EXTRACT FROM THE SECURITIES PROSPECTUS OF PJSC FIX PRICE

2.8. Risks relating to the Issuer and the purchase of securities

The Issuer was registered in the Russian Federation on 19 December 2024 and does not conduct any operations, but is a holding company and controlling entity of the Group. This being the case, what follows is a description of the risks inherent in the operations of the entire Group.

The risks listed in this section reflect the Issuer's own viewpoint and assessments, and are therefore not exhaustive, and before making an investment decision, potential investors should form their own opinion without relying exclusively on the factors described herein.

Materialization of any of the risks referred to in this section can have an adverse effect on the Issuer’s and the Group’s financial performance, results of operations, and development prospects, along with the Issuer’s ability to fulfill its obligations under the securities, and can result in a decline in value of the Issuer’s securities.

As of the Prospectus approval date, the Issuer has not produced a separate document discussing risk management.

The Issuer works consistently to identify, monitor, and predict the substantive risks of its operation, and takes the steps required to minimize and control them.

2.8.1. Sectoral risks

The inherent risks for the sector in which the Group conducts its core financial and business operations. A description is given of how a potential downturn in the sector could affect the Group’s operation and performance of the obligations under its securities. An outline is provided of what the Issuer believes to be the most significant potential changes in the sector (separately for the Russian market and markets outside Russia).

The Issuer does not engage in operations. The Issuer oversees the operation of the companies comprising the Group, and therefore the sectoral risks affecting the operation of the Group companies can also impact the Issuer’s activity and fulfillment of the Issuer’s obligations under the securities.

The Group operates in several markets, including Russia, Belarus, Kazakhstan, Armenia, Georgia, Kyrgyzstan, Mongolia, Uzbekistan, and the United Arab Emirates. The Group faces various factors that impact the sector on both the external markets and the Russian market. The external markets are exposed to risks of changes in the law, fluctuations in demand, currency fluctuations and geopolitical factors. What is of greatest importance for the Group, however, are the risks involved in its operations inside Russia, since this is the Group’s major market. The risks described in this section apply to both the domestic market and the foreign markets, but the most material risks are those involving the market in the Russian Federation.

Risks involving the hiring of skilled personnel

At times of high turnover in personnel and growing competition on the labor market there emerges a risk of skilled personnel shortage, which can adversely affect the Group’s operations and impede its growth.

Insufficient focus on personnel recruitment can lead to higher costs of finding new employees and the evolution of a manpower shortage. This is particularly pressing wherever the rate of increase in spending on personnel recruitment and training exceeds the rate of payroll growth. This can result in the Group facing difficulties in hiring and retaining qualified specialists, which in turn can impact customer service quality and efficient store operation.

To minimize this risk, the Group:

- reviews salaries to factor in inflation and the market situation in order to make the company competitive as an employer;
- adds points to loyalty cards for obtaining store discounts, which incentivizes employees to remain long-term with the company;
- introduces financial incentive systems to reward achievement and deepen motivation;
- provides free training and career enhancement, which promotes employees' professional growth and company loyalty, and grows their value for the Group;
- arranges financial assistance programs to provide additional support for employees;
- provides additional medical insurance in order to enhance working conditions and employee welfare;
- provides fringe benefits and additional loyalty points for length of service, encouraging employees to stay with the company;
- maintains a corporate talent pool and runs career growth programs, including guaranteed fast-track career growth for store personnel, to promote the retention and development of talented staff;
- arranges corporate festivities, events, and other forms of nonmaterial incentive aimed at building the corporate culture and enhancing the work environment;
- runs a long-term incentive (LTI) program to reward long-term achievements and results.

The Group thus endeavors to create an environment in which personnel will have a stake in their development within the company, ultimately promoting the Group's consistent growth and stable operation.

Risks of supply chain disruption

Supply chain disruptions can have a significant impact on the Group's operation. Lack of space in ports for receiving and forwarding imported goods, and sudden, large-scale upheavals in accessibility for various types of transportation (by sea, by rail, and by road) or accessibility of various goods handling locations can result in longer delivery routes, higher costs, and more roundabout logistics processes.

These factors create the risk of making transportation routes longer and more expensive and the risk that additional services will be required, which can adversely impact the Group's ability to maintain the regular and timely supply of its stores with imported goods. Should these risks materialize, the Group can face a shortage of foreign-manufactured goods, which will have an adverse effect on sales and customer loyalty.

To minimize these risks, the Group is implementing several strategies. First, it is increasing the percentage of locally produced goods in the product range, thus reducing dependence on imports and potential logistic delays. Finding alternative suppliers among Russian producers helps mitigate the effect of global logistic problems. Second, the Group is actively seeking out alternative methods of delivering imported goods, such as rail or road transportation, that will allow it to react more immediately to changes and select the most efficient and accessible routes.

The Group thus endeavors to minimize the risks of supply chain disruptions by diversifying its goods sources and optimizing the logistics. However, these risks cannot be completely ruled out, and they remain an important factor that must be accounted for in strategic planning.

The Group's performance depends on overall economic conditions and on changes in personal incomes and consumer spending

Most of the Group's earnings depend on the economic situation in Russia, so that demand for goods in the Group stores hinges on the level of disposable income and consumer spending across the country. The Group's financial results are sensitive to changes in the macroeconomic situation and to other factors that affect consumer spending. Such factors include employment levels, salaries, personal incomes, perceptions of the economic situation, inflation, interest rates, taxes, savings levels, housing and utility costs, consumer credit availability, seasonal weather changes, abnormal weather conditions, and changes in consumer demography and aspirations. These factors can reduce the overall level of consumption or can result in customers preferring to buy products that may be less profitable for the Group, ultimately resulting in lower sales volumes, slower inventory turnover, and reduced profits.

A slowdown in Russia's economic development rate has already exerted a significant adverse impact on consumer spending, and could continue to do so. Russia's economy has been up against serious challenges in the last few years due to deteriorating relations with Western countries and the imposition of economic and financial sanctions against Russian companies, individuals, and whole economic sectors. Added to this are exchange rate fluctuations in the Russian ruble, limited access to financing for Russian issuers, capital outflow, and general economic uncertainty. All this can result in shrinkage of the Russian economy and a considerable fall in real personal incomes, consumer purchasing power, and consumer confidence, along with high inflation. Despite the pressure on consumer spending, the market for low-priced goods in Russia has shown steady growth due to structural movements in consumer behavior toward making savings. However, there is no guarantee that this trend will continue or that the low-priced goods market will be capable of withstanding fresh economic challenges. In particular, there is no certainty that in the event of another economic downturn or high inflation, demand for products or optional purchases will not fall, which can also affect the economy-class goods market in Russia.

Any weakening of people's purchasing power due to the above or other reasons can result in diminished consumer spending or demand for Group products which, in turn, can have a material adverse effect on its business, financial condition, results of operations, and prospects.

The Group faces serious competition, which can adversely affect its business, financial condition, and results of operations

Competition can have a significant effect on the Group's financial performance. The Russian retail market is highly competitive, and its participants continually adjust their marketing and pricing strategies in response to evolving market conditions. The Group competes with other retailers in terms of factors such as product price, quality, and range, store locations, and the ability to keep attuned with new and emerging trends in consumer preferences.

As a retailer with fixed low prices, the Group faces competition from traditional stores such as department stores, supermarkets, and specialty stores, as well as from online retailers and marketplaces. To remain popular, the Group must offer an attractive product range at competitive prices, and this can put pressure on the Group's profitability.

Over the past few years, Russian consumers have been turning more and more to online platforms, including those of foreign retailers, for their purchases, mainly because of the lower prices and broader product range available in the online segment. Although the Group presents a unique offering on the market, one that is different from the online retailers, the future development of the online channels may require the company to adapt and transform, and may also be accompanied by new risks that can adversely impact the Group's business and financial performance.

