Lenta PLC

Consolidated financial statements

for the year ended 31 December 2020

February 2021

Contents

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors	Alexey Mordashov Vladimir Sorokin Rud Pedersen Tomas Korganas Michael Lynch-Bell Julia Solovieva Alexey Kulichenko Roman Vasilkov Stephen Johnson
Company Secretary	CRYSTALSERVE SECRETARIAL LIMITED (appointed on 21 February 2020)
Independent Auditors	Ernst & Young Cyprus Limited Certified Public Accountants and Registered Auditors Jean Nouvel Tower 6 Stasinou Avenue PO Box 21656 1511 Nicosia, Cyprus
Registered office	Karaiskaki 6, City House 3032 Limassol, Cyprus
Registration number	407296

MANAGEMENT REPORT

The Board of Directors presents its report and audited consolidated financial statements of Lenta PLC and its subsidiaries (the “Group”) for the year ended 31 December 2020.

Incorporation

The Company was incorporated as a company limited by shares under the laws of the British Virgin Islands (BVI) on 16 July 2003.

In February 2020 the redomiciliation process to Cyprus was completed. The Department of Registrar of Companies and Official Receiver issued the Certificate of Continuation of the Company by which it certifies that the Company was registered from 21 February 2020 in accordance with the Cyprus Companies Law Cap 113, in particular section 354H as a company continuing in the Republic of Cyprus.

The Company’s registered address is 6 Karaiskaki Street, City House, 3032 Limassol, Cyprus

Principal activity

The principal activity of the Company is the development and operation of food retail stores in Russia.

Review of current position, future developments and significant risks

The Group's development to date, financial results and position as presented in the consolidated financial statements are considered satisfactory.

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, loan covenant compliance, planned store opening program and the anticipated cash flows and related expenditures from retail stores. The Group does not expect any material adverse impact from the current economic slowdown to its operations.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

There were no changes during the financial year in the nature of the operations of the Group.

On 22 July 2020 an Extraordinary Meeting of Shareholders approved the proposed redomiciliation of the Company from the Republic of Cyprus to the Russian Federation into the special administrative region of Oktyabrsky Island, Kaliningrad.

The Group is exposed to market risk, credit risk and liquidity risk. The Group’s senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks.

The principal financial risks and uncertainties faced by the Group are disclosed in Note 30 and Note 31 of the consolidated financial statements.

MANAGEMENT REPORT (continued)

Results and Dividends

The Group's results for the year are set in Note 10. No dividends to holders of ordinary shares were declared for the year ended 31 December 2020 and for the year ended 31 December 2019.

Significant events after the reporting date

Any significant events that occurred after the reporting date are described in Note 32 to the consolidated financial statements.

Branches

During the year ended 31 December 2020 the Group did not operate any branches.

Share capital

Authorised capital

On 31 December 2020 the authorised share capital of the Company is equal to 200,000,000 shares.

Issued capital and reserves

As at 31 December 2020 the Company’s share capital is comprised of 97,585,932 authorised and issued ordinary shares. For changes in the issued capital and reserves of the Company refer to Note 18.

As at 31 December 2020, per Company estimates, free float is about 21% of authorised and issued ordinary shares.

Significant shareholders and related party transactions

Significant shareholders and related party transactions are disclosed in Note 6.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2020 and at the date of this report are presented on page 3. On September 3, 2020 Vladimir Sorokin was appointed as director, in replacement Herman Tinga. There were no other changes in the Board of Directors throughout the year 2020 and up to the date of this report. In accordance with the Company’s Articles of Association all directors presently members of the Board continue in office.

Key management personnel compensation is disclosed in Note 6.

Independent auditors

The Independent auditors, Ernst & Young Cyprus Limited, were appointed by the Board of Directors and have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

MANAGEMENT REPORT (continued)

Other Information

Other information that is relevant to the Management Report, and which is incorporated within the Annual Report (http://www.lentainvestor.com/en/investors/annual-reports) can be located in the Annual Report as follows:

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

Vladimir Sorokin
(Director)

Rud Pedersen
(Director)

23 February 2021

Board of Directors’ responsibility statement

Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view of the financial position of Lenta PLC and its subsidiaries as of 31 December 2020 and of the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In preparing the consolidated financial statements, Directors are 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 as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113 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.

Directors are 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 as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113;
- 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.

In accordance with sections 9(3)(c) and 9(7) of the Law No. 190(I)/2007, as amended, providing for the transparency requirements of issuers whose securities are admitted to trading on a regulated market ('the Transparency Law'), we, the members of the Board of Directors of Lenta PLC, responsible for the preparation of the consolidated financial statements of Lenta PLC for the year ended 31 Decembre 2020, hereby declare that to the best of our knowledge:

a) the consolidated financial statements which are prepared on pages 15 to 75:

   - have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) adopted by the EU and in accordance with Article 9 subsection 4 of the Transparency Law, the provisions of the Cyprus Companies Law, and

   - give a true and fair view of the assets, liabilities, financial position and profit or loss of Lenta plc and the undertakings included in the consolidated and company financial statements taken as a whole; and

Board of Directors' responsibility statement (continued)

b) the Management Report includes a fair review of the development and performance of the business and the position of Lenta PLC and the undertakings included in the consolidated financial statements as a whole, together with a description of the principal risks and uncertainties that they face; and

c) the adoption of a going concern basis for the preparation of the consolidated financial statements continues to be appropriately based on the foregoing and having reviewed the forecast financial position of the Group and Company.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by Directors on 23 February 2021.

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

Vladimir Sorokin (Director)	Rud Pedersen (Director)

Building a better working world

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Independent Auditor's Report

To the Members of Lenta PLC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lenta PLC (the "Company"), and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statements 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 give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

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 remained independent of the Group throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, 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 incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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.

Building a better working world

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
Impairment of non-current non-financial assets	
As a result of impairment testing held for the smallest group of assets that can generate independent cash flows, the Group recognized a reversal of impairment of property, plant and equipment in the amount of RUB 2,911,431 thousand. Impairment testing for property, plant and equipment and right-of-use assets was one of the matters of most significance in our audit because the balance of property, plant and equipment and right-of-use assets forms a significant portion of the Group's assets at the reporting date, and the process of management's assessment of the recoverable amount is complex and requires significant judgments, including judgements about future cash flows, capital expenditures and the discount rate, 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 and right-of-use assets performed by management included an assessment of key management assumptions, including those in respect of forecasted 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.
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.	We compared the terms of providing allowances used in the calculation of allowances recognised to supporting documents approved by individual suppliers.

Key audit matter	How our audit addressed the key audit matter
Recognition of suppliers' allowances (continued)	
The recognition of allowances was one of the matters of most significance in our audit because it has a significant 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 14 to the consolidated financial statements.	We analyzed the assumptions underlying management estimates of recognized amounts of allowances from suppliers, such as the degree of fulfillment of conditions provided for in agreements with 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.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises information included in the Consolidated Management Report, the Group's 2020 Annual Report, including the Corporate Governance Statement, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 a true and fair view.

