DETSKY MIR GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2019
And Independent Auditor's Report

DETSKY MIR GROUP

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DETSKY MIR GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company "Detsky Mir" (hereinafter, the "Company") and its subsidiaries (hereinafter, the "Group" or "Detsky Mir Group") as at 31 December 2019, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards (hereinafter, "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;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management on 28 February 2020.

On behalf of Management:

V.S. Chirakhov,	**A.S. Garmanova,**
Chief Executive Officer	Chief Financial Officer
PJSC "Detsky Mir"	PJSC "Detsky Mir"

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INDEPENDENT AUDITOR'S REPORT

To: Board of Directors and Shareholders of Public Joint Stock Company "Detsky mir"

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Detsky mir" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Recognition of supplier bonuses The Group receives significant amounts of supplier incentives, discounts, bonuses and reimbursements for advertising and markdowns (hereinafter, "supplier bonuses"). We consider this to be a key audit matter because judgment is required to determine the commercial substance of supplier bonuses received by the Group, their classification as those reducing the cost of inventory purchased and the period over which the related reduction should be recognized in the consolidated statement of profit or loss and other comprehensive income, which necessitates a thorough understanding of the contractual arrangements and complete and accurate source data. The Group's principal accounting policy on supplier bonuses and critical accounting estimates related to them are disclosed in Note 4 on page 14 and Note 5 on page 23, respectively.	We obtained an understanding of the Group's internal processes and controls in respect of accounting for supplier bonuses and assessed whether the Group applies its accounting policy consistently during the reporting period. We circularized a sample of suppliers to obtain assurance that the amounts of recorded incentives and balances owed at year-end were accurate and complete. Where responses were not received, we completed alternative procedures such as tracing the amounts recorded to primary documents signed by suppliers confirming the Group's entitlement to a particular bonus. In addition, for a sample of volume-based arrangements, we recalculated the bonuses due from suppliers based on purchases during the year and the contractual terms. On a sample basis we examined the commercial substance of supplier bonuses by analysing the primary documents and contractual arrangements confirming the Group's right to receive supplier bonuses and other supporting documentation. In addition to that, we recomputed management's calculation of supplier bonuses allocated to year-end inventories based on their commercial substance. We also performed year-to-year analysis of the ratio of aggregate supplier bonuses allocated to year-end inventories to the total amount of supplier bonuses received by the Group during the reporting period.
Net realizable value of inventories Inventories are carried at the lower of cost and net realizable value. At 31 December 2019 the value of inventories held by the Group was RUB 38,636 million (31 December 2018: RUB 35,063 million). The valuation of inventories was identified as a key audit matter because it involves judgement, in particular, with respect to the estimated selling price of items held and introduction of a new approach to determine provision rates. The assessment process is subjective as it includes reviewing the historical performance of the inventories (sales below cost of sales for the last twelve months), current operational plans as well as industry and customer	We challenged whether the new management's approach properly considers all the relevant inputs to arrive at the best estimate of net realizable value of inventories: • Understanding the Group's processes and control procedures related to the measurement of inventories at the lower of cost and net realizable value; • Verifying the value of a sample of inventories to confirm it is held at the lower of cost and net realizable value, based on the sales prices after the reporting date; • Reviewing, recalculating and critically assessing the reasonableness of inventory allowance considering inventory turnover, historical and post year-end performance including sales below cost of sales and analysing the amount of allowance as a percentage

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
specific trends that drive provision rates. The Group's inventory provision is disclosed in Note 13 on page 29. The key assumptions related to inventory measurement are disclosed in Note 5 on page 23.	of gross inventory balance year to year and investigating the changes in the ratios taking into account the expected changes in the methodology.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual and Quarterly reports, but does not include the consolidated financial statements and our auditor's report thereon. The other information also consists of the supplementary information on pages 46-50 and is presented for the purpose of additional analysis and is not a part of the consolidated financial statements for the year ended 31 December 2019.

The Annual and Quarterly reports are expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information presented on pages 46-50 and Annual and Quarterly reports when they become available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that. We have nothing to report in regards to the supplementary information presented on pages 46-50

When we read the Annual and Quarterly reports, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance.

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 ("IFRSs"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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.

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

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

Egor Metelkin
engagement partner

28 February 2020

Акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

The Entity: PJSC “Detsky mir”

State Registration Certificate No. 869.149 issued by Moscow Registration Chamber on 03.09.1997.

Primary State Registration Number: 1027700047100

Address: 37 Vernadsky Prospekt, bldg. 3, Moscow, 119415, Russia

Audit Firm: AO “Deloitte & Touche CIS”

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulatory organization of auditors Association “Sodruzhestvo”, ORNZ 12006020384.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(in millions of Russian Rubles, except earnings per share)

	Notes	2019	2018
Revenue	6	128,764	110,874
Cost of sales		(87,232)	(74,045)
GROSS PROFIT		**41,532**	**36,829**
Selling, general and administrative expenses	7	(28,631)	(25,550)
Other operating expenses, net		(8)	(47)
OPERATING PROFIT		**12,893**	**11,232**
Finance income		11	10
Finance expenses	8	(4,878)	(4,427)
Foreign exchange (loss)/ gain, net		(124)	106
PROFIT BEFORE TAX		**7,902**	**6,921**
Income tax expense	9.1	(1,360)	(1,227)
PROFIT FOR THE YEAR		**6,542**	**5,694**
Other comprehensive income/ (loss):			
Items that may be reclassified subsequently to profit or loss			
Effect of translation to presentation currency		74	(43)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**6,616**	**5,651**
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:	17	735,675,274	737,806,153
Earnings per share, basic and diluted (in Russian Rubles per share)		8.89	7.72

The Notes on pages 11 to 45 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(in millions of Russian Rubles)

