Fix Price Group Ltd.

Consolidated Financial Statements
for the Year Ended 31 December 2020
and Independent Auditor's Report

FIX PRICE GROUP LTD.

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FIX PRICE GROUP LTD.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Management is responsible for the preparation of the consolidated financial statements of Fix Price Group Ltd. (the "Company") and its subsidiaries (the "Group") that fairly present the consolidated financial position of the Group as at 31 December 2020 and its consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") ("IFRS").

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

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards of jurisdictions in which the Group's subsidiaries are operating;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by management on 4 February 2021.

On behalf of management:

Christina Michailidou

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Director

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Fix Price Group Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Fix Price Group Ltd. and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statements of comprehensive income, cash flows, and changes in equity for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted by the Republic of Cyprus ("ISA"). 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* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, 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.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

AO Deloitte & Touche CIS

4 February 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020
(in millions of Russian Roubles)

	Note	2020	2019
Revenue	6	190,059	142,880
Cost of sales	7	(128,544)	(96,919)
Gross profit		**61,515**	**45,961**
Selling, general and administrative expenses	8	(34,932)	(27,879)
Other operating income		291	334
Share of profit of associates, net		49	39
Operating profit		**26,923**	**18,455**
Interest income		376	194
Interest expense		(1,125)	(1,040)
Foreign exchange gain/(loss), net		136	(74)
Profit before tax		**26,310**	**17,535**
Income tax expense	9	(8,735)	(4,362)
Profit for the year		**17,575**	**13,173**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		7	-
Other comprehensive income for the year		7	-
Total comprehensive income for the year		**17,582**	**13,173**
Basic and diluted earnings per share		0.35	0.26

The accompanying notes on pages 9-46 are an integral part of these consolidated financial statements.

FIX PRICE GROUP LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020
(in millions of Russian Roubles)

	Note	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	11	13,308	10,882
Goodwill	5	205	178
Other intangible assets	12	873	510
Capital advances	13	2,284	1,055
Right-of-use assets	14	8,554	6,220
Investments in associates		73	85
Total non-current assets		**25,297**	**18,930**
Current assets			
Inventories	15	26,991	19,365
Right-of-use assets	14	1,724	1,943
Receivables and other financial assets	16	902	1,036
Prepayments		303	247
Value added tax receivable		515	166
Loans receivable		-	92
Cash and cash equivalents	17	26,375	11,881
Total current assets		**56,810**	**34,730**
Total assets		**82,107**	**53,660**
Equity and liabilities			
Equity			
Share capital	18	1	1
Additional paid-in capital	18	154	154
(Deficit)/Retained earnings		(3,771)	11,298
Currency translation reserve		7	-
Total (deficit)/equity		**(3,609)**	**11,453**
Non-current liabilities			
Lease liabilities	20	3,713	2,496
Deferred tax liabilities	9	385	346
Total non-current liabilities		**4,098**	**2,842**
Current liabilities			
Loans and borrowings	19	15,680	5,006
Lease liabilities	20	6,339	5,306
Payables and other financial liabilities	21	26,751	19,827
Advances received		582	453
Income tax payable		5,423	2,415
Tax liabilities, other than income taxes		2,068	532
Dividends payable	18	23,658	5,030
Accrued expenses		1,117	796
Total current liabilities		**81,618**	**39,365**
Total liabilities		**85,716**	**42,207**
Total equity and liabilities		**82,107**	**53,660**

The accompanying notes on pages 9-46 are an integral part of these consolidated financial statements.

FIX PRICE GROUP LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(in millions of Russian Roubles)

	Note	2020	2019
Cash flows from operating activities			
Profit before tax		**26,310**	**17,535**
Adjustments for:			
Depreciation and amortisation	11,12,14	9,865	8,695
Shrinkage and inventory obsolescence expenses	7,15	1,595	1,118
Changes in allowance for trade and other receivables		4	(13)
Share of profit of associates, net		(49)	(39)
Interest income		(376)	(194)
Interest expense		1,125	1,040
Foreign exchange (gain)/loss, net		(136)	74
Operating cash flows before changes in working capital		**38,338**	**28,216**
Increase in inventories		(9,134)	(5,335)
Decrease/(Increase) in receivables and other financial assets		29	(4)
Increase in prepayments		(46)	(89)
(Increase)/Decrease in VAT receivable		(358)	883
Increase in payables and other financial liabilities		5,872	1,938
Increase in advances received		128	161
Increase/(Decrease) in tax liabilities, other than income tax		1,547	(308)
Increase in accrued expenses		414	326
Net cash flows generated from operations		**36,790**	**25,788**
Interest paid		(1,207)	(1,099)
Interest received		374	194
Income tax paid		(5,687)	(3,459)
Net cash flows from operating activities		**30,270**	**21,424**
Cash flows from investing activities			
Purchase of property, plant and equipment and capital advances		(5,674)	(3,831)
Purchase of intangible assets		(493)	(365)
Proceeds from sale of property, plant and equipment		5	39
Acquisition of business, net of cash acquired	5	-	(195)
Dividends received from associates		58	84
Loans issued		-	(248)
Proceeds from repayment of loans issued		79	150
Net cash flows used in investing activities		**(6,025)**	**(4,366)**
Cash flows from financing activities			
Proceeds from loans and borrowings		18,445	12,600
Repayment of loans and borrowings		(7,792)	(8,100)
Lease payments		(7,518)	(6,689)
Dividends paid		(14,214)	(8,039)
Net cash flows used in financing activities		**(11,079)**	**(10,228)**
Total cash from operating, investing and financing activities		**13,166**	**6,830**
Effect of exchange rate fluctuations on cash and cash equivalents		1,328	(831)
Net increase in cash and cash equivalents		**14,494**	**5,999**
Cash and cash equivalents at the beginning of the year	17	**11,881**	**5,882**
Cash and cash equivalents at the end of the year	17	**26,375**	**11,881**

The accompanying notes on pages 9-46 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(in millions of Russian Roubles)

	Notes	Share capital	Additional paid-in capital	(Deficit)/ Retained earnings	Currency translation reserve	Total (deficit)/ equity
At 1 January 2019		**1**	**154**	**11,865**	**-**	**12,020**
Profit for the year		-	-	13,173	-	13,173
Total comprehensive income for the year, net of tax		**-**	**-**	**13,173**	**-**	**13,173**
Dividends	18	-	-	(13,740)	-	(13,740)
At 31 December 2019		**1**	**154**	**11,298**	**-**	**11,453**
At 1 January 2020		**1**	**154**	**11,298**	**-**	**11,453**
Profit for the year		-	-	17,575	-	17,575
Other comprehensive income for the year		-	-	-	7	7
Total comprehensive income for the year, net of tax		**-**	**-**	**17,575**	**7**	**17,582**
Dividends	18	-	-	(32,644)	-	(32,644)
At 31 December 2020		**1**	**154**	**(3,771)**	**7**	**(3,609)**

The accompanying notes on pages 9-46 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Meridan Management Ltd. was incorporated in May 2008 in accordance with the Business Companies Act of the British Virgin Islands and was renamed Fix Price Group Ltd. (the "Company") in November 2020. The address of the Company's registered office is Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands ("BVI").

