Independent auditor's report
on the consolidated financial statements of
Lenta Ltd. and its subsidiaries
for the year ended 31 December 2019

February 2020

Independent auditor's report on the consolidated financial statements of Lenta Ltd. and its subsidiaries

Contents

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Independent auditor's report

To the Shareholders and Board of Directors of
Lenta Ltd.

Opinion

We have audited the consolidated financial statements of Lenta Ltd. and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, 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 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended 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' 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.

Key audit matter	How our audit addressed the key audit matter
Transition to IFRS 16 Leases	
Effective 1 January 2019, the Group adopted IFRS 16 *Leases* (IFRS 16). When adopting the new standard, the Group applied a modified retrospective approach. The adoption of the new standard resulted in the recognition of a right-of-use asset in the amount of RUB 36,357,602 thousand and additional lease liabilities in the amount of RUB 34,120,002 thousand. The adoption of IFRS 16 was one of the key audit matters because the effect of transition to the new standard is significant and changes in the accounting policy required management to make judgments with respect to approaches. In addition, identifying and processing all lease-related data is a complex process, and the valuation of the right-of-use asset and lease liabilities is based on assumptions such as the discount rate and lease term in agreements with extension options. Information about the adoption of IFRS 16 is disclosed in Note 4 to the consolidated financial statements.	We analyzed the Group's accounting policy on the recognition of leases, specific transition provisions and practical expedients set forth in IFRS 16 and applied by the Group. We obtained an understanding of the process of the Group's transition to IFRS 16 in respect of existing leases and evaluated the effectiveness of relevant internal controls. We analyzed the list of lease agreements to which IFRS 16 is applied and compared, on a sample basis, data in agreements with data that were used during the implementation and application of the transition provisions of IFRS 16. We analyzed management's judgments made to determine the lease term in agreements with extension options. We tested the mathematical accuracy of calculations of cumulative adjustments at the transition date. We analyzed information on the adoption of IFRS 16 disclosed in the financial statements.
Impairment of property, plant and equipment	
As a result of impairment testing held for the smallest group of assets that can generate independent cash flows, the Group recognized an impairment of property, plant and equipment in the amount of RUB 11,849,959 thousand. Impairment testing for property, plant and equipment was one of the key audit matters because the balance of property, plant and equipment forms a significant portion of the Group's assets at the reporting date, the amount of recognized impairment of property, plant and equipment forms a significant portion of the Group's expenses, 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, as well as about assumptions used in the assessment. Property, plant and equipment and impairment testing are disclosed in Note 7 to the consolidated financial statements.	Our procedures in relation to impairment testing of property, plant and equipment performed by management included an assessment of key management assumptions, including those in respect of revenue and operating expenses. We compared management assumptions with historical data. We also analyzed discount rates used by management. We engaged our internal valuation experts in performing these procedures. We performed the sensitivity analysis to determine whether a reasonably possible change in key assumptions would result in the carrying amount exceeding the recoverable amount. We analyzed the accuracy of previous budget and forecast data prepared by management. We verified the mathematical accuracy of impairment tests. We assessed disclosures in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Recognition of suppliers' allowances The Group receives various types of allowances from suppliers in connection with the purchase of goods for resale in the form of volume rebates and other payments. The recognition of allowances was a matter of most significance in our audit because of its material impact on trade and other receivables, cost of goods sold and inventories. In addition, management exercises judgement in determining the period over which these allowances should be recognised considering the nature and the level of fulfilment of the Group's obligations and estimates of purchase volumes. Information about suppliers' rebates receivable and accounts receivable on suppliers' advertising is disclosed in Note 13 to the consolidated financial statements.	We agreed the terms of providing allowances to supporting documents approved by individual suppliers. We analyzed the assumptions underlying management estimates of recognized amounts of allowances from suppliers. On a sample basis we received direct confirmations of outstanding balances from suppliers. We agreed the balances of suppliers' allowances receivables to the post year-end cash settlements.

Other information included in The Group's 2019 Annual Report

Other information consists of the information included in The Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

Responsibilities of management 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 the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the 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.

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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, related safeguards.

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
Partner
Ernst & Young LLC

21 February 2020

Details of the audited entity

Name: Lenta Ltd.
Incorporated under the laws of the BVI on 16 July 2003, State Registration Number 1058643.
Address: P.O. Box 3340, Road Town, Tortola, British Virgin Islands.

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.

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2019

The following statement is made with a view to the respective responsibilities of management in relation to the consolidated financial statements of Lenta Ltd. and its subsidiaries ("the Group").

Management is responsible for the preparation of these consolidated financial statements that present fairly the financial position of Lenta Ltd. and its subsidiaries ("the Group") as at 31 December 2019 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 throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management on 21 February 2020.

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

Herman Tinga
(CEO of Lenta Ltd.)

Rud Pedersen
(CFO of Lenta Ltd.)

Consolidated statement of financial position as at 31 December 2019

(in thousands of Russian roubles)

	Note	31 December 2019	31 December 2018*
Assets			
Non-current assets			
Property, plant and equipment	7	165,443,239	177,024,063
Prepayments for construction	8	2,312,814	4,929,794
Right-of-use assets	4	32,667,443	–
Leasehold rights		–	3,170,537
Intangible assets	10	2,270,975	1,905,890
Other non-current assets	11	444,316	896,928
Total non-current assets		**203,138,787**	**187,927,212**
Current assets			
Inventories	12	38,453,265	41,500,851
Trade and other receivables	13	8,604,102	11,272,602
Advances paid	14	1,582,931	2,772,184
Taxes recoverable	15	163,364	992,378
Prepaid expenses		103,059	123,101
Cash and cash equivalents	16	73,404,760	33,804,860
Total current assets		**122,311,481**	**90,465,976**
Total assets		**325,450,268**	**278,393,188**
Equity and liabilities			
Equity			
Share capital	17, 18	–	–
Additional paid-in capital	17	27,062,751	26,935,309
Share options	26	390,536	633,165
Treasury shares		(1,011,190)	(291,091)
Retained earnings		51,708,795	55,473,276
Total equity		**78,150,892**	**82,750,659**
Liabilities			
Non-current liabilities			
Long-term borrowings	19	82,110,441	106,341,291
Deferred tax liabilities	20	6,508,488	10,039,756
Long-term lease liabilities	4	29,520,222	–
Total non-current liabilities		**118,139,151**	**116,381,047**
Current liabilities			
Trade and other payables	21	54,689,103	56,133,840
Short-term borrowings and short-term portion of long-term borrowings	19	68,430,816	20,738,998
Short-term lease liabilities	4	2,639,784	–
Contract liabilities		482,160	350,378
Advances received		191,953	148,543
Other taxes payable	22	1,173,563	1,041,123
Current income tax payable		1,552,846	848,600
Total current liabilities		**129,160,225**	**79,261,482**
Total liabilities		**247,299,376**	**195,642,529**
Total equity and liabilities		**325,450,268**	**278,393,188**

* *Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2018 and reflect reclassification described in Note 4.*

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019

(in thousands of Russian roubles)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Sales		417,500,015	413,562,197
Cost of sales	23	(325,482,536)	(324,767,890)
Gross profit		**92,017,479**	**88,794,307**
Selling, general and administrative expenses	24	(75,083,513)	(69,094,871)
Other operating income	25	5,067,766	4,993,245
Other operating expenses	25	(935,698)	(476,040)
Operating profit before impairment		**21,066,034**	**24,216,641**
Impairment of non-financial assets	4, 7, 10	(11,849,959)	(132,188)
Operating profit		**9,216,075**	**24,084,453**
Interest expense		(15,866,946)	(9,699,272)
Interest income		3,827,178	608,472
Foreign exchange gains/(losses)		220,503	(176,371)
(Loss)/profit before income tax		**(2,603,190)**	**14,817,282**
Income tax expense	20	(190,684)	(3,022,988)
(Loss)/profit for the year		**(2,793,874)**	**11,794,294**
Other comprehensive income (OCI)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net loss from cash flow hedges		–	(206,108)
Income tax relating to the cash flow hedges	20	–	41,222
Other comprehensive loss for the year, net of tax		**–**	**(164,886)**
Total comprehensive (loss)/income for the year, net of tax		**(2,793,874)**	**11,629,408**
(Loss)/earnings per share (in thousands of Russian roubles per share) (Note 18)			
- basic and diluted, for (loss)/profit for the year attributable to equity holders of the parent		(0.029)	0.121

The accompanying notes on pages 13-69 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2019