To minimize these risks, the Group takes the following actions:

- Focus on competitive prices and broad product range: the Group offers low prices and proactively refreshes its product range, offering new items each week. It has introduced a loyalty program with a card opening the door to special prices and discounts that motivate people to become regular customers.

- Marketing strategies: maintaining an optimum level of advertising costs, which includes TV, outdoor advertising, and promotion in social networks.
- Development of online channels: active website and mobile app development, along with increasing presence in social networks.
- Product range management: the Group independently imports products and visits international exhibitions and showrooms to seek out trends and ideas. Product diversity is utilized, e.g. offering a different range of weights or components, which enables the Group to stand out from its competitors.
- Continuous product rotation: the Group regularly refreshes its product range, introducing around 50 new products a week, which maintains customer interest and induces them to visit the stores more frequently.

The Group is thus taking comprehensive steps to maintain its competitiveness and minimize the risks of strong market competition.

Broadening the product range can generate fresh challenges and increased risks

The Group endeavors to offer its customers a broad range of products that meet changing needs. Introducing new products, broadening the product range, and increasing the number of product items involves fresh risks and challenges.

It is possible for the Group to wrongly gauge customer demand due to limited experience of dealing with new product categories or lack of information about customer preferences, which can result in accumulation of inventory and potential write-offs with respect to new product categories. Furthermore, the quality inspection, storage, and delivery of new products can be more complex. The Group may be faced with a larger number of product returns, complaints, and claims, which can adversely affect its business reputation and financial position. There is also the risk that the Group will be unable to sign agreements on advantageous terms with the suppliers of new product categories and recoup the costs it incurred on broadening the product range.

Risk of employee theft of products and cash, errors, and wrongdoing

The Group is exposed to the risk of employee theft of products and cash, errors, and wrongdoing. Although it has introduced various security and video surveillance arrangements, it is impossible to completely prevent employee thefts and wrongdoing in the Group’s stores.

The Group takes various precautions to identify and prevent employee theft of products and cash, errors, and wrongdoing, but these precautions can be ineffective. Furthermore, the Group is exposed to the risk of shoplifting by customers. Although the Group has arrangements in place to guard against this risk, such as stocktaking, inventory audits, store inspections, CCTV systems, and surveillance personnel as required, there is no guarantee they will be effective. The losses arising from employee thefts of products and cash, errors, and wrongdoing, along with the costs of preventing such occurrences, can have an adverse effect on the Group’s business, financial condition, results of operations, and prospects.

Risk of Group’s growth being dependent on increasing like-for-like sales

The Group’s growth depends to a considerable degree on its ability to increase like-for-like sales in its existing stores, which substantially affects the Group’s earnings and operating performance. There are no guarantees that the Group will manage to maintain the growth of this indicator moving forward.

Sales growth in existing stores depends on a multitude of factors such as overall consumer demand, store location, product choice and wholesale purchase, pricing strategy, marketing campaigns, how the stores are operated, and customer satisfaction level. Adverse macroeconomic factors, as well as inability by the Group to effectively control the stores' operating procedures and achieve a high level of customer retention, can adversely impact the sales volume and, consequently, the Group's rate of growth.

Risks of penetrating new markets

The Issuer's business expansion and penetration into new markets involve a number of risks, including unfamiliar business processes and business practices, and local laws, taxation, and financial controls. Some countries may treat entrepreneurs and business initiatives originating from other countries with caution, which can put the brakes on business development and require additional analysis of the market, business partners, and the laws. In some cases the Group's standard practices may need to be revised or completely abandoned.

To minimize these risks, the Group sets forth a detailed and precise description of the project goals and allowable deviations, prepares a detailed plan of operation, and identifies the resources available (time, budget, and manpower) to tackle critical areas. The Group also tracks all deviations from target efficiency levels and project scope, fully revealing the causes, and regularly conducts joint meetings with company components, suppliers, and contract partners who are actively involved in the process of expanding into the new markets.

Risks of potential price increases for basic raw materials, products, work, and services utilized by the Group in its operation and their effect on the Group's operation and fulfillment of the obligations under its securities

Potential price increases for basic raw materials, products, work, and services can materially affect the Group's operation. Given the specifics of a business based on the supply of products at fixed low prices, any significant increase in procurement prices can result in reduced margins and profitability.

A hefty increase in the costs of raw materials or services would cause the Group to face several challenges:

- Lower margins: an increase in the cost of raw materials and packaging could require an upward revision of the low fixed prices for products. This could result in declining customer loyalty and loss of competitive edge, since price increases may deter some customers.
- Need to curtail product range or quality: in the event of a steep price increase, the Group will be compelled to reduce product content or replace the raw materials and packaging with cheaper alternatives. This may affect the quality and variety of the product offering, which may also reduce sale volume and adversely affect financial performance.
- Trouble in fulfilling obligations: potential price rises for raw materials and services mean that the risks of difficulties arising in fulfilling obligations toward suppliers cannot be ruled out, particularly in the case of frequent price rises. This can create financial difficulties and complicate cashflow management.

To minimize these risks, the Group is taking the following measures:

- Flexibility in product range management and quality control: the Group is looking into the possibility of replacing the raw materials and packaging, reducing product content, and finding cheaper equivalents while following all applicable requirements and quality control processes should there be a significant rise in prices. In the event of extreme necessity, product prices could be raised, but this action would be applied with particular caution to avoid the loss of customer loyalty.
- Logistic balancing: if tariff rates on logistic services rise, the Group will balance delivery costs and delivery times by utilizing a combination of fast-but-expensive and slow-but-

economical transportation methods. Regular monitoring of rates and the option to switch between freight forwarding agents enable the Group to optimize its transportation parameters and maintain the required level of services.

- Analysis and optimization of sales costs: the Group carefully analyzes the economics of each store, including the cost of owning the space and utility payments. If a store becomes lossmaking, its doors are closed, which helps minimize losses and retain financial stability.

The Group endeavors to broaden its pool of Russian suppliers and effectively manage production costs, which enables it to mitigate the cycles of growth in procurement prices. Nonetheless, there is a probability that these measures may turn out to be insufficient to completely prevent the adverse impact of price rises on the Group’s operation.

Dependence on outsourcing companies

The Group faces a significant personnel shortage and the need to continually increase its payroll spending in order to retain the Group’s current employees and hire new ones. Making sure that its stores and distribution centers are sufficiently staffed is particularly important for meeting the Group’s needs and supporting business expansion. The Group partially outsources its personnel management and operational management functions in order to enhance the efficiency of its own internal HR function.

Competition for personnel on the part of other retail networks and the e-commerce market makes it hard to maintain the requisite number of employees. There are no guarantees that outsourcing firms will be able to provide the Group with the required number of employees in time and at competitive prices, or that the Group will be able to promptly replace an outsourcing services supplier without a material adverse impact on operating activities. Moreover, outsourcing firms may not fulfill their contractual obligations, or may break laws and regulations governing personnel management, which could adversely affect the Group’s business.

Furthermore, the Group’s business success also depends on timely and economically efficient goods transportation from distribution centers to the stores. The Group completely relies on outsourcing for goods transportation to its retail stores, and relies on outside transportation providers to deliver its imported goods. In this connection, the Group depends on the efficient operation of outside carriers and customs brokers who may run into problems such as manpower shortages, strikes or other operational disruptions. Tardy and inefficient services by those providers can adversely impact the Group’s business by disrupting the goods distribution process and lowering the general service quality. In cases such as these, the Group may find it difficult to rapidly find alternative transportation service providers or customs brokers without significant adverse consequences for business.

Risks of product price rises on the part of suppliers

The risk of an increase in procurement prices more than once a year can substantially impact the Group’s financial performance. Real growth in raw materials costs, a change in suppliers’ production cycles, and increasing energy costs put pressure on gross margins and the parameters related thereto. The Group minimizes this risk by broadening its pool of Russian suppliers and signing standby contracts with alternative Russian suppliers to keep deliveries moving smoothly in the event of an urgent rotation of product range. The Group also actively manages production costs and product rotation, which helps mitigate the cycles of growth in procurement prices and reduce their impact on overall profitability.

