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

March 2020

Independent auditor's report
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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of PJSC Magnit and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for 2019 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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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
Recognition of vendors 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. We considered this matter to be of most significance in our audit because the recognition of vendor allowance requires judgement from management in the assessment of the level of fulfilment of the Group's obligations under the vendor agreements and because these allowances are a substantial part of cost of sales and inventories. Information about accounting policy for vendor allowances is disclosed in Note 3 to the consolidated financial statements.	We compared a sample of accruals of volume and other rebates, recorded based on management assumptions, to supporting documents from vendors and supplier agreements. We also compared the outstanding allowances receivable to the direct confirmations from suppliers on a sample basis. We tested cut-off of vendor allowances recorded during a period shortly before and after year-end to supporting documents from vendors.
Valuation of goods for resale	
The Group has significant balance of goods for resale. In accordance with IAS 2 *Inventories*, inventories are recorded at the lower of cost and net realizable value. In estimating the carrying amount of goods for resale, the Group's management uses judgments to estimate the net realizable value of goods for resale and the amount of handling costs to be included in the carrying amount of goods for resale. As a result, we believe that this matter is one of most significance in our audit. Information on goods for resale is disclosed in Note 12 to the consolidated financial statements.	We assessed the assumptions used by the Group's management in the valuation of goods for resale. We assessed the Group's methodology in respect of valuation of net realizable value, analysed the dynamics of goods for resale turnover ratios taking into consideration seasonality and other applicable factors. We compared carrying values of goods for resale with subsequent sales proceeds by certain type of goods. We analysed individually significant transactions related to inventory items used and also compared monthly movements of goods for resale during the period with the historical information and industry trends, we verified the mathematical accuracy of goods for resale net realisable value calculation. We assessed the process of allocation of handling costs to the carrying amount of goods for resale. We analysed the structure of costs included in the value of goods for resale. We compared the amount of costs with supporting documents received from suppliers and the Group's internal documents.

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Key audit matter	How our audit addressed the key audit matter
Impairment testing of property, plant and equipment and right-of-use assets	
Impairment testing for property, plant and equipment and right-to-use assets was one of the key audit matters because the balance of property, plant and equipment and right-to-use assets forms a significant portion of the Group's assets at the reporting date, and the process of management's assessment of the recoverable amount is complex and requires significant judgments, including judgements about future cash flows, capital expenditures and the discount rate. Information about property, plant and equipment, right-to-use assets and results of impairment testing is disclosed in Notes 8 and 9 to the consolidated financial statements.	Our audit procedures included an assessment of key management assumptions used by the Group, including those in respect of forecasted revenue and operating expenses. We also analyzed discount rates used by management of the Group. We engaged our internal valuation experts in performing these procedures. We also performed the sensitivity analysis of the impairment test with respect to changes in the key assumption and assessed the Group's disclosures of these assumptions to which impairment testing is most sensitive, i.e., those that have the most significant impact on the recoverable amount of property, plant and equipment and right-of-use assets.
Impairment testing of goodwill from acquisition of the SIA Group	
As at 31 December 2019, the balance of goodwill is 26,879,317 thousand rubles, including 25,511,824 thousand rubles related to acquisition of MF-SIA LLC. As a result of this transaction, the Group obtained control over the SIA Group. Impairment testing of goodwill was one of the key audit matters because assessment of the recoverable amount of goodwill includes numerous assumptions made by the Group's management, including the estimated effect of synergies, determination of a cash-generation unit for impairment testing purposes, forecasted revenue and gross margin, long-term growth rates and discount rates. Information about goodwill is disclosed in Note 11 to the consolidated financial statements.	Our audit procedures included an assessment of assumptions used by the Group and reasonableness of forecasted data. We assessed the judgment used by management in testing goodwill for impairment with respect to goodwill allocation to the relevant cash-generating unit. We also performed the sensitivity analysis of the impairment test with respect to changes in the key assumptions and assessed the Group's disclosures of those assumptions that have the most significant impact on the recoverable amount of cash generating unit to which goodwill is allocated.
Transition to IFRS 16 Leases	
Effective 1 January 2019, the Group adopted IFRS 16 *Leases*. When adopting the new standard, the Group applied a full retrospective approach. The adoption of IFRS 16 was one of the key audit matters because the effect of transition to the new standard is significant to the consolidated financial statements, the Group has large number of lease contracts and significant judgments were made by the management in assessing initial value of right-to-use assets and related liabilities with respect to ability to extend these lease contracts and, thus, determine a lease term. Information about the adoption of IFRS 16 *Leases* is disclosed in Note 4.2 to the consolidated financial statements.	We analyzed the Group's accounting policy with respect to IFRS 16. We analyzed the list of lease agreements to which IFRS 16 is applied and compared, on a sample basis, data in agreements with data that were used during the implementation and application of the transition provisions of IFRS 16. We analyzed management's judgments made to determine the lease term in agreements with extension options. We tested the mathematical accuracy of calculations of adjustments at the transition date to IFRS 16. We analyzed information on the adoption of IFRS 16 disclosed in the consolidated financial statements.

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Other information included in The Annual report of PJSC Magnit for 2019

Other information consists of the information included in the Annual Report of PJSC Magnit for 2019 other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of PJSC Magnit for 2019 is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is A.Y. Grebeniuk.

A.Y. Grebeniuk
Partner
Ernst & Young LLC

16 March 2020

Details of the audited entity

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

Details of the auditor

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

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PJSC Magnit

Consolidated statement of financial position

as at 31 December 2019

(In thousands of Russian rubles)

	Notes	31 December 2019	31 December 2018 Restated (Note 2)	1 January 2018 Restated (Note 2)
Assets				
Non-current assets				
Property, plant and equipment	8	352,985,987	344,837,482	326,661,210
Investment property		-	-	600,000
Right-of-use assets	9	313,566,212	286,177,692	266,737,158
Intangible assets	10	3,914,677	1,677,149	1,516,456
Goodwill	11	26,879,317	26,879,317	1,367,493
Long-term financial assets		314	150,552	350,645
Long-term receivables		-	800,468	-
		697,346,507	**660,522,660**	**597,232,962**
Current assets				
Inventories	12	218,873,586	182,140,503	156,709,275
Trade and other receivables	13	13,993,440	6,811,318	1,399,186
Advances paid	14	5,769,958	5,447,803	4,004,689
Taxes receivable, excluding income tax		1,464,207	66,747	598,270
Prepaid expenses		656,210	522,021	640,440
Short-term financial assets		553,697	488,996	215,308
Income tax receivable		1,130,420	467,769	1,153,657
Cash and cash equivalents	15	8,901,298	26,747,754	18,337,417
		251,342,816	**222,692,911**	**183,058,242**
Total assets		**948,689,323**	**883,215,571**	**780,291,204**
Equity and liabilities				
Equity attributable to the shareholders of the parent				
Share capital	16	1,020	1,020	1,020
Share premium	16	87,379,413	87,257,340	87,635,960
Treasury shares	16	(16,454,110)	(12,051,463)	-
Share-based payments reserve	31	1,623,268	-	-
Retained earnings		115,983,222	137,235,129	140,502,834
Total equity		**188,532,813**	**212,442,026**	**228,139,814**
Non-current liabilities				
Long-term loans and borrowings	21	119,632,362	93,736,140	86,338,130
Long-term lease liabilities	9	320,600,953	290,581,189	266,335,407
Long-term advances received		244,623	408,734	-
Long-term government grants	22	3,206,076	2,975,361	1,100,568
Deferred tax liabilities	29	16,073,679	15,292,458	13,729,813
		459,757,693	**402,993,882**	**367,503,918**
Current liabilities				
Trade and other payables	18	161,631,006	131,101,185	99,142,151
Accrued expenses	19	17,020,105	13,084,885	11,574,953
Taxes payable, excluding income tax	20	4,291,007	4,791,836	6,283,720
Dividends payable	17	14,452,943	13,629,822	831
Short-term advances received		696,526	665,285	562,691
Contract liabilities		1,056,711	1,447,052	315,696
Short-term government grants	22	62,857	62,340	55,423
Short-term loans and borrowings	21	64,578,456	70,837,201	40,121,925
Short-term lease liabilities	9	36,609,206	32,160,057	26,590,082
		300,398,817	**267,779,663**	**184,647,472**
Total liabilities		**760,156,510**	**670,773,545**	**552,151,390**
Total equity and liabilities		**948,689,323**	**883,215,571**	**780,291,204**

The Chief Executive Officer of PJSC Magnit

J.G. Dunning

16 March 2020

The accompanying notes on pages 13-79 are an integral part of these consolidated financial statements.

PJSC Magnit

Consolidated statement of comprehensive income

for the year ended 31 December 2019

(In thousands of Russian rubles)

	Note	2019	2018 Restated (Note 2)
Revenue	23	1,368,705,394	1,237,015,457
Cost of sales	24	(1,056,706,053)	(940,941,519)
Gross profit		**311,999,341**	**296,073,938**
Rental and sublease income		3,143,997	2,942,620
Selling expenses	25	(15,686,379)	(16,069,946)
General and administrative expenses	26	(254,961,673)	(220,744,798)
Ilnterest income		272,595	210,316
Finance costs	27	(47,781,649)	(39,541,807)
Other income	28	16,396,467	10,514,535
Other expenses		(1,676,061)	(907,548)
Foreign exchange gain/(loss)		872,834	(1,523,135)
Profit before tax		**12,579,472**	**30,954,175**
Income tax expense	29	(3,015,250)	(6,783,907)
Profit for the year	**30**	**9,564,222**	**24,170,268**
Total comprehensive income for the year, net of tax		**9,564,222**	**24,170,268**
Profit for the year			
Attributable to:			
Shareholders of the parent		9,564,222	24,170,268
		9,564,222	**24,170,268**
Total comprehensive income for the year, net of tax			
Attributable to:			
Shareholders of the parent		9,564,222	24,170,268
		9,564,222	**24,170,268**
Earnings per share (in RUB per share)			
- basic and diluted profit for the year attributable to the shareholders of the parent	30	97.98	238.96

The Chief Executive Officer of PJSC Magnit — J.G. Dunning

16 March 2020

The accompanying notes on pages 13-79 are an integral part of these consolidated financial statements.

PJSC Magnit

Consolidated statement of cash flows

for the year ended 31 December 2019

(In thousands of Russian rubles)

	Note	2019	2018 Restated (Note 2)
Cash flows from operating activities			
Profit before income tax		**12,579,472**	**30,954,175**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	8, 9	87,117,847	72,354,587
Amortization of intangible assets	10	976,589	798,926
Loss from disposal of property, plant and equipment		358,190	549,026
Loss from disposal of intangible assets		23,164	10,754
Gain from disposal of investment property		-	(1,180)
Gain from sales of investments		(47,511)	-
Accrual/(reversal) of provision for expected credit losses (ECL)	26	405,773	(97,118)
Share-based payments reserve		2,452,342	-
Gain from cancellation of lease contracts	9	(1,985,180)	(1,804,180)
Foreign exchange (gain)/loss		(872,834)	1,523,135
Finance costs	27	47,781,649	39,541,807
Investment income		(272,595)	(210,316)
Operating cash flows before working capital changes		**148,516,906**	**143,619,616**
Increase in trade and other receivables		(6,787,427)	(1,213,236)
Increase in advances paid		(322,155)	(1,442,228)
(Decrease)/increase in advances received		(132,870)	511,328
(Increase)/decrease in taxes receivable		(1,397,460)	1,145,281
(Increase)/decrease in prepaid expenses		(134,189)	118,695
Increase in inventories		(36,733,083)	(23,050,790)
Increase in trade and other payables		31,320,853	10,095,175
Increase in accrued expenses		3,935,220	511,124
Decrease in taxes payable		(500,829)	(1,827,166)
(Decrease)/increase in contract liabilities		(390,341)	1,131,357
Increase in government grants	22	231,232	1,858,968
Cash generated from operations		**137,605,857**	**131,458,124**
Income tax paid		(2,896,680)	(4,433,235)
Interest paid		(46,732,567)	(40,266,504)
Interest received		251,870	200,720
Net cash from operating activities		**88,228,480**	**86,959,105**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(53,911,476)	(50,498,665)
Purchase of intangible assets	10	(3,237,281)	(957,597)
Cash acquired on business combination	7	-	187,758
Proceeds from sale of property, plant and equipment		672,002	1,079,628
Proceeds from sale of investment property		-	601,180
Loans provided		(539,032)	(1,507,414)
Loans repaid		692,806	166,756
Proceeds from government grants	22	-	22,742
Net cash used in investing activities		**(56,322,981)**	**(50,905,612)**
Cash flows from financing activities			
Proceeds from loans and borrowings	33	695,756,324	600,693,859
Repayment of loans and borrowings	33	(677,163,335)	(572,272,534)
Dividends paid	17,33	(29,993,007)	(13,808,982)
Repayment of lease liabilities	9,33	(33,242,289)	(24,527,812)
Purchase of treasury shares	16	(5,109,648)	(17,727,687)
Net cash used in financing activities		**(49,751,955)**	**(27,643,156)**
Net (decrease)/increase in cash and cash equivalents		**(17,846,456)**	**8,410,337**
Cash and cash equivalents at the beginning of the year	15	26,747,754	18,337,417
Cash and cash equivalents at the end of the year	15	**8,901,298**	**26,747,754**