(in thousands of Russian roubles)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
(Loss)/profit before income tax		**(2,603,190)**	**14,817,282**
Adjustments for:			
Net loss on disposal of property, plant and equipment	25	296,667	26,483
Loss on disposal of intangible assets	25	13,446	–
Cancelation of lease contracts	25	121,636	–
Interest expense		15,866,946	9,699,272
Interest income		(3,827,178)	(608,472)
Inventory write-down to net realisable value	12	411,398	397,251
Net foreign exchange gain attributable to financing activities		(102,355)	–
Impairment of advances paid and prepayments for construction, reversal of allowance for expected credit losses of accounts receivable		53,173	109,168
Depreciation and amortisation	4, 7, 10	18,439,679	11,977,519
Impairment of non-financial assets	4, 7, 10	11,849,959	132,188
Share options expense	26	435,121	265,261
		40,955,302	**36,815,952**
Movements in working capital			
Decrease/(increase) in trade and other receivables	13	2,718,306	(684,178)
Decrease/(increase) in advances paid	14	999,233	(548,409)
Decrease/(increase) in prepaid expenses		18,042	(20,686)
Decrease/(increase) in inventories	12	2,636,188	(4,964,974)
(Decrease)/increase in trade and other payables	21	(29,309)	42,165
Increase/(decrease) in contract liabilities and advances received		175,192	(15,988)
Increase in net other taxes payable	15, 22	961,454	1,791,820
Cash from operating activities		**48,434,408**	**32,415,702**
Income taxes paid		(2,709,023)	(871,201)
Interest received		3,810,923	522,871
Interest paid		(15,663,909)	(10,440,177)
Net cash generated from operating activities		**33,872,399**	**21,627,195**
Cash flows from investing activities			
Purchases of property, plant and equipment		(13,154,203)	(21,411,263)
Purchases of intangible assets		(886,872)	(642,512)
Purchases of leasehold rights		–	(267,640)
Proceeds from sale of property, plant and equipment		76,970	177,087
Net cash used in investing activities		**(13,964,105)**	**(22,144,328)**
Cash flows from financing activities			
Proceeds from borrowings	19, 28	230,030,804	132,183,000
Repayments of borrowings	19, 28	(206,770,873)	(111,871,775)
Payments for the principal portion of the lease liabilities	4	(2,848,226)	–
Purchase of treasury shares	17	(720,099)	(291,091)
Net cash generated from financing activities		**19,691,606**	**20,020,134**
Net increase in cash and cash equivalents		**39,599,900**	**19,503,001**
Cash and cash equivalents at the beginning of the year	16	33,804,860	14,301,859
Cash and cash equivalents at the end of the year	16	**73,404,760**	**33,804,860**

The accompanying notes on pages 13-69 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2019

(in thousands of Russian roubles)

	Share capital	Additional paid-in capital	Treasury shares	Share options reserve	Retained earnings	Total equity
Balance at 31 December 2018	**–**	**26,935,309**	**(291,091)**	**633,165**	**55,473,276**	**82,750,659**
Change in the accounting policies due to application of IFRS 16 (Note 4)	–	–	–	–	(1,234,731)	**(1,234,731)**
Balance at 1 January 2019	**–**	**26,935,309**	**(291,091)**	**633,165**	**54,238,545**	**81,515,928**
Loss for the year	–	–	–	–	(2,793,874)	**(2,793,874)**
Total comprehensive loss	**–**	**–**	**–**	**–**	**(2,793,874)**	**(2,793,874)**
Share option expenses (Note 26)	–	–	–	435,121	–	**435,121**
Share option settlement by shares (Notes 17, 26)	–	127,442	–	(127,442)	–	**–**
Share option settlement by cash (Note 26)	–	–	–	(550,308)	264,124	**(286,184)**
Purchase of treasury shares (Note 17)	–	–	(720,099)	–	–	**(720,099)**
Balance at 31 December 2019	**–**	**27,062,751**	**(1,011,190)**	**390,536**	**51,708,795**	**78,150,892**

	Share capital	Additional paid-in capital	Hedging reserve	Treasury shares	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2018	**284**	**26,480,481**	**164,886**	**–**	**825,176**	**44,316,449**	**71,787,276**
Reclassification (Note 4)	(284)	284	–	–	–	–	**–**
Change in the accounting policies due to application of IFRS 9 (Note 4)	–	–	–	–	–	(637,467)	**(637,467)**
Balance at 1 January 2018 (restated)	**–**	**26,480,765**	**164,886**	**–**	**825,176**	**43,678,982**	**71,149,809**
Profit for the year	–	–	–	–	–	11,794,294	**11,794,294**
Other comprehensive loss	–	–	(164,886)	–	–	–	**(164,886)**
Total comprehensive (loss)/income	**–**	**–**	**(164,886)**	**–**	**–**	**11,794,294**	**11,629,408**
Share-based payments (Note 26)	–	–	–	–	265,261	–	**265,261**
Issue of shares (Notes 17, 26)	–	454,544	–	–	(457,272)	–	**(2,728)**
Purchase of treasury shares (Note 17)	–	–	–	(291,091)	–	–	**(291,091)**
Balance at 31 December 2018*	**–**	**26,935,309**	**–**	**(291,091)**	**633,165**	**55,473,276**	**82,750,659**

* *Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2018 and reflect reclassification described in Note 4.*

Notes

Additional paid-in capital: Additional paid-in capital is the difference between the fair value of consideration received and nominal value of the issued shares.

Treasury shares: Treasury shares are own equity instruments reacquired by the Group.

The accompanying notes on pages 13-69 are an integral part of these consolidated financial statements.

1. The Lenta Group and its operations

The Lenta Group (the "Group") comprises Lenta Ltd. ("the Company") and its subsidiaries. The Group's principal business activity is the development and operation of hypermarket and supermarket stores in Russia.

The Company was incorporated as a company limited by shares under the laws of the British Virgin Islands (BVI) on 16 July 2003. The Company's registered address is at P.O. Box 3340, Road Town, Tortola, BVI. The registered office of the Group's main operating entity, Lenta LLC, is located at 112, Lit. B, Savushkina Street, 197374, Saint Petersburg, Russia.

In September 2019 the Company established a representative office in St. Petersburg.

In October 2019 the Company was registered as a Russian tax resident.

In December 2019 the Company has started the process of its redomiciliation to Cyprus.

Further to obtaining shareholder approval of the redomiciliation on October 2019, the Company applied on 19 December 2019 to the Department of Registrar of Companies and Official Receiver ("DRCOR") for continuance of the Company's incorporation into Cyprus. The redomiciliation will become effective upon the issue by the DRCOR of a certificate of temporary registration in Cyprus to the Company.

Starting from March 2014 the Company's shares are listed on the London Stock Exchange and Moscow Exchange in the form of Global Depositary Receipts (GDR).

At 31 December 2019 and 31 December 2018 the Group has one main operating subsidiary, Lenta LLC (100% owned), a legal entity registered under the laws of the Russian Federation. Other subsidiaries are property or investment holding companies by their nature.

2. Basis of preparation and significant accounting policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for as described in accounting policies below. The consolidated financial statements are presented in Russian roubles and all values are rounded to the nearest thousand (RUB 000), except when otherwise indicated.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

2. Basis of preparation and significant accounting policies (continued)

2.1 Basis of preparation (continued)

Management has considered the Group's cash flow forecasts for the foreseeable future, which take into account the current and expected economic situation in Russia, the Group's financial position, available borrowing facilities, and loan covenant compliance, planned store opening program and the anticipated cash flows and related expenditures from retail stores.

Accordingly, management is satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the consolidated financial information for these consolidated financial statements.

At 31 December 2019, the Group had net current liabilities of RUB 6,848,744 (net current assets at 31 December 2018: 11,204,494).

Unused credit facilities available as of 31 December 2019 were RUB 89,136,000. Management believes that operating cash flows and available borrowing capacity will provide the Group with adequate resources to fund its liabilities for the next year.

2.2 Summary of significant accounting policies

Business combinations and goodwill

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 Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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 by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequently contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest 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 gain is recognised in profit or loss.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

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 has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss from disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Current versus non-current classification

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 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

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 28.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Functional and presentation currency

The presentation and functional currency of all Group entities is the Russian rouble ("RUB"), the national currency of the Russian Federation, the primary economic environment in which operating entities function.

Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss from change in fair value of the item.

Property, plant and equipment

Property, plant and equipment are initially recorded at purchase or construction cost. Cost of replacing major parts or components of property, plant and equipment items is capitalised and the replaced part is retired. All other repair and maintenance costs are expensed as incurred.

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

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

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 impairment loss has been recognised.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Depreciation

Depreciation of property, plant and equipment is calculated using the straight-line method to write off their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	30
Land improvements (Notes 3, 7)	7
Machinery and equipment	2 to 15

Leases

The Group has lease contracts for land and buildings. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under advances paid and trade and other payables, respectively.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Upon adoption of IFRS 16 the Group recognises right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases.

Set out below are the new accounting policies of the Group:

Right-of-use assets

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

Depreciations is charged to profit or loss, except for depreciation of right-of-use assets representing right to use leased land plots during the construction process, which is included in carrying value of assets under construction. Right-of-use assets are subject to impairment.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Lease liabilities

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

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

Short-term leases

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

Lease and non-lease components

At initial application and subsequently as well the Group accounts for lease and non-lease components (e.g. advertising, maintenance fees etc.) separately.

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 intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Intangible assets with finite lives are amortised over the useful economic life (which is from 3 to 7 years) using a straight-line method to write off their cost to their residual values and assessed for impairment whenever there is an indication that the intangible asset may be impaired. 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. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income as the expense category that is consistent with the function of the intangible assets or included into the carrying amount of an asset as appropriate.

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.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial 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 cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset or a cash-generating unit is the higher of its 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (the cash-generating unit) 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 recognised for the asset (the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with management’s interpretation of the relevant legislation enacted or substantively enacted as at the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of profit or loss and other comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity. 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 of consideration paid.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Deferred income tax is recorded using the balance sheet liability method for tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

- When the deferred tax liability arises from the initial recognition of goodwill or 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, when 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 recognised 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 utilised, except:

- When 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 recognised 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 utilised.