	Notes	At 31 December 2019	At 31 December 2018 (restated)[1]
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	10	9,755	9,226
Intangible assets	11	1,464	1,255
Right-of-use assets	12	32,988	29,606
Deferred tax assets	9.2	2,415	1,858
Other non-current assets		138	133
Total non-current assets		**46,760**	**42,078**
CURRENT ASSETS			
Inventories	13	38,636	35,063
Trade receivables	14	4,048	4,473
Advances paid and other receivables	15	1,435	2,038
Prepaid income tax		13	1
Cash and cash equivalents	16	1,769	3,335
Total current assets		**45,901**	**44,910**
TOTAL ASSETS		**92,661**	**86,988**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	17	1	1
Treasury shares	17	(317)	(214)
Additional paid-in capital		5,793	5,793
Accumulated deficit		(7,305)	(6,609)
Currency translation reserve		161	87
Total equity deficit		**(1,667)**	**(942)**
NON-CURRENT LIABILITIES			
Lease liabilities	18	27,635	24,203
Long-term loans and borrowings	19	8,980	8,928
Deferred tax liabilities	9.2	104	152
Total non-current liabilities		**36,719**	**33,283**
CURRENT LIABILITIES			
Trade payables		32,911	29,747
Short-term loans and borrowings and current portion of long-term loans and borrowings	19	10,270	12,542
Lease liabilities	18	7,145	6,343
Advances received, other payables and accrued expenses	21	6,042	4,938
Deferred revenue	22	436	720
Income tax payable		805	357
Total current liabilities		**57,609**	**54,647**
Total liabilities		**94,328**	**87,930**
TOTAL EQUITY AND LIABILITIES		**92,661**	**86,988**

The Notes on pages 11 to 45 form an integral part of these consolidated financial statements.

[1] The Group reassessed the classification of current and non-current lease liabilities as at 31 December 2018: current portion of lease liabilities was decreased by RUB 497 million, whereas non-current of them was increased by the respective amount.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(in millions of Russian Rubles)

	Share capital	Treasury shares	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
Balance at 1 January 2018	**1**	**(60)**	**5,793**	**(6,386)**	**130**	**(522)**
Profit for the year	-	-	-	5,694	-	5,694
Other comprehensive loss	-	-	-	-	(43)	(43)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**5,694**	**(43)**	**5,651**
Share-based compensation (Note 20)	-	-	-	182	-	182
Purchase of treasury shares (Note 17)	-	(195)	-	-	-	(195)
Sale of treasury shares (Note 17)	-	41	-	-	-	41
Dividends (Note 17)	-	-	-	(6,099)	-	(6,099)
Balance at 31 December 2018	**1**	**(214)**	**5,793**	**(6,609)**	**87**	**(942)**
Profit for the year	-	-	-	6,542	-	6,542
Other comprehensive income	-	-	-	-	74	74
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**6,542**	**74**	**6,616**
Share-based compensation (Note 20)	-	-	-	(240)	-	(240)
Purchase of treasury shares (Note 17)	-	(139)	-	-	-	(139)
Sale of treasury shares (Note 17)	-	36	-	-	-	36
Dividends (Note 17)	-	-	-	(6,998)	-	(6,998)
Balance at 31 December 2019	**1**	**(317)**	**5,793**	**(7,305)**	**161**	**(1,667)**

The Notes on pages 11 to 45 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in millions of Russian Rubles)

	2019	2018
Operating activities:		
Profit for the year	6,542	5,694
Adjustments for:		
Depreciation and amortization expense	10,005	9,100
Finance expenses	4,878	4,427
Income tax expense recognized in profit or loss	1,360	1,227
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	1,270	1,233
Impairment recognized for non-current assets	128	191
Foreign exchange loss/(gain), net	124	(106)
Expense on equity-settled share-based compensation	8	182
Finance income	(11)	(10)
Gain on disposal of non-current assets	(22)	(1)
Bad debts written-off and change in loss allowance for doubtful receivables on advances paid and other receivables	(29)	8
Other	(43)	-
Changes in working capital:		
Decrease/(increase) in trade receivables	200	(2,230)
Decrease/(increase) in advances paid and other receivables	226	(609)
Increase in inventories	(4,818)	(9,856)
Increase in trade payables	3,404	5,034
Increase in advances received, other payables and accrued expenses	1,164	526
(Decrease)/increase in deferred revenue	(284)	114
Cash generated by operations	**24,102**	**14,924**
Interest paid	(4,599)	(4,233)
Interest received	4	5
Income tax paid	(1,696)	(1,083)
Net cash generated by operating activities	**17,811**	**9,613**
Investing activities:		
Payments for property, plant and equipment	(2,789)	(3,487)
Payments for intangible assets	(718)	(307)
Proceeds from sale of property, plant and equipment	40	-
Net cash used in investing activities	**(3,467)**	**(3,794)**
Financing activities:		
Purchase of treasury shares	(139)	(195)
Sale of treasury shares	36	41
Repayment of loans and borrowings	(72,522)	(44,173)
Dividends paid	(6,998)	(7,242)
Lease payments	(6,589)	(6,122)
Proceeds from loans and borrowings	70,302	52,052
Net cash used in financing activities	**(15,910)**	**(5,639)**
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	**(1,566)**	**180**
CASH AND CASH EQUIVALENTS, beginning of the year	**3,335**	**3,155**
CASH AND CASH EQUIVALENTS, end of the year	**1,769**	**3,335**

The Notes on pages 11 to 45 form an integral part of these consolidated financial statements.

(in millions of Russian Rubles)

1. GENERAL INFORMATION

PJSC "Detsky mir" (hereinafter, the "Company", "Detsky mir") together with its subsidiaries (hereinafter, the "Group") is the largest retail chain in the children's goods market in the Russian Federation (hereinafter, "RF"). The Company is registered in the Unified State Register of Legal Entities under the laws of the Russian Federation (State Registration Certificate No. 1027700047100). The Company's address is 3/6 3-Niznelikhoborsky Proezd, Moscow 127238.

The primary activity of the Group is the sale of children's clothing and products through retail stores and its online store, and the Group develops pet goods sales through retail stores and its online store as well. In 2019 and as at 31 December 2019 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan, Early Learning Centre (hereinafter, "ELC") branded retail stores in Russia, and "Zoozavr" branded retail stores in Russia. In February 2019 the Group launched its retail activity under "Detsky Mir" brand in the Republic of Belarus.