Fix Price Group Ltd. together with its subsidiaries (the "Group") is one of the leading variety value retailers globally and the largest variety value retailer in Russia operating under the trade mark "Fix Price". The Group's retail operations are conducted through a chain of convenience stores, located in the Russian Federation, Belarus, Kazakhstan and Uzbekistan. The Group is also engaged in wholesale operations by servicing a number of franchisees that operate in distant regions of the Russian Federation, as well as in a number of international geographies.

The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of financial assets and financial liabilities at fair value through profit or loss. The measurement basis and principal accounting policies of the Group are set out below and have been applied consistently throughout the consolidated financial statements.

Fix Price Group Ltd. is the holding entity of the Group and there is no consolidation that takes place above the level of this Company.

As at 31 December 2020 and 31 December 2019 the Group is controlled by a group of independent physical persons, who individually do not have control over the Group.

The consolidated financial statements cover the year ended 31 December 2020.

These consolidated financial statements were authorised for release by the Director of the Company on 4 February 2021.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Functional and presentation currency

The functional currency of the Company and its Cyprus and Russian subsidiaries is Russian Rouble ("RUB"). The functional currencies of Best Price Kazakhstan TOO, Fix Price Zapad LLC and FIXPRICEASIA LLC are Kazakhstan tenge ("KZT"), Belarussian Rouble ("BYN") and Uzbekistan sum ("UZS") respectively.

The presentation currency of the Group is Russian Roubles ("RUB"), and all values are rounded to the nearest million RUB, except where otherwise indicated.

The translation of the financial statements of Best Price Kazakhstan TOO, Fix Price Zapad LLC and FIXPRICEASIA LLC from their functional currencies to the presentation currency is performed as follows:

- All assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- All income and expenses are translated at the yearly average exchange rate;

(in millions of Russian Roubles)

- Resulting exchange differences are included in equity and presented as Exchange difference arising from translation of financial statements within the Translation reserve;
- In the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the yearly average exchange rate.

The following exchange rates were used for translation of the financial statements of Best Price Kazakhstan TOO, Fix Price Zapad LLC and FIXPRICEASIA LLC from their functional currencies to the presentation currency:

Currency	Closing rate on 31 December 2020	Closing rate on 31 December 2019	Average rate for the year 2020	Average rate for the year 2019
KZT	0.1755	0.1622	0.1741	0.1690
BYN	28.6018	29.4257	29.5858	30.9653
UZS	0.0071	0.0065	0.0073	0.0074

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company and their 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 arrangements with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and,
- The Group’s voting rights and potential voting rights.

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

(in millions of Russian Roubles)

Profit or loss and each of the existing components of other comprehensive income are attributed to the shareholders of the Company.

The principal activities of the Group's significant subsidiaries and the effective ownership percentages are as follows:

Company name	Country of incorporation	Principal activity	Note	Ownership interest 31 December 2020	Ownership interest 31 December 2019
Kolmaz Holdings Ltd	Cyprus	Intermediate holding company		100%	100%
Wikolia Investment Ltd	Cyprus	Intermediate holding company		-*	100%
Best Price LLC	Russia	Retail and wholesale operations		100%	100%
Best Price Export LLC	Russia	Wholesale operations		100%	-
Best Price Kazakhstan TOO	Kazakhstan	Retail operations	5	100%	100%
Fix Price Zapad LLC**	Belarus	Retail operations		100%	-
FIXPRICEASIA LLC**	Uzbekistan	Retails operations		100%	-

* 100% of shares in Wikolia Investment Ltd were sold to a third party in December 2020. The proceeds from disposal as well as result of disposal were immaterial.

** In the year ended 31 December 2020 the Group started retail operations in Belarus and Uzbekistan through its subsidiaries LLC "Fix Price Zapad" and LLC "FIXPRICEASIA LLC", respectively.

Going concern

As a variety value retailer, the Group is well placed to withstand volatility within economic environments. Management has considered the Group's forecasts and projections for the foreseeable future, taking into account the current and expected economic situation in Russia and CIS, the Group's financial position, available borrowing facilities, loan covenant compliance, planned store opening program, anticipated cash flows and related expenditures from retail stores. Having considered all the above, management does not expect any material adverse impact to Group's operations from the current economic slowdown caused by the COVID-19 pandemic and is confident that the Group has adequate resources to continue its operations in the foreseeable future.

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

Revenue

The revenue is recognised by the Group in such a way to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue from the sale of goods is recognised on a 5-step approach as introduced in IFRS 15:

- The Group identifies the contract with the customer;
- The Group identifies the performance obligations in the contract;
- The transaction price is determined by the Group;
- The transaction price is allocated to the performance obligations in the contracts;
- Revenue is recognised only when the Group satisfies a performance obligation.

The Group recognises revenue when or as a performance obligation is satisfied.

Store retail revenue is recognised at the initial point of sale of goods to customers, when the control over the goods have been transferred to the buyer.

The Group has a loyalty card scheme that allows customers to earn bonus points for each purchase made, which can be used to obtain discounts on subsequent purchases. Such bonus points entitle customers to obtain a discount that they would not be able to obtain without preliminary purchases of goods (i.e. material right). Thus, the promised discount represents a separate performance obligation. Deferred revenue with respect to bonus points is recognised upon the initial sale. Revenue from the loyalty programme is recognised upon the exchange of bonus points by customers. Revenue from bonus points that are not expected to be exchanged is recognised in proportion to the pattern of rights exercised by the customer.

Wholesale revenue includes:

- Sales of goods to franchisees, which is recognised at the moment of transfer of goods to franchisees at the warehouse;
- Revenue, stemming from franchise agreements, such as sales-based royalties. Revenue from sales-based royalties is earned when a franchisee sells goods in its retail stores and is recognised as and when those sales occur.

Selling, general and administrative expenses

Selling, general and administrative expenses contain all running costs of the business, except those relating to inventory (which are expensed through cost of sales), tax, interest, foreign exchange gain/(loss), share of profit/(loss) in associates and other comprehensive income. Warehouse costs are included in this caption.

Elements which are unusual and significant may be presented as a separate line item in the consolidated statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation and accumulated impairment losses.

Cost comprises purchase price and directly attributable costs. Unless significant or incurred as part of a refit programme, subsequent expenditure will usually be treated as repairs or maintenance and expensed to the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Freehold land is not depreciated. For all other property, plant and equipment, depreciation is calculated on a straight line basis to allocate cost, less residual value of the assets, over their estimated useful lives as follows.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the replaced assets are derecognised. Gains and losses arising from the retirement of property, plant and equipment are included in the profit or loss on disposal.