Risks of potential price increases for products, work and/or services offered by the Issuer/Group and their impact on the Issuer/Group’s operation and fulfillment of obligations under its securities

The risks of potential price increases for products offered by the Group can have a significant effect on its operation and financial performance. The Group's strategy consists in offering a broad range of popular products at fixed low prices. However, in the event product prices need to be increased, the Group can run the risk of lower demand, since customers may give preference to the Group's competitors that have more stable or lower prices.

Price increases can also affect brand perception and result in lower market share. For investors, this means an elevated risk of reduced profits and, consequently, lower dividends, no dividends, or a fall in value of the Issuer's securities.

To minimize these risks, the Group endeavors to maintain an optimum pricing level by utilizing effective cost management, broadening its product range, and running marketing campaigns aimed at maintaining and increasing customer numbers. Nevertheless, at times of market instability or abrupt change in the economic environment, these measures may turn out to be insufficient to completely prevent an adverse impact on the Group's operation.

2.8.2. Country and regional risks

Political and economic risks

The Group's primary fields of operation can be materially and negatively affected by adverse macroeconomic and geopolitical developments in Russia and other markets where the Group has a presence

The current geopolitical situation and numerous sanctions restrictions have had an impact on the macroeconomic climate in Russia, resulting in considerable volatility of the Russian ruble, tightening of currency controls, major fluctuations in interest rates and inflation, continual changes in people's real disposable income and purchasing power, and the departure of many transnational companies from the Russian market or their reduced-scale operation in the country. These factors may adversely affect the Group's results of operations on its principal markets of presence.

Where the political situation in Russia and the countries in which the Group operates is unstable, there is potential for the introduction of legal changes, new taxes, and sanctions or other restrictions that can make it difficult or impossible to run a business in those regions.

Political instability can also result in tighter controls by the regulatory authorities, which can give rise to additional costs on meeting new requirements.

The economic risks include exchange rate fluctuations of the national currency, inflation, diminished purchasing power of the population, and price rises for goods and services, which can adversely affect the Group's income and profit. In the event of an economic downturn or crisis, lower demand for the Group's products may result in lower earnings and poorer financial performance. To minimize these risks, the Group is working to diversify its business and expand the geography of its presence, and also employs a flexible pricing policy and cost management strategy. However, despite the action being taken, the political and economic risks remain significant, and their materialization can have an adverse impact on the Group's operations, financial condition, and prospects.

International sanctions and export restrictions affecting commercial entities and individuals in Russia can have a material adverse effect on the Group's business, financial condition, and results of operations

The international sanctions and export restrictions applying to commercial entities and individuals in Russia create additional risks for the Group's business. These measures can substantially limit the Group's access to international markets, technologies, financial resources, and business partners, which in turn can adversely affect its operating activity. In particular, sanctions can result in delays to, or complete termination of, product deliveries, which will affect the Group's ability to maintain its product range at the required level in its stores. Difficulties in making payments to

China can result in delayed product deliveries. Export restrictions can hinder access to the goods needed to keep the Group’s products competitive. Nevertheless, production in Russia has developed considerably over the past few years, particularly in the area of household chemicals and cosmetics. The opening of a host of new factories in the country has resulted in lower production costs, improved logistics, and a more convenient payments system. This has enabled the Group to adapt to the new conditions without experiencing any serious limitations in the sphere of goods imports, since it basically continues to import goods from China, which remain accessible. Hence, despite the existing international restrictions, the Group has been able to make effective use of the benefits of local production and keep its operations stable.

Global economic conditions and uncertainties, the effect of recessions and potential bankruptcies or restructuring of financial institutions, and the associated limitation of credit resources can also adversely affect goods suppliers, landlords, services providers, and other of the Group’s business partners, which would adversely affect its business and results of operations, for instance through supplier plant closures or higher product costs.

Due to the current geopolitical crisis, many governments, including the United States, European Union, Switzerland, and Great Britain, have imposed a considerable number of economic sanctions on Russian individuals and Russian companies, restrictions on various services provided to Russian entities, and significant export controls aimed at contract partners in Russia. Furthermore, many companies have opted to take a cautious approach toward compliance with sanctions restrictions and export requirements, and have adopted internal policies of an even more restrictive nature than what applicable law requires.

Although neither the Issuer, nor any of the companies in the Issuer’s Group, are subject to the sanctions imposed by the United States, Great Britain, the EU or Switzerland, the above restrictions and policies may affect the Group’s ability to sign contracts with international partners, including key suppliers of the Group, who may refuse to work with Group companies because of the current geopolitical situation.

Risks of global economic upheavals

The economies of Russia and other countries where the Issuer has a presence are not immune from the effect of market downturns and economic slowdowns in other parts of the world. Russia in particular – the Issuer’s largest market – produces and exports large volumes of natural gas and oil. The Russian economy is particularly vulnerable to fluctuations in world prices for natural gas and oil, and a fall in natural gas and oil prices can slow down or affect Russian economic development, as well as suppress consumer demand. These factors can result in adverse consequences for the Group’s business, financial condition, and results of operations. In addition, global economic downturns can lead to lower demand for the Group’s products, particularly if consumers start cutting back on non-food products to save money. This can affect the Group’s sales volumes, and hence its financial performance.

Regional risks

The Issuer’s principal place of business is Moscow, Russia. Stores under the Group’s control and franchise stores are located in 1,708 towns and cities in 81 regions of Russia, and also in Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Uzbekistan, and the United Arab Emirates.

At the present time the Issuer does not foresee any substantial adverse changes in the economic situation in the region where the Issuer is registered or in the regions where the Group does business. Correspondingly, the Issuer does not foresee any material adverse changes that could impact its ability to fulfill the obligations under its securities. However, the Issuer cannot completely preclude the possibility of local economic crises happening in the Group’s regions of presence. The Group cannot bring influence to bear on mitigating this risk since this is beyond its realm of control.

The principal regional risks for the Group's operation are as follows:

- The existence of specific requirements in the regions of presence can increase the Group's costs of doing business.
- Migration processes, a deteriorating demographic situation, and slackening of business activity can lead to a fall in demand for the Group's products in certain regions. Reduced population numbers or a change in the population structure can adversely affect consumer behavior and the needs of local consumers. In addition, slower business activity and economic activity in the region can reduce overall consumer demand, which in turn will affect the Group's sales volumes and financial performance. These factors may require adaptation of the business model and strategy, and may also evoke the need to revise or optimize existing regional operations.
- Strong competition in certain regions can put substantial pressure on the Group's business. Where competition is cut-throat, the Group may face the need to revise its pricing policies, marketing strategies, and service quality in order to hold onto its market share. A growing number of competitors, including new market players and existing companies seeking to bolster their positions, can lead to price cuts, increased spending on attracting customers, and an overall slimming of margins. This in turn can adversely affect the Group's financial performance and business stability.
- Misunderstanding or ignorance of local cultural and social aspects can adversely affect business success in new regions. Differences in consumer preferences, cultural norms, and behavior can lead to ineffective marketing strategies and errors in product range. Incorrect adaptation to local traditions and social expectations can give rise to negative reactions from the local population and affect the Group's reputation. This can make it difficult to successfully launch and develop business in new regions, which in turn can affect overall financial performance and the fulfillment of obligations toward investors.

The Group factors in potential risks concerning the economic situation in the country and the regions of presence when planning its operations and forecasting its financial and economic performance. Should a deterioration occur in a region's economic, political or social situation that was not predicted earlier by the Group, it will take action to mitigate the adverse effect of such changes on its operation.

Social risks

Social instability can have a material adverse impact on the Issuer's ability to effectively run business.