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.

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

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.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Cost comprises of the direct cost of goods, transportation and handling costs. Cost of sales comprises only of cost of inventories sold through retail stores and inventory write-downs made during the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset, other borrowing costs are recognised 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. For the purposes of borrowing costs recognition, a substantial period of time is considered to be a period of twelve months or more.

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

Revenue from contracts with customers

The sole source of revenue from contracts with customers is retail sales.

The Group recognises revenue when control of the goods and services is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods. The customers have right of return, which is regulated by Russian legislation and is possible within up to 14 days since the purchase with the exception for certain categories of goods. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

The loyalty programme offered by the Group gives rise to a separate performance obligation because it generally provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty programme based on relative stand-alone selling price and recognize as a contract liability.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Other income

Income generated from rental of spaces for small trading outlets within the Group's stores is recognised in the end of each month on a straight-line basis over the period of the lease, in accordance with the terms of the relevant lease agreements.

Sale from secondary materials is recognized within the other operating income in the consolidated statement of profit or loss and other comprehensive income at a point in time.

Interest income is recognised on a time-proportion basis using the effective interest rate method. Interest income is included into the Interest income line in the consolidated statement of profit or loss and other comprehensive income.

Suppliers' allowances

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor. These allowances 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. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned.

Employee benefits

The Group is subject to mandatory contributions to the Russian Federation defined contribution state pension benefit fund. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Share-based payments

Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (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 recognised, together with a corresponding increase in share options reserve in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense (Note 26). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense (Note 26).

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vested irrespective of whether or not 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 recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

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 stores and in various regions 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 and determined that the stores have similar margins, 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 a measure of revenue and earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is a non-IFRS measure. Other information is measured in a manner consistent with that in the consolidated financial statements.

Seasonality

The Group's business operations are stable during the year with limited seasonal impact, except for a significant increase of business activities in December.

Financial assets

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets

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;
- FVOCI;
- FVPL.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

The Group measures amounts of loans 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

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 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).

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

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.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Cash and cash equivalents

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

Impairment of financial assets

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

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

For trade 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 recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Derecognition of financial assets

A financial asset is derecognised when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Financial liabilities and equity instruments issued by the Group

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss and other comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

Share capital

Ordinary shares are classified as equity. Transaction costs of a share issue are shown within equity as a deduction from the equity.

Additional paid-in capital

Additional paid-in capital represents the difference between the fair value of consideration received and the nominal value of the issued shares.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) 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.

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 transaction costs.

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially recognised 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 derecognises 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 recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps and caps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

2. Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Swaps and caps used by the Group that meet the strict criteria for hedge accounting are accounted for as cash flow hedges. The effective portion of the gain or loss from the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss as other operating expenses.

Designation of a hedge relationship takes effect prospectively from the date all of the criteria are met. In particular, hedge accounting can be applied only from the date all of the necessary documentation is completed. Therefore, hedge relationships cannot be designated retrospectively.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Current versus non-current classification

Derivative instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- When the Group expects to hold a derivative as an economic hedge for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

2. Basis of preparation and significant accounting policies (continued)

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries) as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee 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, 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.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and 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 statement of comprehensive income 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 equity holders 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. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Subsidiaries are those companies (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits and which are neither associates nor joint ventures. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

3. Significant accounting judgments, estimates and assumptions

In the application of the Group's accounting policies, which are described in Note 2 above, 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 recognised 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.

Judgments that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Judgments

Assets versus business acquisition

From time to time in the normal course of business the Group acquires the companies that are a party to a lease contract, own the land plot or store in which the Group is interested. If at the date of acquisition by the Group, the company does not constitute an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investor, the Group treats such acquisitions as a purchase of assets (a leasehold right, land plot or store) in the consolidated financial statements. The exercise of judgment determines whether a particular transaction is treated as a business combination or as a purchase of assets.

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 beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Inventory valuation

Management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review also includes the identification of slow moving inventories, which are written down based on inventories ageing and write down rates. The write down rates are determined by management following the experience of sales of such items.

3. Significant accounting judgments, estimates and assumptions (continued)

Tax legislation

Russian tax, currency and customs legislation is subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that the transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined 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 judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 28 for further discussion.

Impairment of non-financial 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 value 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.

The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

The value in use calculation is based on a discounted cash flow model. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget 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 the future profitability of products.

3. Significant accounting judgments, estimates and assumptions (continued)

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 26.

Property, plant and equipment

Since 1 January 2019 the Group reviewed economic useful life of Land improvements class of property, plant and equipment from 30 years to 7 years, as practice has proven that factual useful life of land improvements does not exceed 7 years. The effect of the change in accounting estimate was recognized prospectively by including it in profit or loss for the year ended 31 December 2019 in the amount of RUB 2,324,185 and also will affect future periods.

Lease term of contracts with renewal options

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.

The Group has the option, under some of its leases to lease the assets for additional terms. 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).

For leased land plots under the stores the Group defines lease term as the longest of non-cancellable term of the lease or remaining useful life of a store. The Group typically exercises its option to renew for these leases because it has an exclusive right as an owner of real estate.

The periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Leases − estimating the incremental borrowing rate

The Group measures the lease liability by discounting lease payments using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group uses 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; and
- in a similar economic environment.

(in thousands of Russian roubles)

4. New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16

The Group applies, for the first time, IFRS 16 *Leases* using the modified retrospective approach for all leases where it is the lessee, except for short-term leases.

The comparatives are not restated and the cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance of retained earnings at the date of initial application. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets with corresponding effect recorded in retained earnings.

The nature and effect of these changes are disclosed below.

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

Non-current assets	
Right-of-use assets	36,357,602
Leasehold rights	(3,170,537)
Other non-current assets	(468,753)
	32,718,312
Current assets	
Advances paid	(141,724)
	(141,724)
Total assets	**32,576,588**
Equity	
Retained earnings	(1,234,731)
Total equity	**(1,234,731)**
Non-current liabilities	
Deferred tax liabilities	(308,683)
Long-term lease liabilities	32,081,145
	31,772,462
Current liabilities	
Short-term lease liabilities	2,038,857
	2,038,857
Total liabilities	**33,811,319**
Total equity and liabilities	**32,576,588**

The right-of-use assets for most leases were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments or leasehold rights previously recognised. In some leases, the right-of-use assets were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application.

(in thousands of Russian roubles)

4. New standards, interpretations and amendments adopted by the Group (continued)

IFRS 16 (continued)

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

a) Used a single discount rate to a portfolio of leases with reasonably similar characteristics.

b) Relied on its assessment of whether leases are onerous immediately before the date of initial application.

c) Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.

d) Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

a) Right-of-use assets of RUB 36,357,602 were recognised and presented separately in the statement of financial position. This amount includes 'key money' of RUB 3,170,537 reclassified from leasehold rights, previously recognised guarantee payments of RUB 468,753 that should be offset against the last lease payment reclassified from other non-current assets and lease prepayments of RUB 141,724 reclassified from advances paid.

b) Additional lease liabilities of RUB 34,120,002 were recognised and presented separately in the statement of financial position.

c) Deferred tax liabilities decreased by RUB 308,683 because of the deferred tax impact of the changes in assets and liabilities.

d) The net effect of these adjustments had been adjusted to retained earnings in the amount of RUB 1,234,731 (loss).

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	**64,061,649**
Less: commitments relating to short-term leases	3,752,584
Operating lease commitments subject to capitalization under IFRS 16	**60,309,065**
Weighted average incremental borrowing rate as at 1 January 2019	8.3%
Lease liabilities as at 1 January 2019	**34,120,002**

(in thousands of Russian roubles)

4. New standards, interpretations and amendments adopted by the Group (continued)

IFRS 16 (continued)

Amounts recognised in the statement of financial position and profit or loss

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

	Right-of-use assets			Lease liabilities
	Land	**Buildings**	**Total**	**Total**
As at 1 January 2019	**5,810,044**	**30,547,558**	**36,357,602**	**34,120,002**
Additions	6,689	1,575,450	**1,582,139**	**1,581,061**
Depreciation charge	(211,615)	(3,639,216)	**(3,850,831)**	**–**
Impairment charge	(235,056)	–	**(235,056)**	**–**
Cancelation of lease contracts	(169,085)	(543,027)	**(712,112)**	**(590,476)**
Transfer to property, plant and equipment resulted from purchase of the underlining assets in the lease	(267,167)	(207,132)	**(474,299)**	**–**
Interest expense	–	–	**–**	**2,795,074**
Payments for the principal portion of the lease liabilities	–	–	**–**	**(2,848,226)**
Cash payments for the interest portion of the lease liability	–	–	**–**	**(2,795,074)**
Foreign exchange gain	–	–	**–**	**(102,355)**
As at 31 December 2019	**4,933,810**	**27,733,633**	**32,667,443**	**32,160,006**
Current lease liabilities				**2,639,784**

Transfer to property, plant and equipment resulted from purchase of the underlining assets in the lease.