In November 2019, the Company's shareholders PJSFC Sistema (the controlling shareholder of the Company) (hereinafter, "Sistema") and the Russia-China Investment Fund (hereinafter, "RCIF") successfully priced the offering of Detsky Mir shares. The offering size was 175 million existing shares in the Company, representing 23.7% of the Company's issued share capital. During the share placement, the shareholders of the Company sold part of their shares to external investors, which led to certain changes in the structure of the Company's shareholders, and Sistema lost the controlling stake in the Company, but retained its majority stake. As at 31 December 2019 the Group had no ultimate controlling party, as at 31 December 2018 the ultimate controlling party of the Group was Mr. Vladimir Evtushenkov.

The registered shareholders of the Company and their effective ownership were as follows, as at the specified dates:

	31 December 2019, %	**31 December 2018, %**
PJSFC Sistema and its subsidiaries	33.377	52.099
Floette Holdings Limited [1,2]	4.501	7.016
Exarzo Holdings Limited [1,2]	4.501	7.016
Capital Group Companies [3]	5.047	-
Other shareholders	52.574	33.869
Total	**100**	**100**

[1] Represent the interests of the RCIF;
[2] Including shares on the account of nominal holder;
[3] Through indirect ownership, entitled to exercise shareholder rights.

The ownership interest of the Group and the proportion of its voting rights in its major operating subsidiaries was as follows, as at each period end:

	Ownership interest and proportion of voting rights	
Subsidiaries	**31 December 2019, %**	**31 December 2018, %**
LLP Detsky Mir Kazakhstan, Kazakhstan	100	100
LLC Kub-Market, RF	100	100
LLC Detmir BEL, Belarus	100	100

As at 31 December 2019 and 2018 the Group does not have non-wholly owned subsidiaries that have non-controlling interests to the Group.

2. BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise. The consolidated financial statements are presented in millions of Rubles (hereinafter, "RUB million", "mln Rubles") except for per share amounts which are in Rubles or unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Amendments to IFRSs affecting amounts reported in the consolidated financial statements

From 1 January 2019, 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 these consolidated financial statements:

- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments";
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation";
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures";
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement";
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

No new standards and interpretations adopted in 2019 had a material impact on the consolidated financial statements of the Group for the year ended 31 December 2019.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Amendments to IAS 1 and IAS 8 – "Definition of material"[1];
- Amendments to References to the Conceptual Framework in IFRS Standards[1].

[1] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

The Group does not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.

4. SIGNIFICANT ACCOUNTING POLICIES

The Group's entities maintain their accounting records in compliance with the local legislation on accounting and reporting adopted in jurisdictions of the countries in which they were founded and registered. The accounting principles and reporting procedures in these jurisdictions may differ from IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The accounting principles set out below have been applied in the preparation of these consolidated financial statements for the year ended 31 December 2019 as well as comparative information presented in these consolidated financial statements.

Going concern principle

These consolidated financial statements have been prepared on management's assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

Presentation currency and functional currency

Management has determined that the functional currency of the Company and its Russian subsidiaries is the Russian Ruble (hereinafter, "RUB"). The functional currency of LLP Detsky Mir Kazakhstan is Kazakhstani Tenge, and the functional currency of LLC Detmir BEL is Belarusian Ruble.

These consolidated financial statements are presented in millions of Russian Rubles. Management believes that the Russian Ruble is the most convenient presentation currency for users of these consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- Has power over an entity;
- Is exposed, or has rights, to variable returns of the investee; and
- Has the ability to use its power to affect variable returns.

The Company 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 listed above.

The Company controls an entity without the majority of voting rights if existing voting rights give the possibility to direct the relevant activities of the entity unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient for control.

Consolidation of subsidiaries begins when the Company obtains control over the subsidiary and ends when the Company loses control of the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, income and expenses are eliminated on consolidation.

Segment information

Reportable segments are determined based on the financial information which is available and utilized on a regular basis by the Company's chief operating decision maker to assess financial performance and to allocate resources. The Group has two operating segments pursuant to the IFRS 8 "Segment Reporting", being retail and online sales through the Internet. These two segments have been aggregated by management into a single operating segment as they share similar economic characteristics:

- Both retail and online sales are represented by sales of goods for children;
- The type and class of customers are the same for both segments: the Company has a business-to-customer sale model;
- The methods used to distribute and promote the goods are the same; and
- Long-term gross profit margins;

The disclosures presented herein therefore, constitute the Group's entity wide disclosures.

Customer base of the Group is diversified; therefore transactions with a single external customer do not exceed 10% of the Group's revenue.

Revenue recognition

The revenue is recognized 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 recognized 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 recognized only when the Group satisfies a performance obligation.

The Group recognizes revenue when or as a performance obligation is satisfied, i.e. when the goods are sold in retail stores for retail revenues or delivered to customers for online sales (including in-store pick-up).

The Group sells gift cards to its customers in its retail stores. The gift cards have an expiration date and are required to be used during specified periods of time. The Group recognizes income from gift cards either when the gift card is redeemed by the customer or when the gift card expires.

Bonuses and allowances received from suppliers

The Group's agreements with suppliers contain a price for units purchased as well as other discounts and incentives such as reimbursements for specific arrangements such as markdowns and advertising. The Group has agreements with each supplier setting forth the specific conditions for each bonus.

Volume bonuses (rebates) as well as discounts are linked to purchases made from suppliers on a price per unit basis and are recognized as a reduction to cost of goods sold as inventories are sold. Bonuses that relate to inventory not sold are recognised within the value of inventory as at the period end. Amounts are only recognised when the Group has a clear entitlement to the receipt and of the rebate and a reliable estimate can be made.

The Group also enters into the arrangements with suppliers to perform marketing and promoting activities on behalf of suppliers: this type of incentives is directly credited to the cost of sales of inventory participated in such activity in the period received. Judgement is required to ensure these bonuses to be recognised when all performance obligations within the contract have been fulfilled and the bonus is expected to be collected.