The Chief Executive Officer of PJSC Magnit J.G. Dunning

16 March 2020

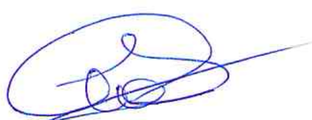
The accompanying notes on pages 13-79 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2019

(In thousands of Russian rubles)

	Attributable to shareholders of the parent					
	Share capital	**Share premium**	**Treasury shares**	**Provision for share-based payments**	**Retained earnings**	**Equity attributable to shareholders of the parent**
Balance at 1 January 2018	**1,020**	**87,635,960**	-	-	**171,670,459**	**259,307,439**
Effect of adoption of IFRS 16 *Leases* (Note 4.2)	-	-	-	-	(26,771,443)	(26,771,443)
Effect of change in vendor rebates allocation method (Note 4.1)	-	-	-	-	(4,396,182)	(4,396,182)
Balance at 1 January 2018 (restated)	**1,020**	**87,635,960**	-	-	**140,502,834**	**228,139,814**
Profit for the year	-	-	-	-	24,170,268	24,170,268
Total comprehensive income for the year	-	-	-	-	**24,170,268**	**24,170,268**
Dividends declared (Note 17)	-	-	-	-	(27,437,973)	(27,437,973)
Purchase of treasury shares (Note 16)	-	-	(17,727,687)	-	-	(17,727,687)
Business combination (Notes 7)	-	(378,620)	5,676,224	-	-	5,297,604
Balance at 31 December 2018 (restated)	**1,020**	**87,257,340**	**(12,051,463)**	-	**137,235,129**	**212,442,026**
Balance at 1 January 2019	**1,020**	**87,257,340**	**(12,051,463)**	-	**137,235,129**	**212,442,026**
Profit for the year	-	-	-	-	9,564,222	9,564,222
Total comprehensive income for the year	-	-	-	-	**9,564,222**	**9,564,222**
Dividends declared (Note 17)	-	-	-	-	(30,816,128)	(30,816,128)
Purchase of treasury shares (Note 16)	-	-	(5,109,648)	-	-	(5,109,648)
Share-based payments (Notes 16, 31)	-	-	-	2,452,342	-	2,452,342
Transfer of rights to equity instruments for share-based payments (Note 16)	-	122,073	707,001	(829,074)	-	-
Balance at 31 December 2019	**1,020**	**87,379,413**	**(16,454,110)**	**1,623,268**	**115,983,223**	**188,532,814**

The Chief Executive Officer of PJSC Magnit  J.G. Dunning

16 March 2020

The accompanying notes on pages 13-79 are an integral part of these consolidated financial statements.

(In thousands of Russian rubles)

1. Corporate information

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

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

PJSC Magnit and its subsidiaries (the "Group") operate in the retail and distribution of consumer goods under the Magnit name. The Group's retail operations are operated through convenience stores, cosmetic stores, hypermarkets and other.

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

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

Company name	Principal activity	Ownership interest as at 31 December 2019	Ownership interest as at 31 December 2018
JSC Tander	Food retail and wholesale	100%	100%
LLC Retail Import	Import operations	100%	100%
LLC BestTorg	Food retail in Moscow and the Moscow region	100%	100%
LLC MFK	Other activities	100%	100%
LLC Selta	Transportation services for the Group	100%	100%
LLC TK Zelenaya Liniya	Greenhouse complex	100%	100%
LLC Tandem	Rent operations	100%	100%
LLC Alkotrading	Other operations	100%	100%
LLC ITM	IT operations	100%	100%
LLC Logistika Alternativa	Import operations	100%	100%
LLC Zvezda	Assets holder, vehicles maintenance services for the Group	100%	100%
LLC TD-holding	Production and processing of food for the Group	100%	100%
LLC MagnitEnergo	Buyer of electric power for the Group	100%	100%
LLC Management Company Industrial Park Krasnodar	Management of production assets	100%	100%
LLC Kuban Confectioner	Production of food for the Group	100%	100%
LLC Kuban Factory of Bakery Products	Production of food for the Group	100%	100%
LLC Volshebnaya svezhest	Production of household chemicals for the Group	100%	100%
LLC Moroznye pripasy	Production of food for the Group	100%	100%
LLC Moskva na Donu	Production of agricultural products for the Group	100%	100%
LLC Magnit Pharma	Pharmaceutical license holder	100%	100%
LLC Magnit IT Lab**	Innovative software product development	100%	-
LLC TH SIA Group	Pharmaceutical wholesale	100%	100%
LLC MF-SIA	Management activities	100%	100%
JSC SIA International Ltd	Pharmaceutical wholesale	100%	100%
JSC Rink	Production of medical devices	100%	100%
LLC MC SIA Group	Management activities	100%	100%

1. Corporate information (continued)

Company name	Principal activity	Ownership interest as at 31 December 2019	Ownership interest as at 31 December 2018
JSC SIA International – Krasnodar	Commission trade of medicines and medical products	80%	80%
LLC SIA International – Arkhangelsk	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Astrakhan*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Barnaul*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Belgorod*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Blagoveshchensk*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Velikiy Novgorod*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Vladivostok	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Penza*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Tambov	Commission trade of medicines and medical products	100%	100%
JSC SIA International – Omsk*	Commission trade of medicines and medical products	-	85%
LLC SIA International – Vladimir*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Volgograd	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Voronezh	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Ekaterinburg	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Irkutsk	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Kazan	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Kamchatka*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Kemerovo*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Kirov*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Krasnoyarsk	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Murmansk*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Nizhniy Novgorod	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Novosibirsk	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Orenburg*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Perm*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Rostov-on-Don	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Samara	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Saint Petersburg	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Saratov*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Smolensk*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Stavropol*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Tula*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Tyumen*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Ufa*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Khabarovsk	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Chelyabinsk*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Chernozemie*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Yuzhno-Sakhalinsk*	Commission trade of medicines and medical products	-	100%
LLC SIA International – Yaroslavl*	Commission trade of medicines and medical products	-	100%

* - In 2019 the management of the Group decided to liquidate a number of the SIA Group companies engaged in commission trade of medicines and medical products. Liquidation of these companies did not have a significant impact on the consolidated financial statements of the Group and its operations.

**- On 15 January 2019, the Group established a new company, LLC Magnit IT Lab, to develop innovative software products aiming to address the current IT challenges faced by the Group.

The consolidated financial statements of the Group for the year ended 31 December 2019 were authorised for release by the Chief Executive Officer of PJSC Magnit on 16 March 2020.

2. Basis of preparation

Statement of compliance

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

Basis of accounting

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

The consolidated financial statements are presented in Russian rubles and all values are rounded to the nearest thousand, except when otherwise indicated.
The financial statements have been prepared on a historical cost basis except for the use of fair value as deemed cost for certain property, plant and equipment as at the date of transition to IFRS, and financial instruments and investment property at fair value.

The consolidated financial statements provide comparative information in respect of the previous period. The Group has presented an additional statement of financial position as at 1 January 2018 due to retrospective application of the accounting policies as a result of adoption of IFRS 16 *Leases* (Note 4.2) and a changed method of allocating vendor rebates (Note 4.1).

The table below shows the cumulative effect (increase/(decrease)) of the adoption of IFRS 16 (Note 4.2), changes in the method of allocating vendor rebates (Note 4.1), and final fair values of identifiable assets and liabilities of SIA Group as at the acquisition date (Note 7) on the consolidated statement of financial position as at 31 December and 1 January 2018 (increase/(decrease)):

	31 December 2018 as previously reported	Effect of adoption of IFRS 16	Effect of change in the vendor rebates allocation method	Effect of final fair value measurement	31 December 2018 as restated
Assets					
Property, plant and equipment	350,331,456	(4,317,977)	-	(1,175,997)	344,837,482
Right-of-use assets	-	285,969,493	-	208,199	286,177,692
Land lease rights	2,196,180	(2,196,180)	-	-	-
Intangible assets	3,442,439	(1,765,290)	-	-	1,677,149
Goodwill	24,091,508	-	-	2,787,809	26,879,317
Long-term receivables	-	-	-	800,468	800,468
Deferred tax asset	2,687,401	-	-	(2,687,401)	-
Total non-current assets	**382,899,536**	**277,690,046**	**-**	**(66,922)**	**660,522,660**
Inventory	187,778,882	-	(5,868,454)	230,075	182,140,503
Trade and other receivables	6,961,003	-	-	(149,685)	6,811,318
Advances paid	5,654,981	(207,178)	-	-	5,447,803
Total current assets	**228,688,153**	**(207,178)**	**(5,868,454)**	**80,390**	**222,692,911**
Total assets	**611,587,689**	**277,482,868**	**(5,868,454)**	**13,468**	**883,215,571**
Retained earnings	178,097,010	(36,167,118)	(4,694,763)	-	137,235,129
Equity attributable to the shareholders of the parent	**253,303,907**	**(36,167,118)**	**(4,694,763)**	**-**	**212,442,026**
Liabilities					
Long-term lease liabilities	-	290,581,189	-	-	290,581,189
Deferred tax liabilities	25,550,550	(9,046,636)	(1,173,691)	(37,765)	15,292,458
Total non-current liabilities	**122,670,785**	**281,534,553**	**(1,173,691)**	**(37,765)**	**402,993,882**
Trade and other payables	131,173,426	(44,624)	-	(27,617)	131,101,185
Accrued expenses	13,006,035	-	-	78,850	13,084,885
Short-term lease liabilities	-	32,160,057	-	-	32,160,057
Total current liabilities	**235,612,997**	**32,115,433**	**-**	**51,233**	**267,779,663**
Total liabilities	**358,283,782**	**313,649,986**	**(1,173,691)**	**13,468**	**670,773,545**
Total adjustment to equity and liabilities	**611,587,689**	**277,482,868**	**(5,868,454)**	**13,468**	**883,215,571**

2. Basis of accounting (continued)

	1 January 2018 as previously reported	Effect of adoption of IFRS 16	Effect of change in the vendor rebates allocation method	1 January 2018 as restated
Assets				
Property, plant and equipment	329,826,903	(3,165,693)	-	326,661,210
Right-of-use assets	-	266,737,158	-	266,737,158
Land lease rights	2,373,022	(2,373,022)	-	-
Intangible assets	2,267,960	(751,504)	-	1,516,456
Total non-current assets	**336,786,023**	**260,446,939**	**-**	**597,232,962**
Inventory	162,204,502	-	(5,495,227)	156,709,275
Advances paid	4,990,444	(985,755)	-	4,004,689
Total current assets	**189,539,224**	**(985,755)**	**(5,495,227)**	**183,058,242**
Total assets	**526,325,247**	**259,461,184**	**(5,495,227)**	**780,291,204**
Retained earnings	171,670,459	(26,771,443)	(4,396,182)	140,502,834
Equity attributable to the shareholders of the parent	**259,307,439**	**(26,771,443)**	**(4,396,182)**	228,139,814
Liabilities				
Long-term lease liabilities	-	266,335,407	-	266,335,407
Deferred tax liabilities	21,521,720	(6,692,862)	(1,099,045)	13,729,813
Total non-current liabilities	**108,960,418**	**259,642,545**	**(1,099,045)**	**367,503,918**
Short-term lease liabilities	-	26,590,082	-	26,590,082
Total current liabilities	**158,057,390**	**26,590,082**	**-**	**184,647,472**
Total iabilities	**267,017,808**	**286,232,627**	**(1,099,045)**	**552,151,390**
Total adjustment to equity and liabilities	**526,325,247**	**259,461,184**	**(5,495,227)**	**780,291,204**