Set out below, are the amounts recognised in profit or loss:

	Year ended 31 December 2019
Depreciation of right-of-use assets	3,850,831
Impairment of right-of-use assets	235,056
Capitalisation of depreciation to CIP	(30,025)
Interest expense on lease liabilities	2,795,074
Interest income on security deposits	(15,005)
Foreign exchange gain	(102,355)
Rent expense – short-term leases	888,393
Rent expense – variable lease payments	270,656
Total amounts recognised in profit or loss	**7,892,625**

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group.

4. New standards, interpretations and amendments adopted by the Group (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, no does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined that it is probable that its tax treatments will be accepted by the taxation authorities.

The interpretation did not have an impact on the consolidated financial statements of the Group

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on the consolidated financial statements of the Group.

4. New standards, interpretations and amendments adopted by the Group (continued)

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements.

Annual improvements 2015-2017 cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

4. New standards, interpretations and amendments adopted by the Group (continued)

Annual improvements 2015-2017 cycle (continued)

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group has no qualifying assets, these amendments had no impact on the consolidated financial statements of the Group.

Reclassifications in the consolidated statement of financial position

Reclassification of share capital balance in the amount of RUB 284 to additional paid-in-capital was done as the Group's shares were restated to be of no par value.

5. Standards issued but not yet effective

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. 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 2021, 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 3 Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

5. Standards issued but not yet effective (continued)

Interest Rate Benchmark Reform − Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 *Financial instruments: Disclosures*, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Amendments are effective for annual periods beginning on or after 1 January 2020.

<u>The amendments to IFRS 9</u>

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Application of the reliefs is mandatory. The first three reliefs provide for:

- The assessment of whether a forecast transaction (or component thereof) is highly probable;
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss;
- The assessment of the economic relationship between the hedged item and the hedging instrument.

For each of these reliefs, it is assumed that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, for relief three, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.

A fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship.

The reliefs continue indefinitely in the absence of any of the events described in the amendments. When an entity designates a group of items as the hedged item, the requirements for when the reliefs cease are applied separately to each individual item within the designated group of items.

<u>The amendments to IAS 39</u>

The corresponding amendments are consistent with those for IFRS 9, but with the following differences:

- For the prospective assessment of hedge effectiveness, it is assumed that the benchmark on which the hedged cash flows are based (whether or not it is contractually specified) and/or the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.
- For the retrospective assessment of hedge effectiveness, to allow the hedge to pass the assessment even if the actual results of the hedge are temporarily outside the 80%-125% range, during the period of uncertainty arising from IBOR reform.
- For a hedge of a benchmark portion (rather than a risk component under IFRS 9) of interest rate risk that is affected by IBOR reform, the requirement that the portion is separately identifiable need be met only at the inception of the hedge.

5. Standards issued but not yet effective (continued)

Interest Rate Benchmark Reform − Amendments to IFRS 9, IAS 39 and IFRS 7 (continued)

The amendments must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed.

These amendments do not have any impact on the Group's consolidated financial statements as no hedge relationships are designated at the reporting date.

The Conceptual Framework for Financial Reporting

Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. It is effective for annual periods beginning on or after 1 January 2020.

The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

It is arranged in eight chapters, as follows:

- Chapter 1 − The objective of financial reporting;
- Chapter 2 − Qualitative characteristics of useful financial information;
- Chapter 3 − Financial statements and the reporting entity;
- Chapter 4 − The elements of financial statements;
- Chapter 5 − Recognition and derecognition;
- Chapter 6 − Measurement;
- Chapter 7 − Presentation and disclosure;
- Chapter 8 − Concepts of capital and capital maintenance.

Changes to Conceptual Framework are not expected to have any significant impact on the Group's consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements − classification of liabilities as current or non-current

On 23 January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 *Presentation of Financial Statements* (the amendments) 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.

5. Standards issued but not yet effective (continued)

The Board added two new paragraphs (paragraphs 76A and 76B) to IAS 1 to clarify what is meant by ‘settlement’ of a liability. ‘For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:

- Cash or other economic resources − for example, goods or services; or
- The entity’s own equity instruments, unless paragraph 76B applies.’

Paragraph 76B states that terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments do not affect its classification as current or non-current if, applying IAS 32 *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.

The amendments to IAS 1 are required to be applied for annual periods beginning on or after 1 January 2022. The amendments must be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted.

Amendments to classification of liabilities as current or non-current are not expected to have any impact on the Group’s consolidated financial statements.

6. Balances and transactions with related parties

The transactions with related parties are made on terms substantially equivalent to those that prevail in arm’s length transactions.

On 30 April 2019 LLC “Severgroup” (“Severgroup”) has completed its acquisition of 166,383,595 Lenta GDRs, representing approximately 34.45% of the issued and outstanding voting shares (excluding treasury shares) in the Group from the investment vehicle of TPG Group, Luna Inc., as well as the acquisition of 36,076,870 Lenta GDRs representing approximately 7.47% of the issued and outstanding voting shares (excluding treasury shares) in the Group from the European Bank for Reconstruction and Development (“EBRD”), in each case, at a price of US$ 3.60 per Lenta GDR. On 31 December 2019 Severgroup stake represents 77.99% of the share capital or 78.73% of the voting rights.

As the result of the deal Alexey Mordashov becomes the ultimate controlling party of the Group since 30 April 2019 (no ultimate controlling party as of 31 December 2018). TPG and EBRD cease to be related parties starting from May 2019.

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

(in thousands of Russian roubles)

6. Balances and transactions with related parties (continued)

Entities with significant influence over the Group:

	Year ended 31 December 2019	Year ended 31 December 2018
Severgroup		
Other operating income from related parties	6,524	–
Purchases of inventories from related parties	(8,357)	–
Selling, General and Administrative expenses	(17,808)	–
Amounts owed by related parties	7,215	–
Amounts owed to related parties	(16,469)	–
Advances received	(360)	–
Advances paid	344	–
		–
TPG Group		
Selling, General and Administrative expenses	(4,610)	(14,492)

Remuneration to the members of the Board of Directors and key management personnel is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Short-term benefits	771,041	586,771
Long-term benefits (including share-based payments, Note 26)	769,872	165,538
Termination benefits	14,992	31,821
Total remuneration	**1,555,905**	**784,130**

7. Property, plant and equipment

	Land	Land improve-ments	Buildings	Machinery and equipment	Assets under construction	Total
Cost						
Balance at 1 January 2019	**22,237,066**	**12,358,156**	**124,825,097**	**59,986,683**	**3,770,316**	**223,177,318**
Additions	–	–	–	–	14,125,226	**14,125,226**
Transfers from construction in progress	1,024,239	332,559	7,845,616	5,665,732	(14,868,146)	**–**
Transfers from right-of-use assets	267,167	–	207,132	–	–	**474,299**
Disposals	(4,947)	(207)	(506,337)	(1,210,070)	(117,134)	**(1,838,695)**
Balance at 31 December 2019	**23,523,525**	**12,690,508**	**132,371,508**	**64,442,345**	**2,910,262**	**235,938,148**
Accumulated depreciation and impairment						
Balance at 1 January 2019	**–**	**2,044,272**	**19,077,836**	**25,031,147**	**–**	**46,153,255**
Depreciation charge	–	2,739,002	4,521,778	6,850,077	–	**14,110,857**
Impairment charge	1,799,114	12,538	8,533,770	949,200	319,956	**11,614,578**
Disposals	–	(193)	(355,492)	(1,028,096)	–	**(1,383,781)**
Balance at 31 December 2019	**1,799,114**	**4,795,619**	**31,777,892**	**31,802,328**	**319,956**	**70,494,909**
Net book value					–	
Balance at 1 January 2019	**22,237,066**	**10,313,884**	**105,747,261**	**34,955,536**	**3,770,316**	**177,024,063**
Balance at 31 December 2019	**21,724,411**	**7,894,889**	**100,593,616**	**32,640,017**	**2,590,306**	**165,443,239**

(in thousands of Russian roubles)

7. Property, plant and equipment (continued)

	Land	Land improve-ments	Buildings	Machinery and equipment	Assets under construction	Total
Cost						
Balance at 1 January 2018	**21,010,003**	**11,467,330**	**118,121,718**	**52,948,637**	**2,586,799**	**206,134,487**
Additions	–	–	–	–	18,174,541	**18,174,541**
Transfers from construction in progress	763,483	902,322	7,578,287	7,689,055	(16,933,147)	**–**
Transfers from leasehold rights	171,868	–	–	–	–	**171,868**
Transfers to assets held for sale	323,094	–	–	–	–	**323,094**
Disposals	(31,382)	(11,496)	(874,908)	(651,009)	(57,877)	**(1,626,672)**
Balance at 31 December 2018	**22,237,066**	**12,358,156**	**124,825,097**	**59,986,683**	**3,770,316**	**223,177,318**
Accumulated depreciation and impairment						
Balance at 1 January 2018	**–**	**1,646,511**	**15,000,631**	**19,178,939**	**–**	**35,826,081**
Depreciation charge	–	400,454	4,571,843	6,351,622	–	**11,323,919**
Impairment charge	–	–	132,188	–	–	**132,188**
Disposals	–	(2,693)	(626,826)	(499,414)	–	**(1,128,933)**
Balance at 31 December 2018	**–**	**2,044,272**	**19,077,836**	**25,031,147**	**–**	**46,153,255**
Net book value						
Balance at 1 January 2018	**21,010,003**	**9,820,819**	**103,121,087**	**33,769,698**	**2,586,799**	**170,308,406**
Balance at 31 December 2018	**22,237,066**	**10,313,884**	**105,747,261**	**34,955,536**	**3,770,316**	**177,024,063**

During the year ended 31 December 2019 and 2018 the Group was not involved in acquisition or contribution of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalisation. Thus, no borrowings costs were capitalised during those periods.