- Obtain sufficient and 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, 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.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group on 22 July 2020 at the Company's Annual General Meeting. Our appointment is representing a total period of uninterrupted engagement appointment of 1 year.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 18 February 2021 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.

- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.

- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, *and which is included as a specific section of the Annual Report,* have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Andreas Avraamides.

Andreas Avraamides
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia, 23 February 2021

Consolidated statement of financial position as at 31 December 2020

(in thousands of Russian roubles)

	Note	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	7	163,900,997	165,443,239
Prepayments for construction	8	557,739	2,312,814
Right-of-use assets	9	33,771,261	32,667,443
Intangible assets	11	2,580,972	2,270,975
Other non-current assets	12	445,171	444,316
Total non-current assets		**201,256,140**	**203,138,787**
Current assets			
Inventories	13	42,071,533	38,453,265
Trade and other receivables	14	10,902,839	8,604,102
Advances paid	15	1,754,066	1,582,931
Taxes recoverable	16	361,376	163,364
Prepaid expenses		306,354	103,059
Cash and cash equivalents	17	21,808,874	73,404,760
Total current assets		**77,205,042**	**122,311,481**
Total assets		**278,461,182**	**325,450,268**
Equity and liabilities			
Equity			
Share capital	18	6,711	–
Additional paid-in capital	18	27,056,040	27,062,751
Share options reserve	27	46,943	390,536
Treasury shares		(1,011,190)	(1,011,190)
Retained earnings		68,382,844	51,708,795
Total equity		**94,481,348**	**78,150,892**
Liabilities			
Non-current liabilities			
Long-term borrowings	20	45,941,038	82,110,441
Deferred tax liabilities	21	6,522,551	6,508,488
Long-term lease liabilities	9	31,327,074	29,520,222
Total non-current liabilities		**83,790,663**	**118,139,151**
Current liabilities			
Trade and other payables	22	61,466,433	54,689,103
Short-term borrowings and short-term portion of long-term borrowings	20	33,010,536	68,430,816
Short-term lease liabilities	9	3,114,433	2,639,784
Contract liabilities		790,075	482,160
Advances received		173,063	191,953
Other taxes payable	23	1,407,748	1,173,563
Current income tax payable		226,883	1,552,846
Total current liabilities		**100,189,171**	**129,160,225**
Total liabilities		**183,979,834**	**247,299,376**
Total equity and liabilities		**278,461,182**	**325,450,268**

On 23 February 2021 the Board of Directors of Lenta PLC authorised these consolidated financial statements.

Vladimir Sorokin
(Director)

Rud Pedersen
(Director)

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

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020

(in thousands of Russian roubles)

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Sales		445,543,829	417,500,015
Cost of sales	24	(343,728,186)	(325,482,536)
Gross profit		**101,815,643**	**92,017,479**
Selling, general and administrative expenses	25	(80,114,179)	(75,083,513)
Other operating income	26	5,199,902	5,067,766
Other operating expenses	26	(522,470)	(935,698)
Operating profit before impairment		**26,378,896**	**21,066,034**
Reversal of impairment/(Impairment) of non-financial assets	7, 9, 11	2,907,125	(11,849,959)
Operating profit		**29,286,021**	**9,216,075**
Interest expense		(9,512,254)	(15,866,946)
Interest income		609,970	3,827,178
Foreign exchange (losses)/gains		(386,122)	220,503
Profit/(loss) before income tax		**19,997,615**	**(2,603,190)**
Income tax expense	21	(3,456,984)	(190,684)
Profit/(loss) for the year		**16,540,631**	**(2,793,874)**
Other comprehensive income for the year, net of tax		**–**	**–**
Total comprehensive income/(loss) for the year, net of tax		**16,540,631**	**(2,793,874)**
Earnings/(losses) per share (in thousands of Russian roubles per share)			
- basic and diluted, for profit/(loss) for the year attributable to equity holders of the parent	19	0.171	(0.029)

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

Consolidated statement of cash flows for the year ended 31 December 2020

(in thousands of Russian roubles)

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows from operating activities			
Profit/(loss) before income tax		**19,997,615**	**(2,603,190)**
Adjustments for:			
Net loss on disposal of property, plant and equipment	26	159,897	296,667
Loss on disposal of intangible assets	26	4,672	13,446
Cancelation of lease contracts	26	(41,448)	121,636
Interest expense		9,512,254	15,866,946
Interest income		(609,970)	(3,827,178)
Write-down of inventories to net realisable value	13	595,286	411,398
Net foreign exchange loss/(gain) attributable to financing activities		138,977	(102,355)
Change in expected credit losses of accounts receivable and write-offs of accounts receivable	26	19,371	(48,658)
Impairment and write-offs of advances paid and prepayments for construction	26	67,147	101,831
Depreciation and amortisation	7, 9, 11	18,540,233	18,439,679
(Reversal of impairment)/impairment of non-financial assets	7, 9, 11	(2,907,125)	11,849,959
Share options expense	27	463,590	435,121
		45,940,499	**40,955,302**
Movements in working capital			
(Increase)/Decrease in trade and other receivables	14	(2,388,253)	2,718,306
(Increase)/decrease in advances paid	15	(259,025)	999,233
(Increase)/decrease in prepaid expenses		(203,295)	18,042
(Increase)/decrease in inventories	13	(4,213,554)	2,636,188
Increase/(decrease) in trade and other payables	22	4,601,050	(29,309)
Increase in contract liabilities and advances received		289,025	175,192
Increase in net other taxes payable	16, 23	36,173	961,454
Cash from operating activities		**43,802,620**	**48,434,408**
Income taxes paid		(4,768,884)	(2,709,023)
Interest received		660,905	3,810,923
Interest paid		(9,654,711)	(15,663,909)
Net cash generated from operating activities		**30,039,930**	**33,872,399**
Cash flows from investing activities			
Purchases of property, plant and equipment		(6,834,086)	(13,154,203)
Purchases of intangible assets		(778,002)	(886,872)
Proceeds from sale of property, plant and equipment		238,340	76,970
Net cash used in investing activities		**(7,373,748)**	**(13,964,105)**
Cash flows from financing activities			
Proceeds from borrowings	20, 29	45,792,775	230,030,804
Repayments of borrowings	20, 29	(117,240,001)	(206,770,873)
Payments for the principal portion of the lease liabilities	9	(2,814,842)	(2,848,226)
Purchase of treasury shares	18	–	(720,099)
Net cash (used in)/generated from financing activities		**(74,262,068)**	**19,691,606**
Net (decrease)/increase in cash and cash equivalents		**(51,595,886)**	**39,599,900**
Cash and cash equivalents at the beginning of the year	17	73,404,760	33,804,860
Cash and cash equivalents at the end of the year	17	**21,808,874**	**73,404,760**

* *Certain amounts shown here do not correspond to the financial statements for the period ended 31 December 2019 reflect reclassification described in Note 4.*

Consolidated statement of changes in equity for the year ended 31 December 2020

(in thousands of Russian roubles)