The table below shows the cumulative effect (Increase/decrease) of the adoption of IFRS 16 (Note 4.2) and changes in the method of allocating vendor rebates (Note 4.1) on the consolidated statement of comprehensive income for 2018 (increase/(decrease) for gain and decrease/(increase) for loss):

	2018 as previously reported	Effect of adoption of IFRS 16	Effect of change in the vendor rebates allocation method	2018 as restated
Cost of sales	(940,568,293)	-	(373,226)	(940,941,519)
Gross profit	**296,447,164**	**-**	**(373,226)**	**296,073,938**
General and administrative expenses	(237,709,394)	16,964,596	-	(220,744,798)
Finance expenses	(9,136,262)	(30,405,545)	-	(39,541,807)
Other income	8,710,355	1,804,180	-	10,514,535
Foreign exchange gain/(loss)	(1,415,310)	(107,825)	-	(1,523,135)
Profit before tax	**43,071,995**	**(11,744,594)**	**(373,226)**	**30,954,175**
Income tax expense	(9,207,471)	2,348,919	74,645	(6,783,907)
Profit for the year	**33,864,524**	**(9,395,675)**	**(298,581)**	**24,170,268**
Total comprehensive income for the year, net of tax, attributable to shareholders of the parent	**33,864,524**	**(9,395,675)**	**(298,581)**	**24,170,268**
Basic and diluted profit for the year attributable to shareholders of the parent	334,81	(92,89)	(2,96)	238,96

2. Basis of preparation (continued)

Basis of accounting (continued)

The table below shows the cumulative effect of the adoption of IFRS 16 (Note 4.2) and changes in the method of allocating vendor rebates (Note 4.1), and completed fair value measurement of the identifiable assets and liabilities of SIA Group as at the acquisition date (Note 7) on the consolidated statement of cash flows for 2018:

	2018 as previously reported	Effect of adoption of IFRS 16	Effect of change in the vendor rebates allocation method	2018 as restated
Cash flows used in operating activities				
Profit before tax	43,071,995	(11,744,594)	(373,226)	30,954,175
Depreciation and impairment of property, plant and equipment and right-of-use assets	35,521,322	36,833,265	-	72,354,587
Amortization of intangible assets	996,116	(197,190)	-	798,926
Loss from disposal of land lease rights	25,789	(25,789)	-	-
Loss from disposal of intangible assets	27,278	(16,524)	-	10,754
Foreign exchange loss	1,415,310	107,825	-	1,523,135
Finance costs	9,136,262	30,405,545	-	39,541,807
Gain on lease derecognition	-	(1,804,180)	-	(1,804,180)
Operating cash flows before working capital changes	**90,434,484**	**53,558,358**	**(373,226)**	**143,619,616**
Increase in advances paid	(663,651)	(778,577)	-	(1,442,228)
Increase in inventories	(23,424,016)	-	373,226	(23,050,790)
Increase in trade and other payables	10,247,625	(152,449)	-	10,095,176
Cash generated from operations	**78,830,792**	**52,627,332**	**-**	**131,458,124**
Interest paid	(9,860,959)	(30,405,545)	-	(40,266,504)
Net cash from operating activities	**64,737,318**	**22,221,787**	**-**	**86,959,105**
Purchase of property, plant and equipment	(51,603,538)	1,104,873	-	(50,498,665)
Purchase of intangible assets	(2,154,557)	1,196,960	-	(957,597)
Purchase of land lease rights	(847)	847	-	-
Net cash used in investing activities	**(53,208,292)**	**2,302,680**	**-**	**(50,905,612)**
Repayment of lease liabilities	(3,345)	(24,524,467)	-	(24,527,812)
Net cash generated from / (used in) financing activities	**(3,118,689)**	**(24,524,467)**	**-**	**(27,643,156)**

Reclassifications

The Group has changed the presentation of certain items of the consolidated statement of comprehensive income for 2019 and 2018 to present income from operating leases and subleases in the line "Rental and sublease income", and reclassified some warehousing and in-house production costs from the line "General and administrative expenses" to the line "Cost of sales". The comparative information for the year ended 31 December 2018 was reclassified to conform to the current year presentation.

Functional currency

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

2. Basis of preparation (continued)

Basis of accounting (continued)

Going concern

In assessing whether the going concern assumption is appropriate for the Group, management considered cash flow projections for 2020, taking into account Russia's current economic environment, the financial situation of the Group, undrawn loan facilities available to it, as well as planned expenditure on opening new stores and maintaining existing ones.

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

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries). Control is achieved when the Group is 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.

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

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

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

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

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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

Business combinations

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Business combinations (continued)

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

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

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

Fair value measurement

The Group measures non-financial assets such as investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 33.

3. Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

3. Summary of significant accounting policies (continued)

Revenue from contracts with customers

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

Customer loyalty program

For the purpose of promoting sales and building customer loyalty, the Group establishes promotion programs to allow customers accumulate loyalty points and exchange them for goods specially purchased for promotions. The loyalty program gives rise to a separate performance obligation because it provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty points awarded to the customer based on their relative stand-alone selling price and recognizes that portion as a contract liability until the points are redeemed by the customer. Revenue is recognized when the customer redeems their loyalty points against goods. The relative stand-alone selling price of the loyalty points is estimated based on the probability that the customer will redeem their points. The Group updates, on a quarterly basis, its estimate of the number of loyalty points that will be redeemed, and the adjusted balance of contract liabilities is charged against revenue.

Expenses related to loyalty programs in respect of goods specially purchased for promotions, are recognized in selling expenses and classified as advertising expenses.

Revenue from advertising services

Revenue from advertising services is recognized in the reporting period when the services are provided. The Group classifies such revenue within other operating income and recognizes it over the period, as a customer receives the services and obtains benefit from them at the same point of time. The Group recognizes revenue as a proportion of provided services to total services per contract.

Property, plant and equipment

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

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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

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

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

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

	Useful life in years
Buildings	10-50
Machinery and equipment	3-14
Other fixed assets	3-10

Other fixed assets consist of vehicles and other relatively small groups of fixed assets.

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

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

Government grants

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

3. Summary of significant accounting policies (continued)

Government grants (continued)

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

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

Investment property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the consolidated statement of comprehensive income in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy applicable to property, plant and equipment up to the date of change in use.

Intangible assets

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

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

3. Summary of significant accounting policies (continued)

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

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

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

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

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

Leases

Group as a lessee

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

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

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

Right-of-use assets

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

3. Summary of significant accounting policies (continued)

Intangible assets (continued)

The Group uses the following useful lives:

	Useful life,years
Buildings	1-34
Land	1-65

Depreciation of right-of-use assets is charged to profit or loss, except for depreciation of right-to-use assets representing right to use leased land plots during the construction process necessary to bring the property into a condition suitable for use in accordance with the objectives of the Group with is included in the carrying value of assets under construction. Right-of-use assets are tested for impairment.

Lease liabilities

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

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

Short-term leases

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

3. Summary of significant accounting policies (continued)

Group as a lessor

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

Impairment of non-current assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

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

The following asset has specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Inventory

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

3. Summary of significant accounting policies (continued)

Provisions

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

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

Vendor allowances

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

Income taxes

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Income taxes (continued)

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

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

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

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

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

Retirement benefit costs

The operating entities of the Group contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognized in the profit and loss as incurred.

3. Summary of significant accounting policies (continued)

Segment reporting

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

Seasonality

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

Borrowing costs

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

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

Contract balances

Contract assets

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

Trade and other receivables

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

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. Summary of significant accounting policies (continued)

Contract liabilities (continued)

If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Share-based payments

Certain employees (senior executives) of the Group receive remuneration in the form of share-based payments. Employees 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 recognized in employee benefits expense, together with a corresponding increase in equity (Share-based payments reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

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

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

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

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

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

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

Financial assets

General

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

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

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

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

The details of these conditions are outlined below.

Business model assessment

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.

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

Financial assets (continued)

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

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

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

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

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

Cash and cash equivalents

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

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

Impairment of financial assets

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

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an 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 recognized in two stages. For financial exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month 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).

3. Summary of significant accounting policies (continued)

Financial assets (continued)

For trade and other receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

Derecognition of financial assets and liabilities

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

- 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 all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

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

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

Treasury shares carry no voting rights and pay no dividend. Treasury shares are used to settle share-based payments during the period.

3. Summary of significant accounting policies (continued)

Financial liabilities and equity instruments issued by the Group (continued)

Share premium

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

Earnings per share

Earnings per share have been determined using the weighted average number of the Group's shares outstanding during the 12 months ended 31 December 2019 and 2018.

Classification as debt or equity

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

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

Financial liabilities

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

Derecognition of financial liabilities

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

Offsetting of financial instruments

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

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

Fair value of financial instruments

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

3. Summary of significant accounting policies (continued)

Fair value of financial instruments (continued)

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

4.1 Change in the method of allocating vendor rebates

Following changes in its strategy aimed to improve operating efficiency in 2019 the Group enhanced its inventory management system as well as business processes that allow the Group among other to manage and perform analysis of inventories on a more detailed basis and align it with the new operating and strategic goals of the Group. As part of these changes the Group also changed its methodology of vendor rebates allocation as management believes that the new approach provides more relevant information by categories of products and it aligns to the industry practice and aids comparability. The Group has applied changes of vendor rebates allocation between closing inventories and cost of goods sold methodology retrospectively.

The tables below summarise the impact of applying the new method on the comparatives included in the consolidated financial statements as at and for the year ended 31 December 2019:

Impact on the consolidated statement of financial position (increase/(decrease) per line item):

	31 December 2018	1 January 2018
Current assets		
Inventories	(5,868,454)	(5,495,227)
Total current assets	**(5,868,454)**	**(5,495,227)**
Total assets	**(5,868,454)**	**(5,495,227)**
Equity and liabilities		
Retained earnings	(4,694,763)	(4,396,182)
Total equity	**(4,694,763)**	**(4,396,182)**
Non-current liabilities		
Deferred tax liabilities	(1,173,691)	(1,099,045)
Total non-current liabilities	**(1,173,691)**	**(1,099,045)**
Total equity and liabilities	**(5,868,454)**	**(5,495,227)**

Impact on the consolidated statement of comprehensive income for the year ended 31 December 2018 (increase/(decrease) in income, decrease/(increase) in expenses):

	2018
Cost of sales	(373,226)
Gross profit	**(373,226)**
Profit before tax	**(373,226)**
Income tax expense	74,645
Profit for the year	**(298,581)**
Total comprehensive income for the year, net of tax	**(298,581)**
Total comprehensive income for the year, net of tax, attributable to shareholders of the parent	**(298,581)**
Basic and diluted earnings for the year attributable to shareholders of the parent	(2.96)

4.1 Change in the method of allocating vendor rebates (continued)

Impact on the consolidated statement of cash flows for the year ended 31 December 2018:

	2018
Cash flows from operating activities	
Profit before tax	(373,226)
Cash flows from operating activities before changes in working capital	(373,226)
Increase in inventory	373,226
Cash generated from operations	-

4.2 New and amended standards and interpretations

Except for the changes mentioned above and adoption of new standards and interpretations effective as at 1 January 2019, as described below, the accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The Group adopted IFRS 16 using the full retrospective method of adoption. This approach requires that the figures for each affected equity component at the beginning of the earliest of the prior periods presented and any other comparatives disclosed for each of the prior periods presented should be adjusted retrospectively as if the standard had always been applied.

In accordance with the full retrospective method, the Group applied IFRS 16 at the date of initial application, as if it had been applied since the commencement dates of the existing leases. The comparative information contained in these consolidated financial statements, has been restated accordingly.