Leasehold improvements are capitalised when it is probable that future economic benefits associated with the improvements will flow to the Group and the cost can be measured reliably. Capitalised leasehold improvements are depreciated over their useful life.

Depreciation

Depreciation is provided on all other items of property, plant and equipment and the effect is to write off the carrying value of items by equal instalments over their expected useful economic lives. It is applied at the following rates:

	Useful lives in years
Buildings	83-100
Leasehold improvements	10
Equipment and other assets	2-20

Residual values and useful lives are reviewed annually and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is expensed in the statement of comprehensive income when the asset is derecognised.

Intangible assets

Other intangible assets

Other intangible assets acquired separately, including computer software, are measured on initial recognition at cost comprising the purchase price and any directly attributable costs of preparing the asset for use.

Following initial recognition, assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when an asset is available for use and is calculated on a straight line basis to allocate the cost of the asset over its estimated useful life ranging from 2 to 10 years.

Investments in associates

Associates are those entities over which the Group has significant influence but which are neither subsidiaries nor interests in joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. Investments in associates are recognised initially at cost and subsequently accounted for using the equity method. Changes resulting from the profit or loss generated by the associate are reported in “share of profits of associates” in the consolidated income statement and therefore affect net results of the Group.

However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the consolidated financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, the Group estimates the asset’s recoverable amount.

An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs to sell and its value in use, where CGU (a cash-generating unit) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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 or CGU.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group’s CGU’s to which the individual assets are allocated. These budgets and forecast calculations cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment of inventories, are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding those for which annual testing is required, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for shrinkage, obsolete and slow moving items. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell. The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of inventories. Supplier bonuses and volume discounts that do not represent reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's goods are also included in cost of inventories (as a reduction of it). Cost of inventory is determined on the weighted average basis.

Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Group operates and generates taxable income. Tax is recognised in profit or loss of the consolidated statement of comprehensive income as the Group does not have taxes related to items recognised in other comprehensive income or directly in equity.

Deferred tax

Deferred tax is provided using the liability method on tax loss carry forwards and temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

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

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- Liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Company, entered into to replace the share-based payment arrangements of the acquiree, are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net acquisition-date value of identifiable assets acquired exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised in profit or loss as a bargain purchase gain.

When the acquired assets did not constitute a business, such transactions are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Group.

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and amounts paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Fair value of financial instruments

Fair value of financial instruments which are traded in the active market is estimated at each reporting date on the basis of market quotations or dealer quotes without any deduction for transaction costs. For financial instruments which are not traded in the active market, fair value of the instrument is estimated using valuation techniques that include use of data on market transactions; data on current fair value of other similar instruments; discounted cash flow analyses or other valuation techniques.

The Group uses the following hierarchy to determine and disclose methods of fair value measurement of financial instruments:

- Level 1: quoted prices for identical assets and liabilities determined in active markets (unadjusted);
- Level 2: techniques where all used inputs that significantly affect the fair value are observable directly or indirectly;
- Level 3: techniques where used inputs that significantly affect the fair value are not based on observable market data.

Financial assets

Financial assets are classified into the following specified categories:

- Those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. The major part of the Group's debt instruments is presented by trade accounts and loans receivable and are measured at amortised cost applying the effective interest rate as these instruments are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities, from the date of acquisition, of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Derivative financial instruments

The Group uses derivative financial instruments (forward currency contracts) to reduce its foreign currency exposure.

Derivative financial instruments are recognised at fair value. The fair value is derived using updated bank quotations. The Group does not use hedge accounting for these derivatives. As a result, such derivative financial instruments are treated as financial assets and liabilities at fair value through profit or loss. Gains and losses recognised for the changes in fair value of forward contracts are included in the foreign exchange (loss)/gain line item in the consolidated statement of comprehensive income.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost (represented by cash and cash equivalents, trade and other receivables). The amount of expected credit losses (ECL) is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. The financial instrument has a low risk of default;
2. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
3. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The carrying value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account. When a trade receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognised in profit or loss.

<u>Derecognition of financial assets</u>

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instruments which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

On derecognition of a financial asset other than in its entirety (e.g. when an entity retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the control is retained), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

<u>Classification as debt or equity</u>

Debt and equity instruments issued by Group entities are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

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 issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group’s own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVPL. Financial liabilities are classified as at FVPL when the financial liability is (i) a contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) designated as at FVPL. Otherwise, financial liabilities are measured subsequently at amortised cost using the effective interest method.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get to their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Value added tax

The Russian tax legislation permits settlement of value added tax (“VAT”) on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Equity

Equity comprises the following:

- Share capital represents the nominal value of equity shares;
- Additional paid-in capital represents contributions to the property of the Group made by shareholders;
- Retained earnings represents retained profits.

Ordinary shares are classified as equity. Contributions to the property of the Group made by shareholders both in cash or other assets provided to the Group are included in additional paid-in capital within the equity.

Dividends

Dividends are recognised as a liability and deducted from equity when they are declared before or on the reporting date. Dividends are disclosed in the consolidated financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

State pension plan

The Group's companies contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognised in profit or loss of the consolidated statement of comprehensive income as incurred.

Provisions

Provisions are recognised when a present obligation (legal or constructive) exists as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted where the time value of money is considered to be material.

Leases

The Group assesses whether a contract is or contains a lease at inception of the contract.
The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases of property or equipment and leases of low value assets. For these leases, the Group recognises the lease payments on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate of the Group.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments) less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lessee transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Selling, general and administrative expenses" as profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

In the consolidated statement of cash-flows, the Group presents cash outflows for repayment of interest accrued on lease liabilities within the "Interest paid" line of cash flows from operating activities, and cash outflows for the repayment of principal within the "Lease payments" line of cash flows from financing activities.

3. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes judgements, estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors including expectations of future events that are believed to be reasonable when the financial information was prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Critical accounting estimates

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives of items of property, plant and equipment

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's management business plans and operational estimates related to those assets.

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end, and if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Lease term of contracts

In determining the lease term the Group considers various factors, including but not limited to the extension options that are reasonably certain to be executed and termination options that are reasonably certain not to be executed. When considering those factors, management takes into account, amongst other things, the Group's investment strategy, relevant investment decisions, the residual useful life of the related major leasehold improvements and costs directly or indirectly relating to the extension or termination of the lease.

Incremental borrowing rates for calculation of lease liabilities

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group derives incremental borrowing rates from both internal and external data sources, applying significant judgment in such calculations.

Inventories of goods for resale provisions

The Group provides for estimated inventory shrinkage on the basis of historical shrinkage as a percentage of cost of sales. This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results (Note 7).