	Share capital	Additional paid-in capital	Treasury shares	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2020	**–**	**27,062,751**	**(1,011,190)**	**390,536**	**51,708,795**	**78,150,892**
Profit for the year	–	–	–	–	16,540,631	16,540,631
Total comprehensive income	**–**	**–**	**–**	**–**	**16,540,631**	**16,540,631**
Share option expenses (Note 27)	–	–	–	463,590	–	463,590
Share option modification (Note 27)	–	–	–	(346,393)	–	(346,393)
Share option settlement by cash (Note 27)	–	–	–	(440,304)	112,932	(327,372)
Share option expired worthless (Note 27)	–	–	–	(20,486)	20,486	–
Amendment to par value of ordinary shares (Note 18)	6,711	(6,711)	–	–	–	–
Balance at 31 December 2020	**6,711**	**27,056,040**	**(1,011,190)**	**46,943**	**68,382,844**	**94,481,348**

	Share capital	Additional paid-in capital	Treasury shares	Share options reserve	Retained earnings	Total equity
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 27)	–	–	–	435,121	–	**435,121**
Share option settlement by shares (Notes 18, 27)	–	127,442	–	(127,442)	–	**–**
Share option settlement by cash (Note 27)	–	–	–	(550,308)	264,124	**(286,184)**
Purchase of treasury shares (Note 18)	–	–	(720,099)	–	–	**(720,099)**
Balance at 31 December 2019	**–**	**27,062,751**	**(1,011,190)**	**390,536**	**51,708,795**	**78,150,892**

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

Notes to the consolidated financial statements for the year ended 31 December 2020

(in thousands of Russian roubles)

1. The Lenta Group and its operations

The Lenta Group (the "Group") comprises Lenta PLC ("the Company") and its subsidiaries. The Group's principal business activity is the development and operation of food retail 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 was at P.O. Box 3340, Road Town, Tortola, BVI.

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 started the process of its redomiciliation to Cyprus.
In February 2020 the redomiciliation process was completed. The Department of Registrar of Companies and Official Receiver issued the Certificate of Continuation of the Company by which it certifies that the Company was registered from 21 February 2020 in accordance with the Cyprus Companies Law Cap 113, in particular section 354H as a company continuing in the Republic of Cyprus.

The Company's registered address is 6 Karaiskaki Street, City House, 3032 Limassol, Cyprus.

On 22 July 2020 an Extraordinary Meeting of Shareholders approved the proposed redomiciliation of the Company from the Republic of Cyprus to the Russian Federation into the special administrative region of Oktyabrsky Island, Kaliningrad.

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

At 31 December 2020 and 31 December 2019 the Group has one main operating subsidiary, Lenta LLC, a legal entity registered under the laws of the Russian Federation. The registered office of Lenta LLC, is located at 112, Lit. B, Savushkina Street, 197374, Saint Petersburg, Russia. Other subsidiaries are property or investment holding companies by their nature.

The following is a list of the Group's significant subsidiaries and the effective ownership holdings therein.

			Holding, %	
	Country of incorporation	**Principal activities**	**31 December 2020**	**31 December 2019**
Lenta LLC	Russia	Operation of food retail stores	100	100
Lenta-2 LLC	Russia	Holding of investments	100	100
Zoronvo Holdings Ltd	Cyprus	Holding of investments	100	100
TRK Volzhsky LLC	Russia	Holding of investments	100	100
TK Zheleznodorozhny LLC	Russia	Holding of property	100	100

2. Basis of preparation and changes to the Group's 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) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

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.

A general slowdown in the global economy caused by COVID-19, continued economic uncertainty and consequent challenging market conditions may affect the ability to continue as a going concern.

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, loan covenant compliance, planned store opening program and the anticipated cash flows and related expenditures from retail stores. The Group does not expect any material adverse impact from the current economic slowdown to its operations.

Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

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 2020, the Group had net current liabilities of RUB 22,984,129 (net current liabilities at 31 December 2019: 6,848,744).

Unused credit facilities available as of 31 December 2020 were RUB 177,600,000. 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. Basis of preparation and changes to the Group's accounting policies (continued)

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.

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.

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

2.2 Summary of significant accounting policies (continued)

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 29.

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.

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

2.2 Summary of significant accounting policies (continued)

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.

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.

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

2.2 Summary of significant accounting policies (continued)

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.

Land improvements comprises costs related to enhancement to a plot of land adjoining a store including parking lots, driveways, walkways.

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.

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	7
Machinery and equipment	2 to 15

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

2.2 Summary of significant accounting policies (continued)

Leases

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, as follows:

- Land 1 to 50 years
- Buildings 1 to 30 years

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.

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.

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

2.2 Summary of significant accounting policies (continued)

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.

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.

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

2.2 Summary of significant accounting policies (continued)

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.

Non-current assets held for sale and discontinued operations

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.

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

2.2 Summary of significant accounting policies (continued)

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.

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.

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

2.2 Summary of significant accounting policies (continued)

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.

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.

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

2.2 Summary of significant accounting policies (continued)

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 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.

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.

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

2.2 Summary of significant accounting policies (continued)

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 27). 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 27).

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.

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

2.2 Summary of significant accounting policies (continued)

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 fair value through profit or loss (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;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVPL).

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.

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

2.2 Summary of significant accounting policies (continued)

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).

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.

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

2.2 Summary of significant accounting policies (continued)

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.

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.

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

2.2 Summary of significant accounting policies (continued)

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.

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.

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

2.2 Summary of significant accounting policies (continued)

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.

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 other comprehensive income (OCI) and later reclassified to profit or loss when the hedge item affects profit or loss.

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

2.2 Summary of significant accounting policies (continued)

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 other comprehensive income 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 other comprehensive income 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 other comprehensive income 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 2020. 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 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.

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.

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 27.

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.

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

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.

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

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

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

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

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, “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 clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the International Accounting Standards Board in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.
The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

Reclassifications in the consolidated statement of cash flows

Certain reclassifications were done in terms of presentation of expected credit losses of accounts receivable and write-offs of accounts receivable.

5. Standards issued but not yet effective

The new and amended standards and interpretations that are issued by the IASB, 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 (not yet endorsed by the EU)

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current (not yet endorsed by the EU)

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments to the classification of liabilities is not expected to have a significant impact on the Group's consolidated financial statements.

5. Standards issued but not yet effective (continued)

Reference to the Conceptual Framework – Amendments to IFRS 3 (not yet endorsed by the EU)

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

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

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

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

These amendments may impact future periods should the Group enter into any business combinations.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (not yet endorsed by the EU)

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

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

The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (not yet endorsed by the EU)

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

5. Standards issued but not yet effective (continued)

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

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

The amendments are not expected to have a material impact on the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter (not yet endorsed by the EU)

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Group.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities (not yet endorsed by the EU)

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

5. Standards issued but not yet effective (continued)

IAS 41 Agriculture – Taxation in fair value measurements (not yet endorsed by the EU)

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

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

This standard is not applicable to the Group.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (not yet endorsed by the EU)

In February 2021 the IASB issued amendments to IAS 1 and IFRS Practice Statement 2. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

The amendments are not expected to have a material impact on the Group.