The Group elected to use the following practical expedients permitted in the standard:

- For all types of underlying assets, each lease component and any related components that are not a lease will be accounted for as one lease component.
- Lease payments under contracts with lease term of not more than 12 months in relation to all types of underlying assets, with the exception of land and buildings, will, as before, be recognized as expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

4.2 New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

The impact of adoption of IFRS 16 on the consolidated statement of financial position as at 31 December 2018 is presented below (increase/(decrease) per line item):

	31 December 2018	1 January 2018
Assets		
Property, plant and equipment	(4,317,977)	(3,165,693)
Right-of-use assets	285,969,493	266,737,158
Land lease rights	(2,196,180)	(2,373,022)
Intangible assets	(1,765,290)	(751,504)
Advances paid	(207,178)	(985,755)
	277,482,868	**259,461,184**
Equity attributable to shareholders of the parent company		
Retained earnings	(36,167,118)	(26,771,443)
Total equity	**(36,167,118)**	**(26,771,443)**
Liabilities		
Long-term lease liabilities	290,581,189	266,335,407
Deferred tax liabilities	(9,046,636)	(6,692,862)
Trade and other payables	(44,624)	-
Short-term lease liabilities	32,160,057	26,590,082
Total liabilities	**313,649,986**	**286,232,627**
Total equity and liabilities	**277,482,868**	**259,461,184**

The impact of adoption of IFRS 16 on the consolidated statement of comprehensive income for 2018 is presented below:

	2018
General and administrative expenses (decrease)	16,964,596
Finance costs (increase)	(30,405,545)
Gain on lease cancellation/reduction	1,804,180
Foreign exchange gain (loss)	(107,825)
Profit before tax (decrease)	**(11,744,594)**
Income tax expense (decrease)	2,348,919
Profit (decrease)	**(9,395,675)**
Total comprehensive income for the year, net of tax, attributable to shareholders of the parent (decrease)	**(9,395,675)**
Basic and diluted profit for the year attributable to shareholders of the parent (decrease)	**(92,89)**

4.2 New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

The impact of adoption of IFRS 16 on the consolidated statement of cash flows for 2018 is presented below:

	2018
Cash flows from operating activities	
Profit before tax (decrease)	**(11,744,594)**
Adjustments for:	
Depreciation and impairment of property, plant and equipment and right-of-use assets (increase)	36,833,265
Amortization of intangible assets (decrease)	(197,190)
Loss from disposal of land lease rights (decrease)	(25,789)
Loss from disposal of intangible assets (decrease)	(16,524)
Foreign exchange loss (increase)	107,825
Finance costs (increase)	30,405,545
Gain on lease derecognition (increase)	(1,804,180)
Operating cash flows before working capital changes (increase)	**53,558,358**
Decrease in advances paid (decrease)	(778,577)
Increase in trade and other payables (increase)	(152,449)
Cash generated from operations (increase)	**52,627,332**
Interest paid (increase)	(30,405,545)
Net cash from operating activities (increase)	**22,221,787**
Purchase of property, plant and equipment (decrease)	1,104,873
Purchase of intangible assets (decrease)	1,196,960
Purchase of land lease rights (decrease)	847
Net cash used in investing activities (decrease)	**2,302,680**
Repayment of lease liabilities (increase)	(24,524,467)
Net cash used in financing activities (increase)	**(24,524,467)**

The Group changed presentation of deferred tax assets recognized as a result of the first adoption of IFRS 16 as at 31 December 2018 compared to previously issued interim condensed consolidated financial statements for the six-month period ended 30 June 2019, and presented deferred tax asset of RUB 9,046,636 thousand on a net basis with deferred tax liability as at 31 December 2018.

Effect of first adoption of IFRS 16

The Group's lease agreements are mainly represented by lease agreements for retail store facilities. Prior to adopting IFRS 16, the Group (as lessee) classified each of its leases at the inception as an operating lease. In case of operating leases, lease payments were capitalized until the retail outlet was opened, and were subsequently recognized on a straight-line basis over the lease term as lease expenses in the consolidated statement of comprehensive income. All prepaid and accrued lease payments were recognized, respectively, as "Advances paid" and "Trade and other payables".

Upon adoption of IFRS 16, the Group has adopted a uniform approach for all leases where it is a lessee, except for short-term leases and leases of low-value assets. The Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

4.2 New and amended standards and interpretations (continued)

Effect of first adoption of IFRS 16 *(continued)*

In accordance with the full retrospective method of adoption, the Group applied IFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts.

As at 31 December 2018 (1 January 2018):

- Right-of-use assets of RUB 285,969,493 thousand (RUB 266,737,158 thousand) were recognized separately.
- Lease liabilities of RUB 322,741,246 (RUB 292,925,489 thousand) were recognized and included in "Long-term lease liabilities" and "Short-term lease liabilities".
- Advances paid of RUB 207,178 thousand (RUB 985,755 thousand) and trade and other payables of RUB 44,624 thousand (RUB 0 thousand) related to previously recognized advances and accruals under operating leases were derecognized.
- Deferred tax liabilities were reduced by RUB 9,046,636 thousand (RUB 6,692,862 thousand) to reflect the impact of changes in assets and liabilities on deferred taxes.
- The net effect of these adjustments of RUB 36,167,118 thousand (RUB 26,771,443 thousand) was charged to retained earnings.

Year ended 31 December 2018:

- Depreciation and amortization expense increased in aggregate by RUB 36,636,075 thousand because of depreciation of recognized additional right-of-use assets, net of decrease in the carrying amount of "Property, plant and equipment" and "Intangible assets".
- Rent and utility expenses in "General and administrative expenses" related to leases previously classified as operating leases decreased by RUB 53,600,671 thousand.
- Finance costs increased by RUB 30,405,545 thousand due to recognition of interest expense on additional lease liabilities.
- Other income increased by RUB 1,804,180 thousand due to cancelation of previously recognized operational lease liabilities.
- Income tax expense decreased by RUB 2,348,919 thousand as a result of the tax effect of the above changes in income and expenses.
- Net cash from operating activities increased by RUB 22,221,787 thousand, net cash used in investing activities decreased by RUB 2,302,680 thousand and net cash used in finance activities increased by RUB 24,524,467 thousand, reflecting payments of the principal amount, recognized lease liabilities and lease interest.

4.2 New and amended standards and interpretations (continued)

IFRIC 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

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

The Group applies significant judgement in identifying uncertainties over income tax treatments, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing, and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities.

The interpretation had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

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

4.2 New and amended standards and interpretations (continued)

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (continued)

An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

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

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

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

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

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

Annual improvements, 2015-2017 cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. These amendments had no impact on the consolidated financial statements of the Group, as the Group does not engage in such transactions.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. These amendments had no impact on the consolidated financial statements of the Group, as the Group does not engage in transactions in which it obtains joint control.

4.2 New and amended standards and interpretations (continued)

Annual improvements, 2015-2017 cycle (continued)

IAS 12 Income Taxes

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

When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

As the current policy of the Group complies with the requirements of the amendments, their application had no impact on the consolidated financial statements of the Group.

IAS 23 Borrowing Costs

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

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

As the current policy of the Group complies with the requirements of the amendments, their application had no impact on the consolidated financial statements of the Group.

4.3 Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* 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.

4.3 Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts (continued)

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

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

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IFRS 3: Definition of a Business

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Accordingly, an entity is not required to review such transactions occurred in earlier periods. Early application is permitted and must be disclosed.

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

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity’.

4.3 Standards issued but not yet effective (continued)

Amendments to IAS 1 and IAS 8: Definition of Material (continued)

The amendments clarify that materiality depends on the nature or magnitude of information, or both. An entity needs to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments must be applied prospectively and are effective for annual reporting periods beginning on or after 1 January 2020. Early application is permitted and must be disclosed. The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.

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

The amendments will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedging relationships affected by the interest rate benchmark reform.

- The amendments modify specific hedge accounting requirements, so that entities would apply those requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform.
- The changes will mandatorily apply to all hedging relationships carrying interest rate risk that are affected by the Reform.
- The amendments are not intended to provide relief from any consequences arising from the Reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended standards, then discontinuation of hedge accounting is still required.

The amendments apply prospectively and are effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted. The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognized in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments. Specific disclosures are required for the effect of the amendments on the entity's hedging relationships.
The Group is evaluating the impact of the amendments on its consolidated financial statements.

IAS 1 Presentation of Financial Statement (the amendments) to specify the requirements for classifying liabilities as current or non-current.

The International Accounting Standards Board (IASB or the Board) issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements (the amendments) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of reporting period
- That classification is unaffected 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 liability not impact its classification

4.3 Standards issued but not yet effective (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 (early application is permitted). The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.

5. Significant accounting judgements and estimates

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

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

Judgements

Lease term for contracts with a renewal option

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

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

Interest rate of additional sources of funding

The Group determines lease liabilities by discounting lease payments and applying interest rate implicit in lease contracts. If the rate cannot be readily determined, the Group applies the interest rate of additional sources of funding adjusted by specific lease conditions which the Group will pay:

- under conditions similar to lease conditions;
- in the amount equal to the right-in-use asset;
- in comparable market conditions.

5. Significant accounting judgements and estimates (continued)

Estimates and assumptions

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

Valuation of inventory

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

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit.

Management necessarily applies judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use, future cash flows are estimated for each store based on cash flow projections using the latest 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 future return on sales. Due to their subjective nature, these estimates will likely differ from actual future results of operations and cash flows, and it is possible that these differences could be material.

Fair value measurement of financial instruments

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

5. Significant accounting judgements and estimates (continued)

Useful lives of property, plant and equipment, including leasehold improvements

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

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

As a result of such analysis, the Group's management decided to change the useful lives of certain groups of property, plant and equipment. Thus, the useful life for own buildings has increased from 30 to 50 years. The useful lives for most types of leasehold improvements made by the Group to rented stores changed from 30 to 10 years, aligning them with the terms of leases, the frequency of revision of extension options, planned rebranding and overhauls in accordance with changes in the Group's strategy. As a result of the change in the above useful lives, depreciation charges across the Buildings and Structures category for 2019 increased by RUB 3,335,129 thousand. The change will also affect future periods.

Taxation

The Group is subject to income tax and other taxes. Significant judgment is required in determining the liability for income tax and other taxes due to the complexity of the Russian tax legislation. There are many transactions and calculations for which the ultimate tax position determination is uncertain.

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

Expected credit losses for trade and other receivables and contract assets

The Group uses a provision matrix to calculate expected credit losses (ECL) for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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

5. Significant accounting judgements and estimates (continued)

Expected credit losses for trade and other receivables and contract assets

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. Past events that caused credit losses and forecasts of future economic conditions also may not be representative for actual default of a customer in future.

6. Balances and transactions with related parties

The Group enters into transactions with related parties in the ordinary course of business. The Group purchases food products, materials for construction and equipment from related parties, provides and receives loans and acquires construction services. Related parties of the Group are represented by the shareholders that have significant influence over the Group, and counterparties that are affiliated with the Group through key management (other related parties). Bank VTB PJSC and VTB Capital JSC represent the related parties being shareholders of the group and having significant influence of the Group. Transactions with related parties are made on terms not necessarily available to third parties.
Related party balances as at 31 December 2019 and 2018 consisted of the following:

	Shareholders		Other related parties	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loans payable (Note 21)	33,200,000	28,200,000	-	-
Other payables (Note 18)	94,502	2,633	58	93,288
Advances received	3,585	1,967	-	298
Other receivables	1,834	190	-	24,933
Short-term loans given	-	-	247,761	181,196
Long-term financial assets	-	-	-	50,000
Advances paid (Note 14)	-	-	-	24,364

The Group's transactions with related parties for the years ended at 31 December 2019 and 2018 consisted of the following:

	Shareholders		Other related parties	
	2019	2018	2019	2018
Loans received	5,218,552	28,200,000	-	1,333,881
Repayment of loans received	2,784,279	898,389	-	1,169,174
Interest expense	2,565,727	898,389	-	71,473
Other expense	42,995	45,599	-	109,053
Investment income	14,611	17,117	30,228	9,024
Repayment of loans given	15,202	16,542	278,721	67,595
Rent and utilities income	26,632	15,931	73	30,909
Other income	19,809	8,052	-	819,223
Purchases of inventory	-	-	911,273	3,608,331
Loans given	-	-	236,780	125,857
Purchase of property, plant and equipment	-	-	171,232	117,922
Purchase of intangible assets	-	-	45,248	38,777
Rent expense	27,368	-	2,683	16,709
Wholesale revenue	-	-	-	68

6. Balances and transactions with related parties (continued)

No guarantees have been given or received.

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

The Group entered into a number of agreements with related parties to obtain long-term loans of up to RUB 60,000,000 thousand maturing up to May 2023.