Tax legislation

The Group operates in various jurisdictions, including the Russian Federation, Republic of Kazakhstan, Republic of Belarus, Republic of Uzbekistan, the Republic of Cyprus and the British Virgin Islands. The tax, currency and customs legislation of those jurisdictions is subject to varying interpretations and tax authorities may challenge interpretations of tax legislation taken by the Group. At each reporting date the Group performs an assessment of its uncertain tax positions. Due to inherent uncertainty associated with such assessment, there is a possibility that the final outcome may vary. The Group's contingent liabilities with regards to taxation are disclosed in Note 23.

4. NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STATEMENTS

Adoption of New Standards and Interpretations

The accounting policies applied by the Group are consistent with those of the financial year ended as at 31 December 2019, except for the adoption of the new standards and interpretations effective as at 1 January 2020. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

In the year ended 31 December 2020, the Group has adopted the following new and amended standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB in the consolidated financial statements:

Amendments to IFRS 3: Definition of Business

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

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

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

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

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

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements of any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

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

Amendments to IFRS 16: Covid-19-Related Rent Concessions

The amendments published by IASB in May 2020 provide lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification. The Group preferred not to take an exemption from assessing whether a COVID-19-related rent concession is a lease modification and continued applying its accounting policy consistently thus not taking advantage of the practical expedient introduced by the amendments.

No new standards and interpretations adopted in 2020 had a material impact on the consolidated financial statements of the Group for the year ended 31 December 2020.

New and revised IFRS Standards in issue but not yet effective

- IFRS 17 *Insurance Contracts;*
- IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
- Amendments to IAS 1 *Classification of Liabilities as Current or Non-current;*
- Amendments to IFRS 3 *Reference to the Conceptual Framework;*
- Amendments to IAS 16 *Property, Plant and Equipment—Proceeds before Intended Use;*
- Amendments to IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract;*
- Annual Improvements to IFRS Standards 2018-2020 Cycle; and
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS *9 Financial Instruments*, IFRS 16 *Leases*

The new and revised IFRS Standards listed above will not have a material impact on the financial statements of the Group in future periods.

5. BUSINESS COMBINATION AND GOODWILL

On 25 December 2019, the Group acquired 100 per cent of the issued share capital of TOO Best Price Kazakhstan, obtaining control of the entity. TOO Best Price Kazakhstan was a Group franchisee in Kazakhstan. TOO Best Price Kazakhstan was acquired in order for the Group to enter the Kazakhstan market.

At the time of the acquisition, the Group determined the fair values of the identifiable assets acquired and liabilities assumed of the acquired company on a provisional basis. At the beginning of 2020, the Group obtained information that actual net amount of the fair value of identifiable assets acquired and liabilities assumed at the acquisition date was RUB 47 million and consequently finalised purchase price allocation. The increase of goodwill of RUB 27 million that has been recognised in the year ended 31 December 2020 corresponds to RUB 12 million remeasurement of net amount of the fair value of identifiable assets acquired and liabilities assumed at the acquisition date and RUB 15 million of exchange rate differences posted to other comprehensive income.

(in millions of Russian Roubles)

The provisional and final amounts recognised in respect of the identifiable assets acquired and liabilities assumed at the date of acquisition net of cash and cash equivalents acquired are as set out in the table below:

	Provisional value at the acquisition date	**Final value at the acquisition date**
Property, plant and equipment	10	10
Right-of-use assets	82	82
Receivables and other financial assets	73	45
Inventory	63	63
Lease liabilities	(82)	(82)
Payables and other financial liabilities	(87)	(71)
Fair value of identifiable assets acquired and liabilities assumed, net	59	47
Goodwill	178	190
Total consideration	**237**	**237**
Satisfied by:		
Cash	237	237
Total consideration transferred	**237**	**237**
Net cash outflow arising on acquisition:		
Cash consideration	237	237
Less: cash and cash equivalents' balances acquired	(42)	(42)
	195	**195**

The goodwill of RUB 190 million arising from the acquisition consists of a fee for entrance to the prospective Kazakhstan market and synergies attached to expanding their operations in Kazakhstan market. None of the goodwill is expected to be deductible for income tax purposes.

TOO Best Price Kazakhstan contributed immaterial revenue and profit to the Group for the period between the date of acquisition and 31 December 2019.

Goodwill

Goodwill held by the Group at 31 December 2020 and 31 December 2019 relates to cash-generating unit ("CGU") "Best Price Kazakhstan" and represents synergies associated with expanding the Group's operations in the Kazakhstan market.

On 31 December 2020 and 31 December 2019, the Group performed impairment tests of goodwill allocated to "Best Price Kazakhstan" and identified no impairment. For the purpose of impairment tests, the recoverable amount of this cash-generating unit was determined based on a value in use calculation with a reference to financial budgets approved by management and historical performance to-date.

The Group has considered and assessed reasonably possible changes in key assumptions and has not identified any instances that could cause the carrying amount of the cash-generating unit "Best Price Kazakhstan" to exceed its recoverable amount.

(in millions of Russian Roubles)

6. REVENUE

Revenue for the years ended 31 December 2020 and 31 December 2019 consisted of the following:

	2020	2019
Retail revenue	166,025	123,194
Wholesale revenue	24,034	19,686
	190,059	**142,880**

7. COST OF SALES

Cost of sales for the years ended 31 December 2020 and 31 December 2019 consisted of the following:

	2020	2019
Cost of goods sold	123,809	93,557
Transportation and handling costs	3,140	2,244
Inventory write-down due to shrinkages and write off to net realisable value	1,595	1,118
	128,544	**96,919**

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2020 and 31 December 2019 consisted of the following:

	2020	2019
Staff costs	17,329	13,361
Amortisation of right-of-use assets	7,618	6,921
Other depreciation and amortisation	2,247	1,772
Bank charges	2,009	1,258
Operating lease expenses	1,642	1,160
Security services	1,343	1,107
Repair and maintenance costs	757	625
Advertising costs	659	645
Utilities	570	501
Other expenses	758	529
	34,932	**27,879**

Staff costs include statutory social security and pension contributions (defined contribution plan) in amount of RUB 2,699 million and RUB 2,067 million for the years ended 31 December 2020 and 31 December 2019, respectively.

Operating lease expenses mainly relate to variable lease costs that are expensed as incurred and leases of low-value items for which the recognition exemption is applied.

(in millions of Russian Roubles)

9. TAXATION

	2020	2019
Current tax expense	8,696	4,457
Deferred tax expense/(benefit)	39	(95)
Income tax expense	**8,735**	**4,362**

The Russian statutory income tax rate was 20% during the years ended 31 December 2020 and 31 December 2019. Income generated in other jurisdictions was subject to a different tax rate.