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (not yet endorsed by the EU)

In February 2021 the IASB issued amendments to IAS 8. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

The amendments are not expected to have a material impact on the Group.

5. Standards issued but not yet effective (continued)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (endorsed by the EU)

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

The amendments are not expected to have a material impact on the Group due to the Group has only fixed-rate financial instruments.

Amendments to IFRS 4 Insurance Contracts – deferral of IFRS9 (endorsed by the EU)

In June 2020, the IASB published Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9. The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023.

This standard is not applicable to the Group.

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.

In 2019 “Severgroup” LLC (“Severgroup”) has completed its acquisition of 76,109,776 shares of the Company. As at 31 December 2020 76,110,584 shares of the Company belongs to Severgroup, which represents 77.99% of the share capital or 78.73% of the voting rights.
As at 31 December 2020 and 31 December 2019 Alexey Mordashov is the ultimate controlling party of the Group. TPG and EBRD cease to be related parties starting from May, 2019.

Notes to the consolidated financial statements for the year ended 31 December 2020

(in thousands of Russian roubles)

6. Balances and transactions with related parties (continued)

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

Entities with significant influence over the Group:

	Year ended 31 December 2020	Year ended 31 December 2019
Severgroup		
Revenue from related parties	95,194	–
Other operating income from related parties	10,440	6,524
Prepaid expense from related parties	(278,187)	(8,357)
Purchases of non-current assets from related parties	(131,424)	–
Selling, General and Administrative expenses	(460,034)	(17,808)
TPG Group		
Selling, General and Administrative expenses	–	(4,610)

	31 December 2020	31 December 2019
Severgroup		
Amounts owed by related parties	35,304	7,215
Amounts owed to related parties	(146,635)	(16,469)
Advances received	(197)	(360)
Advances paid	603	344

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

	Year ended 31 December 2020	Year ended 31 December 2019
Short-term benefits	1,260,167	771,041
Long-term benefits (including share-based payments, Note 27)	1,002,208	769,872
Termination benefits	98,941	14,992
Total remuneration	**2,361,316**	**1,555,905**

Notes to the consolidated financial statements for the year ended 31 December 2020

(in thousands of Russian roubles)

7. Property, plant and equipment

	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Cost						
Balance at 1 January 2020	**23,523,525**	**12,690,508**	**132,371,508**	**64,442,345**	**2,910,262**	**235,938,148**
Additions	–	–	–	1,623	9,914,019	**9,915,642**
Transfers from construction in progress	372,126	758,632	4,412,725	4,664,286	(10,207,769)	**–**
Transfers from right-of-use assets	68,201	–	–	–	–	**68,201**
Disposals	(11,398)	–	(380,211)	(922,836)	(211,401)	**(1,525,846)**
Balance at 31 December 2020	**23,952,454**	**13,449,140**	**136,404,022**	**68,185,418**	**2,405,111**	**244,396,145**
Accumulated depreciation and impairment						
Balance at 1 January 2020	**1,799,114**	**4,795,619**	**31,777,892**	**31,802,328**	**319,956**	**70,494,909**
Depreciation charge	–	2,757,326	4,484,206	6,803,597	–	**14,045,129**
(Reversal of impairment)/Impairment charge	(606,628)	(3,200)	(2,579,873)	(109,635)	387,905	**(2,911,431)**
Disposals	–	–	(218,215)	(751,541)	(163,703)	**(1,133,459)**
Balance at 31 December 2020	**1,192,486**	**7,549,745**	**33,464,010**	**37,744,749**	**544,158**	**80,495,148**
Net book value						
Balance at 1 January 2020	**21,724,411**	**7,894,889**	**100,593,616**	**32,640,017**	**2,590,306**	**165,443,239**
Balance at 31 December 2020	**22,759,968**	**5,899,395**	**102,940,012**	**30,440,669**	**1,860,953**	**163,900,997**

	Land	Land improvements	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**

7. Property, plant and equipment (continued)

During the year ended 31 December 2020 and year ended 31 December 2019 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 2020 the Group performed impairment test of property, plant and equipment, intangible assets and right-of-use assets, where indicators of such impairment were identified.

Following the impairment test net reversal of impairment losses was recognised in the consolidated statement of profit or loss in respect of property, plant and equipment amounted to RUB 2,911,431 (including impairment loss in respect of assets under construction in the amount of RUB 387,905) and impairment of right-of-use assets was recognised in the amount of RUB 4,306. The recognition of net reversal of impairment losses resulted from growth of sales and EBITDA during the reporting period and respective increase in forecasted free cash flows.

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.

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), the years beyond the forecast period the long term consumer price index forecast of 4% is used;
- 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;

(in thousands of Russian roubles)

7. Property, plant and equipment (continued)

Depreciation, amortisation and impairment expense (continued)

- 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 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 - 13.39%.

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 718,499. 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 737,954.

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.

The amount of depreciation and amortisation during the year ended 31 December 2020 and the year ended 31 December 2019 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 2020	Year ended 31 December 2019
Depreciation of property, plant and equipment (Note 7)	14,045,129	14,110,857
Amortisation of intangible assets (Note 11)	603,898	508,016
Amortisation of right-of-use assets (Note 9)	3,913,127	3,850,831
Capitalisation of right-of-use asset depreciation to assets under construction	(21,921)	(30,025)
Total depreciation and amortisation	**18,540,233**	**18,439,679**

See Note 28 for capital commitments.

(in thousands of Russian roubles)

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 2020 prepayments for construction were impaired in the amount of RUB 216,592 (31 December 2019: RUB 236,851).

9. Right-of-use assets and lease liabilities

Set out below are the carrying amounts of the Group's right-of-use assets and the movements during the year ended 31 December 2020 and year ended 31 December 2019:

Cost	**Land**	**Buildings**	**Total**
Balance as at 1 January 2020	**5,368,027**	**31,300,482**	**36,668,509**
Additions	19,227	4,802,559	4,821,786
Cancelation of lease contracts	(272,919)	(824,258)	(1,097,177)
Transfer to property, plant and equipment resulted from purchase of the underlining assets in the lease	(72,004)	–	(72,004)
Other changes*	107,319	929,448	1,036,767
Balance as at 31 December 2020	**5,149,650**	**36,208,231**	**41,357,881**
Accumulated depreciation and impairment			
Balance as at 1 January 2020	**439,396**	**3,561,670**	**4,001,066**
Depreciation charge	169,980	3,743,147	3,913,127
Impairment charge/(reversal of impairment)	(93,369)	97,675	4,306
Cancelation of lease contracts	(12,119)	(315,957)	(328,076)
Transfer to property, plant and equipment resulted from purchase of the underlining assets in the lease	(3,803)	–	(3,803)
Balance as at 31 December 2020	**500,085**	**7,086,535**	**7,586,620**
Net book value			
Balance as at 1 January 2020	**4,928,631**	**27,738,812**	**32,667,443**
Balance as at 31 December 2020	**4,649,565**	**29,121,696**	**33,771,261**