Short-term compensation to the Group's management and Board of Directors in 2019 totaled RUB 2,067,900 thousand (2018: RUB 908,822 thousand). Compensation to management consisted of contractual remuneration, social contributions and payments to members of the Board of Directors. In addition, share-based payments were awarded to key management personnel of the Group for 2019, relevant information is disclosed in Note 31.

7. Business combinations

Acquisition of MF-SIA LLC

On 27 November 2018, the Group acquired 100% of shares of MF-SIA LLC, and obtained control over the SIA group of companies (SIA Group). All legal entities of the SIA Group are based in the Russian Federation and are non-listed.

The SIA Group specialises in wholesale purchases and resale of pharmaceuticals and medical supplies. The Group has licenses to perform pharmaceutical activities and contracts with many major manufacturers of pharmaceutical products and medical goods in Russia and globally.

The Group acquired SIA Group with the purpose of developing logistic capacities and improving performance of Magnit Cosmetic and Magnit Pharmacy stores by using the acquired companies' expertise in pharmacy retail, their existing portfolio of direct contracts with pharmaceuticals manufacturers, and licensed and automated warehouse logistics.

Assets acquired and liabilities assumed

The assets and liabilities of the SIA Group recognized in the consolidated financial statements as at 31 December 2018 were presented based on a provisional assessment of their fair values, as the Group had not finalized the valuation and allocation of the purchase price by the date of issue of the consolidated financial statements for the year ended 31 December 2018. Also, the Group has not finalized the fair value assessment of some assets (including deferred tax assets) and liabilities (contingent liabilities and provisions), as the Group has not received all comprehensive information about the facts and circumstances as at the valuation date.

In October 2019, the Group finalised an independent valuation of the property and intangible assets owned by the SIA Group, as well as trade receivables, inventories, deferred tax assets, contingent liabilities and provisions. The Group concluded that the deferred tax asset of RUB 2,649,636 thousand previously recognized in the 2018 financial statements in the provisional fair value assessment of the SIA Group's assets and liabilities is not recoverable. The fair value of the property, plant and equipment at the date of acquisition was RUB 4,766,411 thousand, i.e., RUB 1,175,996 thousand above the provisional estimate.

7. Business combinations (continued)

Assets acquired and liabilities assumed (continued)

Comparative information for 2018 was restated to reflect the adjustments to the provisional estimate and purchase price allocation. As a result, the recognized goodwill increased by RUB 2,787,809 thousand. The adjusted amount of goodwill on acquisition is therefore RUB 25,511,824 thousand.

The adjusted fair value of assets and liabilities of the SIA Group at the acquisition date is as follows:

	Final fair value estimate recognized on acquisition	Provisional fair value estimate recognized on acquisition	Adjustments
Assets			
Property, plant and equipment (Note 8)	4,766,411	5,942,408	(1,175,997)
Right-of-use assets (Note 9)	208,199	-	208,199
Intangible assets (Note 10)	12,776	12,776	-
Long-term receivables	800,468	-	800,468,
Deferred tax assets (Note 28)	-	2,649,636	(2,649,636)
Inventory	2,380,439	2,150,364	230,075
Trade and other receivables	4,101,778	4,251,463	(149,685)
Cash and cash equivalents	187,758	187,758	-
Taxes receivable	712,732	712,732	-
Advances paid	886	886	-
	13,171,447	**15,908,023**	**(2,736,576)**
Liabilities			
Short-term loans and borrowings	11,691,781	11,691,781	-
Trade and other payables	20,359,795	20,387,412	(27,617)
Accrued expenses	999,045	920,195	78,850
Taxes payable	335,045	335,045	-
	33,385,666	**33,334,433**	**51,233**
Total identifiable net liabilities at fair value	**(20,214,220)**	**(17,426,411)**	**(2,787,809)**
Goodwill arising on acquisition (Note 11)	25,511,824	22,724,015	2,787,809
Consideration transferred on acquisition	**5,297,604**	**5,297,604**	**-**

The carrying value of amount of trade receivables is RUB 4,902,246 thousand. The fair value of trade receivables approximates their carrying value. Trade receivables are not impaired, and it is expected that the full contractual amounts will be collected.

The goodwill of RUB 25,511,824 thousand is attributable to expected synergies arising from the acquisition. The entire amount of goodwill is allocated the cash generating unit, which includes Group activities within Magnit Cosmetic and Magnit Pharmacy formats, including the related stores and warehouses. The recognized goodwill is not expected to be tax-deductible partly or in full.
From the date of acquisition, SIA Group contributed RUB 2,009,308 thousand of revenue and RUB 150,723 thousand to profit before tax from continuing operations of the Group.

Before the business combination the SIA Group did not prepare financial statements under the IFRS accounting policy of the Group, therefore the assessment of the impact on revenue and profit before tax of the Group as if the combination had taken place at the beginning of the year is practically impossible.

7. Business combinations (continued)

Assets acquired and liabilities assumed (continued)

The Group purchased 1,513,601 own ordinary shares and transferred them as purchase consideration for 100% of shares of SIA Group. The fair value of the shares is calculated by reference to their quoted price. Under the business combination the fair value of the consideration was calculated as the multiplication of the quantity of equity instruments to be transferred under the contract and the share price of one voting non-documentary registered share in the share capital of PJSC Magnit based on market quotes at the date of acquisition of MF-SIA LLC. The value of one share at the date of acquisition was RUB 3,500. The fair value of the consideration given was RUB 5,297,604 thousand. The Group transferred its own shares as the consideration for acquisition of MF-SIA LLC.

Transaction costs of RUB 259,504 thousand were included in administrative expenses in the consolidated statement of comprehensive income for 2018.

Cash and cash equivalents of the SIA Group at the acquisition date are included in cash flows from investing activities in the consolidated statement of cash flows for the year ended 31 December 2018.

8. Property, plant and equipment

Property, plant and equipment as at 31 December 2019 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2019	**14,004,240**	**294,355,010**	**114,262,265**	**43,165,668**	**23,156,927**	**488,944,110**
Additions	19,019	-	22,869,304	1,723,433	30,024,652,	54,636,408
Capitalization	-	40,690,438	-	-	(40,690,438)	-
Disposals	(9,683)	(7,967,388)	(5,886,738)	(2,623,593)	(162,049)	(16,649,451)
At 31 December 2019	**14,013,576**	**327,078,060**	**131,244,831**	**42,265,508**	**12,329,092**	**526,931,067**
Accumulated depreciation and impairment						
At 1 January 2019	**-**	**(50,803,350)**	**(71,203,070)**	**(22,100,208)**	**-**	**(144,106,628)**
Charge for the period	-	(21,212,009)	(17,760,147)	(4,934,458)	-	(43,906,614)
Impairment	-	(1,264,805)	(21,144)	(947)	(264,200)	(1,551,096)
Disposals	-	7,820,139	5,230,515	2,568,604	-	15,619,258
At 31 December 2019	**-**	**(65,460,025)**	**(83,753,846)**	**(24,467,009)**	**(264,200)**	**(173,945,080)**
Net book value						
At 1 January 2019	**14,004,240**	**243,551,660**	**43,059,195**	**21,065,460**	**23,156,927**	**344,837,482**
At 31 December 2019	**14,013,576**	**261,618,035**	**47,490,985**	**17,798,499**	**12,064,892,**	**352,985,987**

8. Property, plant and equipment (continued)

Property, plant and equipment as at 31 December 2018 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2018 (as reported)	**16,040,282**	**267,229,195**	**104,253,052**	**40,221,686**	**21,650,557**	**449,394,772**
Adjustment (Note 4.2)	(1,991,026)	(1,201,622)	-	-	(5,166)	(3,197,814)
Cost (as restated)	**14,049,256**	**266,027,573**	**104,253,052**	**40,221,686**	**21,645,391**	**446,196,958**
Additions	49,661	153,250	14,693,139	5,446,876	30,155,739	50,498,665
Acquisition of subsidiary (Note 7)	412,694	3,967,287	217,909	67,108	101,413	4,766,411
Capitalization	-	28,419,534	-	-	(28,419,534)	-
Disposals	(507,371)	(4,212,634)	(4,901,835)	(2,570,002)	(326,082)	(12,517,924)
At 31 December 2018	**14,004,240**	**294,355,010**	**114,262,265**	**43,165,668**	**23,156,927**	**488,944,110**
Accumulated depreciation and impairment						
At 1 January 2018 (as reported)	**-**	**(40,344,375)**	**(60,350,243)**	**(18,873,251)**	**-**	**(119,567,869)**
Adjustment (Note 4.2)	-	32,121	-	-	-	32,121
Accumulated depreciation (as restated)	**-**	**(40,312,254)**	**(60,350,243)**	**(18,873,251)**	**-**	**(119,535,748)**
Charge for the year	-	(14,965,758)	(15,176,110)	(5,318,282)	-	(35,460,150)
Impairment for the year	-	-	-	-	-	-
Disposals	-	4,474,662	4,323,283	2,091,325	-	10,889,270
At 31 December 2018	**-**	**(50,803,350)**	**(71,203,070)**	**(22,100,208)**	**-**	**(144,106,628)**
Net book value						
At 1 January 2018	**14,049,256**	**225,715,319**	**43,902,809**	**21,348,435**	**21,645,391**	**326,661,210**
At 31 December 2018	**14,004,240**	**243,551,660**	**43,059,195**	**21,065,460**	**23,156,927**	**344,837,482**

In 2019, the weighted average capitalization rate on borrowed funds was 8.10% per annum (2018: 7.81%). The information on interest expenses included in the cost of qualifying assets is disclosed in Note 27.

Impairment Property, plant and equipment and Right-of-use assets

Based on observed external evidence of impairment of non-current assets, except for goodwill, as at 31 December 2019, the Group made a conclusion on the unfavourable market and economic conditions in the market where the Group operated.

The Group tested the non-current assets with signs of impairment, including property and equipment and right-of-use assets, for impairment. Based on the impairment testing, the Group recognized impairment losses of kRUB 1,458,360 for the tested assets, including impairment of property and equipment and right-of-use assets in the amount of kRUB 1,038,962 and kRUB 419,399, respectively, in the consolidated statement of comprehensive income for the year ended 2019.

8. Property, plant and equipment (continued)

Impairment Property, plant and equipment and Right-of-use assets (continued)

In addition, the Group recognized losses from impairment of property and equipment resulting from a fire at the Group's distribution center in Voronezh and agricultural assets in the amount of kRUB 512,134 in the consolidated statement of comprehensive income for the year ended 31 December 2019.

Group approach for impairment testing

Impairment test was carried out in the context of independent cash generating units (CGU). Such units for the Group are each individual stores.

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

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

Main assumptions

Future cash flows are based on the current budgets and forecasts for 10 years period approved by the management along with terminal value of forecasted free cash flows that are expected to be generated beyond the forecast period. One the main assumption applied in the model of expected cash flows is increase of revenue by 3.7%.

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.

Pre-tax discount rate represents the Group's pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets and is equal to 10.74%.

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

Sensitivity analysis

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows. If the revised estimated discount rate consistently applied to the discounted cash flows had been 0.5% higher than management's estimates, the impairment of non-current assets would increase by RUB 163,704. If the revised estimated discount rate consistently applied to the discounted cash flows had been 0.5% lower than management's estimates, the impairment of non-current assets would decrease by RUB 189,785. If the revenue rate of growth had been 0.5% lower than management's estimates, the impairment of non-current assets would decrease by RUB 84,645.

9. Lease

Group as leassor

Right-of-use assets and lease liabilities

The carrying amounts of the Group's right-of-use assets and their movements during the period is presented below:

	Right-of-use assets		
	Buildings	Land	Total
As at 1 January 2019	**281,326,403**	**4,851,289**	**286,177,692**
Additions	77,216,535	472,138	77,688,673
Derecognition	(7,772,693)	(142,391)	(7,915,084)
Depreciation charge	(41,740,978)	(224,692)	(41,965,670)
Impairment charge (Note 8)	(419,399)	–	(419,399)
As at 31 December 2019	**308,609,868**	**4,956,344**	**313,566,212**

	Right-of-use assets		
	Buildings	Land	Total
As at 1 January 2018	**262,039,719**	**4,697,439**	**266,737,158**
Additions	61, 915,266	175,752	62,091,018
Business combinations (Note 7)	–	208,199	208,199
Derecognition	(5,906,506)	(57,740)	(5,964,246)
Depreciation charge	(36,722,076)	(172,361)	(36,894,437)
Impairment charge (Note 8)	–	–	–
As at 31 December 2018	**281,326,403**	**4,851,289**	**286,177,692**

In 2019 depreciation of a right-of-use assets in the amount of RUB 724,932 thousand were capitalized to the value of property, plant and equipment.