Customer loyalty program

The Group runs a customer loyalty program which allows customers to earn points for each purchase made in any of the Group's retail stores and via Internet in the online store. Points earned enable customers to receive a cash discount on future purchases, provided the purchase is made within one year of earning the points. Proceeds from sales to members of the loyalty programs are allocated between the loyalty points and the other components of the sale. The consideration allocated to the loyalty points is measured by reference to their fair value, i.e. the amount for which the loyalty points could be sold separately. The amount of revenue allocated to loyalty points reflects the estimated breakage. Revenue allocated to loyalty points is then recognised as the loyalty points are redeemed.

Finance income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(in millions of Russian Rubles)

Foreign currency transactions

In preparing the financial statements of each subsidiary of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the Company's shareholders are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

Exchange rates for the currencies in which the Group transacts are presented below:

	At 31 December 2019	At 31 December 2018
Closing exchange rates at the year-end – RUB		
1 EUR	69.3406	79.4605
1 Tenge	0.1622	0.1806
1 USD	61.9057	69.4706
1 BYN	29.4257	32.0732

	2019	2018
Average exchange rates for the year ended – RUB		
1 EUR	72.5021	73.9546
1 Tenge	0.1690	0.1817
1 USD	64.7362	62.7078
1 BYN	30.9653	30.7076

Borrowing costs

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

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

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Buildings, leasehold improvements and equipment are stated in the consolidated statement of financial position at their cost that includes all costs directly attributable to bringing the asset to working condition for its intended use. Major expenditures for improvements and replacements which extend the useful lives of the assets or increase their values or revenue generating capacity are capitalized. Repairs and maintenance are charged to the consolidated statements of profit or loss and other comprehensive oncome as incurred.

Depreciation is computed based on the straight-line method utilizing estimated useful lives of property, plant and equipment as follows:

Buildings	15-40 years
Leasehold improvements	5-10 years
Trade equipment	5-7 years
Office and warehouse equipment and other fixed assets	3-5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term. The lease term includes renewals when the Group has a right to renew and it is highly probable that the Group will exercise its right.

Construction in-progress and equipment for installation are not depreciated until the asset is placed into service. Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the consolidated balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is recognized within profits and losses for the period.

Leases

The Group assesses whether a contract is or contains a lease, at inception of a contract.
The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognizes the lease payments as an operating expense 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 asset 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 by using the incremental borrowing rate. This rate is defined as the rate of interest that the 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.

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- 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 remeasures 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 change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured 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 remeasured by discounting the revised lease payments using the initial 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 remeasured by discounting the revised lease payments using a revised discount rate.

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

Right-of-use assets are depreciated over the estimated period of lease term, which is calculated based on lease term stated in lease agreements, periods covered by an option to extend or terminate the lease, and useful life of the underlying asset.

If a lease 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 Impairment of Assets 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 the lease liability and the right-of-use asset. The related payments are recognized 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” in the statement of profit or loss (see Note 7).

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.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. Recovery of impairment losses is immediately recognized in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is determined on the weighted average cost basis and includes expenditure incurred in acquiring the inventories, conversion costs and other costs incurred in bringing them to their existing location (retail shops and distribution warehouses) and condition. Supplier allowances 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). Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

At the end of each reporting period, the Group provides for estimated shrinkage, obsolete and slow-moving inventory.

Financial instruments

Financial assets and financial liabilities are recognized 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 recognized immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortized 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: unadjusted quoted prices in active markets for identical assets and liabilities;
- 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.

All regular routine purchases or sales of financial assets are recognized on a trade date basis. Regular routine purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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 are 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 finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/ (losses), together with foreign exchange gains and losses. Impairment losses are presented as 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 maturities at acquisition/date of the transactions 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.

Impairment of financial assets

The Group recognizes 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 is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix 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.

Financial liabilities

Classification as debt or equity

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 recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized 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 FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. Otherwise financial liabilities are measured subsequently at amortised cost using the effective interest method.

Derivative financial instruments

In course of its business the Group from time to time enters into derivative financial instruments to manage its exposure to foreign exchange rate risk mostly through foreign exchange forward contracts. The Group does not use hedge accounting for these derivatives. As a result, such derivative financial instruments are treated as other financial assets and liabilities at fair value through profit or loss. Gains and losses recognized for the changes in fair value of forward contracts are presented as part of finance costs or other operating expenses of the Group depending on whether its use is related to a financial item or an operating item.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Cash-settled share-based compensation

Cash-settled share-based compensation is initially measured at the fair value of the according liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the period.

Equity-settled share-based compensation

Equity-settled share-based compensation is accounted for at fair value determined on the grant date. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period.

Dividends

Dividends and the related taxes are recognized as a liability in the period in which they have been declared and become legally payable. Dividends can be paid out in accordance with laws of the jurisdictions in which the Group's entities are incorporated and registered.

Treasury shares

If the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognized as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such treasury shares may be acquired and held by the Company or by the subsidiaries of the Company.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4 "Significant Accounting Policies", management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Lease terms determination

In determining the amount of lease liability relating to new or modified leases, judgment is required when assessing the lease term. The Group considers the extension options that are reasonably certain to be executed and termination options that are reasonably certain not to be executed. When considering those options, management takes into account the residual useful life of the related major leasehold improvements, the Group's investment strategy and relevant investment decisions, as well as length of time until the extension or termination option under consideration.

Taxation

The Group is subject to income taxes and other taxes. Significant judgment is required in determining the provision for income tax and other taxes as there are a number of transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of various matters is different from the amounts that were recorded, such difference have an impact on the amounts of current and deferred income tax in the period in which such determination is made.

(in millions of Russian Rubles)

Supplier bonuses

The Group receives various types of bonuses from suppliers in the form of cash payments or allowances for various programs, primarily volume incentives and reimbursements for specific programs such as markdowns and advertising. Management has concluded that a significant portion of payments from suppliers is accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

From time to time, the Group agrees with a supplier to promote a specific product through a temporary price reduction. The supplier often compensates the Group for any pieces of the specific SKU (stock keeping unit) which is held in stock and is included in the program which is referred to markdown compensation. These bonuses are treated as a reduction of the cost of goods sold in the period when the respective merchandise has been sold.