Depreciation, amortisation and impairment expense

As at 31 December 2019 the Group performed impairment test of property, plant and equipment, intangible assets and right-of-use assets, where indicators of such impairment were identified.

Continued economic uncertainty and consequent challenging market conditions has let the Group's management to reassess its impairment testing processes, models and assumptions.

Following the impairment test impairment losses in the consolidated statement of profit or loss in respect of property, plant and equipment, right-of-use assets and intangible assets amounted to RUB 11,614,578, RUB 235,056 and RUB 325 respectively.

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 identifying whether cash inflows are largely independent, management considers various factors including:

- How it monitors the entity's operations or how it makes decisions about continuing or disposing of the entity's assets and operations;
- Cannibalization effect;
- Leakage of customers upon a store closure.

7. Property, plant and equipment (continued)

Depreciation, amortisation and impairment expense (continued)

The impairment test has been carried out by comparing recoverable amount of the individual store with its carrying value. The recoverable amount was defined as the higher of its fair value less costs to sell and value in use.

Due to number of CGUs being tested for impairment it is considered impracticable to disclose detailed information for each individual CGU.

The key assumptions used in determining the value in use are:

- Future cash flows are based on the current budgets and forecasts approved by the management and represented by forecasted EBITDA along with terminal value of forecasted free cash flows that are expected to be generated beyond the forecast period (12 months);
- Cash flow forecasts for capital expenditure are based on past experience and include ongoing capital expenditure required to maintain the level of economic benefits from CGU in its current position;
- Cash flow forecast for overheads presented mainly by personnel expense being allocated on reasonable basis;
- Carrying value of corporate assets that do not generate independent cash inflows (offices, distribution centers) were allocated to CGUs on consistent basis;
- Projections were made in the functional currency of the Group's entities, being Russian rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (15.42%).

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

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows. If the revised estimated discount rate consistently applied to the discounted cash flows had been 50 b.p. higher than management's estimates, the Group would need to reduce the carrying value of non-current non-financial assets by RUB 906,091. If the annual revenue growth rate used in calculations of value in use had been 50 b.p. lower, the Group would need to decrease the carrying value of non-current non-financial assets by RUB 998,854.

Fair value less costs of disposal of CGU was defined by an external appraiser by reference to current observable prices on an active market subsequently adjusted for specific characteristics of respective assets. The fair value measurement of these assets is classified at level 2 of the fair value hierarchy.

(in thousands of Russian roubles)

7. Property, plant and equipment (continued)

Depreciation, amortisation and impairment expense (continued)

The amount of depreciation and amortisation during the year ended 31 December 2019 and year ended 31 December 2018 is presented within depreciation and amortisation in the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows as follows:

	Year ended 31 December 2019	**Year ended 31 December 2018**
Depreciation of property, plant and equipment	14,110,857	11,323,919
Amortisation of intangible assets (Note 10)	508,016	553,338
Amortisation of right-of-use assets (Note 4)	3,850,831	−
Capitalisation of right-of-use asset depreciation to CIP	(30,025)	−
Amortisation of leasehold rights	−	100,262
Total depreciation and amortisation	**18,439,679**	**11,977,519**

See Note 27 for capital commitments.

8. Prepayments for construction

Prepayments for construction are made to contractors building stores and to suppliers.

Prepayments are regularly monitored for the indicators of impairment. As at 31 December 2019 prepayments for construction were impaired in the amount of RUB 236,851 (31 December 2018: RUB 482,130).

9. Operating segments

The Group's principal business activity is the development and operation of food retail stores located in Russia. Risks and returns are affected primarily by economic development in Russia and by the development of Russian food retail industry.

The Group has no significant assets outside the Russian Federation (excluding investments in its foreign wholly owned intermediate holding subsidiary Zoronvo Holdings Limited, which are eliminated on consolidation). Due to the similar economic characteristics of food retail stores, the Group's management has aggregated its operating segments represented by stores into one reportable operating segment.

Within the segment all business components are similar in respect of:

- The products;
- The customers;
- Centralised Group structure (commercial, operational, logistic, finance, HR and IT functions are centralised).

(in thousands of Russian roubles)

9. Operating segments (continued)

The Group's operations are regularly reviewed by the chief operating decision maker, represented by the CEO, to analyse performance and allocate resources within the Group. The CEO assesses the performance of operating segments based on the dynamics of revenue and earnings before interest, tax, depreciation, amortisation (EBITDA). EBITDA is a non-IFRS measure. Other information is measured in a manner consistent with that in the consolidated financial statements.

The segment information for the year ended 31 December 2019 and 2018 is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Sales	417,500,015	413,562,197
EBITDA	39,505,713	36,194,160

Reconciliation of EBITDA to IFRS profit for the year is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
EBITDA	**39,505,713**	**36,194,160**
Interest expense	(15,866,946)	(9,699,272)
Interest income	3,827,178	608,472
Income tax expense (see Note 20)	(190,684)	(3,022,988)
Depreciation and amortisation (see Notes 4, 7, 10, 24)	(18,439,679)	(11,977,519)
Impairment of non-financial assets (see Notes 4, 7, 10)	(11,849,959)	(132,188)
Foreign exchange gains(loss)	220,503	(176,371)
(Loss)/profit for the year	**(2,793,874)**	**11,794,294**

10. Intangible assets

Intangible assets as at 31 December 2019 consist of the following:

	Software	Total
Cost		
At 1 January 2019	**3,904,454**	**3,904,454**
Additions	886,872	**886,872**
Disposals	(20,332)	**(20,332)**
At 31 December 2019	**4,770,994**	**4,770,994**
Accumulated amortisation and impairment		
At 1 January 2019	**1,998,564**	**1,998,564**
Amortisation charge	508,016	**508,016**
Impairment charge	325	**325**
Disposals	(6,886)	**(6,886)**
At 31 December 2019	**2,500,019**	**2,500,019**
Net book value		
At 1 January 2019	**1,905,890**	**1,905,890**
At 31 December 2019	**2,270,975**	**2,270,975**

(in thousands of Russian roubles)

10. Intangible assets (continued)

Intangible assets as at 31 December 2018 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2018	**3,461,608**	**549**	**3,462,157**
Additions	642,512	**–**	**642,512**
Disposals	(199,666)	(549)	**(200,215)**
At 31 December 2018	**3,904,454**	**–**	**3,904,454**
Accumulated amortisation			
At 1 January 2018	**1,644,892**	**549**	**1,645,441**
Amortisation charge	553,338	–	**553,338**
Disposals	(199,666)	(549)	**(200,215)**
At 31 December 2018	**1,998,564**	**–**	**1,998,564**
Net book value			
At 1 January 2018	**1,816,716**	**–**	**1,816,716**
At 31 December 2018	**1,905,890**	**–**	**1,905,890**

Amortisation expense is included in selling, general and administrative expenses (Note 24).

11. Other non-current assets

Other non-current assets are represented by guarantee deposits under lease contracts subject to reimbursement by cash at the end of lease.

12. Inventories

	31 December 2019	31 December 2018
Goods for resale (at lower of cost and net realisable value)	37,146,606	40,193,130
Raw materials	1,306,659	1,307,721
Total inventories	**38,453,265**	**41,500,851**

Raw materials are represented by inventories used in own production process in butchery, bakery and culinary.

During the reporting year the Group accounted for the write down of inventories to their net realisable value within cost of sales in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 in the amount of RUB 411,398 (31 December 2018: expenses within cost of sales in the amount of RUB 397,251).

(in thousands of Russian roubles)

13. Trade and other receivables

	31 December 2019	31 December 2018
Accounts receivable on rental and other services and on suppliers' advertising	5,423,210	6,627,239
Suppliers' rebates receivable	3,205,036	4,065,760
Other receivables	154,866	844,002
Expected credit losses of accounts receivable	(179,010)	(264,399)
Total trade and other receivables	**8,604,102**	**11,272,602**

As at 31 December 2018 the Group recognized within the other receivables the amount due from insurance company of RUB 655,018 which relates to compensation for lost property, plant, and equipment of RUB 271,541, lost inventory of RUB 186,568 and for interruption of operations of RUB 196,909 as the result of fire case in one of the stores. As at 31 December 2019 the compensation was received from the insurance company.

Debtor credit risk is managed in accordance with the Group's established policy, procedures and control relating to debtor credit risk management. Credit quality of a debtor is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

An analysis is performed at each reporting date using 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.