Cost	**Land**	**Buildings**	**Total**
Balance as at 1 January 2019	**5,810,044**	**30,547,558**	**36,357,602**
Additions	8,481	983,311	991,792
Cancelation of lease contracts	(176,891)	(615,394)	(792,285)
Transfer to property, plant and equipment resulted from purchase of the underlining assets in the lease	(270,752)	(212,311)	(483,063)
Other changes*	(1,792)	592,139	590,347
Balance as at 31 December 2019	**5,369,090**	**31,295,303**	**36,664,393**
Accumulated depreciation and impairment			
Balance as at 1 January 2019	**–**	**–**	**–**
Depreciation charge	211,615	3,639,216	3,850,831
Impairment charge	235,056	–	235,056
Cancelation of lease contracts	(7,806)	(72,367)	(80,173)
Transfer to property, plant and equipment resulted from purchase of the underlining assets in the lease	(3,585)	(5,179)	(8,764)
Balance as at 31 December 2019	**435,280**	**3,561,670**	**3,996,950**
Net book value			
Balance as at 1 January 2019	**5,810,044**	**30,547,558**	**36,357,602**
Balance as at 31 December 2019	**4,933,810**	**27,733,633**	**32,667,443**

* *Other changes are represented by changes in the right-of-use assets due to modifications and indexations.*

(in thousands of Russian roubles)

9. Right-of-use assets and lease liabilities (continued)

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

Set out below are the carrying amounts of the Group's lease liabilities and the movements during the year ended 31 December 2020 and year ended 31 December 2019:

	Year ended 31 December 2020	Year ended 31 December 2019
Lease liabilities at the beginning of the year	**32,160,006**	**34,120,002**
Additions	4,731,148	993,710
Cancelation of lease contracts	(810,549)	(590,476)
Other changes*	1,036,767	587,351
Interest expense	2,716,486	2,795,074
Payments for the principal portion of the lease liabilities	(2,814,842)	(2,848,226)
Payments for the interest portion of the lease liability	(2,716,486)	(2,795,074)
Foreign exchange gain	138,977	(102,355)
Lease liabilities at the end of the year	**34,441,507**	**32,160,006**

* *Other changes are represented by changes in the lease liabilities due to modifications and indexations.*

	31 December 2020	31 December 2019
Long-term lease liabilities	31,327,074	29,520,222
Short-term lease liabilities	3,114,433	2,639,784
Total lease liabilities	**34,441,507**	**32,160,006**

Set out below are the amounts recognised in profit or loss for the year ended 31 December 2020 and year ended 31 December 2019:

	Year ended 31 December 2020	Year ended 31 December 2019
Depreciation of right-of-use assets	3,913,127	3,850,831
Impairment of right-of-use assets	4,306	235,056
Capitalisation of depreciation to assets under construction	(21,921)	(30,025)
Interest expense on lease liabilities	2,716,486	2,795,074
Interest income on security deposits	(31,532)	(15,005)
Foreign exchange gain	138,977	(102,355)
Rent expense – short-term leases	681,886	888,393
Rent expense – variable lease payments	349,473	270,656
Total amounts recognised in profit or loss	**7,750,802**	**7,892,625**

Notes to the consolidated financial statements for the year ended 31 December 2020

(in thousands of Russian roubles)

10. 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).

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 2020 and 31 December 2019 is as follows:

	Year ended 31 December 2020	**Year ended 31 December 2019**
Sales	445,543,829	417,500,015
EBITDA	44,919,129	39,505,713

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

	Year ended 31 December 2020	**Year ended 31 December 2019**
EBITDA	**44,919,129**	**39,505,713**
Interest expense	(9,512,254)	(15,866,946)
Interest income	609,970	3,827,178
Income tax expense (see Note 21)	(3,456,984)	(190,684)
Depreciation and amortisation (see Notes 7, 9, 11, 25)	(18,540,233)	(18,439,679)
Reversal of impairment/(Impairment) of non-financial assets (see Notes 7, 9, 11)	2,907,125	(11,849,959)
Foreign exchange (loss)/gains	(386,122)	220,503
Profit/(loss) for the year	**16,540,631**	**(2,793,874)**

(in thousands of Russian roubles)

11. Intangible assets

Intangible assets as at 31 December 2020 consist of the following:

	Software	Total
Cost		
At 1 January 2020	**4,770,994**	**4,770,994**
Additions	918,567	918,567
Disposals	(7,434)	(7,434)
At 31 December 2020	**5,682,127**	**5,682,127**
Accumulated amortisation and impairment		
At 1 January 2020	**2,500,019**	**2,500,019**
Amortisation charge	603,898	603,898
Disposals	(2,762)	(2,762)
At 31 December 2020	**3,101,155**	**3,101,155**
Net book value		
At 1 January 2020	**2,270,975**	**2,270,975**
At 31 December 2020	**2,580,972**	**2,580,972**

Intangible assets as at 31 December 2019 consisted 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		
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**

Amortisation expense is included in selling, general and administrative expenses (Note 25).

12. 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.

(in thousands of Russian roubles)

13. Inventories

	31 December 2020	31 December 2019
Goods for resale (at lower of cost and net realisable value)	39,817,567	37,146,606
Raw materials	2,253,966	1,306,659
Total inventories at lower of cost and net realisable value	**42,071,533**	**38,453,265**

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

During the year ended 31 December 2020 the Group wrote down inventories to their net realisable value, which resulted in recognition of expenses within cost of sales in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 in the amount of RUB 595,286 (for the year ended 31 December 2019 in the amount of RUB 411,398).

14. Trade and other receivables

	31 December 2020	31 December 2019
Accounts receivable on rental and other services and on suppliers' advertising	6,293,355	5,423,210
Suppliers' rebates receivable	4,465,410	3,205,036
Other receivables	268,201	154,866
Expected credit losses of accounts receivable	(124,127)	(179,010)
Total trade and other receivables	**10,902,839**	**8,604,102**

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. Generally, trade and other receivables are written-off if past due for more than 3 years and are no subject to enforcement activity.

The detailed analysis of impact of COVID-19 on debtors' financial conditions and review of any other factors which might result in revision of the allowance matrix performed as at 31 December 2020 led to the conclusion that there was no significant deterioration of credit quality of customers.