Risks relating to armed conflicts, introduction of a state of emergency or strikes in the country/countries or region in which the Issuer and entities controlled by the Issuer and having major importance for the Issuer are registered as a taxpayer and/or conduct their core operations:

Risks relating to armed conflicts, introduction of a state of emergency or strikes can significantly impact the operations of the Issuer and entities controlled by the Issuer that are registered as a taxpayer and/or conduct their core operations in the country/countries and region. Such events can lead to logistic chain disruptions, diminished purchasing activity, temporary stoppages in store operation, and additional spending on security and restoring operations.

In Russia the Group has 12 A-class distribution centers having a total floor space of 480,038 sq.m. as of 30 June 2024. All warehouses are fitted with warehouse management systems (WMS) and modern goods-handling equipment, and the distribution centers are operated by skilled personnel. In light of the current geopolitical situation, there are potential risks of disruption to the operation of the distribution centers.

The Group takes these risks into consideration and draws up measures to minimize them, including diversifying supplies, creating reserve inventories, developing online sales channels, and reinforcing security. These steps will help mitigate potential adverse consequences and maintain business continuity at times of instability.

Risks relating to the geographic features of the country/countries and region in which the Issuer and entities controlled by the Issuer and having major importance for the Issuer are registered as a taxpayer and/or conduct their core operations, including elevated danger of natural disasters and potential discontinuation of transportation routes due to remoteness, difficult access, and so forth:

The Group companies conduct their operations in regions with developed infrastructure and are not exposed to risks involving the discontinuation of local transportation routes because of remoteness and/or difficult access. Risks relating to transportation access, potential discontinuation of local transportation routes due to remoteness, natural cataclysms, elevated danger of natural disasters, and other risks of a geographic nature are believed by the Issuer to be insignificant.

Should one or more of the above-listed risks materialize, the Issuer will do its utmost to mitigate any adverse changes that occur. The parameters of the action taken will depend on the particular aspects of the situation on a case by case basis. The Issuer cannot guarantee that the actions taken to tackle the adverse changes will lead to a major turnaround in the situation, since most of said risks are beyond the Issuer's control.

The risks relating to potential logistic delays in delivering imported goods and the action taken by the Group to minimize said risks are described in detail in section 2.8.1 above (*Risks of supply chain disruption*).

2.8.3. Financial risks

Risks of how interest rate rises, exchange rate fluctuations, and inflation may affect the Group's financial condition, including its liquidity, finance sources, and key financial indicators. Outline of the Issuer's plan of action to combat the adverse effect of interest rate rises, exchange rate fluctuations, and inflation.

Risk of interest rate changes

The Group companies raise loan funds at both fixed and variable interest rates. Interest rate rises can result in higher costs for Group financing. In the past, the growth of interest rates was offset by having a combination of fixed and variable interest rates. Now, virtually all banks offer loan funds that are generally tied to the Bank of Russia's key rate.

The Group monitors interest rate changes on a continuous basis and acts accordingly. When interest rates change, the Group can restructure its loan capital by selecting the most suitable instruments depending on specific market conditions. All in all, interest rate rises can be overcome by combining the terms and conditions of banking service packages (credit, deposit, acquiring, payroll, etc.), which makes it possible to balance the costs and minimize the effect of an interest rate rise on the Company's financial performance.

Currency risk

Currency risk is related to fluctuations in exchange rates that can lead to financial losses for the Group. Roughly one fourth of the value of products sold by the Group is accounted for by products purchased from foreign suppliers, involving a corresponding accounts payable denominated in foreign currency that have a due date for payment of up to 120 days. Some of the Group's purchases are made in Chinese yuan.

To manage currency risk, the Group enters into forward currency contracts. As of 30 June 2024, the fair market value of its obligations under forward currency contracts was RUB 464 million.

This amount is recorded among its accounts payable and other financial obligations. As of 31 December 2023 and 2022, the Group had no forward currency contracts. During the six months ended 30 June 2024, losses on forward currency contracts amounted to RUB 573 million. During the year ended 31 December 2023, the Group had no profits or losses on forward currency contracts. During the year ended 31 December 2022, the profit on forward currency contracts amounted to RUB 339 million.

As required, the Group also revises the contract currency of contracts with foreign suppliers, which mitigates the effect of exchange rate fluctuations on its financial performance.

Additionally, risks relating to restrictions on foreign currency payments can materially affect Group operations. Potential restrictions on Russian banks and companies, refusals to accept payments, or the placing of limits on operations in certain foreign currencies can complicate and lengthen supply chains. This can increase the time taken to fulfill obligations toward contractors and affect the timeliness of payments to suppliers.

In light of legal restrictions and bank compliance measures, the Group actively puts alternative options in place for paying foreign contractors. The purpose of these steps is to make sure that financial obligations are smoothly discharged and to mitigate the adverse impact of potential foreign currency payment restrictions on Group operations.

Liquidity risk

Liquidity risk is defined as a risk that the Group could be faced with insufficient financing to fulfill its financial obligations. The Issuer's Group considers the liquidity risk to be low.

To minimize this risk, the Issuer regularly monitors operating cash flows and open credit lines/limits in banks to make sure they are sufficient to fulfill the Group's current obligations and finance its development program.

In addition, there are bank covenants with regard to the Group's loan funds, which are tested on a quarterly basis and in relation to which there is currently a considerable margin of safety. Furthermore, forecasting results do not indicate any hypothetical problems. Over the short term, flexibility is achieved by using revolving credit lines.

Based on a review of the Group's liquidity position as of the Prospectus approval date, the Issuer believes that existing credit lines and anticipated cashflows will be sufficient to finance the Group's current operations, and the covenants contained in the credit agreements are being fully adhered to by the Group companies. However, the Issuer cannot rule out the possibility that outside political and economic factors (including a rise in the Bank of Russia's key rate) may adversely affect the Group's ability to raise bank financing, which could result in materialization of the liquidity risk and negatively affect the Group's business, results of operations, and financial condition.

Inflation risk

Spiraling inflation can cause a decline in the purchasing power of the public and therefore reduced demand for the products offered by Group companies. Inflation may cause the Group's operating expenditure to increase and its profits to drop if the Group is unable to minimize the risk or offset it by raising prices for Group products, and inflation can therefore adversely affect the Group's business and financial performance.

Issuer's plan of action if interest rate increases, exchange rate fluctuations, and inflation have an adverse effect

If one or more of the above risks materialize, the Issuer will take every step possible to minimize the adverse consequences. The parameters of those steps will depend on the particular aspects of the situation in each specific case. The Issuer cannot guarantee that the action taken to defeat the adverse consequences will be capable of rectifying the situation since the factors described are beyond its control. As a result, any inability to manage said risks could have an adverse effect on the Group's business, financial condition, results of operations, and prospects.

How inflation can affect payments on the Issuer's securities, what the Issuer believes to be critical inflation levels, and what is the Issuer's plan of action for mitigating said risk:

Rising inflation can lead to rising costs and expenditures for the Group. Furthermore, inflation can have an adverse impact on the Group's performance if it has different effect on other segments of the economy.

In addition, a drop in the purchasing power of the Russian ruble can affect real yields on the Issuer's securities and their attractiveness for investors.

A risk that inflation is having an adverse impact occurs when cash incomes become devalued, from the standpoint of real cash purchasing power, faster than those incomes are nominally growing.

To mitigate inflation risk, the Group plans to:

- take steps to optimize spending;
- step up efforts to make the receivables turnover ratio higher;
- plan expenditures to allow for anticipated inflation rates and create reserves of the most inflation-vulnerable items;
- place any funds available in financial instruments whose yield is tied to the inflation level.

What the Issuer believes to be the critical inflation level:

The Issuer believes that the critical inflation level at which it becomes difficult for the Issuer to fulfill its obligations lies far above the current level or the levels expected in the next few years, and constitutes 30% p.a. The risk of exceeding that critical level is judged by the Issuer to be low.