The carrying amounts of the Group's lease liabilities and their movements during the period is presented below:

	31 December 2019	31 December 2018 (Restated)
At 1 January	322,741,247	292,925,489
Increase in lease liabilities	77, 703,737	62, 004,170
Repayment of lease	(33,242,289)	(24,527,812)
Interest accrued	32,414,202	30,405,545
Interest paid	(32,414,202)	(30,405,545)
Lease derecognition	(9, 900,264)	(7, 768,426)
Foreign exchange (gain)/loss	(92,272)	107,825
At 31 December	**357,210,159**	**322,741,246**

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

	Year of maturity	Weighted average effective interest rate, %	31 December 2019
Short-term liabilities	2020	9.08	36,609,206
Long-term liabilities	2021-2069	8.94	320,600,953
Total			**357,210,159**

	Year of maturity	Weighted average effective interest rate, %	31 December 2018
Short-term liabilities	2019	9.54	32,160,057
Long-term liabilities	2020-2069	9.41	290,581,189
Total			**322,741,246**

Amounts recognized in profit or loss are presented below:

	31 December 2019	31 December 2018 (Restated)
Depreciation and impairment of property, plant and equipment	41,660,136	36,894,437
Interest expense on the lease	32,414,202	30,405,545
Foreign exchange (loss)/gain	(92,271)	107,825
Gain on lease derecognition	(1,985,180)	(1,804,180)
Lease expenses related to short-term lease (included to General and administrative expenses)	249,969	335,792
Lease expenses related to lease of low-value assets (included to General and administrative expenses)	103,472	33,401
Variable lease payments (included to General and administrative expenses)	628,765	215,162
	72,979,093	**66,187,982**

10. Intangible assets

As at 31 December 2019, intangible assets consisted of the following:

	Licenses	Lease rights	Software	Trademarks	Other	Total
Cost						
At 1 January 2019	**282,546**	**-**	**2,636,596**	**31,721**	**122,017**	**3,072,880**
Additions	300,305	-	2,890,995	871	45,110	3,237,281
Disposals	(78,970)	-	(905,579)	-	(67,754)	(1,052,303)
At 31 December 2019	**503,881**	**-**	**4,622,012**	**32,592**	**99,373**	**5,257,858**
Accumulated amortisation and impairment						
At 1 January 2019	**(138,561)**	**-**	**(1,197,228)**	**(5,938)**	**(54,004)**	**(1,395,731)**
Charge for the year	(88,854)	-	(825,120)	(3,252)	(59,363)	(976,589)
Disposals	66,469	-	896,514	-	66,156	1,029,139
At 31 December 2019	**(160,946)**	**-**	**(1,125,834)**	**(9,190)**	**(47,211)**	**(1,343,181)**
Net book value						
At 1 January 2019	**143,985**	**-**	**1,439,368**	**25,783**	**68,013**	**1,677,149**
At 31 December 2019	**342,935**	**-**	**3,496,178**	**23,402**	**52,162**	**3,914,677**

As at 31 December 2018, intangible assets consisted of the following:

	Licenses	Lease rights	Software	Trademarks	Other	Total
Cost						
At 1 January 2018 (as reported)	**266,432**	**838,516**	**2,383,011**	**29,706**	**113,238**	**3,630,903**
Adjustment (Note 4.2)	-	(838,516)	-	-	-	(838,516)
Cost (as restated)	**266,432**	**-**	**2,383,011**	**29,706**	**113,238**	**2,792,387**
Business combination (Note 7)	-	-	12,776	-	-	12,776
Additions	83,765	-	792,353	2,130	79,349	957,597
Disposals	(67,651)	-	(551,544)	(115)	(70,570)	(689,880)
At 31 December 2018	**282,546**	**-**	**2,636,596**	**31,721**	**122,017**	**3,072,880**
Accumulated amortisation and impairment						
At 1 January 2018 (as reported)	**(134,425)**	**(87,012)**	**(1,081,804)**	**(2,963)**	**(56,739)**	**(1,362,943)**
Adjustment (Note 4.2)	-	87,012	-	-	-	87,012
Accumulated amortisation (as restated)	**(134,425)**	**-**	**(1,081,804)**	**(2,963)**	**(56,739)**	**(1,275,931)**
Charge for the year	(62,161)	-	(666,968)	(3,090)	(66,707)	(798,926)
Disposals	58,025	-	551,544	115	69,442	679,126
At 31 December 2018	**(138,561)**	**-**	**(1,197,228)**	**(5,938)**	**(54,004)**	**(1,395,731)**
Net book value						
At 1 January 2018	**132,007**	**-**	**1,301,207**	**26,743**	**56,499**	**1,516,456**
At 31 December 2018	**143,985**	**-**	**1,439,368**	**25,783**	**68,013**	**1,677,149**

Amortization expense is included in general and administrative expenses (Note 27).

11. Goodwill

Goodwill as at 31 December 2019 and 2018 consisted of the following:

	2019
Goodwill as at beginning of the year	**26,879,317**
Goodwill impairment	–
Goodwill as at the end of the year	**26,879,317**

	2018
Goodwill as at beginning of the year	**1,367,493**
Goodwill arising on acquisition, at acquisition date (Note 7)	22,724,015
SIA acquisition adjustment (Note 7)	2 787 809
Goodwill impairment	–
Goodwill as at the end of the year	**26,879,317**

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

	As at 31 December 2019	As at 31 December 2018
Stores Magnit Cosmetic and Magnit Pharmacy formats	25,511,824	25,511,824
Manufactury company TD Holding LLC	1,367,493	1,367,493
Total	**26,879,317**	**26,879,317**

Stores Magnit Cosmetic and Magnit Pharmacy formats CGU

The Group also performed an annual impairment test on goodwill related to the acquisition of SIA Group as of 31 December 2019 and 2018. In assessing whether the goodwill has been impaired, the current value of CGU, comprising Magnit Cosmetic and Magnit Pharmacy formats, to which the goodwill had been allocated in full was compared with its estimated value in use.

For the purposes of annual impairment testing of goodwill from the acquisition of the SIA Group as of the acquisition date, the value in use of the generating unit was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows, approved by the management of the Group, taking into account inflation 2.8-3.2% (2018: 5%), expected synergies from acquisition, existing long-term contracts with suppliers of pharmaceutical and medical goods, as well as other macroeconomic assumptions.

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

The discount rate was determined based on the weighted average cost of capital of the Group and amounted to 10.74% (2018: 16%). As a result of the analysis, there is headroom and management did not identify an impairment for this CGU.

11. Goodwill (continued)

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

The calculation of value in use for the acquisition of the SIA Group business is most sensitive to the following assumptions:

- Gross margin;
- Discount rate;
- Revenue growth.

Gross margin

The gross margin included in the forecast of Group's activities in the cash-generating unit comprising the Magnit Cosmetic and Magnit Pharmacy formats, including related stores and warehouses, is in the range from 43.8% to 44.6% (2018: from 33.2% to 40.6%), in accordance with the approved strategic development plan and expected increased efficiency of sales.
A decrease in buyer demand may lead to a decrease in gross margin. A decrease in gross margin by 5% would result in a decrease in expected operating cash flows but would not cause an impairment loss.

Discount rate

The discount rate calculation is based on the specific circumstances applicable to the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

An increase in the pre-tax discount rate to 13.74% (i.e. + 3%) would reduce the expected discounted cash flows but would not cause an impairment loss.

Revenue growth

One of the most significant assumptions used in the testing model is revenue growth for the forecast period, being in the range from 11.1% to 28%. The forecast is based on Group's activities in the cash-generating unit comprising the Magnit Cosmetic and Magnit Pharmacy formats, including related stores and warehouses. The Group forecast of the expected volume of sales is based on the approved strategic development plan for the forecast period, as well as indicators of the expected consumer price index. The expected consumer price index is 2.8-3.2% (2018: 5%).

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

11. Goodwill (continued)

Manufactory company TD-holding LLC

The Group performed its annual impairment test on goodwill related to the acquisition of TD-holding LLC as of 31 December 2019 and 2018. In assessing whether the goodwill has been impaired, the current value of cash generating unit was compared with its estimated value in use.

Value in use was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows for ten years approved by the management of the Group, taking into account inflation 3.3% (2018: 5%), demand for goods produced by TD-holding LLC, as well as other macroeconomic assumptions. The discount rate was determined based on the weighted average cost of capital of the Group and amounted to 10.74% (2018: 16%).

The impairment test did not reveal any impairment of goodwill.

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

12. Inventory

Inventory as at 31 December 2019 and 2018 consisted of the following:

	2019	2018
Goods for resale (at lower of cost and net realisable value)	208,653,823	172,454,333
Materials and supplies	10,219,763	9,686,170
	218,873,586	**182,140,503**

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

The Group accounted for the write down of inventories to their net realisable value within cost of sales in the consolidated statement of comprehensive income for the year ended 31 December 2019 in the amount of RUB 358,375 thousand (31 December 2018: RUB 1,287,546 thousand). These amounts are included in "Cost of sales".

13. Trade and other receivables

Trade and other receivables as at 31 December 2019 and 2018 consisted of the following:

	2019	2018
Trade receivables – third parties	8,782,045	4,093,128
Other receivables – third parties	6,272,129	3,349,862
Other receivables – related parties (Note 6)	1,834	25,123
Expected credit losses	(1,062,568)	(656,795)
	13,993,440	**6,811,318**

Other receivables mainly relate to vendor allowances.

13. Trade and other receivables (continued)

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

Trade receivables are mainly represented by accounts receivable from customers of the SIA Group, which was acquired in November 2018. At the date of acquisition, the Group estimated the fair value of accounts receivable and recognized it as identifiable asset (Note 7).

The Group uses a provision matrix to calculate expected credit losses (ECL) for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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

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

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

	Current	Overdue <90 days	Overdue 90-180 days	Overdue 180-360 days	Overdue >360 days	Total
2019						
ECL rate	0.1-1.5%	3-5%	10-20%	50%	100%	
Carrying amount before ECL	12,482,031	1,251,200	168,101	376,577	778,099	**15,056,008**
ECL	25,024	37,536	33,620	188,289	778,099	**1,062,568**

Set below is ageing analysis of trade and other receivables as at 31 December 2018:

	Current	Overdue <90 days	Overdue 90-180 days	Overdue 180-360 days	Overdue >360 days	Total
2018						
ECL rate	0.1-1.5%	3-5%	10-20%	50%	100%	
Carrying amount before ECL	5,950,478	662,920	216,945	115,020	522,750	**7,468,113**
ECL	12,200	20,946	43,389	57,510	522,750	**656,795**

13. Trade and other receivables (continued)

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

	2019	2018
As at 1 January	(656,795)	(753,913)
Accrual of provision for expected credit losses	(505,958)	(177,508)
Release	100,185	274,626
As at 31 December	**(1,062,568)**	**(656,795)**

14. Advances paid

Advances paid as at 31 December 2019 and 2018 consisted of the following:

	2019	2018
Advances to third party suppliers	4,904,086	4,666,315
Advances for customs duties	751,668	710,629
Other advances	114,204	46,495
Advances to related party suppliers (Note 6)	–	24,364
	5,769,958	5,447,803

15. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2019 and 2018 consisted of the following:

	2019	2018
Cash on hand, in RUB	2,262,150	2,255,279
Cash in banks, in RUB	452,565	4,795,522
Cash in banks, in foreign currency	5,456	20,765
Cash in transit, in RUB	4,981,127	8,746,776
Cash placed on accounts with minimum account balance, in RUB	1,200,000	9,540,000
Deposits in foreign currency	–	1,389,412
	8,901,298	26,747,754

Cash in transit represents cash collected by banks from the Group's stores and not deposited in bank accounts and bank card payments being processed as at 31 December 2019 and 2018.

As at 31 December 2019, cash of RUB 1,200,000 thousand was placed on accounts with minimum account balance maturing in January 2020. Interest accrued as at 31 December 2019 was immaterial.

As at 31 December 2018, cash of RUB 1,389,412 thousand was placed in US dollar deposits, and cash of RUB 9,540,000 thousand in rubles was placed on accounts with minimum account balance maturing in January 2019. Interest accrued as at 31 December 2018 was immaterial.