(in thousands of Russian roubles)

14. Trade and other receivables (continued)

Set out below is the information about the credit risk exposure on the Group’s trade and other receivables as at 31 December 2020 using a provision matrix:

	Current	<60 days overdue	60-120 days overdue	>120 days overdue	Total
Expected credit loss rate	<1.5%	2%-5%	15%-40%	70%-100%	
Estimated total gross carrying amount at default	10,455,452	413,196	30,996	127,322	**11,026,966**
Expected credit loss	11,804	8,264	5,993	98,066	**124,127**

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	<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:

	2020	2019
As at 1 January	**179,010**	**264,399**
Allowance/(reversal of allowance) for expected credit losses	19,371	(48,658)
Write-off	(74,254)	(36,731)
As at 31 December	**124,127**	**179,010**

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

15. Advances paid

	31 December 2020	31 December 2019
Advances for services	1,362,282	1,327,153
Advances to suppliers of goods	415,077	309,833
Impairment of advances paid	(23,293)	(54,055)
Total advances paid	**1,754,066**	**1,582,931**

16. Taxes recoverable

Taxes recoverable as at 31 December 2020 are represented by a VAT recoverable of RUB 345,465 (31 December 2019: RUB 163,364) and property tax receivable in the amount of RUB 15,911 (31 December 2019: nil).

(in thousands of Russian roubles)

17. Cash and cash equivalents

	31 December 2020	31 December 2019
Rouble denominated short-term deposits	18,489,546	66,312,184
Foreign currency denominated short-term deposits	354,748	10,455
Rouble denominated balances with banks	1,527,464	3,818,264
Rouble denominated cash in transit	1,065,216	2,884,525
Rouble denominated cash on hand	276,294	276,419
Foreign currency denominated balances with banks	95,606	102,913
Total cash and cash equivalents	**21,808,874**	**73,404,760**

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.

18. Issued capital and reserves

Issued capital

As at 31 December 2020 the Company's share capital is comprised of 97,585,932 authorised and issued ordinary shares with EUR 0.001 par value (as at 31 December 2019: 97,585,932 with no par value).

According to the requirement of the laws of the Republic of Cyprus each share in the Company has a par value. Therefore immediately before a continuation of the Company into the Republic of Cyprus in February 2020, each share of no par value was automatically converted into an ordinary share of EUR 0.001 par value and reclassification from additional paid-in capital to share capital in the consolidated statement of financial position in the amount of RUB 6,711 was made.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. No dividends to holders of ordinary shares were declared for the year ended 31 December 2020 and for the year ended 31 December 2019.

	Number of shares	31 December 2020 kEUR	31 December 2020 kRUB
Authorised			
Ordinary shares of EUR0,001 each	200,000,000	200	13,754
Issued and fully paid			
Balance at the beginning of the year	**97,585,932**	**-**	**-**
Amendment to par value of ordinary shares	-	98	6,711
Balance at the end of the year	**97,585,932**	**98**	**6,711**

(in thousands of Russian roubles)

18. Issued capital and reserves (continued)

The number of shares as at 31 December 2020 and 31 December 2019 are as follows:

	31 December 2020 No.	**31 December 2019 No.**
Authorised share capital (ordinary shares)	200,000,000	unlimited
Issued and fully paid	97,585,932	97,585,932
Treasury shares	(910,546)	(910,546)

The movements in the number of shares for the year ended 31 December 2020 and for the year ended 31 December 2019 are as follows:

	Year ended 31 December 2020 No.	**Year ended 31 December 2019 No.**
Balance of shares outstanding at beginning of the year	**96,675,386**	**97,272,922**
Additional issue of shares	–	77,667
Shares buy-back	–	(675,203)
Balance of shares outstanding at the end of the year	**96,675,386**	**96,675,386**

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 27). 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.

Treasury shares

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 2020 and 31 December 2019. During the year ended 31 December 2019 the Group repurchased 675,203 shares of no par value for RUB 720,099.

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 27 for further details of these plans.

Notes to the consolidated financial statements for the year ended 31 December 2020

(in thousands of Russian roubles)

19. Earnings per share

	Year ended 31 December 2020	Year ended 31 December 2019
Earnings /(losses) per share (in thousands of Russian roubles per share)		
- basic and diluted, for profit/(loss) for the year attributable to equity holders of the parent	0.171	(0.029)

The calculation of basic earnings per share for the year is based on the profit/(loss) attributable to shareholders (profit for the year ended 31 December 2020: RUB 16,540,631, loss for the year ended 31 December 2019: RUB (2,793,874)) and weighted average number of ordinary shares outstanding during the respective periods (96,675,386 shares at 31 December 2020 and 96,757,307 shares as at 31 December 2019).

The Group has issued share-based payments instruments (Note 27) 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.

20. Borrowings

Short-term borrowings:

	Currency	31 December 2020	31 December 2019
Fixed rate short-term bank loans	RUB	32,079,596	63,031,173
Fixed rate short-term bonds	RUB	930,940	5,399,643
Total short-term borrowings and short-term portion of long-term borrowings		**33,010,536**	**68,430,816**

Long-term borrowings:

	Currency	31 December 2020	31 December 2019
Fixed rate long-term bank loans	RUB	15,973,413	61,591,407
Fixed rate long-term bonds	RUB	29,967,625	20,519,034
Total long-term borrowings		**45,941,038**	**82,110,441**

The Groups' borrowings as at 31 December 2020 and 31 December 2019 bear market interest rates, all of them are denominated in Russian roubles and are not secured.

As at 31 December 2020 the Group had RUB 177,600,000 of unused credit facilities (as at 31 December 2019: RUB 89,136,000).

The loan agreements contain financial and non-financial covenants. As at 31 December 2020 the Group is in compliance with the covenants.

**Notes to the consolidated financial statements
for the year ended 31 December 2020**

(in thousands of Russian roubles)

21. Income taxes

The Group's income tax expense for the year ended 31 December 2020 and 31 December 2019 is as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Current tax expense	(3,442,921)	(3,413,269)
Deferred tax (expense)/benefit	(14,063)	3,222,585
Income tax expense recognised in profit for the year	**(3,456,984)**	**(190,684)**

	Year ended 31 December 2020	Year ended 31 December 2019
Profit/(loss) before tax	**19,997,615**	**(2,603,190)**
Theoretical tax charge at 20% being statutory tax rate in Russia	**(3,999,523)**	**520,638**
Difference in tax regimes of foreign companies	237,014	(154,996)
Add tax effect of non-taxable income and non-deductible expenses.	(28,163)	(176,326)
Reversal/(recognition) of previously unrecognised uncertain tax position	333,688	(380,000)
Income tax expense	**(3,456,984)**	**(190,684)**

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 2020	Differences in recognition and reversals recognised in profit or loss	31 December 2020
Tax effect of (taxable)/ deductible temporary differences			
Property, plant and equipment	(8,538,465)	(836,280)	(9,374,745)
Right of use	(6,437,964)	(223,357)	(6,661,321)
Unused vacation and employee bonuses accrual	407,281	405,891	813,172
Suppliers' bonuses	(59,780)	(24,605)	(84,385)
Borrowings	2,397	347	2,744
Intangible assets	(76,608)	(61,147)	(137,755)
Inventory	793,055	149,154	942,209
Provision for expected credit losses of accounts receivable, impairment of advances paid and prepayments for construction	70,750	(6,921)	63,829
Accrued liabilities	799,696	109,608	909,304
Lease liabilities	6,432,001	456,300	6,888,301
Other	99,149	16,947	116,096
Total net deferred tax liabilities	**(6,508,488)**	**(14,063)**	**(6,522,551)**

Notes to the consolidated financial statements for the year ended 31 December 2020

(in thousands of Russian roubles)

21. Income taxes (continued)

	1 January 2019	Change in the accounting policies due to the application of IFRS 16	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)**

The temporary taxable differences associates with undistributed earnings of subsidiaries amount to RUB 91,811,752 and RUB 75,842,716 as of 31 December 2020 and 2019, 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.