Measuring inventories

Management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review includes identification of slow moving inventories and obsolete inventories.

In 2019 the Group introduced a change to the estimate of provision for slow-moving and obsolete inventories presented by reassessment of provision rates. Previously, provision rates were calculated on statistical average percentage basis of obsolete inventories and slow-moving items in inventory groups' segregation. Revised provision rates are determined based on historical performance of the inventory (sales below cost of sales) for the last twelve months.

Management makes an allowance for any items considered to be obsolete. The allowance represents the difference between the cost of inventory and its estimated net realizable value.

If actual results differ from management's expectations with respect to the selling of inventories at amounts equal to or less than their carrying amounts, management would be required to adjust the carrying amount of inventories.

During the period between inventory counts or cycle counts in stores, the Group estimates losses related to shrinkage that may have been identified in each store if a stock count was carried out on the reporting date, on a store-by-store basis. The estimation as at reporting date is based on the average historical actual shrinkage results, net of surpluses, in retail stores of the Group.

Revenue attributed to loyalty program

The Group accounts for customer loyalty points as a separate component of the sale transaction in which they are granted. A portion of a fair value of the consideration received from customers is allocated to the award points and deferred, and is recognized as revenue over the period when award credits are redeemed. Therefore, management has to make assumptions about expected redemption rates, which are subject to availability of prior periods' statistics and significant uncertainty at the reporting date.

6. REVENUE

The Group's revenue for the year ended 31 December 2019 and 2018 was as follows:

	2019	**2018**
Retail	114,158	102,014
Online store	14,489	8,771
Other	117	89
Total	**128,764**	**110,874**

(in millions of Russian Rubles)

Revenue from sales of goods ordered via the online stores and picked up at Group's retail stores amounting to RUB 10,718 million and RUB 5,071 million for the years ended 31 December 2019 and 2018, respectively, is included within online store revenue.

Revenue from ELC-branded stores, presented within retail revenue line, for the years ended 31 December 2019 and 2018 amounted to RUB 1,055 million and RUB 933 million, respectively.

Revenue from the Group's stores located in Kazakhstan, presented within retail revenue line, comprised RUB 3,739 million and RUB 2,513 million for the years ended 31 December 2019 and 2018, respectively.

Deferred revenue is disclosed in Note 22.

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general and administrative expenses for the year ended 31 December 2019 and 2018 were as follows:

	2019	2018
Payroll and other personnel costs	11,154	9,609
Depreciation and amortization	10,005	9,100
Rent and utilities	1,891	1,595
Advertising and marketing expenses	1,399	1,494
Banking services	1,271	1,036
Repair and maintenance	603	501
Promotional materials	470	396
Security expenses	429	400
Software maintenance	362	320
Consulting services	243	193
Office equipment	149	133
Communication expense	131	121
Impairment of right-of-use assets	108	143
Travel expenses	95	99
Stationery and other materials	46	37
Impairment of property, plant and equipment	20	48
Taxes (other than income tax)	(55)	136
Other	310	189
Total	**28,631**	**25,550**

Payroll expenses for the year ended 31 December 2019 include RUB 899 million (for the year ended 31 December 2018: RUB 783 million) relating to long-term incentive plans (Note 20). Payroll expenses for the year ended 31 December 2019 also include contributions to state pension fund in amount of RUB 1,976 million (for the year ended 31 December 2018: RUB 1,748 million).

8. FINANCE EXPENSES

The Group's finance expenses for the year ended 31 December 2019 and 2018 were as follows:

Finance expenses

	2019	2018
Interest expense on lease liabilities	2,573	2,603
Interest expense on bank loans	1,685	1,539
Interest expense on bonds	620	285
Total	**4,878**	**4,427**

(in millions of Russian Rubles)

9. INCOME TAXES

9.1. Income tax recognized in profit or loss

Income tax expense recognized in profit or loss comprised the following:

	2019	2018
Current tax		
Current income tax expense	(2,054)	(1,539)
Adjustment of income tax for prior years	89	170
	(1,965)	**(1,369)**
Deferred tax		
Deferred income tax benefit	605	142
	605	**142**
Total income tax expense recognized in profit or loss	**(1,360)**	**(1,227)**

Below is a reconciliation of income tax calculated using the income tax rate effective in RF and Kazakhstan to the actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2019 and 2018:

	2019	2018
Profit before tax	7,902	6,921
Income tax expense calculated at 20% (2018: 20%)	(1,580)	(1,384)
Non-deductible expenses, including non-deductible inventory losses	(27)	(109)
Adjustment of income tax for prior years	89	170
Effect from the application of preferential rates (other than 20%)	158	96
Income tax expense recognized in profit or loss	**(1,360)**	**(1,227)**

9.2. Deferred tax balances

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. As at 31 December 2019 and 2018 net deferred tax assets were presented as follows:

2019	At 1 January	Recognized in profit or loss	At 31 December
Deferred tax assets in relation to:			
Inventories	4,140	1,541	5,681
Accrued expenses and other deductible temporary differences	3,292	341	3,633
Lease liabilities and right-of-use assets	1,135	950	2,085
Deferred revenue	720	(284)	436
Tax losses carried forward	-	32	32
Forward contracts	-	45	45
Property, plant and equipment and intangible assets	-	162	162
Total temporary differences	**9,287**	**2,787**	**12,074**
Deferred tax assets	**1,858**	**557**	**2,415**
Deferred tax liabilities in relation to:			
Forward contracts	(396)	396	-
Property, plant and equipment	(213)	(204)	(417)
Trade receivables	(150)	47	(103)
Total temporary differences	**(759)**	**239**	**(520)**
Deferred tax liabilities	**(152)**	**48**	**(104)**
Net deferred tax assets	**1,706**	**605**	**2,311**

(in millions of Russian Rubles)