Set out below is the information about the credit risk exposure on the Group's trade and other receivables as at 31 December 2019 using a provision matrix:

	Current	<60 days overdue	60-120 days overdue	>120 days overdue	Total
Expected credit loss rate	0%-1.5%	2%-5%	15%-40%	70%-100%	
Estimated total gross carrying amount at default	8,366,420	231,286	14,912	170,494	**8,783,112**
Expected credit loss	33,381	4,734	2,596	138,299	**179,010**

Set out below is the movement in the allowance for expected credit losses of trade and other receivables:

	2019	2018
As at 1 January	**264,399**	**719,594**
Reversal of allowance for expected credit losses	(48,658)	(86,312)
Write-off	(36,731)	(368,883)
As at 31 December	**179,010**	**264,399**

(in thousands of Russian roubles)

13. Trade and other receivables (continued)

Ageing of trade and other receivables that were past due but not impaired as at 31 December 2018:

	Current	<60 days overdue	60-120 days overdue	>120 days overdue	Total
Expected credit loss rate	0%-1.5%	3%-5%	20%-40%	70%-100%	
Estimated total gross carrying amount at default	10,749,050	598,869	23,848	165,234	**11,537,001**
Expected credit loss	118,461	17,359	9,437	119,142	**264,399**

The Group does not hold any collateral or other credit enhancements over these balances.

14. Advances paid

	31 December 2019	31 December 2018
Advances to suppliers of goods	309,833	1,242,760
Advances for services	1,327,153	1,536,965
Impairment of advances paid	(54,055)	(7,541)
Total advances paid	**1,582,931**	**2,772,184**

15. Taxes recoverable

Taxes recoverable as at 31 December 2019 are represented by a VAT recoverable of RUB 163,364 (31 December 2018: RUB 992,378).

16. Cash and cash equivalents

	31 December 2019	31 December 2018
Rouble short-term deposits	66,322,639	15,086,436
Rouble denominated balances with banks	3,818,264	11,440,386
Rouble denominated cash in transit	2,884,525	6,837,498
Rouble denominated cash on hand	276,419	265,671
Foreign currency denominated balances with banks	102,913	174,869
Total cash and cash equivalents	**73,404,760**	**33,804,860**

Cash in transit represents cash receipts during the last days of the reporting period (29-31 December), which were sent to banks but not deposited into the respective bank accounts until the next reporting period.

Significant rouble denominated cash in transit result from the business seasonality, indicating higher levels of retail sales in holiday periods such as the New Year's Eve as well as the closing day in relation to the official banking days in Russia. If the closing day is on non-banking days, the amount of cash in transit increases.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

(in thousands of Russian roubles)

17. Issued capital and reserves

Issued capital

As at 31 December 2019 the Company's share capital is comprised of 97,585,932 authorised and issued ordinary shares (as at 31 December 2018: 97,508,265) with equal voting rights. Paid value of shares with no par value is fully accounted for within additional paid-in capital.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that immediately after the payment of the dividend the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realisable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends or transfer them to reserves (fund accounts) limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares are declared for the year ended 31 December 2019 and 2018.

The movements in the number of shares for the year ended 31 December 2019 and 2018 are as follows:

	31 December 2019 No.	31 December 2018 No.
Authorised share capital (ordinary shares)	unlimited	unlimited
Issued and fully paid (no par value)	97,585,932	97,508,265
Treasury shares	(910,522)	(235,319)

	31 December 2019 No.	31 December 2018 No.
Balance of shares outstanding at beginning of the year	**97,272,946**	**97,416,963**
Additional issue of shares	77,667	91,302
Shares buy-back	(675,203)	(235,319)
Balance of shares outstanding at the end of the year	**96,675,410**	**97,272,946**

During the year ended 31 December 2019 the Group issued 77,667 shares of no par value with respect to long-term incentive plans to certain members of management (see Note 26). Issued shares were distributed to relevant participants.

Total expense for the services received from the employees previously recognised with respect to issued shares under long-term incentive plans was RUB 127,442.

In October 2018 the Group launched GDR repurchase programme up to an aggregate value of RUB 11,600,000, which was terminated on 2 April 2019. As the result of the programme 910,522 shares were repurchased as at 31 December 2019. During the year ended 31 December 2019 the Group repurchased 675,203 shares of no par value for RUB 720,099.

(in thousands of Russian roubles)

17. Issued capital and reserves (continued)

Share options reserve

The share options reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 26 for further details of these plans.

18. Earnings per share

	Year ended 31 December 2019	Year ended 31 December 2018
(Losses)/earnings per share (in thousands of Russian roubles per share)		
- basic and diluted, for (loss)/profit for the year attributable to equity holders of the parent	(0.029)	0.121

The calculation of basic earnings per share for the year is based on the (loss)/profit attributable to shareholders (loss for the year ended 31 December 2019: RUB (2,793,874), profit for the year ended 31 December 2018: RUB 11,794,294) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Year ended 31 December 2019	Year ended 31 December 2018
Number of issued shares at the beginning of the year	**97,272,946**	**97,416,963**
Number of shares issued in July 2018	–	91,302
Number of shares repurchased in November-December 2018	–	(235,319)
Number of shares issued in April 2019	77,667	–
Number of shares repurchased in January-April 2019	(675,203)	–
Number of shares at the end of the year	**96,675,410**	**97,272,946**
Weighted average number of shares	96,757,307	97,445,815

The Group has issued share-based payments (Note 26) instruments that could potentially dilute basic earnings per share in the future. These instruments have no material effect on dilution of earnings per share for the year.

19. Borrowings

Short-term borrowings:

	Currency	31 December 2019	31 December 2018
Floating rate short-term bank loans	RUB	–	564,138
Fixed rate short-term bonds	RUB	5,399,643	56,702
Fixed rate short-term bank loans	RUB	63,031,173	20,118,158
Total short-term borrowings and short-term portion of long-term borrowings		**68,430,816**	**20,738,998**

(in thousands of Russian roubles)

19. Borrowings (continued)

Long-term borrowings:

	Currency	31 December 2019	31 December 2018
Fixed rate long-term bonds	RUB	20,519,034	5,559,870
Fixed rate long-term bank loans	RUB	61,591,407	74,648,179
Floating rate long-term bank loans	RUB	–	26,133,242
Total long-term borrowings		**82,110,441**	**106,341,291**

The Groups' borrowings as at 31 December 2019 and 31 December 2018 bear market interest rates, all of them are denominated in Russian roubles and are not secured.

As at 31 December 2019 the Group had RUB 89,136,000 of unused credit facilities (as at 31 December 2018: RUB 83,300,000).

The loan agreements contain financial and non-financial covenants. As at 31 December 2019 the Group is in compliance with the covenants.

20. Income taxes

The Group's income tax expense for the year ended 31 December 2019 and 31 December 2018 is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Current tax expense	3,413,269	1,169,375
Deferred tax (benefit)/expense	(3,222,585)	1,853,613
Income tax expense recognised in profit for the year	**190,684**	**3,022,988**
Tax effect related to effective portion of change in the fair value of cash flow hedging instruments	–	(41,222)
Income tax benefit recognised in OCI	**–**	**(41,222)**

	Year ended 31 December 2019	Year ended 31 December 2018
(Loss)/profit before tax	**(2,603,190)**	**14,817,282**
Theoretical tax charge at 20% being statutory tax rate in Russia	**520,638**	**(2,963,456)**
Difference in tax regimes of foreign companies	(154,996)	133,176
Add tax effect of non-taxable income and non-deductible expenses.	(176,326)	(42,980)
Recognition of previously unrecognised uncertain tax position	(380,000)	(149,728)
Income tax expense	**(190,684)**	**(3,022,988)**

(in thousands of Russian roubles)

20. Income taxes (continued)

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences, recorded at the rate of 20% is detailed below.

	1 January 2019	Change in the accounting policies due to the application of IFRS 16 (Note 4)	Differences in recognition and reversals recognised in profit or loss	31 December 2019
Tax effect of (taxable)/deductible temporary differences				
Property, plant and equipment	(10,306,373)	–	1,767,908	(8,538,465)
Leasehold rights	(546,549)	546,549	–	–
Right of use	–	(7,183,435)	745,471	(6,437,964)
Unused vacation and employee bonuses accrual	253,384	–	153,897	407,281
Suppliers' bonuses	(30,844)	–	(28,936)	(59,780)
Borrowings	(62,884)	–	65,281	2,397
Intangible assets	(31,734)	–	(44,874)	(76,608)
Inventory	415,211	–	377,844	793,055
Provision for expected credit losses of accounts receivable, impairment of advances paid and prepayments for construction	124,896	–	(54,146)	70,750
Accrued liabilities	259,726		539,970	799,696
Lease liabilities	–	6,823,992	(391,991)	6,432,001
Other	(114,589)	121,577	92,161	99,149
Total net deferred tax liabilities	**(10,039,756)**	**308,683**	**3,222,585**	**(6,508,488)**

	1 January 2018	Change in the accounting policies due to the application of IFRS 9 (Note 4)	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehen-sive income	31 December 2018
Tax effect of (taxable)/ deductible temporary differences					
Property, plant and equipment	(8,612,723)	–	(1,693,650)	–	(10,306,373)
Leasehold rights	(546,387)	–	(162)	–	(546,549)
Unused vacation and employee bonuses accrual	196,153	–	57,231	–	253,384
Suppliers' bonuses	(303,860)	–	273,016	–	(30,844)
Borrowings	(115,445)	46,831	5,730	–	(62,884)
Intangible assets other than leasehold rights	(20,603)	–	(11,131)	–	(31,734)
Inventory	319,599	–	95,612	–	415,211
Provision for expected credit losses of accounts receivable, impairment of advances paid and prepayments for construction	110,253	112,536	(97,893)	–	124,896
Accrued liabilities	165,213	–	94,513	–	259,726
Cash flow hedging instruments	(91,565)	–	50,343	41,222	–
Tax losses carried forward	543,499	–	(543,499)	–	–
Other	(30,866)	–	(83,723)	–	(114,589)
Total net deferred tax liabilities	**(8,386,732)**	**159,367**	**(1,853,613)**	**41,222**	**(10,039,756)**