22. Trade and other payables

	31 December 2020	31 December 2019
Trade payables	48,730,068	46,537,381
Accrued liabilities and other creditors	9,213,476	6,446,591
Payables for purchases of property, plant and equipment	3,522,889	1,705,131
Total trade and other payables	**61,466,433**	**54,689,103**

The trade and other payables are denominated in:

	31 December 2020	31 December 2019
Russian roubles	60,205,933	53,785,883
USD	1,021,454	650,158
EUR	236,211	249,815
GBP	2,835	3,246
Total trade and other payables	**61,466,433**	**54,689,103**

(in thousands of Russian roubles)

23. Other taxes payable

	31 December 2020	31 December 2019
Social taxes	1,099,531	805,661
Personal income tax	284,232	238,786
Other taxes	23,985	36,221
Property tax	–	92,895
Total other taxes payable	**1,407,748**	**1,173,563**

24. 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 2020 includes employee benefits expense of RUB 9,419,290 (for the year ended 31 December 2019: RUB 8,777,586) of which contributions to state pension fund are comprised of RUB 1,330,005 (for the year ended 31 December 2019: RUB 1,229,580).

Cost of sales for the year ended 31 December 2020 includes cost of raw materials used in own production of RUB 17,194,010 (for the year ended 31 December 2019: RUB 16,575,218).

25. Selling, general and administrative expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Employee benefits	31,264,457	28,119,261
Depreciation and amortisation (Notes 7, 9, 11)	18,540,233	18,439,679
Utilities and communal payments	4,969,707	4,974,278
Professional fees	4,318,190	4,388,221
Advertising	5,748,928	5,177,240
Cleaning	3,508,353	3,611,966
Repairs and maintenance	3,523,836	3,019,466
Security services	2,082,074	1,973,878
Taxes other than income tax	1,456,812	1,598,841
Rent expense (Note 9)	1,031,359	1,159,049
Other	3,670,230	2,621,634
Total selling, general and administrative expenses	**80,114,179**	**75,083,513**

Employee benefits for the year ended 31 December 2020 include contributions to state pension fund of RUB 3,922,267 (for the year ended 31 December 2019: RUB 3,578,339). The average number of employees employed by the Group during the year ended 31 December 2020 was 43,323 (during the year ended 31 December 2019: 43,731).

Professional fees for the year ended 31 December 2020 include fees billed by Ernst & Young LLC and Ernst & Young Cyprus Limited: for the audit of the consolidated financial statements in the amount of RUB 29,222 (for the year ended 31 December 2019: RUB 24,282) and for other professional services in the amount of RUB 12,844 (for the year ended 31 December 2019: RUB 22,729).

(in thousands of Russian roubles)

26. Other operating income and expenses

Other operating income is comprised of the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Rental income	1,475,979	1,605,999
Penalties due by suppliers	1,152,192	971,290
Sale of secondary materials	1,133,736	1,127,996
Advertising income	609,191	550,135
GDR program reimbursement	331,111	–
Insurance compensation	218,038	524,243
Changes in expected credit losses of accounts receivable and write-offs of accounts receivable	–	48,658
Gain on property, plant and equipment disposal	45,730	42,102
Gain from cancelation of lease contracts	47,244	–
Other	186,681	197,343
Total other operating income	**5,199,902**	**5,067,766**

Income generated from the GDR program represents reimbursements done by the depositary out of revenue charged from GDR holders.

Other operating expenses are comprised of the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Loss from property, plant and equipment and intangible assets disposal	210,299	352,215
Impairment and write-offs of advances paid and prepayments for construction	67,147	101,831
Penalties from government authorities	36,774	56,750
Penalties for termination of a contracts with service suppliers	35,046	109,291
Non-recoverable VAT	15,975	63,611
Changes in expected credit losses of accounts receivable and write-offs of accounts receivable	19,371	–
Loss from cancelation of lease contracts	5,796	121,636
Other	132,062	130,364
Total other operating expenses	**522,470**	**935,698**

27. Share options reserve

Long-term incentive plan

The Group approved a long-term incentive plan (LTIP) to certain members of senior and middle management, according to which the Group annually 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 coefficient and individual performance rating coefficient.

Notes to the consolidated financial statements
for the year ended 31 December 2020

(in thousands of Russian roubles)

27. Share options reserve (continued)

Long-term incentive plan (continued)

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

As at 31 December 2020 Tranche 2014, 2015 are fully vested.

Set out below is the information about awards granted in 2016, 2017, 2018 and 2019:

	Vested during the year ended 31 December 2019	Vested as at 31 December 2020	Remaining vesting dates
Top Management			
LTIP 2016	100%	100%	0%
LTIP 2017	66%	100%	0%
LTIP 2018	34%	34%	66% in Apr 2021
LTIP 2019	0%	25%	Apr 2021 - 25%, May 2021 - 50%
Middle Management			
LTIP 2016	100%	100%	0%
LTIP 2017	0%	100%	0%
LTIP 2018	0%	0%	Apr 2021 - 100%
LTIP 2019	0%	25%	Apr 2021 - 25%, Apr 2022 - 50%

Set out below is the information about awards settlement during year ended 31 December 2020:

	2017 tranche	2018 tranche	2019 tranche	Total
Settlement by cash payment during 2020				
Settlement by cash	79,843	23,154	224,375	**327,372**
Excess of expenses accrued vs. payment made	64,727	11,108	37,097	**112,932**

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 during 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					
Settlement by cash during 2019	194,592	53,990	37,602	–	**286,184**
Excess of expenses accrued vs. payment made	198,382	32,809	15,105	–	**246,296**

(in thousands of Russian roubles)

27. Share options reserve (continued)

Long-term incentive plan (continued)

Total expense recognised for the services received from the employees covered by long-term incentive plan for the year ended 31 December 2020 and for the year ended 31 December 2019 is shown in the following table:

	Year ended 31 December 2020	Year ended 31 December 2019
Expense arising from the equity-settled long-term incentive plan payments	342,297	428,246
Incremental fair value arising from conversion of the equity-settled long-term incentive plan into employee benefits under IAS 19	119,092	–
Total	**461,389**	**428,246**

Share-option modification

In the fourth quarter of the year ended 31 December 2020 equity-settled unvested awards Tranche 2018 and Tranche 2019 to the middle and top management were converted so as to become fixed renumeration but their terms are otherwise unchanged. The number of converted instruments at fixed price of US$3.6 remained unchanged. The fixed renumeration was accounted for as other long-term employee benefits in accordance with IAS 19.

The incremental fair value estimated as excess of the fair value of the converted award over the original share-based payment at the date of conversion was recognised as expense in the extent to which the specified services have been received in the amount of 119,092 RUB with the corresponding increase in share option reserve in the consolidated statement of changes in equity.