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2020	2019
Profit before tax	26,310	17,535
Theoretical tax expense at 20%, being statutory rate in Russia	**(5,262)**	**(3,507)**
Withholding tax on intra-group dividends	(3,900)	-
Income/(expenses) subject to income tax at rates different from 20%	413	(902)
Non-taxable items	14	47
Income tax expense	**(8,735)**	**(4,362)**

Withholding tax is applied to dividends distributed by the Group's Russian subsidiary; such tax is withheld at the source by the respective subsidiary and is paid to the Russian tax authorities at the same time when the payment of dividend is effected.

Deferred tax assets and liabilities as at 31 December 2020 and 31 December 2019 are calculated for all temporary differences under the balance sheet method using the Russian statutory tax rate of 20%.

Movements in the deferred tax assets and liabilities for the year ended 31 December 2020 were as follows:

	31 December 2019	Charged to profit or loss	31 December 2020
Tax effects of deductible temporary differences			
Trade and other payables	58	-	58
Accrued expenses	65	37	102
Other	-	17	17
Deferred tax assets	**123**	**54**	**177**
Tax effects of taxable temporary differences			
Inventories	(58)	(15)	(73)
Property, plant and equipment	(409)	(55)	(464)
Investments in associates	(9)	(6)	(15)
Trade and other receivables	-	(6)	(6)
Intangible assets	7	(11)	(4)
Deferred tax liabilities	**(469)**	**(93)**	**(562)**
Net deferred tax liabilities	**(346)**	**(39)**	**(385)**

(in millions of Russian Roubles)

Movements in the deferred tax assets and liabilities for the year ended 31 December 2019 were as follows:

	31 December 2018	Derecognition upon adoption of IFRS 16	Charged to profit or loss	31 December 2019
Tax effects of deductible temporary differences				
Trade and other payables	-	-	58	58
Accrued expenses	-	-	65	65
Intangible assets	(133)	140	-	7
Deferred tax assets	**(133)**	**140**	**123**	**130**
Tax effects of taxable temporary differences				
Inventories	(50)	-	(8)	(58)
Property, plant and equipment	(342)	-	(67)	(409)
Investments in associates	(25)	-	16	(9)
Trade and other receivables	(39)	-	39	-
Other	6	-	(6)	-
Deferred tax liabilities	**(450)**	**-**	**(26)**	**(476)**
Net deferred tax liabilities	**(583)**	**140**	**97**	**(346)**

As at 31 December 2020 and 31 December 2019 the Group has not recognised a deferred tax liability in respect of taxable temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

10. KEY MANAGEMENT REMUNERATION

The total compensation relating to the key management personnel of the Group amounted to RUB 1,556 million and RUB 1,063 million during the years ended 31 December 2020 and 31 December 2019, respectively. The amount of compensation includes all applicable taxes and contributions. All compensation represents short-term employee benefits as defined in IAS 19 *Employee Benefits*.

(in millions of Russian Roubles)

11. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment during the years ended 31 December 2020 and 31 December 2019 were as follows:

	Land and buildings	Trade and other equipment	Leasehold improve-ments	Other	Assets under construction and uninstalled equipment	Total
Cost						
At 1 January 2019	**1,913**	**6,599**	**5,424**	**65**	**14**	**14,015**
Additions	-	-	-	-	3,518	**3,518**
Acquisition of a subsidiary (Note 5)	-	-	-	-	10	**10**
Transfers	686	1,644	1,187	20	(3,537)	**-**
Disposals	-	(165)	(116)	(3)	-	**(284)**
At 31 December 2019	**2,599**	**8,078**	**6,495**	**82**	**5**	**17,259**
Additions	-	-	-	-	4,557	**4,557**
Transfers	1,070	2,090	1,222	81	(4,463)	**-**
Disposals	-	(180)	(308)	(1)	-	**(489)**
Effect of translation to presentation currency	-	8	3	1	-	**12**
At 31 December 2020	**3,669**	**9,996**	**7,412**	**163**	**99**	**21,339**
Accumulated depreciation and impairment						
At 1 January 2019	**164**	**2,884**	**1,820**	**39**	**-**	**4,907**
Depreciation charge	23	976	566	18	-	**1,583**
Disposals	-	(109)	(3)	(1)	-	**(113)**
At 31 December 2019	**187**	**3,751**	**2,383**	**56**	**-**	**6,377**
Depreciation charge	27	1,212	658	14	-	**1,911**
Disposals	-	(139)	(118)	(1)	-	**(258)**
Effect of translation to presentation currency	-	1	-	-	-	**1**
At 31 December 2020	**214**	**4,825**	**2,923**	**69**	**-**	**8,031**
Net book value						
At 31 December 2019	**2,412**	**4,327**	**4,112**	**26**	**5**	**10,882**
At 31 December 2020	**3,455**	**5,171**	**4,489**	**94**	**99**	**13,308**

Buildings primarily represent distribution centers that are owned by the Group.

(in millions of Russian Roubles)

12. INTANGIBLE ASSETS

Movements in the carrying amount of intangible assets during the years ended 31 December 2020 and 31 December 2019 were as follows:

	Lease rights	Software, patents and other	Total
Cost			
At 1 January 2019	**1,523**	**358**	**1,881**
Derecognition upon adoption of IFRS 16	(1,523)	-	**(1,523)**
Additions	-	355	**355**
At 31 December 2019	**-**	**713**	**713**
Additions	-	493	**493**
At 31 December 2020	**-**	**1,206**	**1,206**
Accumulated amortisation and impairment			
At 1 January 2019	**166**	**138**	**304**
Derecognition upon adoption of IFRS 16	(166)	-	**(166)**
Amortisation charge	-	65	**65**
At 31 December 2019	**-**	**203**	**203**
Amortisation charge	-	130	130
At 31 December 2020	**-**	**333**	**333**
Carrying amount			
At 31 December 2019	-	**510**	**510**
At 31 December 2020	-	**873**	**873**

13. CAPITAL ADVANCES

As at 31 December 2020 capital advances consist of advances for construction of distribution centers in Saint-Petersburg and Krasnodar. As at 31 December 2019 capital advances consisted of advances for construction of a distribution center in Pushkino, which was put into operation in June 2020.