Which line items in the Issuer's consolidated or separate financial statements are most liable to change due to the financial risks outlined in this section, the probability that the risks will occur, and how the changes will be reflected in the financial statements:

Financial risk type	Line items liable to change	Probability of occurrence	How the changes will be reflected in the Group's consolidated financial statements
Risk of interest rate changes	Profit for the year, Interest expenses	Medium	Interest rate changes can result in increased costs of Group financing. How changes will be reflected: *Profit for the year* falls, *Interest expenses* rise.
Currency risk	Profit for the year, Cost of sales, Accounts payable and other financial obligations	Medium	Exchange rate changes can result in higher prime cost of imported goods and higher Chinese yuan-denominated accounts payable to foreign suppliers. How changes will be reflected: *Profit for the*

			year falls, *Cost of sales* rises, *Accounts payable and other financial obligations* rise.
Liquidity risk	Profit for the year, Interest expenses	Low	Difficulties in fulfilling financial obligations when due can result in need to raise additional financing to fulfill them or to restructuring of existing debt. How changes will be reflected: *Profit for the year* falls, *Interest expenses* rise.
Inflation risk	Selling, general, and administrative expenses ("Operating expenses"), Profit for the year	Medium	Fall in purchasing power of the public and consequent fall in demand for Group products. Increase in *Operating expenses* and consequent fall in Group's net profit in the event of exponential price growth. How changes will be reflected: *Operating expenses* rise, *Profit for the year* falls

2.8.4. Legal risks

Special aspects of the Russian legal system and Russian laws

Russia continues to develop the legal framework required for a market economy. Group operations are governed by federal laws and regulations, including Russian presidential decrees and orders, and decisions by the Russian government, federal ministries, and other government agencies, which in turn are complemented by regulations of the Russian Federation constituent entities and municipalities. To minimize the impact of adverse factors involving legal risks, the Group strives to comply with existing laws and keeps track of how key and newly adopted laws and regulations are applied. However, changes in how existing laws are applied in practice and the adoption of new laws whose practical application is not consistent can, in certain cases, affect the Group's ability to ensure that its contractual rights are observed and defend itself from being sued by other parties. This, in turn, can have a material adverse effect on the Group's business, financial condition, results of operations, and prospects.

Risk of breaches in personal data protection

The risk of breaches in personal data protection constitutes a significant hazard for business, particularly when the numbers of Group personnel and loyalty program members are growing and regulatory agencies are increasingly scrutinizing data safety. The growing volume of data on employees, customers, business partners, and contractors creates potential hazards of data leaks and breaches of confidentiality, which can entail serious legal and reputational consequences for the Group.

To minimize this risk, the Group takes several key steps. First, it develops and puts in place precise requirements for personal data collection, processing, and storage, and differentiates the data categories, for example into data on employees, customers, and contractors. These requirements include complying with all applicable data safety standards and rules, which minimizes the risk of leaks and breaches. Second, the Group allocates powers and responsibilities to its own employees and outside contractors, which includes creating structures and procedures that ensure oversight over data processing. Defining areas of responsibility and introducing oversight and audit systems help guarantee compliance with prescribed standards and data protection on all levels.

These measures enable the Group to maintain high levels of personal data safety, comply with legal requirements, and minimize the potential risks of breaches in confidential data protection.

Risks of unauthorized disclosure of commercial or confidential information

Protecting the information of the Issuer, employees, and customers is critically important for the Group. The Group uses commercially available systems, software, and tools to ensure the secure processing, transmission, and storage of commercially sensitive and confidential information such as special terms and conditions of supply and lease agreements, potential new transactions, planned marketing campaigns, and the payment information and personal data of customers and employees.

Despite security precautions (user authorization, data and network access protocols, IT network protections, antivirus software, cyber-attack protection software, data backups, and in-house policies), the IT systems of the Group and its outside suppliers may be vulnerable to safety breaches, acts of vandalism, viruses, data losses, programming bugs, and human error. Security breaches involving the unlawful use, loss or disclosure of commercially sensitive information can damage the Group's reputation, lead to the termination of special terms and conditions regarding suppliers or landlords, provide more advantageous conditions for competitors, reduce anticipated profits from marketing events, and expose the Group to the risk of legal action or disrupt its operations. In addition, enlarging the volume of customer data increases the data protection risks. These factors can have a material adverse effect on the Group's business, financial condition, results of operations, and prospects.

Risks of current judicial proceedings in which the Issuer, or entities controlled by the Issuer that are materially important for the Issuer, are involved

The Group companies can participate in judicial proceedings (can sue or be sued) as part and parcel of their standard business practices.

The Issuer's management is of the opinion that there are at present no ongoing judicial proceedings or requirements that could materially and adversely affect the Group's operation or financial condition. The Issuer's management does not foresee any such judicial proceedings involving the Group in the near future, and therefore the risks of current judicial proceedings are not material.

Risk of failure to comply with existing laws and regulatory requirements

As a retail seller of food and non-food products, the Group has a duty to comply with various laws, regulations, and rules concerning, among other things, quality standards, health and safety requirements, public health standards, and consumer rights protection. This includes obtaining and renewing various permits concerning, for instance, quality and safety standards, and environmental protection. Complying with the requirements prescribed by the respective agencies can be expensive and labor intensive, which can entail delays in Group operations, the imposition of fines, and suspensions of the operation of Group-controlled stores.

The Group may receive claims over the sale of products that were damaged or otherwise found to be substandard. Damage can occur as a result of interference by unauthorized third parties and product contamination or spoilage, including the presence of foreign objects, substances, chemicals, and other agents or residue that find their way onto a product during the course of storage, processing or transportation. Although the Group believes its products overall comply with all applicable laws and regulatory requirements, it cannot be certain that the consumption or use of products sold in the Group's stores will not cause illness or injury in the future, or that claims or legal action relating to such situations will not be brought against the Group. Although the Group generally seeks contractual loss reimbursement from its suppliers, the reimbursement may be insufficient, which in certain cases may require the Group itself to respond to the customer claims or complaints as if the Group were the goods producer. Even if a product liability claim against the Group is not satisfied, investigation into the claim is terminated or the claim is covered by compensation, negative publicity over the claim against the Group can adversely impact the Group's reputation among existing and potential customers. Any of these factors can have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Risks of amended foreign currency laws

Foreign currency regulation in the Russian Federation is based on Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003, one of the major provisions of which was the transition on 1 January 2007 to the freely convertible Russian ruble and the lifting of virtually all existing restrictions on foreign currency operations. Beginning in late February 2022, the Russian authorities took action along several lines to support financial markets and keep liquid assets in Russia – for instance by establishing a mandatory obligation for resident foreign trade operators to sell their foreign currency, prohibiting residents from crediting foreign currency to their accounts or deposits in banks and other financial market entities outside Russia, prohibiting money transfers without opening a bank account and using electronic payment facilities provided by foreign payment service providers, and so forth. At the present time it is difficult to assess the risk that fresh retaliatory actions and measures will be introduced by the Russian Federation.

The Group continuously monitors changes in the regulatory framework with regard to foreign currency regulation and it follows all prescribed legal requirements in conducting its operations. The specifics of the operation and legal position of the Group companies and the Issuer mean that the risks relating to changes in foreign currency regulation can be qualified as moderate.

Risks of amended laws on taxes and duties

Changes in the tax system, in particular the raising of tax rates, introduction of new types of taxes, including potential windfall profit taxes in light of the current macroeconomic and geopolitical situation, changes in how the law is applied in practice in tax disputes, and the introduction of new requirements for tax reporting and document handling can adversely impact the Group's business, financial condition, and results of operations.

Risks of amended customs regulations and customs duties

Russian customs laws and regulations can be subject to varying interpretations and amendments that can frequently be revised and updated by government agencies. As a result, the Group's interpretation of these laws can be contested by the relevant government agencies.

Amendments to customs regulations and upward revisions of duties can entail additional financial costs for the Group.