At the conversion date the total amount of fixed remuneration payable of 346,393 RUB in the extent to which the related services have been received was reclassified from share option reserve in the consolidated statement of changes in equity to trade and other payables.

	2018 tranche	2019 tranche	Total
Conversion into employee benefits under IAS 19			
Transfer from share option reserve to liability (trade and other payables)	112,984	233,409	**346,393**

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 PLC based on an increase in the share price over a predetermined exercise price subject to meeting the performance conditions.

(in thousands of Russian roubles)

27. Share options reserve (continued)

Share value appreciation rights (continued)

As at 31 December 2019 SVARs of 2013 year fully vested.

In April 2020 SVARs of 2016 year expired worthless. Total expense for the services received from the employees previously recognised with respect to expired SVARs was RUB 20,486.

	Year ended 31 December 2020	Year ended 31 December 2019
Expense arising from the equity-settled SVARs transaction	2,201	6,875

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.

28. Capital expenditure commitments

At 31 December 2020 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RUB 4,333,015 net of VAT (31 December 2019: RUB 6,216,727 net of VAT).

29. Financial instruments

Categories of financial instruments

	31 December 2020	31 December 2019
Financial assets measured at amortised cost		
Cash and cash equivalents	21,808,874	73,404,760
Trade and other receivables	10,902,839	8,604,102
Other non-current financial assets	445,171	444,316
Total financial assets measured at amortised cost	**33,156,884**	**82,453,178**
Financial liabilities measured at amortised cost		
Fixed rate long-term bank loans and bonds	45,941,038	82,110,441
Fixed rate short-term bank loans and bonds	33,010,536	68,430,816
Trade and other payables	61,466,433	54,689,103
Total financial liabilities measured at amortised cost	**140,418,007**	**205,230,360**

Notes to the consolidated financial statements
for the year ended 31 December 2020

(in thousands of Russian roubles)

29. Financial instruments (continued)

Fair values

Quantitative disclosures of fair value measurement hierarchy for the Group's financial liabilities as at 31 December 2020 and 31 December 2019 are presented below:

	31 December 2020	Level 1	Level 2	Level 3
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	31,702,693	31,702,693	–	–
Fixed rate bank loans	47,814,126	–	47,814,126	–

	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	–

During the reporting periods ended 31 December 2020 and 31 December 2019, 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 2020		31 December 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Interest-bearing loans and borrowings				
Fixed rate bank loans and bonds	78,951,574	79,516,819	150,541,257	149,587,134
Total financial liabilities	**78,951,574**	**79,516,819**	**150,541,257**	**149,587,134**

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)

29. 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 2020 and 31 December 2019 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 2019	Proceeds from borrowings	Repay-ments of borrowings	Reclas-sifications	Other	31 December 2020
Long-term borrowings	82,110,441	30,792,775	(10,000,000)	(56,998,068)	35,890	45,941,038
Short-term borrowings	68,430,816	15,000,000	(107,240,001)	56,998,068	(178,347)	33,010,536
Total	**150,541,257**	**45,792,775**	**(117,240,001)**	**–**	**(142,457)**	**78,951,574**

	31 December 2018	Proceeds from borrowings	Repay-ments of borrowings	Reclas-sifications	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**

The 'Other' column includes the net effect of accrued and paid interest on interest bearing loans. Group classifies interest paid as cash flows from operating activities.

30. 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)

30. 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 2020 and 2019, 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 2020	16.00%	(143,763)
	-16.00%	143,763
Year ended 2019	13.00%	(61,972)
	-11.00%	52,438

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 2020	16.00%	(36,367)
	-16.00%	36,367
Year ended 2019	13.00%	(25,815)
	-11.00%	21,844

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)

30. 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. As at 31 December 2020 and as at 31 December 2019 the Group has no financial instruments with floating interest rates.

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.

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 21,532,580 (31 December 2019: RUB 73,128,341).

(in thousands of Russian roubles)

30. Financial risk management (continued)

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 2019 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 2020

	Less than 12 months	1-5 years	Over 5 years	Total
Borrowings	37,062,819	49,167,294	–	**86,230,113**
Lease liabilities	5,765,364	20,666,697	28,338,092	**54,770,153**
Trade and other payables	61,466,433	–	–	**61,466,433**
Total	**104,294,616**	**69,833,991**	**28,338,092**	**202,466,699**

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**

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 20, lease liabilities less cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

(in thousands of Russian roubles)

30. Financial risk management (continued)

Capital management (continued)

Net debt of the Group comprises of the following:

	31 December 2020	31 December 2019
Borrowings	78,951,574	150,541,257
Lease liabilities	34,441,507	32,160,006
Cash and cash equivalents (Note 17)	(21,808,874)	(73,404,760)
Net debt	**91,584,207**	**109,296,503**

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.

31. 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 the outbreak of coronavirus infection, 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.

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

The recent outbreak and global spread of the COVID-19 may have a significant and prolonged impact on global economic conditions, disruptions in supply chain, increase in employee absenteeism and adversely impact operations.

Since March 2020, the Russian authorities have taken a number of measures to mitigate the effect of COVID-19 on the Russian economy. The range of measures is very broad and includes, amongst others, the deferral of tax and lease payments, suspension of field audits, prolongation of various state licenses and permits, credit holidays and bank loans at reduced rates. Food retail was not included into the list of most affected sectors. The Group was included into the list of systemically important companies. The Government of Russia provided the following support measures for companies, included into the list of systemically important ones: budget subsidies, deferral of taxes and tax advances, state guarantees for credits and loans. The Group did not apply for support measures provided by the Government.

(in thousands of Russian roubles)

31. Contingencies (continued)

COVID-19 is having a significant impact on the operations of the Group's business. During the reporting period the Group experienced strong growth of sales and EBITDA exceeding prior year and budgeted amounts. At the same time the Group is incurring additional COVID-19 preventive costs, particularly on additional intensity allowance to personnel to meet the increased demand, on antibacterial protection equipment and liquids for employees and customers, masks and gloves, cleaning services. These additional expenses are more than outweighed by the benefits of increased consumer demand. The Group performed assessment of the impact of COVID-19 on the impairment of non-financial assets (Note 7) and on credit risk with respect to receivables (Note 14).

While the full financial impact of the crisis in long-term perspective is impossible to predict with a high degree of certainty, the management strongly believes in positive outcome on the performance of the Group.

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 89,974 as at 31 December 2020 (31 December 2019: RUB 84,015). 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.

Russian Federation tax and regulatory environment

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 2,123,772 (31 December 2019: RUB 1,750,623). Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

(in thousands of Russian roubles)

31. Contingencies (continued)

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.

32. Events occurring after the reporting period

From 17 February 2021 the Company was registered in the Russian Federation in the special administrative region of Oktyabrsky Island, Kaliningrad. As a result of the redomiciliation becoming effective, the Company is now named Lenta IPJSC, an international public joint-stock company.