2018	At 1 January	Recognized in profit or loss	At 31 December
Deferred tax assets in relation to:			
Inventories	4,380	(240)	4,140
Accrued expenses and other deductible temporary differences	2,838	454	3,292
Lease liabilities and right-of-use assets	-	1,135	1,135
Deferred revenue	606	114	720
Tax losses carried forward	140	(140)	-
Total temporary differences	**7,964**	**1,323**	**9,287**
Deferred tax assets	**1,593**	**265**	**1,858**
Deferred tax liabilities in relation to:			
Forward contracts	-	(396)	(396)
Property, plant and equipment	(145)	(68)	(213)
Trade receivables	-	(150)	(150)
Total temporary differences	**(145)**	**(614)**	**(759)**
Deferred tax liabilities	**(29)**	**(123)**	**(152)**
Net deferred tax assets	**1,564**	**142**	**1,706**

As at 31 December 2019 and 2018 the Group had unrecognized deferred tax assets in respect of its subsidiaries' unused tax losses carry forward. The above-mentioned deferred tax assets may be recognized by the Group when they are probable (more likely than not) to be recoverable.

As at 31 December 2019 and 2018 there were no taxable temporary differences related to investments in subsidiaries for which deferred tax liabilities might have been recognized if the Group had not been in a position to control the timing of the reversal of these temporary differences.

(in millions of Russian Rubles)

10. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings and leasehold improvements	Trade equipment	Office and warehouse equipment and other fixed assets	Construction in-progress	Total
Cost					
At 1 January 2018	**7,302**	**2,654**	**2,459**	**643**	**13,058**
Additions	57	39	10	3,415	3,521
Transfers	1,244	453	376	(2,073)	-
Disposals	(97)	(57)	(109)	-	(263)
At 31 December 2018	**8,506**	**3,089**	**2,736**	**1,985**	**16,316**
Additions	-	-	-	2,632	2,632
Transfers	3,164	440	742	(4,346)	-
Disposals	(152)	(38)	(108)	-	(298)
Translation to presentation currency	(20)	(11)	(9)	-	(40)
At 31 December 2019	**11,498**	**3,480**	**3,361**	**271**	**18,610**
Accumulated depreciation and impairment					
At 1 January 2018	**2,826**	**1,310**	**1,436**	**-**	**5,572**
Depreciation expense	787	371	542	-	1,700
Impairment	48	-	-	-	48
Disposals	(86)	(45)	(99)	-	(230)
At 31 December 2018	**3,575**	**1,636**	**1,879**	**-**	**7,090**
Depreciation expense	994	469	577	-	2,040
Impairment	20	-	-	-	20
Disposals	(147)	(26)	(102)	-	(275)
Translation to presentation currency	(6)	(5)	(9)	-	(20)
At 31 December 2019	**4,436**	**2,074**	**2,345**	**-**	**8,855**
Carrying amount / net book value					
Balance at 1 January 2018	**4,476**	**1,344**	**1,023**	**643**	**7,486**
Balance at 31 December 2018	**4,931**	**1,453**	**857**	**1,985**	**9,226**
Balance at 31 December 2019	**7,062**	**1,406**	**1,016**	**271**	**9,755**

Most of the Group's additions of items of property, plant and equipment relate to launch of new retail stores and comprise purchase of trade premises, leasehold improvements and trade and warehouse equipment.

As at 31 December 2019 construction in progress line was represented mainly by costs related to reconstruction of retail premises in the amount of RUB 95 million and purchase of trade and warehouse equipment in the amount of RUB 176 million. As at 31 December 2018 construction in progress line was represented by costs related to warehouse construction in amount of RUB 1,706 million. The warehouse was put into operation in January 2019.

(in millions of Russian Rubles)

Impairment of property, plant and equipment of RUB 20 million was recognized in the consolidated statement of profit or loss and comprehensive income for the year ended 31 December 2019 in relation to leasehold improvements in stores expected to be closed in 2020 (for the year ended 31 December 2018: RUB 48 million in relation to leasehold improvements in stores expected to be closed in 2019).

11. INTANGIBLE ASSETS

Movements in the carrying amount of intangible assets were as follows:

	Software	Trademarks	Other intangible assets	Total
Cost				
At 1 January 2018	**2,491**	**4**	**75**	**2,570**
Additions	302	-	4	306
At 31 December 2018	**2,793**	**4**	**79**	**2,876**
Additions	709	-	9	718
At 31 December 2019	**3,502**	**4**	**88**	**3,594**
Accumulated amortization				
At 1 January 2018	**1,193**	**-**	**15**	**1,208**
Amortization expense	388	-	25	413
At 31 December 2018	**1,581**	**-**	**40**	**1,621**
Amortization expense	484	-	25	509
Balance at 31 December 2019	**2,065**	**-**	**65**	**2,130**
Carrying amount				
Balance at 1 January 2018	**1,298**	**4**	**60**	**1,362**
Balance at 31 December 2018	**1,212**	**4**	**39**	**1,255**
Balance at 31 December 2019	**1,437**	**4**	**23**	**1,464**

Additions of software in 2019 and 2018 relate primarily to licenses acquired for ERP system and capitalized implementation costs.

12. RIGHT-OF-USE ASSETS

The Group leases retails premises, offices and warehouses with average lease term of 7.1 years as at 31 December 2019 (31 December 2018: 6 years). Movements in the carrying amount of right-of-use assets were as follows (movements of lease liabilities are disclosed in Note 18):

	2019	2018
Cost		
At 1 January	**36,695**	**33,886**
New lease contracts and modification of existing lease contracts	10,865	2,846
Lease prepayments	16	34
Disposals	(456)	(71)
At 31 December	**47,120**	**36,695**

(in millions of Russian Rubles)

	2019	2018
Accumulated depreciation and impairment		
At 1 January	**7,089**	**-**
Depreciation expense	7,456	6,987
Disposals	(456)	(41)
Impairment	108	143
Translation to presentation currency	(22)	-
Other	(43)	-
At 31 December	**14,132**	**7,089**
Balance at 1 January	**29,606**	**33,886**
Balance at 31 December	**32,988**	**29,606**

	2019	2018
Amounts recognized in profit and loss		
Depreciation expense on right-of-use assets	7,456	6,987
Interest expense on lease liabilities	2,573	2,603
Impairment	108	143
Expenses relating to variable lease payments not included in the measurement of the lease liability	854	795
Other	(43)	-

Impairment of right-of-use assets of RUB 108 million was recognized in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2019 (for the year ended 31 December 2018: RUB 143 million).