(in millions of Russian Roubles)

14. RIGHT-OF-USE ASSETS

The Group leases retail premises, offices and warehouses (hereinafter “leased premises and buildings”) with lease terms within the range from 1 to 6 years. Movements in the carrying amount of right-of-use assets were as follows:

	Leased premises and buildings for the year ended	
	31 December 2020	**31 December 2019**
Cost		
At 1 January 2020/ 1 January 2019	**14,950**	**9,062**
New lease contracts and modification of existing lease contracts	9,818	5,926
Acquisition of a subsidiary (Note 5)	-	81
Lease prepayments	110	93
Disposals	(350)	(212)
Effect of translation to presentation currency	(38)	-
At 31 December 2020/ 31 December 2019	**24,490**	**14,950**

	Leased premises and buildings for the year ended	
	31 December 2020	**31 December 2019**
Accumulated depreciation and impairment		
At 1 January 2020/ 1 January 2019	**(6,787)**	**-**
Depreciation expense	(7,782)	(6,999)
Disposals	350	212
Effect of translation to presentation currency	7	-
At 31 December 2020/ 31 December 2019	**(14,212)**	**(6,787)**
Carrying amount		
At 1 January 2020/ 1 January 2019	**8,163**	**9,062**
At 31 December 2020/ 31 December 2019	**10,278**	**8,163**

	For the year ended	
	31 December 2020	**31 December 2019**
Amounts recognised in profit and loss		
Depreciation expense of right-of-use assets	7,618	6,921
Interest expense on lease liabilities	656	698
Effect of changes in foreign exchange rates	113	-
Expenses relating to variable lease payments not included in the measurement of the lease liabilities	1,628	1,119

(in millions of Russian Roubles)

Some of the property leases in which the Group is the lessee contain variable lease payment terms that are linked to sales generated from the leased retail stores. Variable payment terms are used to link rental payments to store cash flows and reduce fixed cost. Overall, the variable payments constitute approximately 16% and 13% of the Group's entire lease payments for the years ended 31 December 2020 and 31 December 2019, respectively. The variable payments depend on sales of particular stores and consequently on the overall economic development over the next few years.

The total cash outflow for leases accounted for under IFRS 16 in the consolidated financial statements amount to RUB 8,174 million (excluding variable lease payments) for the year ended 31 December 2020 (RUB 7,390 million (excluding variable lease payments) for the year ended 31 December 2019).

15. INVENTORIES

The Group inventories balance is comprised of merchandise inventories. Inventories write-off due to shrinkage and write-down to net realisable value for the years ended 31 December 2020 and 31 December 2019 are disclosed in Note 7.

16. RECEIVABLES AND OTHER FINANCIAL ASSETS

	31 December 2020	31 December 2019
Trade receivables from franchisees, net of allowance	500	760
Forward foreign exchange contracts (Note 24)	30	-
Other receivables, net of allowance	372	276
	902	**1,036**

The Group measures the allowance for losses on trade receivables on an ongoing basis in an amount equal to expected lifetime credit losses. Expected credit losses on trade receivables are measured based on the historical defaults and an analysis of the current financial position of the debtor, adjusted for debtor-specific factors, the general industry-specific economic conditions in which the debtor operates and assessment of current and projected development of these conditions as at the reporting date.

The following table summarises the changes in the allowance for expected credit losses on trade receivables and other receivables:

	31 December 2020	31 December 2019
At 1 January 2020/ 1 January 2019	**(15)**	**(28)**
Additional (allowance)/utilisation recognised on trade receivables and other receivables	(4)	13
At 31 December 2020/ 31 December 2019	**(19)**	**(15)**

(in millions of Russian Roubles)

17. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Bank current accounts – RUB, KZT, BYN, UZS	276	534
Bank current accounts – Euro, USD, CNY, NOK	721	1,635
Cash in transit – RUB, KZT, BYN, UZS	1,202	1,315
Cash in hand – RUB, KZT, BYN, UZS	298	229
Deposits – RUB, KZT, BYN	23,878	1,398
Deposits – USD	-	5,602
Dual currency instruments	-	1,166
Other cash and cash equivalents (RUB and EUR/USD instruments)	-	2
	26,375	**11,881**

Cash in transit represents cash collected by banks from the Group's stores and not yet deposited in bank accounts as at 31 December 2020 and 31 December 2019.

As at 31 December 2020 RUB, KZT and BYN denominated deposit bank accounts in the amount of RUB 23,878 million had interest rates of 3.40-10.00% and 2-365 day maturity periods (deposits over 90 days are recallable on demand). As at 31 December 2019 Russian Rouble denominated deposit bank accounts in the amount of RUB 1,398 million had interest rates of 5.51-5.70% and 9-10 day maturity periods.

As at 31 December 2019 USD denominated deposit bank accounts in the amount of RUB 5,602 million had interest rates of 1.45-2.00% and 30-182 day maturity periods (deposits over 90 days were recallable on demand).

As at 31 December 2019 dual currency instruments (DCI) were denominated in Euro and USD with synthetic (risk and interest) coupon rates of 1.5-3.38% and 35-60 day maturity periods. If at maturity the USD/EUR currency rate is beyond a specified limit DCI is paid back by bank in USD.

RUB, KZT, BYN, UZS, USD, Euro and CNY denominated balances in current bank accounts are normally interest free.

18. EQUITY

Ordinary shares

Each ordinary share ranks *pari passu* with each other ordinary share and each share carries one vote.

	31 December 2020	31 December 2019
Allotted, called up and fully paid ordinary shares of USD 1 each	50,000	50,000
	50,000	**50,000**

(in millions of Russian Roubles)

Additional paid-in capital

No contributions into equity were made by shareholders of the Group during the years ended 31 December 2020 and 31 December 2019.

Dividends

Dividends of RUB 74 thousand per share, being final dividends for 2019, were announced in March 2020. Interim dividends for 2020 of RUB 99 thousand per share were announced in May 2020. Final dividends for 2020 of RUB 480 thousand per share were announced in December 2020. Total dividends announced in 2020 are equal to RUB 32,644 million.

Dividends of RUB 275 thousand per share, being interim dividends for 2019 and amounting to a total dividend of RUB 13,740 million, were announced in October 2019.

19. LOANS AND BORROWINGS

Terms and conditions in respect of loans and borrowings as at 31 December 2020 are detailed below:

Source of financing	Currency	Maturity date	Interest rate as at 31 December 2020	31 December 2020
Bank loans (unsecured)	RUB	2021	5.59-6.70%	15,114
Bank loans (unsecured)	CNY	2021	4.90%	566
				15,680

Terms and conditions in respect of loans and borrowings as at 31 December 2019 are detailed below:

Source of financing	Currency	Maturity date	Interest rate as at 31 December 2019	31 December 2019
Bank loans (unsecured)	RUB	2020	6.95-7.44%	5,006
				5,006

(in millions of Russian Roubles)

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2020	Financing cash flows (i)	Other changes (ii)	31 December 2020
Bank loans	5,006	10,653	21	15,680
	5,006	**10,653**	**21**	**15,680**

	1 January 2019	Financing cash flows (i)	Other changes (ii)	31 December 2019
Bank loans	501	4,500	5	5,006
	501	**4,500**	**5**	**5,006**

(i) The cash flows from bank loans and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.

(ii) Other changes include interest accruals, payments and foreign exchange loss.

The Group's loan agreements contain certain restrictive covenants, including requirements to comply with specified financial ratios. The Group's failure to comply with restrictive covenants may result in a claim for immediate repayment of the corresponding debt. As at 31 December 2020 and 31 December 2019 the Group was in compliance with all financial covenants stipulated by its loan agreements.