(in thousands of Russian roubles)

20. Income taxes (continued)

The temporary taxable differences associates with undistributed earnings of subsidiaries amount to RUB 75,842,716 and RUB 66,696,688 as of 31 December 2019 and 2018, respectively. A deferred tax liability on these temporary differences was not recognised, because management believes that it is in a position to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

21. Trade and other payables

	31 December 2019	31 December 2018
Trade payables	46,537,381	46,495,464
Accrued liabilities and other creditors	6,446,591	5,864,692
Payables for purchases of property, plant and equipment	1,705,131	3,773,684
Total trade and other payables	**54,689,103**	**56,133,840**

The trade and other payables are denominated in:

	31 December 2019	31 December 2018
Russian roubles	53,785,883	55,241,343
USD	650,158	653,509
EUR	249,815	238,953
GBP	3,246	35
Total trade and other payables	**54,689,103**	**56,133,840**

22. Other taxes payable

	31 December 2019	31 December 2018
Social taxes	805,661	675,487
Property tax	92,895	123,213
Personal income tax	238,786	223,012
Other taxes	36,221	19,411
Total other taxes payable	**1,173,563**	**1,041,123**

23. Cost of sales

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

Cost of sales for the year ended 31 December 2019 includes employee benefits expense of RUB 8,777,586 (year ended 31 December 2018: RUB 8,016,548) of which contributions to state pension fund are comprised of RUB 1,229,580 (year ended 31 December 2018: RUB 1,105,764).

Cost of sales for the year ended 31 December 2019 includes cost of raw materials used in own production of RUB 16,575,218 (year ended 31 December 2018: RUB 15,749,849).

(in thousands of Russian roubles)

24. Selling, general and administrative expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Employee benefits	28,119,261	25,556,037
Depreciation and amortisation (Notes 4, 7, 10)	18,439,679	11,977,519
Utilities and communal payments	4,974,278	4,517,562
Professional fees	4,388,221	3,863,897
Advertising	5,177,240	5,217,256
Cleaning	3,611,966	2,882,658
Repairs and maintenance	3,019,466	2,642,799
Security services	1,973,878	1,893,165
Taxes other than income tax	1,598,841	1,509,046
Rent expense	1,159,049	6,063,665
Other	2,621,634	2,971,267
Total selling, general and administrative expenses	**75,083,513**	**69,094,871**

Employee benefits for the year ended 31 December 2019 include contributions to state pension fund of RUB 3,578,339 (year ended 31 December 2018: RUB 3,274,393).

Professional fees for the year ended 31 December 2019 include fees billed by Ernst & Young LLC: for the audit of the consolidated financial statements in the amount of RUB 24,282 (for the year ended 31 December 2018: RUB 27,510) and for consulting and other non-audit services in the amount of RUB 22,729 (for the year ended 31 December 2018: RUB 3,613).

25. Other operating income and expenses

Other operating income is comprised of the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Rental income	1,605,999	1,693,100
Sale of secondary materials	1,127,996	1,020,253
Penalties due by suppliers	971,290	1,034,121
Advertising income	550,135	718,859
Insurance compensation	524,243	196,909
Gain on property, plant and equipment disposal	42,102	140,994
Other	246,001	189,009
Total other operating income	**5,067,766**	**4,993,245**

In November 2018 as the result of fire in one of the stores the Group incurred losses on property, plant and equipment disposal, inventory disposal and interruption of operations since the fire case till 1 November 2019, which were insured and compensated by insurance company.

(in thousands of Russian roubles)

25. Other operating income and expenses (continued)

Other operating expenses are comprised of the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Loss from property, plant and equipment and intangible assets disposal	352,215	167,477
Loss from cancelation of lease contracts	121,636	–
Penalties for termination of a contracts with service suppliers	109,291	21,996
Non-recoverable VAT	63,611	10,117
Penalties from government authorities	56,750	39,455
Impairment of advances paid and prepayments for construction, reversal of allowance for expected credit losses of accounts receivable	53,173	152,543
Other	179,021	84,452
Total other operating expenses	**935,698**	**476,040**

26. Share-based payments

Long-term incentive plan

During the year 2014 the Group approved a long-term incentive plan (LTIP) to certain members of senior and middle management, according to which the Company granted award shares in 2014, 2015, 2016, 2017, 2018 and 2019 along with the communication of the terms of award to participants.

The monetary amount of the award to be granted to the participants of the plan was calculated based on the annual base salary on the grant date, target award interest, business results co-efficient and individual performance rating co-efficient.

The fair value of the award shares was estimated based on the GDR price on Moscow Exchange on the award grant date.

As of the year ended 31 December 2019 Tranche 2014, 2015 and 2016 fully vested.

In May 2019 for the majority of employees LTIP Tranche 2016 was settled by cash in the amount of RUB 194,592. Also for settlement purposes the Group issued 16,182 shares of no par value. Total expense for the services received from the employees previously recognised with respect to settled tranche was RUB 434,995.

In April 2019 Tranche 2017 and Tranche 2018 to senior management were amended to accelerate vesting of 66% (Tranche 2017) and 34% (Tranche 2018) of awards immediately.

Vested awards were settled by cash in the amount of RUB 53,990 (Tranche 2017) and RUB 37,603 (Tranche 2018). Also for settlement purposes the Group issued 13,354 (Tranche 2017) and 18,360 (Tranche 2018) shares of no par value.

The vesting dates of remaining awards under the Tranche 2017 and Tranche 2018 are 1 April 2020 and 30 April 2021 respectively.

(in thousands of Russian roubles)

26. Share-based payments (continued)

Long-term incentive plan (continued)

The vesting dates of newly granted awards under the Tranche 2019 to senior management are 1 April 2020 (25%), 1 April 2021 (25%), 1 May 2021 (50%) or 1 April 2020 (16%), 1 April 2021 (53%), 1 May 2021 (31%).

The vesting dates of newly granted awards under the Tranche 2019 to middle management are 1 April 2020 (25%), 1 April 2021 (25%), 1 April 2022 (50%).

In May 2019 there was an amendment to the award under the Tranche 2019 for one employee, according to which 100% of the award vested immediately and 29,771 shares were issued and distributed to a participant.

Set out below is the information about awards settlement during year ended 31 December 2019:

	2016 tranche	2017 tranche	2018 tranche	2019 tranche	Total
Settlement by shares					
Number of shares issued in May 2019	16,182	13,354	18,360	29,771	**77,667**
Total expense recognised with regards to shares issued	37,300	25,370	30,432	34,341	**127,442**
Settlement by cash payment (USD 3.6$ per GDR)					
Settlement by cash in May 2019	194,592	53,990	37,602	–	**286,184**
Excess of expenses accrued vs. payment made	198,382	32,809	15,105	–	**246,296**

Total expense recognised for the services received from the employees covered by long-term incentive plan for the year ended 31 December 2019 and for year ended 31 December 2018 is shown in the following table:

	Year ended 31 December 2019	Year ended 31 December 2018
Expense arising from the equity-settled long-term incentive plan payments	428,246	219,041

Share value appreciation rights

During the year 2013 and the year 2016 the Group granted share value appreciation rights (SVARs) to certain members of top management as part of management long-term incentive plan. Each SVAR entitles the holder to a quantity of ordinary shares in Lenta Ltd. based on an increase in the share price over a predetermined exercise price subject to meeting the performance conditions.

In April 2018 SVARs of 2013 year fully vested. In June 2018 the Group issued 69,502 shares of no par value. Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 405,232. The shares were transferred into GDR and distributed to relevant participants.

(in thousands of Russian roubles)

26. Share-based payments (continued)

Movements during the year

The remaining contractual life for the SVARs outstanding as at 31 December 2019 was 0.26 year (31 December 2018: 0.79 years).

The exercise price for options outstanding as at 31 December 2019 is RUB 2.214 (31 December 2018: RUB 2.214).

Fair value of options outstanding as at 31 December 2019 is RUB 0.98 (31 December 2018: RUB 0.91).

The expense recognized for the services received from the employees covered by SVARs plan during the year is shown in the following table:

	Year ended 31 December 2019	Year ended 31 December 2018
Expense arising from the equity-settled SVARs transaction	6,875	46,220

In April 2019 SVARs of 2016 year (21,000 phantom shares) expired worthless. Total expense for the services received from the employees previously recognised with respect to expired SVARs was RUB 17,828.

The fair value of the management SVARs is estimated at the grant date using the Black Scholes option pricing model, taking into account the terms and conditions upon which the SVARs were granted.

27. Capital expenditure commitments

At 31 December 2019 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RUB 6,216,727 net of VAT (31 December 2018: RUB 11,489,981 net of VAT).