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. The variable payments depend on sales and consequently on the overall economic development over the next few years. The Group expects variable rent expenses to continue to present a similar proportion of retails store sales in future years.

The total cash outflow for leases amounted to RUB 9,162 million for the year ended 31 December 2019 (for the year ended 31 December 2018: RUB 8,725 million).

13. INVENTORIES

Inventories as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Merchandise inventories	38,425	34,866
Materials	211	197
Total	**38,636**	**35,063**

Materials are represented by spare parts, packaging materials and other materials used in outlets and warehouses.

Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value in the amount of RUB 1,270 million and RUB 1,233 million for the years ended 31 December 2019 and 2018, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

(in millions of Russian Rubles)

14. TRADE RECEIVABLES

Trade receivables as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Trade receivables	4,049	4,474
Loss allowance	(1)	(1)
Total	**4,048**	**4,473**

Trade receivables are generally represented by amounts receivable from suppliers in relation to volume bonuses, discounts and incentives and compensations for goods returned to suppliers.

15. ADVANCES PAID AND OTHER RECEIVABLES

Advances paid and other receivables as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Value added tax receivable	823	1,208
Advances paid to suppliers	321	292
Other advances paid	138	76
Prepaid expenses	24	29
Other taxes receivable	6	5
Other receivables	166	500
Loss allowance for doubtful other receivables	(43)	(72)
Total	**1,435**	**2,038**

The following table summarizes the changes in the allowance for doubtful other receivables and advances paid:

	2019	2018
At 1 January	(72)	(65)
Additional loss allowance recognized on other receivables	-	(7)
Write-offs against loss allowance for doubtful receivables on advances paid and other receivables	29	-
At 31 December	**(43)**	**(72)**

In determining the recoverability and quality of advances paid and other receivables, the Group considers any change in the credit quality of debtors from the date of receivables origination up to the reporting date. The details about concentration of credit risk and related risk management activities are described in Note 25.

16. CASH AND CASH EQUIVALENTS

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

	31 December 2019	31 December 2018
Cash in transit	1,210	2,156
Cash on hand	315	363
Cash in bank accounts	244	816
Total	**1,769**	**3,335**

Cash in transit comprises cash collected from the Group's stores and not yet placed into the Group's bank accounts at the year-end.

(in millions of Russian Rubles)

17. EQUITY DEFICIT

Ordinary shares

As at 31 December 2019 and 2018 the ordinary share capital of the Company was as follows:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
At 1 January 2018	**738,378,527**	**739,000,000**	**739,000,000**
Purchase of treasury shares	(2,127,840)	-	-
Sale of treasury shares	443,310	-	-
At 31 December 2018	**736,693,997**	**739,000,000**	**739,000,000**
Purchase of treasury shares	(1,556,610)	-	-
Sale of treasury shares	381,578	-	-
At 31 December 2019	**735,518,965**	**739,000,000**	**739,000,000**

All ordinary shares have a par value of RUB 0.0004 per share.

Treasury shares

During year ended 31 December 2019 and 2018, the Group purchased 1,556,610 and 2,127,840 of the Company's ordinary shares in a number of transactions for a total consideration of RUB 139 million and RUB 195 million, respectively.

During year ended 31 December 2019 and 2018, the Group sold 381,578 and 443,310 of the Company's ordinary shares to management of the Group and received a total cash consideration of RUB 36 million and RUB 38 million, respectively.

As at 31 December 2019 the Group had 3,481,035 treasury shares with cost of RUB 317 million. As at 31 December 2018 the Group had 2,306,003 treasury shares with cost of RUB 214 million.

Dividends

Dividends may only be declared from accumulated undistributed and unreserved earnings, as shown in the Company's statutory financial statements prepared in accordance with Russian accounting standards (hereinafter, "RAS"), and if certain other requirements of Russian legislation are met. If statutory undistributed earnings are negative as at the beginning of fiscal year, then dividends may only be declared from net profit earned in that fiscal year, as shown in the Company's statutory financial statements prepared under RAS.

As at 31 December 2019, the Company's statutory undistributed earnings were negative, while statutory net profit for the year ended 31 December 2019 was RUB 7,789 million (for the year ended 31 December 2018: RUB 6,538 million).

On 6 December 2019 extraordinary General meeting of shareholders approved the dividend payment for the 9 months of 2019 year in the amount of RUB 3,724 million or RUB 5.06 per share. These dividends were fully paid by the Group in December 2019.

On 16 May 2019 the annual General meeting of shareholders approved the dividend payment for the year 2018 in the amount of RUB 3,274 million or RUB 4.45 per share, which was paid in full on 29 May 2019.

On 15 December 2018 extraordinary General meeting of shareholders approved the dividend payment for the 9 months of 2018 year in the amount of RUB 3,235 million or RUB 4.38 per share. These dividends were fully paid by the Group in December 2018.

(in millions of Russian Rubles)

On 22 May 2018 the annual General meeting of shareholders approved the dividend payment for the year 2017 in the amount of RUB 2,864 million or RUB 3.88 per share. These dividends were fully paid by the Group on 30 May 2018. Dividends declared in 2017 and outstanding as at 31 December 2017 in the amount of RUB 1,143 million were fully paid in February 2018.

