. It is expected that these events may affect the activities of Russian enterprises in various sectors of the economy.

The Group regards these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence. Currently, the Group’s management is analyzing the possible impact of changing micro- and macroeconomic conditions on the Group’s financial position and results of operations.