20. LEASE LIABILITIES

As at 31 December 2020 and 31 December 2019 lease liabilities comprised the following:

	31 December 2020	31 December 2019
Minimum lease payments, including:		
Current portion (less than 1 year)	6,772	5,811
More than 1 to 5 years	3,912	2,729
Over 5 years	26	-
Total minimum lease payments	**10,710**	**8,540**
Less amount representing interest	(658)	(738)
Present value of net minimum lease payments, including:		
Current portion (less than 1 year)	6,339	5,306
More than 1 to 5 years	3,687	2,496
Over 5 years	26	-
Total present value of net minimum lease payments	**10,052**	**7,802**
Less current portion of lease obligations	(6,339)	(5,306)
Non-current portion of lease obligations	**3,713**	**2,496**

(in millions of Russian Roubles)

The following table summarises the changes in the lease liabilities:

	For the year ended	
	31 December 2020	31 December 2019
Balance as at 1 January 2020 / 1 January 2019	**7,802**	**8,487**
Interest expense on lease liabilities	656	698
Lease payments	(8,174)	(7,390)
New lease contracts and modification of existing lease contracts	9,692	5,926
Acquisition of a subsidiary (Note 5)	-	81
Foreign exchange loss	113	-
Currency translation reserve	(37)	-
Balance as at 31 December 2020 / 31 December 2019	**10,052**	**7,802**

The Group's lease contracts include typical restrictions and covenants common for local business practice such as responsibility of the Group for regular maintenance and repair of the lease assets and its insurance, redesign and conduction of permanent improvements only with consent of the lessor, use of leased asset in accordance with current legislation.

The weighted average incremental borrowing rate at 31 December 2020 was 5.83% per annum, at 31 December 2019 was 7.06%.

The Group does not face a significant liquidity risk with regard to its lease liabilities.

21. PAYABLES AND OTHER FINANCIAL LIABILITIES

Payables as at 31 December 2020 and 2019 consisted of the following:

	31 December 2020	31 December 2019
Trade payables	26,304	19,232
Deferred revenue	220	125
Forward foreign exchange contracts (Note 24)	35	142
Other payables	192	328
	26,751	**19,827**

Trade payables are normally settled no later than their 120 day term.

22. COMMITMENTS

Capital commitments

The Group has contractual capital commitments not provided within the Group's financial statements as at 31 December 2020 in the amount of RUB 1,937 million (as at 31 December 2019 – RUB 158 million). These commitments mostly relate to the construction of warehouse premises.

23. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Operating environment of the Group

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including sanctions imposed, consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A general slowdown in the Russian economy or in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group's operating results.

Russia continues implementation of 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 high volatility in oil prices and national currency exchange rate and sanctions imposed on Russia by a number of countries. The rouble interest rates remained high. In 2020, the Organization of the Petroleum Exporting Countries (OPEC) and Russia attempted, but failed, to reach an agreement to cut oil production, which resulted in crude prices plummeting further. Following the news, oil prices fell 10.1% to end at US$ 41.28 per barrel on the day the proposed OPEC-Russia deal failed to be reached, and have subsequently declined even further to around US$ 30 per barrel of Brent crude oil (from over US$ 65 at the beginning of 2020). As a result of volatility on the financial markets, the Russian Rouble significantly and abruptly depreciated against the US Dollar and Euro (the decline against the US Dollar, for instance, constituted 23% compared to the exchange rate as at 1 January 2020, and 17% in March 2020, as at the end of the month), and this volatile exchange rate environment has continued to prevail.

The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal proceedings

In the ordinary course of business, the Group may be a party to various legal and tax proceedings and be subject to claims. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceeding or other matters, will not have a material effect on the financial condition, results of operations or liquidity of the Group.

Taxation

The Group's main subsidiary, from which the Group's income is derived, operates in Russia. Russian tax, currency and customs legislation can be interpreted in different ways and is susceptible to frequent changes. The interpretation made by management of the legislation in question as applied to the operations and activities of the Group may be challenged by the relevant regional or federal authorities.

In addition, certain amendments to tax legislation went into effect in 2015, aimed at combating tax evasion through the use of low-tax jurisdictions and aggressive tax planning structures. In particular, those amendments include definitions of the concepts of beneficial ownership and tax residence of legal entities at their actual place of business, and an approach to the taxation of controlled foreign companies.

These changes, as well as recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in past may be challenged as not having been in compliance with Russian tax laws applicable at the relevant time. In particular, the Supreme Court issued guidance to lower courts on reviewing tax cases providing a systematic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be levied on the Group.

As at 31 December 2020 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Management estimates that the Group's possible exposure in relation to the aforementioned tax risks will not exceed 12% of the Group's total assets as at 31 December 2020.

Coronavirus disease (COVID-19)

With the recent and rapid development of the Coronavirus disease (COVID-19) outbreak, the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments, including the Government of the Russian Federation, have implemented restrictions on travelling as well as strict quarantine measures.

Industries such as tourism, hospitality and entertainment are expected to be disrupted significantly by these measures. Other industries such as manufacturing, retail and financial services are expected to be indirectly affected and their results to also be negatively affected.

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty at this stage, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome.

The COVID-19 pandemic has not had a material adverse impact on the Group's business operations and financial results: the overwhelming majority of the Group's stores and all of its distribution centres have continued to operate as an essential business during the COVID-19 pandemic, the Group has not experienced any significant supply chain disruptions or product availability issues, moreover the Group's revenues continued to grow through the year, despite certain volatility in the second quarter of 2020, thus the Group continues to adopt a going concern basis in preparing the financial statements. However, there is still uncertainty relating to the severity of the near- and long-term adverse impact of the COVID-19 pandemic on the global economy, global financial markets, the Russian economy and the economies of the geographies in which the Group operates.

24. FINANCIAL RISK MANAGEMENT

The Group uses various financial instruments, including bank loans, cash, derivatives and various items, such as trade receivables and trade payables that arise directly from its operations.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The Group reviews and agrees policies for managing each of these risks and they are summarised below.

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

Market risk

Market risk encompasses three types of risk, being currency risk, interest rate risk and commodity price risk. Commodity price risk is not considered material to the business as the Group’s sensitivity to commodity prices is insignificant.

Currency risk

The Group is exposed to transaction foreign exchange risk arising from exchange rate fluctuation on its purchases from overseas suppliers. In relation to currency transaction risk, approximately a quarter of the cost of goods sold is sourced from overseas suppliers with relevant trade accounts payable being owed in foreign currency and having maturity of up to 120 days. A proportion of the Group's purchases are priced in Chinese Yuans and in order to manage the Group's exposure to currency risk, the Group enters into forward foreign currency contracts. No transactions in derivatives are undertaken of a speculative nature.