Risks of modified licensing requirements for the core operations of the Issuer and entities controlled by the Issuer that are materially important for the Issuer, and modified licensing requirements for the use of property having restricted transferability (including natural resources)

Complying with regulatory requirements, obeying applicable laws and regulations, and monitoring and reacting to alterations and amendments thereto (including licensing requirements) may require entities controlled by the Issuer to allocate additional funds, which can adversely affect the profitability of the Group's operations. Any violations of the law and/or tardy fulfillment of requirements can entail serious consequences for the Group's business and operations, including the possibility of civil, criminal or administrative liability.

Any fines or inability to renew operating permits can have an adverse impact on the Group's business, financial condition, results of operations, and future prospects or on the Issuer's ability to fulfill its obligations under the securities.

Risks of change in judicial practice on matters relating to the Group's financial and business operations that could adversely impact the results of said operations or the results of current judicial proceedings in which the Issuer, or entities controlled by the Issuer that are materially important for the Issuer, are involved

Rulings by the Russian Constitutional Court and decrees by the Russian Supreme Court have ever increasing importance for the shaping of a uniform practice of applying the law. The Group companies regularly monitor higher court rulings and evaluate trends in how the law is applied in practice at district arbitrazh (commercial) court level, actively applying and utilizing this judicial practice not only for the judicial defense of their own rights and legitimate interests, but also to resolve legal issues as they arise in the course of business. The risks of change in judicial practice on matters relating to Group operations that could adversely impact the results of those operations are considered by the Issuer as insignificant. Moreover, the Issuer and the entities controlled by it are in the same position as other market participants and have all the legal remedies to defend their interests, which means this risk can be assessed as acceptable.

As of the Prospectus approval date, neither the Issuer nor the Group companies are participating in any material judicial proceedings whose results could adversely impact Group operations. At the same time, given that the opinions of higher courts are widely followed whenever the provisions of law are analyzed and applied, a change in judicial practice on issues that are key for the Group is capable of affecting Group operations. As of the Prospectus approval date, the Issuer has no information about any changes in judicial practice that are capable of having a material effect on Group operation. Risks of a change in judicial practice on matters relating to the Group's financial and business operations that could adversely impact the results of said operations are viewed by the Group as insignificant.

If the Group is conducting financial and business operations on markets outside Russia, the legal risks of such operations are described separately:

Aside from the Russian Federation, the Group conducts financial and business operations on certain international markets, meaning it is exposed to the risk of changes in the laws of those countries.

Changes in local laws concerning product range or pricing restrictions can materially affect business by creating the risk of regulatory initiatives and policies to protect local producers. These changes can result in an increased number of restrictions and fines, which would create additional difficulties and costs for the Group.

To minimize these risks, the Group employs several strategies. First, it actively develops and expands its pool of local suppliers, which reduces dependence on imported goods and minimizes the effect of potential changes in the law. Local suppliers can adapt to the changes more rapidly and offer more competitive terms and conditions. Second, the Group deploys a strategy of rotating its suppliers, which helps ensure the reliability and competitiveness of supplies. Regularly evaluating and updating the list of suppliers minimizes the risks of supply disruptions and changes in the regulatory environment. Third, the Group conducts talks with suppliers on flexible and fair terms of collaboration, incorporating terms and conditions in the contracts that account for potential changes in the law, and creating contingency plans. Finally, the Group works actively to bring all the technologies and processes it uses into line with local requirements, which includes regularly updating software, adapting production processes, and deploying systems that help comply with local regulations and standards, while at the same time striving to preserve alignment with Group strategy and margin goals.

These measures enable the Group to manage the risks relating to changes in local laws in an effective manner by ensuring business stability and resilience in a changing regulatory environment.

2.8.5. Risk of loss of business reputation (reputational risk)

The risk relating to the creation of a negative image of the Group's financial stability, financial condition, quality of its goods, work or services, or the nature of its operation as a whole

The risk of customer dissatisfaction with the quality of the products offered by the Group can adversely affect sales, company reputation, and customer loyalty. Dissatisfaction with quality can result in falling demand, fewer repeat purchases, and a consequent drop in earnings. Furthermore, dissatisfied customers may switch to competitors, which will increase customer attrition and create further difficulties for retaining market share. To minimize this risk, the Group focuses in particular on product quality control, responds promptly to customer complaints and feedback, and conducts regular audits of its suppliers in order to maintain a high level of product quality.

Additionally, any inability on the part of Group companies to timely discharge their financial obligations in full, or the fact that judicial proceedings are in progress or that contractors are suing Group companies for failure to meet their financial obligations, can result in creation of a negative image of the Group's financial stability, negative media publicity, slimmer chances for the Group to find contractors, an adverse effect on lending terms for Group companies, and consequently an adverse impact on the Group's business, financial condition and results of operations.

Risks relating to franchise partners

While the Group is actively developing its own network of stores, it also sells its products through a franchising network that also brings in income. Franchising is used to try out distant markets and expand the Group's geographic presence in regions where that presence was formerly limited.

The Group relies on franchising agreements to conform to retail trade standards and policies, but does not have direct control over the franchisees. Despite contractual guarantees, differing service quality and management of the franchise stores can adversely affect the Group's reputation. Breaches of franchise agreement terms or franchisee actions that damage the Group's commercial interests can materially affect its business, financial condition, and results of operations.

Risk of loss in stature of the Fix Price brand or infringement of its associated trademarks

The *Fix Price* brand and its associated trademarks are key business assets of the Group. Although the Group takes steps to protect its trademarks, third party infringements can occur. Unless the Group manages to defend its intellectual property rights against infringement, this can impair its business. Furthermore, going forward, the Group may encounter difficulties in registering the *Fix Price* trademark in other countries.

The Group's ability to expand its business depends on favorable public perceptions of the *Fix Price* brand. The Group's reputation may be jeopardized if customers believe the Group is not upholding product quality or is not maintaining its reputation as a price leader. Adverse events or public accusations can tamp down demand for Group products. Furthermore, failure to meet ethical, social or environmental standards, or a negative reaction to those issues, can harm the Group's reputation, which may adversely affect its business.

Risk of brand damage and loss of trust in Group products

Group sales partially depend on the strength and reputation of the brands that the Group offers, including brands of third parties and private-label brands. The Group depends on suppliers' investment in the marketing and promotion of their brands to stimulate consumer demand. The Group also offers products under its own labels, which are of great importance for future growth because private-label brands provide a considerable competitive edge. Maintaining broad market recognition of the Group brands depends on multiple factors, including value for money, quality, and customer perceptions. The Group may not be able to achieve or maintain the anticipated level of sales of its own brands, which may adversely affect the Group's business, financial condition, results of operations, and prospects.

2.8.6. Strategic risk

Risks of making erroneous decisions defining the Group's operating and development strategy (strategic management), including risks arising because of failure to consider, or sufficiently consider, potential hazards that could jeopardize Group operations, or because of incorrect or insufficiently substantiated identification of promising areas of operation in which the Group can gain an edge over its competitors, or because of a total or partial lack of the resources (financial, material/technical, and labor resources) and the organizational measures (management decisions) required to achieve the Group's strategic operational targets.

Strategic risk means the occurrence of Group losses or shortfalls in reaching profit targets as a result of errors or deficiencies in decision-making to define the Group's operating and development strategy (strategic management). What can lead to strategic errors are failure to consider, or sufficiently consider, potential hazards that could jeopardize Group operations, an incorrect or insufficiently substantiated identification of promising areas of operation and geographies of presence in which the Group can gain an edge over its competitors, and a total or partial lack of the resources (financial, material/technical, and human resources) and the organizational measures (management decisions) required to achieve the Group's operational targets.

The risk of strategic errors can also be caused by outside factors that do not hinge on company actions, but relate to sudden upheavals in the macroeconomic and political situation in the countries of presence and unpredictable events such as a world financial crisis, pandemic, or other material factors.

To minimize this risk, the Group regularly reviews and adjusts its earlier strategic decisions. The Issuer's and Group companies' management carefully chooses new business models and markets based on its own methodology, assessing the consumer profile, regulatory and competitive environment, macroeconomic situation, and other risks.