16. Share capital, share premium and treasury shares

	2019 No. ('000)	2018 No. ('000)
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850
Issued and fully paid share capital (par value of RUB 0.01 each)	101,911	101,911

	2019	2018
Share premium at 1 January	**87,257,340**	**87,635,960**
Sale of treasury shares	–	(378,620)
Transfer of rights to equity instruments under share-based payments program (Note 31)	122,073	–
Share premium at 31 December	**87,379,413**	**87,257,340**

	2019 No. ('000)	2018 No. ('000)
Balance of shares outstanding at beginning of financial year	**98,665**	**101,911**
Sale of treasury shares	–	1,514
Purchase of treasury shares	(1,302)	(4,760)
Transfer of treasury shares under share-based payments program (Note 31)	105	–
Transfer of treasury shares under employment contract with the Chief Executive (Note 31)	82	–
Balance of shares outstanding at the end of financial year	**97,550**	**98,665**

In 2018, the Group transferred 1,513,601 treasury shares as consideration for acquiring a business (Note 7).

The fair value of the consideration transferred was RUB 5,297,604 thousand. The difference between the fair value of the shares and their carrying amount was recorded as a decrease in share premium in the amount of RUB 378,620 thousand.

In 2018, the Group purchased 4,760,089 own ordinary shares at the open market for RUB 17,727,687 thousand.

In 2019, the Group purchased 1,302,397 own ordinary shares at the open market for RUB 5,109,648 thousand.

In 2019, the Group transferred 105,258 treasury shares to key management personnel as compensation under the Long-term management incentive program (Note 31). The fair value of the compensation was RUB 432,634 thousand. The difference of RUB 35,979 thousand between the carrying amount of the treasury shares and the fair value of compensation granted under the long-term incentive program was recognized as share premium.

In 2019, the Group transferred 82,355 treasury shares to the Group' Chief Executive under his employment contract (Note 31). The fair value of the consideration transferred was RUB 396,440 thousand. The difference of RUB 86,094 thousand between the carrying amount of the treasury shares and the fair value of consideration transferred was recognized as share premium.

17. Dividends declared

In 2019, the Group declared dividends to shareholders relating to 2018 and the 9 months of 2019.

	2019
Dividends declared for 2018 (RUB 166.78 per share)	16,370,754
Dividends declared for 9 months 2019 (RUB 147.19 per share)	14,445,374

In 2018, the Group declared dividends to shareholders relating to 2017 and the 9 months of 2018.

	2018
Dividends declared for 2017 (RUB 135.5 per share)	13,808,989
Dividends declared for 9 months 2018 (RUB 137.38 per share)	13,628,984

In 2019, the Group paid dividends of RUB 29,993,007 thousand (2018: RUB 13,808,982 thousand).

As at 31 December 2019, dividends payable totaled RUB 14,452,943 thousand (31 December 2018: RUB 13,629,822 thousand). Dividends payable as at 31 December 2019 were paid in January 2020.

18. Trade and other payables

Trade and other payables as at 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Trade payables to third parties	140,630,829	122,585,005
Other payables to third parties	20,905,617	8,420,259
Other payables to related parties (Note 6)	94,560	95,921
	161,631,006	**131,101,185**

Average trade payables turnover was 45 days in 2019 and 41 days in 2018. Interest may be charged on the outstanding balance based on market rates in accordance with individual agreements with vendors, however no significant amounts of interest were charged to the Group during the years presented. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

Trade and other payables denominated in foreign currencies (mainly US dollars and euros) as of 31 December 2019 totaled RUB 7,258,346 thousand, including RUB 5,785,691 thousand in USD and RUB 1,472,655 thousand in EUR (31 December 2018: RUB 6,659,643 thousand, including RUB 5,041,053 thousand in USD and RUB 1,618,590 thousand in EUR).

19. Accrued expenses

Accrued expenses as at 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Accrued salaries and wages	8,124,514	7,235,456
Other accrued expenses	8,895,591	5,849,429
	17,020,105	**13,084,885**

20. Taxes payable

Taxes payables as at 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Value added tax	-	763,424
Social insurance contributions	2,378,411	2,105,510
Personal income tax	1,171,380	1,100,611
Property tax	631,732	822,291
Other taxes	109,484	-
	4,291,007	**4,791,836**

21. Loans and borrowings

Long-term and short-term loans and borrowings as at 31 December 2019 and 2018 consisted of the following:

	Year of maturity	Effective interest rate	31 December 2019	Effective interest rate	31 December 2018
Long-term loans and borrowings					
Unsecured bonds	2021-2022	7.72%	40,737,574	-	-
Unsecured bank loans	2021-2027	8.11%	47,817,777	8.57%	65,837,515
Unsecured bank loans from related parties	2021-2022	8.09%	33,200,000	8.25%	28,200,000
Less: current portion of long-term borrowings and loans			(2,122,989)		(301,375)
Total long-term borrowings and loans			**119,632,362**		**93,736,140**
Short-term loans and borrowings					
Unsecured bank loans	2019	-	-	7.7%	70,535,826
Unsecured bonds	2020	7.96%	10,001,047	-	-
Unsecured bank loans	2020	6.75%	52,454,420	-	-
Current portion of long-term borrowings and loans			2,122,989		301,375
Total short-term loans and borrowings			**64,578,456**		**70,837,201**

All loans, borrowings and bonds are denominated in Russian rubles. Loans and borrowings were received on fixed rate.

22. Government grants

	2019	2018
At 1 January	**3,037,701**	**1,155,991**
Received during the year	614,318	1,967,114
Recognized in profit or loss	(383,086)	(85,404)
At 31 December	**3,268,933**	**3,037,701**
Short-term	62,857	62,340
Long-term	3,206,076	2,975,361

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

23. Revenue

Revenue for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Retail	1,332,928,824	1,216,851,273
Wholesale	35,776,570	20,164,184
	1,368,705,394	**1,237,015,457**

Revenue from contracts with customers is represented by the amounts disclosed in the table above and income from advertising services and sales of packing materials (Note 28) and for the 2019 is RUB 1,378,925,154 thousand (2018: 1,243,118,248 thousand).

24. Cost of sales

Cost of sales for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Cost of goods sold	1,022,098,438	906,730,547
Transportation expenses	34,607,615	34,210,972
	1,056,706,053	**940,941,519**

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers. Cost of goods sold includes losses due to inventory shortages.

In 2019, payroll expenses of RUB 22,108,828 thousand (2018: RUB 22,015,986 thousand) were included in cost of sales.

25. Selling expenses

Selling expenses for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Advertising	7,715,200	8,601,093
Packaging and raw materials	3,215,294	3,531,063
Depreciation	4,755,885	3,937,790
	15,686,379	**16,069,946**

26. General and administrative expenses

General and administrative expenses for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Payroll	95,517,926	83,622,350
Depreciation of right-of-use assets (Note 9)	41,660,137	36,894,437
Depreciation of property, plant and equipment (Note 8)	40,701,825	31,522,360
Payroll-related taxes	26,159,360	24,210,938
Rent and utilities	25,719,454	21,824,472
Bank charges	6,516,095	6,058,852
Repair and maintenance	5,747,572	4,420,757
Taxes other than income tax	3,240,165	3,804,346
Security	1,797,235	1,551,342
Amortisation of intangibles	976,589	798,926
Provision for unused vacation	681,018	600,813
Accrual/(reversal) of provision for expected credit losses (Note 13)	400,437	(97,118)
Other expenses	5,843,860	5,532,323
	254,961,673	220,744,798

27. Finance costs

Finance costs for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Interest on loans and borrowings	13,359,504	8,955,433
Interest on bonds	2,037,062	469,054
Interest on lease liabilities	32,414,202	30,405,545
Total interest expense for financial liabilities	**47,810,768**	**39,830,032**
Less: amounts included in the cost of qualifying assets	(29,119)	(288,225)
	47,781,649	39,541,807

28. Other income

Other income for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Sales of packing materials	3,840,142	3,702,421
Fines and penalties	3,341,220	1,759,906
Advertising income	6,379,618	2,400,370
Gain from cancellation of lease contracts (Note 9)	1,985,180	1,804,180
Other	850,307	847,658
	16,396,467	10,514,535

29. Income tax

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

	2019	2018
Consolidated statement of comprehensive income		
Current tax	3,302,256	5,300,659
Adjustments in respect of current income tax of previous year	(1,068,227)	(79,397)
Deferred tax	781,221	1,562,645
Income tax expense reported in the consolidated statement of comprehensive income	**3,015,250**	**6,783,907**

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2019 is as follows:

	At 1 January 2019	Recorded in the consolidated statement of comprehensive income, 2019	At 31 December 2019
Deferred tax assets			
Right-of-use assets/lease liabilities	(9,041,780)	(1,873,756)	(10,915,536)
Accrued expenses	(338,284)	(496,146)	(834,430)
Inventory	(831,505)	(131,334)	(962,839)
Trade and other receivables	(128,665)	128,665	-
Advances paid	(254,167)	122,283	(131,884)
Deferred expenses and intangible assets	(163,988)	163,988	-
Other	(544,185)	285,448	(258,737)
Total deferred tax asset	**(11,302,574)**	**(1,800,852)**	**(13,103,426)**
Including offset with deferred tax liability	11,302,574	1,800,852	13,103,426
Net deferred tax asset	-	-	-
Deferred tax liabilities			
Property, plant and equipment	25,701,441	2,907,220	28,608,661
Inventory	-	319,556	319,556
Trade and other receivables	-	173,278	173,278
Other	893,591	(817,981)	75,610
Total deferred tax liability	**26,595,032**	**2,582,073**	**29,177,105**
Including offset with deferred tax asset	(11,302,574)	(1,800,852)	(13,103,426)
Net deferred tax liability	**15,292,458**	**781,221**	**16,073,679**

29. Income tax (continued)

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2018 is as follows:

	At 1 January 2018	Recorded in the consolidated statement of comprehensive income, 2018	At 31 December 2018
Deferred tax assets			
Right-of-use assets/lease liabilities	(6,692,861)	(2,348,919)	(9,041,780)
Accrued expenses	(149,449)	(188,835)	(338,284)
Inventory	(1,053,737)	222,232	(831,505)
Trade and other receivables	(147,479)	18,814	(128,665)
Advances paid	(103,410)	(150,757)	(254,167)
Deferred expenses and intangible assets	(57,140)	(106,848)	(163,988)
Other	(308,865)	(235,320)	(544,185)
Total deferred tax assets	**(8,512,941)**	**(2,789,633)**	**(11,302,574)**
Including offset with deferred tax liability	8,512,941	2,789,633	11,302,574
Net deferred tax asset	**-**	**-**	**-**
Deferred tax liabilities			
Property, plant and equipment	21,427,892	4,273,549	25,701,441
Other	814,862	78,729	893,591
Total deferred tax liability	**22,242,754**	**4,352,278**	**26,595,032**
Including offset with deferred tax asset	(8,512,941)	(2,789,633)	(11,302,574)
Net deferred tax liability	**13,729,813**	**1,562,645**	**15,292,458**

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

	2019	2018
Profit before tax	**12,579,472**	**30,954,175**
Theoretical income tax expense at 20%	**(2,515,894)**	**(6,190,835)**
Adjustments for:		
Non-taxable income	(663,373)	(599,018)
Unrecognized deferred tax assets related to losses carried forward of Group companies	(904,209)	(73,451)
Reversal of income tax liability as a result of filing amended tax returns	1,068,226	79,397
Income tax expense	**(3,015,250)**	**(6,783,907)**
Effective income tax rate	**23.97%**	**21.92%**

As at 31 December 2019 unrecognized deferred tax assets in respect of previous years losses received by the Group companies amounted to RUB 3,627,296 thousand. (as of 31 December 2018: RUB 2,723,087 thousand).

29. Income tax (continued)

In accordance with applicable law the Group did not reflect the deferred tax liability as of 31 December 2019 for investments in subsidiaries, since it intends to apply a zero tax rate to applicable dividend income in accordance with applicable law, since participation in the capital of subsidiaries is more than 50% and they are owned by the Group for more than one year.

30. Earnings per share

Earnings per share for the years ended 31 December 2019 and 2018 have been calculated on the basis of the net profit for the year and the weighted average number of common shares outstanding during the year.