As at 31 December 2020 the fair value of assets and liabilities related to forward foreign exchange contracts amounted to RUB 30 million and RUB 35 million, respectively. Respective assets were recognised within Receivables and other financial assets and respective liabilities were recognised within Payables and other financial liabilities (liabilities as at 31 December 2019 amounted to RUB 142 million were recognised within Payables and other financial liabilities). In the year ended 31 December 2020 the gain from forward foreign exchange contracts amounted to RUB 989 million (2019: RUB 688 million loss), and was included in the “Foreign exchange (gain)/loss, net” line item in the consolidated statement of comprehensive income.

96% of the Group's sales to retail and wholesale customers are priced in Russian Roubles, therefore there is immaterial currency exposure in this respect. Other sales are retail sales of Best Price Kazakhstan, Fix Price Zapad LLC, FIXPRICEASIA LLC (Note 5) are priced in local currencies.

(in millions of Russian Roubles)

Foreign currency sensitivity

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2020 and 31 December 2019 is as follows:

	Assets		Liabilities	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
USD	358	6,264	-	5,030
CNY	1	1	6,599	4,692
EUR	179	2,167	2	-
NOK	174	-	-	-

The impact on the Group's profit before tax is largely due to changes in the fair value revaluation of creditors held on account with our Chinese Yuan suppliers.

The following table demonstrates the sensitivity on profit (net of tax) and equity to a reasonably possible change in the Chinese Yuan period end exchange rates with all other variables held constant.

		31 December 2020	31 December 2019
Change in RUB/CNY	+10%	(660)	(469)
Change in RUB/CNY	-10%	660	469

The following table demonstrates the sensitivity on profit (net of tax) and equity to a reasonably possible change in the USD period end exchange rates with all other variables held constant.

		31 December 2020	31 December 2019
Change in RUB/USD	+10%	36	123
Change in RUB/USD	-10%	(36)	(123)

The following table demonstrates the sensitivity on profit (net of tax) and equity to a reasonably possible change in the Euro period end exchange rates with all other variables held constant.

		31 December 2020	31 December 2019
Change in RUB/EUR	+10%	18	217
Change in RUB/EUR	-10%	(18)	(217)

The following table demonstrates the sensitivity on profit (net of tax) and equity to a reasonably possible change in the NOK period end exchange rates with all other variables held constant.

		31 December 2020	31 December 2019
Change in RUB/NOK	+10%	17	-
Change in RUB/NOK	-10%	(17)	-

These calculations have been performed by taking the year end translation rate used on the accounts and applying the change noted above. The balance sheet valuations are then directly calculated.

(in millions of Russian Roubles)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arising from market interest rate fluctuations is insignificant. As at 31 December 2020 the Group had floating rate interest-bearing short-term liabilities amounting to RUB 1,000 million. As at 31 December 2019 the Group had no floating rate interest-bearing liabilities.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's principal financial assets are cash and cash equivalents, loans receivable and trade receivables. Credit risk is further limited by the fact that all of sales retail transactions are made through the store registers, direct from the customer at the point of purchase, leading to a zero trade receivables balance from retail sales.

Therefore, the principal credit risk arises from the Group's trade receivables. In order to manage credit risk, the Group sets limits for wholesale customers (franchisees) based on their payment history. New wholesale customers typically pay in advance. Credit limits are reviewed by franchisees managers on a regular basis in conjunction with debt ageing and collection history. Provisions against bad debts are made where appropriate.

The credit risk on liquid funds (see the table below) is managed by the Group's treasury. The credit risk on investments of surplus funds is limited as the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

The table below shows the balances that the Group has with its major banks as at the balance sheet date:

Bank	**Country of incorporation**	**Rating**	**Carrying amount as at 31 December 2020**
RCB	Cyprus	Ba2	14,204
LGT	Switzerland	Aa1	10,353
Sberbank of Russia	Russia	Baa3	128
VTB Bank	Russia	Baa3	172
Other			19
Total			**24,876**

(in millions of Russian Roubles)

Liquidity risk

Any impact on available cash and therefore the liquidity of the Group could have a material effect on the business as a result.

The Group's borrowings are subject to quarterly banking covenants against which the Group has had significant headroom to date with no anticipated issues based upon forecasts made. Short-term flexibility is achieved via the Group's rolling credit facility. The following table shows the maturity of financial liabilities grouping based on their remaining period at the balance sheet date. The amounts disclosed are the contractual undiscounted cash flows.

	On demand or less than 1 year	1 to 5 years	Over 5 year	Total*	Carrying amount
As at 31 December 2020					
Loans and borrowings	16,158			**16,158**	**15,680**
Payables and other liabilities	26,531	-	-	**26,531**	**26,531**
Lease liabilities	6,772	3,912	26	**10,710**	**10,052**
	49,461	**3,912**	**26**	**53,399**	**52,263**
As at 31 December 2019					
Loans and borrowings	5,154	-	-	**5,154**	**5,006**
Payables and other liabilities	19,702	-	-	**19,702**	**19,702**
Lease liabilities	5,811	2,729	-	**8,540**	**7,802**
	30,667	**2,729**	**-**	**33,396**	**32,510**

*Amounts related to loans and borrowings and lease liabilities include future interest.

Fair value

The fair values of the financial assets and liabilities of the Group are not materially different from their carrying values.

The fair values of cash and cash equivalents, loans issued, trade and other receivables and trade and other payables approximate their carrying amounts due to their short maturity.

Foreign exchange contracts are recognised at fair value and classified as Level 2 instruments. The fair value data is provided by banks, based on the updated quotations source (e.g. Bloomberg).

25. RELATED PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Management considers that the Group has appropriate procedures in place to identify, account for and properly disclose transaction with related parties.

Related parties include immediate and ultimate shareholders of the Group, franchisees where the Group has a non-controlling ownership stake, as well other related parties under common control.

(in millions of Russian Roubles)

Transactions with related parties for the years ended 31 December 2020 and 31 December 2019:

	2020	2019
Associates:		
Sales of goods	2,449	2,935
Royalty fees	100	120
Other*:		
Dividends declared	(27,963)	(11,745)
Payment of dividends	(12,395)	(7,054)
Loans issued	-	(110)
Repayment of loans receivable	-	107

As at 31 December 2020 and as at 31 December 2019 the outstanding balances with related parties were as follows:

	31 December 2020	31 December 2019
Associates:		
Trade and other payables	-	-
Trade and other receivables	14	15
Advances from customers	(111)	(133)
Other*:		
Dividends payable	20,312	4,329

* Other related parties comprise immediate and indirect shareholders of the Company.

For details on the remuneration of key management personnel please refer to Note 10.

26. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. While the Group has not established any formal policies with regard to debt to equity proportions, the Group reviews its capital needs periodically to determine actions to balance its overall capital structure through new share issue, return of capital to shareholders as well as securing new debt or redemption of existing debt.

27. POST BALANCE SHEET EVENTS

Dividends payable as at 31 December 2020 in the amount of RUB 23,658 million were paid in full in January 2021.