28. Financial instruments

Categories of financial instruments

	31 December 2019	31 December 2018
Financial assets measured at amortised cost		
Cash and cash equivalents	73,404,760	33,804,860
Trade and other receivables	8,604,102	11,272,602
Other non-current financial assets	444,316	428,175
Total financial assets measured at amortised cost	**82,453,178**	**45,505,637**
Financial liabilities measured at amortised cost		
Floating rate long-term bank loans		26,697,380
Fixed rate long-term bank loans and bonds	82,514,982	80,473,264
Fixed rate short-term bank loans and bonds	68,026,276	19,909,645
Trade and other payables	54,689,103	56,133,840
Total financial liabilities measured at amortised cost	**205,230,360**	**183,214,129**

(in thousands of Russian roubles)

28. Financial instruments (continued)

Fair values

The following table provides the fair value measurement hierarchy of the Group's financial liabilities. Quantitative disclosures of fair value measurement hierarchy for financial liabilities as at 31 December 2019:

	31 December 2019	Level 1	Level 2	Level 3
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	26,387,036	26,387,036	–	–
Fixed rate bank loans	123,200,098	–	123,200,098	–

	31 December 2018	Level 1	Level 2	Level 3
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	5,662,373	5,662,373	–	–
Floating rate bank loans	26,697,380	–	26,697,380	–
Fixed rate bank loans	93,370,478	–	93,370,478	–

During the reporting periods ended 31 December 2019 and 31 December 2018, there are no transfers between Level 1, Level 2 and Level 3 of fair value measurements.

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Interest-bearing loans and borrowings				
Floating rate bank loans	–	–	26,697,380	26,697,380
Fixed rate bank loans and bonds	150,541,257	149,587,134	100,382,909	99,032,851
Total financial liabilities	**150,541,257**	**149,587,134**	**127,080,289**	**125,730,231**

The management assessed that the carrying amounts of cash and short-term deposits, trade receivables, trade payables, other liabilities approximate their fair values largely due to the short-term maturities of these instruments.

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.

(in thousands of Russian roubles)

28. Financial instruments (continued)

Fair values (continued)

The following methods and assumptions are used to estimate the fair values:

- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2019 and 31 December 2018 is assessed to be insignificant.
- The fair value of bonds is based on the price quotations at the reporting date at Moscow exchange where transactions with bonds take place with sufficient frequency and volume.

Changes in liabilities arising from financing activities

	31 December 2018	Proceeds from borrowings	Repayments of borrowings	Reclassifi-cations	Other	31 December 2019
Long-term borrowings	106,341,291	35,386,518	(13,000,000)	(46,813,928)	196,560	82,110,441
Short-term borrowings	20,738,998	194,644,286	(193,770,873)	46,813,928	4,477	68,430,816
Total	**127,080,289**	**230,030,804**	**(206,770,873)**	**–**	**201,037**	**150,541,257**

	31 December 2017	Proceeds from borrowings	Repayments of borrowings	Reclas-sifications	Change in the accounting policies due to application of IFRS 9 (Note 4)	Other	31 December 2018
Long-term borrowings	62,194,204	64,683,000	(5,000,000)	(15,799,792)	324,305	(60,426)	106,341,291
Short-term borrowings	44,888,131	67,500,000	(106,871,775)	15,799,792	(90,149)	(487,001)	20,738,998
Total	**107,082,335**	**132,183,000**	**(111,871,775)**	**–**	**234,156**	**(547,427)**	**127,080,289**

The 'Other' column includes the effect of accrued but not yet paid interest on interest bearing loans. Group classifies interest paid as cash flows from operating activities.

29. Financial risk management

The Group's principal financial liabilities, other than derivatives, are comprised of loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's financial risk activities are governed by appropriate policies and procedures and financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialists that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

(in thousands of Russian roubles)

29. Financial risk management (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises the following types of risk: interest rate risk, currency risk, and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, cash equivalents and derivative financial instruments.

Foreign currency risk

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.

During the years ended 31 December 2019 and 2018, the Group does not attract any amounts of foreign currency denominated borrowings, and as a consequence is not materially exposed to foreign currency risk. The only balances that are exposed to foreign currency risk are accounts payables to several foreign suppliers.

Whenever possible, the Group tries to mitigate the exposure to foreign currency risk by matching the statement of financial position, and revenue and expense items in the relevant currency.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant.

	Change in USD rate	Effect on profit before tax
Year ended 2019	13.00%	(61,972)
	-11.00%	52,438
Year ended 2018	14.00%	(91,491)
	-14.00%	91,491

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate, with all other variables held constant.

	Change in EUR rate	Effect on profit before tax
Year ended 2019	13.00%	(25,815)
	-11.00%	21,844
Year ended 2018	14.00%	(33,453)
	-14.00%	33,453

Foreign currency exchange rate reasonable possible change range was prepared for the purpose of market risk disclosures in accordance with IFRS 7 and is derived from statistical data, in particular time series analysis.

(in thousands of Russian roubles)

29. Financial risk management (continued)

Market risk (continued)

Interest rate risk

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

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. As at 31 December 2018 these obligations were represented with long-term borrowing (Note 19) which were redeemed at the end of the reporting period.

Interest rate sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in MosPrime rates, on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax and OCI are affected through the impact on floating rate borrowings, as follows:

	Profit or loss		OCI	
	75 bp increase	**100 bp decrease**	**75 bp increase**	**100 bp decrease**
2018				
Variable rate instruments	(196,875)	262,500	–	–
Cash flow sensitivity	**(196,875)**	**262,500**	**–**	**–**

The range of reasonable possible changes in MosPrime rate was prepared for the purpose of market risk disclosures in accordance with IFRS 7 and was based on risk metrics that are derived from statistical data, in particular time series analysis.

Credit risk

Credit risk is the risk that counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. Financial assets, which are potentially subject to credit risk, consist principally of cash in bank accounts and cash in transit, loans and receivables.

In determining the recoverability of receivables 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.

(in thousands of Russian roubles)

29. Financial risk management (continued)

Credit risk (continued)

Trade receivables

The Group has no significant concentrations of credit risk. Concentration of credit risk with respect to receivables is limited due to the Company's customer and vendor base being large and unrelated. Credit is only extended to counterparties subject to strict approval procedures.
The Group trades only with recognised, creditworthy third parties who are registered in the Russian Federation. It is the Group's policy that all customers who are granted credit terms have a history of purchases from the Group. The Group also requires these customers to provide certain documents such as incorporation documents and financial statements. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Sales to retail customers are made in cash, debit cards or via major credit cards.

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 of trade receivables is the carrying value as presented in the statement of financial position. The maximum exposure to credit risk at the reporting date of cash and cash equivalents is RUB 73,128,341 (31 December 2018: RUB 33,539,189).

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial assets and liabilities and projected cash flows from operations. The Group objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyses its funding needs and anticipated cash flows, so that it can determine its funding needs.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 and 31 December 2018 bases on contractual undiscounted cash flows of the financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows.

31 December 2019

	Less than 12 months	**1-5 years**	**Over 5 years**	**Total**
Borrowings	75,038,997	89,522,037	–	**164,561,034**
Lease liabilities	5,334,247	20,116,334	28,991,802	**54,442,383**
Trade and other payables	54,689,103	–	–	**54,689,103**
Total	**135,062,347**	**109,638,371**	**28,991,802**	**273,692,520**

(in thousands of Russian roubles)

29. Financial risk management (continued)

Liquidity risk (continued)

31 December 2018

	Less than 12 months	1-5 years	Over 5 years	Total
Borrowings	30,637,465	117,172,663	–	**147,810,128**
Trade and other payables	56,133,840	–	–	**56,133,840**
Total	**86,771,305**	**117,172,663**	**–**	**203,943,968**

Capital 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 the debt and equity balance.

The Group reviews its capital needs periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt. The Group is guided in its decisions by an established financing policy, which stipulates leverage ratios, interest coverage, covenants compliance, appropriateness of balance between long-term and short-term debt, requirements to diversification of funding sources. Dividends are to be declared based on the capital requirements of the business and with reference to continuing compliance with the financial policy.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 19, lease liabilities less cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Net debt of the Group comprises of the following:

	31 December 2019	31 December 2018
Borrowings	150,541,257	127,080,289
Lease liabilities	32,160,006	–
Cash and cash equivalents (Note 16)	(73,404,760)	(33,804,860)
Net debt	**109,296,503**	**93,275,429**

Net debt is a non-IFRS indicator and, therefore, its calculation may differ between companies, however it is one of the key indicators that are commonly used by investors and other users of financial statements in order to evaluate financial condition of the Group.

30. Contingencies

Operating environment of the Group

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 habits.
A general slowdown in the Russian economy or in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group's operating results.

The future stability of the Russian economy is largely dependent upon economic reforms, development of the legal, tax and regulatory frameworks, and the effectiveness of economic, financial and monetary measures undertaken by the government of the Russian Federation.

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and 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.

Legal contingencies

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 84,015 as at 31 December 2019 (31 December 2018: RUB 36,538). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group, which have not been disclosed in these consolidated financial statements.

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RUB 1,750,623 (31 December 2018: RUB 975,898). Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(in thousands of Russian roubles)

31. Events occurring after the reporting period

The Chinese economy and its outlook have been negatively affected by global trade tensions and the emergence of the Covid-19 coronavirus. Measures to contain the virus may impact business operations around the world. Restrictions on the movement of goods and services could impact the Company's supply chain.