Risk of growth management and implementation of expansion plans

The Group's growth and financial performance depend both on growing sales in existing stores and on the profitability of new stores. It is essential for the Group to expand its retail network by opening new, profitable stores on time and at minimal cost while simultaneously maintaining or growing its sales volume and profit in existing stores. However, there are no guarantees that the Group will manage to achieve its expansion targets. The Group's business expansion can put pressure on its managerial, financial, operating, and other resources.

The Group has introduced technological solutions for opening new stores and monitoring existing ones. All the Group's lease agreements are standardized and administered using Group-developed software. However, despite the high degree of automation and standardization, the Group's ability to open and operate new, profitable stores and open commercial sites in new regions depends on a number of factors, some of which are beyond the Group's control. These factors include, among others, the Group's ability to identify and correctly assess suitable store locations with sufficiently high customer traffic, acquire and analyze demographic and market data, reach agreements on advantageous lease terms, supply the new stores with goods on time and at minimal cost, sell products at competitive prices in the new stores, open competing stores alongside existing ones or in locations identified as priority sites for opening new stores, and obtain permissions from local authorities and landlords to use the store spaces on satisfactory terms.

Furthermore, as the Group grows, it can become more difficult to locate sites for opening stores. Although the Group demonstrates growth in sales, there is no certainty that the risk of sales declining in existing stores due to the opening of new ones will not increase. The Group's growth plans also depend on economic conditions, the availability of financing, the absence of adverse changes in the regulatory legal environment, and cooperation with regional authorities. Despite all the corresponding efforts made by the Group, there are no guarantees that the new stores will be successful.

The Group's growth strategy may also put pressure on managerial, operational, financial, and other resources, which can result in less efficient operation and poorer financial performance of the existing Group-controlled stores. The Group conducts analyses and estimates, and relies on parameters such as profitability, market and other performance indicators, including comparable sales growth estimates and investment return estimates for its stores, in order to estimate the investment required by its overall business strategy and store network. Although these estimated are based on the Group's previous experience, they may turn out to be inaccurate or may be based on assumptions that could turn out to be erroneous, and the actual results may differ significantly from expectations, which can result in slower growth or unsuccessful new store openings and difficulties in monitoring their performance. The Group may not cope, in timely fashion or at all, with managing the growth of its network or the successful accomplishment of its growth strategy, which may have a material adverse impact on the Group's business, financial condition, results of operations, and prospects.

Moving forward, the Group also plans to increase the number of its distribution centers as its operations expand, including leasing new distribution centers and building its own centers wherever such construction is economically worthwhile. However, there is no certainty that the Group will be able to efficiently manage its existing capacities and enlarge them in the future as its operations expand due to a number of factors. In particular, the Group may not be able to secure the space required or reach agreement on satisfactory leasing terms for its distribution centers. Furthermore, there is no certainty that the Group will manage to obtain the necessary permits before the start of construction of the new distribution centers. Added to that, there is no certainty that delays or glitches on the part of the Group's contractors will not occur during the construction process. Any of these factors can have a material adverse effect on the Group's business, financial condition, results of operations, and prospects.

Risks involved in implementing Group strategy and dependence on qualified personnel

Implementation of the Group's strategy depends to a considerable degree on the experience and competencies of its top management, and on the Group's ability to hire and retain qualified personnel. The Group's ability to successfully realize its business strategy is largely determined by the acumen of its top management. Furthermore, the Group depends on its ability to continue hiring, retaining, and incentivizing skilled specialists. The loss of one or more key managers, or the inability to hire and retain skilled personnel, can have a material adverse effect on the Group's business, financial condition, results of operations, and prospects.

2.8.7. Risks involved in the Issuer's operations

Risk of the Group's advertising and marketing programs being ineffective

The Group utilizes various marketing methods to increase awareness of its brand, products, and prices and to attract customers into its stores. Principal marketing channels include the media, direct marketing, point of sale materials (POSM), outdoor advertising, call centers, the Internet, marketing events, and loyalty programs. The Group's future growth and profitability largely depend on the effectiveness of advertising and marketing programs. For these programs to be successful, the Group must manage its advertising and marketing costs efficiently so as to keep its operating margins and return on investments at consistent levels, and must attract customers into its store in an effective way through brand recognition.

The Group's planned advertising and marketing expenditure may not lead to an increase in overall or comparable earnings, or may not create a sufficient level of brand and product awareness. Furthermore, the Group may not be able to effectively manage its advertising and marketing expenditure. Some competitors could have significantly larger marketing budgets, giving them a competitive edge. If the Group's advertising and marketing programs turn out to be ineffective, or if the Group is unable to effectively manage its expenditure, this may result in an insufficient level of brand awareness or the attraction of insufficient customer numbers, which can adversely impact the Group's business, financial condition, results of operations, and prospects.

Risks that the licenses of the Issuer, or entities controlled by the Issuer that are materially important for the Issuer, to conduct a certain type of operation or use property having restricted transferability (including natural resources) cannot be renewed:

The Group's risks regarding licenses and permits are considered to be insignificant because the Group follows all requisite standards and requirements prescribed by applicable law, and plans to take all the steps required to renew its existing permits.

Risks of potential liability of the Issuer, or entities controlled by the Issuer that are materially important for the Issuer, under third-party obligations, including third parties controlled by the Issuer:

The Group companies have not provided any security under third party obligations, including obligations of the Group companies. The risk of potential liability of an entity controlled by the Issuer that is materially important for the Issuer under third party obligations, including third parties controlled by the Issuer, is manageable.

Nevertheless, there is a risk that the impaired financial condition of one of the Group companies could have an adverse impact on the Group. Under Russian law, whenever the Issuer gives mandatory instructions to its subsidiary, including under an agreement with the subsidiary, the Issuer will be jointly and severally liable with the subsidiary under transactions concluded by the subsidiary in performance of said instructions. There is also the risk of the Issuer's subsidiary liability for the debts of its subsidiaries in the event of insolvency or bankruptcy of any subsidiary through the Issuer's fault. Furthermore, the members or shareholders of the subsidiaries are entitled to demand compensation from the Issuer for losses caused to such subsidiary through the Issuer's fault. The Issuer considers the probability of these risks to be low. The Issuer does not act as a guarantor and does not otherwise guarantee performance of the obligations of third parties that do not belong to the Group.

Risks of potential loss of customers, business from whom accounts for at least 10 percent of the Group's total earnings from the sale of goods, work or services:

The risk of potential loss of customers, business from whom accounts for at least 10 percent of the Group's total earnings from the sale of goods, work or services, is considered to be negligible. In the market on which the Group operates, the customers are primarily private persons, while in the B2B segment (provision of services and sale of goods to businesses) the Group does not have one single customer whose share would exceed 10% of the Group's total earnings.

Risks of cybersecurity threats, including those caused by deficiency or vulnerability of the information technologies used:

Risk of partial or total outage of corporate information system hardware

The risk of partial or total outage of corporate information system (CIS) hardware represents a significant hazard for business process continuity. Such outages can be caused by emergency situations, accidents, natural catastrophes, security breaches or operating mishaps. Potential consequences can include lengthy CIS downtime, which may adversely affect operational efficiency and result in considerable financial losses.

To minimize this risk, the Group takes several key steps. First, it prepares and applies internal rules for ensuring business continuity that include precise instructions and procedures to be followed in the event of a CIS outage. These rules help ensure a rapid and efficient response to potential outages and minimize their impact on business processes. Second, dynamic load distribution among systems is implemented so that resources are evenly distributed and overloads that can cause outages are avoided.

In addition, the Group actively monitors growing load on the systems and predicts potential detrimental situations, which includes preparing outage response plans. This means that potential problems can be prepared for in advance and the risk of their occurrence can be mitigated. As an additional precaution, a standby pool of resources is created along with a precise plan for using them, which ensures that essential resources are available for rapid CIS recovery following an outage.