The calculation of earnings per ordinary share for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Profit for the year attributable to shareholders of the parent	9,564,222	24,170,268
Weighted average number of shares (in thousands of shares)	97,615	101,146
Basic and diluted earnings per share (in RUB)	**97.98**	**238.96**

In 2019, the Group granted the right to obtain equity instruments to the Group's key management personnel (Note 31), which could potentially have a dilutive effect on future earnings per share. These instruments do not have a material effect on diluted earnings per share for 2019.

31. Share-based payments

Long-term incentive program for key management personnel

In 2018, the Group approved a long-term incentive program for its key management. Contracts with the participants in the share-based payment program were concluded on 29 December 2018, which is the grant date for the rights under the program. The service period under the program in 2018 was 1 day, therefore the costs of the program were immaterial for disclosure. In accordance with the program, the Group will provide to its key management personnel the right to receive equity instruments based on the results of their service for 2018, 2019, 2020, 2021, and 2022.

For the purposes of implementing the long-term incentive program for key management personnel, a treasury stock repurchase program was adopted.

The long-term incentive program for key management personnel of the Group consists of an "option" component and a "share" component.

Option component

Options providing for the transfer of a variable number of shares depending on the excess of the market value of the Group's shares over the strike price.

31. Share-based payments (continued)

Option component (continued)

The date of granting options is the date of conclusion of the contract with the program participants. The exercise price for options is RUB 4,700 per share. The maximum number of shares that all program participants may purchase is 1,755,319. The plan provides for five tranches (based on the results for five consecutive years, starting from 2018). The program participant receives the right to exercise options when all of the following conditions are met:

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

For each tranche, deferred execution (transfer of shares) is provided for three years, subject to continuing provision of services by employees. Each employee under this plan receives 15 options, each giving the right to an estimated number of shares for three years in five tranches. The total number of shares that employees can acquire depends on the excess of the market price of the share over the strike price. The higher the market price, the more share the employee receives. If the market price drops below the strike price, then the right to the shares is cancelled.

Share component

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

The date of granting the right is the date of conclusion of the contract with the program participant. The maximum number of shares that all program participants can purchase cannot exceed 1,755,319. The plan provides for five tranches (based on the results for five consecutive years, starting from 2018). The program participant receives the right to shares if all of the following conditions are met:

- Group's consolidated EBITDA growth of 10% CAGR compared to EBITDA for the year ended 31 December 2018 (determined based on the audited published consolidated financial statements of the Group for 2019 containing information on the EBITDA for 2018 considering retrospective restatement in connection with the application of IFRS 16 *Leases*);
- A program participant continues to work in the Group on the exercise date of the option.

For each tranche, deferred execution (transfer of shares) is provided for three years, subject to continuing provision of services by employees. Each employee under this plan receives 15 options, each giving the right to an estimated number of shares for three years in five tranches.

31. Share-based payments (continued)

Assumptions used in determining fair value

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

Dividend income (%)	6
Expected average volatility for the period (%)	28.78
Average risk-free interest rate for the period (%)	7.84
Estimated time for exercise of options (years)	7
Weighted average share price (RUB)	3,920

Movement for the period

For the 2018 tranche, the dates of transfer of rights are 27 May 2019, 2020 and 2021. For the 2019 tranche, the dates of transfer of rights are 27 May 2020, 2021 and 2022. The final date of transfer of 100% of the rights under the program with respect to the remaining tranches is 27 May 2025.

For the year ended 31 December 2019, in the consolidated statement of comprehensive income the Group recognized an expense in respect of share-based payments of RUB 1,892,833 thousand.

As at the reporting date, the management of the Group expects that with respect to all tranches the program targets will be achieved and the number of shares to be transferred is fixed in the amount of not more than 3,510,638 shares of the Group.

During the year ended 31 December 2019, the Group transferred 105,258 shares repurchased from shareholders as part of the program. The fair value of consideration transferred was RUB 432,634 thousand. The difference between the carrying amount of the treasury shares and the fair value of the consideration transferred under the program of RUB 35,979 thousand is recorded as share premium. The weighted average price per share at the execution date was RUB 4,110.

Share-based payments under the employment contract with the Chief Executive Officer of the Group

According to the terms of the employment contract concluded with the Group's Chief Executive Officer, the Chief Executive Officer is entitled to the Group's equity instruments provided that he continues to work in the Group on the exercise date of the option. The number of shares of the Group to which the rights will be transferred is fixed and amounts to 164,710 ordinary shares of the Group. Share-based payment is deferred and involves the transfer of shares during 3 years, including: 50% of fixed number of equity instruments no later than 31 May 2019, 25% no later than 31 March 2020, 25% no later than 31 March 2021, subject to continued work in the Group.

The grant date is considered the date of conclusion of the employment contract with the Chief Executive Officer. The fair value of the equity instruments transferred is determined at the grant date and does not change until the option is fully exercised.

31. Share-based payments (continued)

Share-based payments under the employment contract with the Chief Executive of the Group (continued)

During year ended 31 December 2019, the Group transferred 82,355 shares repurchased from shareholders as part of the fulfillment of obligations under the employment contract concluded with the Group's Chief Executive Officer. The fair value of equity instruments provided during the period was RUB 396,440 thousand. The difference between the carrying amount of the treasury shares and the fair value of the consideration given to the Chief Executive Officer of RUB 86,094 thousand is recorded as share premium. The weighted average price per share at the execution date was RUB 4,134.

For the year ended 31 December 2019, in the consolidated statement of comprehensive income, the Group recognized an expense in respect of share-based payments under the employment contract with the Chief Executive Officer of RUB 559,509 thousand.

32. Contingencies, commitments and operating risks

Operating environment

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 Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remain 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.

Tax legislation

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

In 2019, further efforts were made to implement mechanisms to counter tax evasion involving low tax jurisdictions and aggressive tax planning structures. The amendments include, among other things, definitions of beneficial ownership and tax residency by actual place of business (for legal entities) and the approach to the taxation of controlled foreign companies in the Russian Federation.

32. Contingencies, commitments and operating risks (continued)

Tax legislation (continued)

In addition, a concept of tax benefit was introduced for all taxes payable in the Russian Federation, with a focus on the presence of a business purpose of activities and confirmation of discharge of obligations under agreements by the parties to these agreements or a party to which these obligations were transferred under a contract or by law. These amendments significantly modify the framework for determination of unjustified tax benefit obtained by a taxpayer, and will have a significant impact on established court practice. However, the mechanism of application of this regulation is yet to be settled, and the respective court practice is not established.

These changes and recent trends in the applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. The tax authorities may thus challenge transactions and accounting methods that they have never challenged before. This may result in significant amounts of tax charges, penalties and fines being imposed.

It is not possible to determine the amounts of constructive claims or evaluate probability of their negative outcome. Fiscal periods remain open to review by the tax authorities for a period of three calendar years immediately preceding the year of review.

Management believes that at 31 December 2019, it had properly construed the relevant legislation, and the probability that the Group will retain its position with regard to tax, currency and customs law is assessed as high.

As at 31 December 2019 and 2018, the Group accrued no provisions for tax positions.

Litigation

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

Capital and rent commitments

As at 31 December 2019 and 2018, the Group entered in a number of agreements related to the acquisition of property, plant and equipment. Capital commitments are presented net of VAT:

	2019	2018
Within 1 year	3,793,382	10,211,095
2 to 5 years inclusive	6,968	6,705
	3,800,350	**10,217,800**

33. Financial risk management objectives and policies

Capital risk management

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

The capital structure of the Group consists of loans and borrowings disclosed in Note 21, cash and cash equivalents disclosed in Note 15 and equity attributable to shareholders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 16.

Debt-to-equity ratio

Management reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target debt-to-equity ratio in 2019 of 2.82 (2018: 2.17).

The debt-to-equity ratio as at 31 December 2019 and 2018 was as follows:

	2019	2018
Loans and borrowings	184,210,818	164,573,341
Long-term and short-term lease liabilities	357,210,159	322,741,246
Cash and cash equivalents	(8,901,298)	(26,747,754)
Net debt	**532,519,679**	**460,566,833**
Equity	**188,532,813**	**212,442,026**
Net debt-to-equity ratio	**2.82**	**2.17**

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

The change in the target net debt-to-equity ratio is due to the changes in the capital structure in 2019.

Fair values

Set out below is a comparison by class of the Group's financial instruments that are recorded in the consolidated financial statements.

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

	Carrying amount		Fair value	
	2019	2018	2019	2018
Long-term loans and borrowings	79,653,488	93,736,140	81,873,746	94,010,140
Bonds	39,978,874	–	40,094,910	-

33. Financial risk management objectives and policies (continued)

Fair values (continued)

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

As at 31 December 2019 and 2018, the fair value of the Group's financial instruments, except as described above, approximates their carrying value.

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

	1 January	Proceeds from loans and borrowings	Repayment of loans and borrowings	Loans acquired in business combinations	Finance costs	Interest paid	31 December
2019							
Short-term and long-term loans and borrowings	164,573,341	695,756,324	(677,163,335)	-	15,362,852	(14,318,365)	184,210,818
2018							
Short-term and long-term loans and borrowings	126,460,055	600,693,859	(572,272,534)	10,416,658	9,136,262	(9,860,959)	164,573,341

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

	As at 1 January	Dividends declared	Dividends paid	As at 31 December
2019				
Dividends paid	13,629,822	30,816,128	(29,993,007)	14,452,943
2018				
Dividends paid	831	27,437,973	(13,808,982)	13,629,822

Foreign currency risk management

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

As at 31 December 2019 the foreign currency balances were presented by trade and other payables disclosed in Note 18 (as at 31 December 2018: by cash (Note 15) and trade and other payables (Note 18)).

Foreign currency sensitivity

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

Foreign currency risk management

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

33. Financial risk management objectives and policies (continued)

	Change in USD exchange rate	Effect on profit before tax	Change in euro exchange rate	Effect on profit before tax
2019	+13.00%	783,588	+13.00%	220,460
	-11.00%	(663,036)	-11.00%	(186,543)
2018	+14.00%	708,705	+14.00%	227,075
	-14.00%	(703,516)	-14.00%	(226,246)

Interest rate risk management

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

Credit risk management

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

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

Trade and other receivables

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

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of current assets at any time during the years presented.

Cash and cash equivalents

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

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

33. Financial risk management objectives and policies (continued)

Offsetting of financial assets and liabilities

The Group offsets its financial assets and financial liabilities when all the conditions for offset are met. The effect of the offsetting is presented below:

	Gross amount			Net amount	
	Trade and other receivables	Trade and other payables	Amount of offset	Trade and other receivables	Trade and other payables
2019	28,340,288	(175,977,854)	14,346,848	**13,993,440**	**(161,631,006)**
2018	19,470,056	(143,759,923)	12,658,738	**6,811,318**	**(131,101,185)**

Liquidity risk management

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

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

	Weighted average effective interest rate, %	Less than 1 month	1-3 month	3 month to 1 year	1-5 years	More than 5 years	Total
2019							
Trade and other payables		127,097,996	34,533,010	-	-	-	161,631,006
Repayment of lease liabilities		5,558,534	11,065,328	50,541,221	254,023,784	195,440,197	516,629,064
Loans and borrowings	7.60	9,376,666	2,474,305	63,637,393	129,767,356	1,186,754	206,442,474
		142,033,196	48,072,643	114,178,614	383,791,140	196,626,951	884,702,544
2018							
Trade and other payables		105,452,122	25,649,063	-	-	-	131,101,185
Repayment of lease liabilities		5,187,013	10,247,757	46,946,613	238,616,951	182,899,536	483,897,870
Loans and borrowings	8.14	5,123,937	24,953,099	50,813,588	105,104,729	2,471,011	188,466,364
		115,763,072	60,849,919	97,760,201	343,721,680	185,370,547	803,465,419

The Group has access to financing facilities of RUB 399,561,000 thousand of which RUB 263,940,663 thousand remained unused at 31 December 2019. The Group expects to meet its other obligations from operating cash flows and proceeds from maturing financial assets.

34. Subsequent events

On 5 March 2020, Magnit PJSC placed exchange-traded documentary interest-bearing non-convertible bonds in the amount of RUB 15 billion maturing in 1,092 days from the date of placement.

The Chinese economy and its development prospects were negatively affected by global trade tension and the emergence of the Covid-19 coronavirus.
Measures to curb the spread of the virus may affect business operations around the world. Restrictions on the movement of goods and services may affect the Group's supply chains.