These precautions help the Group minimize the risk of lengthy downtimes and keep the corporate information system running smoothly, ensuring the stability and reliability of business processes.

Risk of impaired functionality or total outage of CIS software

The risk of impaired functionality or total outage of corporate information system (CIS) software represents a serious hazard for the Group companies’ stable operation. This risk can arise due to various reasons, including software bugs, defective updates or third-party meddling. The consequences of such outages can include software response problems, which can jeopardize the continuity of CIS operation and result in considerable operating and financial losses.

To minimize this risk, internal rules are prepared and applied to ensure business continuity, thus providing for a rapid and efficient response to potential software outages. These rules help minimize adverse impacts on operating processes and keep the CIS operating steadily. Also, prior to making updates to the operating environment, the updates are subjected to limited testing and then made to the operating environment in steps. This enables potential bugs and defects to be identified and fixed before they can affect production system operation. In addition, backup scenarios are prepared for each update, so that CIS operation can be quickly restored if problems arise.

Finally, making regular data backups is an important component of risk minimization strategy, protecting data and enabling data recovery in the event of software outages.

These precautions enable the Group to mitigate the risk of impaired functionality or total outage of CIS software, thus ensuring the stability and reliability of operations.

Risks of adverse environmental impact by production and business operations of the Issuer or entities controlled by the Issuer that are materially important for the Issuer:

The Group’s operations can have a detrimental environmental impact through pollutant emissions, waste generation, and the use of natural resources. The Group pays annual environmental pollution fees and fees under the ERP (Extended Producer Responsibility) program for producers and importers of goods and packaging.

The Group also actively takes environmental initiatives aimed at mitigating adverse environmental impacts. In 2023 the Group increased the volume of waste hauled away for recycling by 23%, expanded its use of the electronic document handling system, optimized its packaging, and increased the percentage of recyclable materials used. Furthermore, under its sustainable development program, the Group performed greenhouse gas calculations and estimated its ESG and climate risks.

But despite all the precautions taken, the Group admits that an adverse environmental impact cannot be totally precluded. Failure to comply with environmental standards can result in fines and sanctions, as well as reputational losses.

Risks of natural forces such as earthquakes, floods, storms, and epidemics affecting the production and business operations of the Issuer or entities controlled by the Issuer that are materially important for the Issuer:

The Group's production and business operations are exposed to the risks of impact by natural forces such as earthquakes, floods, storms, and epidemics. These natural catastrophes can result in significant disruptions to operation of the Group's production facilities, warehouses, and logistic chains, which in turn can cause delays in goods production, deliveries, and distribution, as well as significant material losses and increased recovery costs.

Earthquakes can damage infrastructure such as plants, storage facilities, and transportation routes, making it difficult to fulfill production plans and deliver products. Floods and storms can destroy or damage buildings and equipment, which can also require considerable expenditure on restoration and repair. Epidemics can adversely impact employee health, result in temporary shutdowns of some production lines or even whole enterprises, and disrupt supply chains due to travel restrictions and quarantines.

The above risks may cause the Group to face temporary or long-term production and supply disruptions, which will have an adverse impact on its operation and financial performance. Furthermore, the post-disaster recovery efforts require significant time and financial resources, which can adversely affect the Group's financial condition and development prospects.

Insufficiency of Group insurance policies

The Group considers that its current insurance policies meet the requirements of Russian law. The Group has insurance against damage caused by fire, water, natural disasters, theft, and unlawful acts by third parties, as well as buildings and fixtures insurance. However, in some cases the Group may not be insured for the full replacement value of the insured property. If the Group is hit by major property damage accidents or significant events such as fire, explosion or flooding, this can result in considerable property losses and disrupted operations, which can adversely impact its reputation and customer relationships.

In the event one or more of the above risks materializes, the Issuer will do everything possible to mitigate the consequent detrimental changes. The parameters of the action taken will depend on the particular aspects of the situation in each specific case. The Issuer cannot guarantee that the action taken to counter the detrimental changes will materially alter the situation, because most of the given risks are beyond the Issuer's control.

2.8.8. Risks of credit institutions

Not applicable. The Issuer is not a credit institution.

2.8.9. Risks of acquiring the Issuer's securities

For the Issuer's structured notes, describe the risk of receiving payments in an amount less than their nominal value:

Not applicable.

Describe the risks relating to the specifics of the Issuer's securities for which the securities prospectus is being registered. These may include risks relating to particular aspects of creating a cashflow that is channeled by the Issuer to make bond payments, or risks relating to the implementation of a project that will be financed by floating the bond issue.

The Issuer's decision to pay dividends in the future will depend on commercial considerations

Any future decision to announce and pay dividends will depend on commercial considerations, factoring in, among other things, the Group's results of operations, the Group's financial condition, the Group's requirements for cash funds, contractual limitations, and the Group's future goals and plans. The Issuer cannot give any guarantees that it will pay dividends in the future.

The Issuer's share price after the start of public trading may fluctuate considerably

Various macroeconomic, geopolitical, market, and sectoral factors can affect the market price of the Issuer's securities, regardless of the Issuer's actual operating performance. These changes can result in unexpected losses for investors who may not manage to sell their shares at the right time. Furthermore, frequent fluctuations in the market price of the Issuer's shares may make it difficult to attract new investors, which can adversely affect the Group's reputation.

The market price may also be affected by numerous factors, some of which are beyond the Issuer's control, such as:

- macroeconomic and geopolitical developments, among other things involving the current geopolitical situation;
- market rumors, which can adversely affect the price of the securities;
- quarterly changes in the Group's results of operations or competitors' results;
- disruptions in Group operations or the operations of its business partners;
- the launch of judicial proceedings or participation therein;
- any material change in membership of the governing bodies;
- changes in profit estimates or in the recommendations of investment analysts regarding the Issuer's securities;
- the operating figures and share prices of other companies that investors may consider comparable to the Issuer's share price;
- exchange rate fluctuations;
- global or Russian economic conditions as a whole and slow growth, negative growth or predicted growth of the relevant markets; and
- other events or factors, including those arising due to conflicts, terrorist acts, natural disasters, epidemics, and natural cataclysms or the reactions to such events.

2.8.10. Other risks that are substantial for the Issuer

Risks of leasing space

The Group leases space for its stores and some of its distribution centers, which creates risks relating to the renewal of lease agreements and conditions on the commercial property leasing market.

Most lease agreements for Group-controlled stores either provide for automatic renewal or grant the right to extend the lease provided the agreement terms are followed and written notice is given to the landlord. However, some lease agreements allow the landlord to keep the Group's property or block access to the commercial space if the lease payment obligations are not fulfilled.

All leasing of space in Russia is denominated in Russian rubles, while leasing in other countries where the Group is present is generally denominated in the national currencies.

There is a probability that the Group can encounter difficulties in obtaining or renewing a lease on commercially advantageous terms, which can lead to higher lease rates, store closures in desirable locations, greater spending on fitting out new space, and the impossibility of finding a replacement in attractive locations. These risks can adversely affect the Group's business, financial condition, and prospects.

Risks relating to construction of distribution centers

The Group owns some distribution centers and may, under its plans to expand its store network (even while there is a shortage of storage space) and optimize its supply chain, if the need arises, replace some of the existing distribution centers with new, larger-capacity ones. For construction of the distribution centers, the Group relies on outside contractors. Although the Group works with tried and true construction companies, there is no guarantee that a shortage of qualified subcontractors capable of performing timely construction to high quality will not arise in the future.

Construction delays and defects, including problems obtaining the requisite permits, can entail higher expenditure and the delayed opening of distribution centers. Difficulties may also arise in hooking up utilities such as electricity, water, and gas, which can increase construction times and costs. These factors may force the existing distribution centers to operate at full capacity or impede implementation of the expansion plans, which will adversely impact the Group's business, financial condition, and prospects.