18. LEASE LIABILITIES

As at 31 December 2019 lease liabilities comprised the following:

	31 December 2019	31 December 2018 (restated)
Minimum lease payments, including:		
Current portion (less than 1 year)	9,592	8,566
More than 1 to 5 years	26,849	23,465
Over 5 years	7,204	7,046
Total minimum lease payments	**43,645**	**39,077**
Less amount representing interest	(8,865)	(8,531)
Present value of net minimum lease payments, including:		
Current portion (less than 1 year)	7,145	6,343
More than 1 to 5 years	21,726	19,708
Over 5 years	5,909	4,495
Total present value of net minimum lease payments	**34,780**	**30,546**
Less current portion of lease obligations	(7,145)	(6,343)
Non-current portion of lease obligations	**27,635**	**24,203**

The following table summarizes the changes in the lease liabilities (movements of right-of-use assets are disclosed in Note 12):

	2019	2018
Balance as at 1 January	**30,546**	**33,822**
Interest expense on lease liabilities	2,573	2,603
Lease payments	(9,162)	(8,725)
New lease contracts and modification of existing lease contracts	10,865	2,846
Translation to presentation currency	(42)	-
Balance as at 31 December	**34,780**	**30,546**

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.

In determining the fair value of lease liabilities management of the Group relied on the assumption that the carrying amount of lease liabilities approximates their fair value as at 31 December 2019 and 31 December 2018, as it reflects changes in market conditions and takes into account the risk premium and the time value of money.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

(in millions of Russian Rubles)

In the end of 2019 the Group entered into a number of lease arrangements which had not commenced by the year-end and as a result, a lease liability and right-of-use assets has not been recognised as at 31 December 2019. The aggregate future cash outflows to which the Group is exposed in respect of these contracts are RUB 1,717 million as at 31 December 2019 (31 December 2018: RUB 1,240 million).

19. LOANS AND BORROWINGS

Loans and borrowings as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Loans and borrowings		
Unsecured bank loans in Russian Rubles	8,250	18,470
Bonds	11,000	3,000
	19,250	**21,470**
Less current portion of long-term loans and borrowings	(10,270)	(12,542)
Loans and borrowings, non-current	**8,980**	**8,928**

Unsecured bank loans in Russian Rubles

At 31 December 2019 and 2018 the loans in Russian Rubles were provided to the Group by 3 and 7 Russian banks respectively.

The fair value of the Group's bank loans, including amounts due within one year, as at 31 December 2019 and 2018 is RUB 8,261 million and 18,483 million, respectively. The carrying amount of this debt is RUB 8,250 million and RUB 18,470 million, respectively.

Inputs of Level 2 of the fair value hierarchy are used to measure the fair value of bank loans.

The resulting Level-2 fair value is determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis. The discount rate for 31 December 2019 valuation is determined by reference to the Group's traded bonds yield (mostly driven by short-term bonds) of 6.65%, Level 2 input (31 December 2018: 9.4%, Level 2 input).

Bonds

In December 2019, the Group issued and placed documentary exchange non-convertible bonds (Series BO 05) in the total amount of RUB 3,000 million at PJSC "Moscow Stock exchange" with a nominal value of 1 thousand Russian Rubles each. The coupon interest rate was set at 7.25% per annum. The bonds mature on 1 December 2026 with the pull offer date on 8 December 2022.

In April 2019, the Group issued and placed documentary exchange non-convertible bonds (Series BO 07) in the total amount of RUB 5,000 million at PJSC "Moscow Stock exchange" with a nominal value of 1 thousand Russian Rubles each. The coupon interest rate was set at 8.9% per annum. The bonds mature on 6 April 2026 with the pull offer date on 13 April 2022.

In April 2017, the Group issued and placed documentary exchange non-convertible bonds (Series BO 04) in the total amount of RUB 3,000 million at PJSC "Moscow Stock exchange" with a nominal value of 1 thousand Rubles each. The coupon interest rate was set at 9.5% per annum. The bonds mature on 29 March 2024 with the pull offer date on 7 April 2020.

As at 31 December 2019 the book value of exchange-traded bonds issued and placed by the Group comprised the amount of RUB 11,000 million, excluding accumulated coupon income of RUB 182 million. As at 31 December 2018 the book value of exchange-traded bonds issued and placed by the Group comprised the amount of RUB 3,000 million, excluding accumulated coupon income of RUB 68 million.

(in millions of Russian Rubles)

The Level-1 fair value of exchange-traded bonds, including the amounts due for payment within one year, as at 31 December 2019, amounted to RUB 11,400 million with the carrying amount equal to RUB 11,000 million (31 December 2018: RUB 3,111 million with the carrying amount equal to RUB 3,000 million).

Unused credit line facilities

As at 31 December 2019 and 2018, the total amount of undrawn credit lines of the Group was RUB 34,350 million and RUB 23,203 million, respectively, including RUB 30,750 million and RUB 20,067 million relating to long-term credit lines, respectively.

Covenants

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including maintenance of certain financial ratios. Non-compliance with these covenants may result in negative consequences of the Group: in particular, the creditors can increase the interest rate on the loan, require for collateral or ask for early repayment of outstanding debt.

Management believes that as at 31 December 2019 and 2018 the Group is in compliance with all financial covenants stipulated by its loan agreements.

Pledges

As at 31 December 2019 and 2018 the Group has no assets or securities transferred as collateral for loans and borrowings granted to the Group.

Maturity analysis of loans and borrowings

The following table presents the aggregated scheduled maturities of the principal outstanding for the loans and borrowings as at 31 December 2019:

	As at 31 December 2019
Within the first month	2,570
From one to three months	4,100
From three months to one year	3,600
From one year to two years	980
From two year to five year	8,000
Total	**19,250**

20. SHARE-BASED COMPENSATION

During the year ended 31 December 2019 the Group had several long-term cash-settled and equity-settled share-based payments arrangements.

Long-term incentive plan adopted in 2016

In September 2016, the Group's Board of Directors approved an employee long-term incentive plan (the "Incentive Plan 2"). Under the conditions of the Incentive Plan 2, certain employees at senior levels are entitled to share-based compensation ("phantom" shares), that are to be granted by the Group in annual tranches over the period 2016-2018. The phantom shares vest on 31 December 2018, although are contingent on continued employment with the Group and certain established targets relating to the increase in the Group's market value. The phantom shares vest automatically upon a successful initial public offering by the Group or upon the sale by the Group's controlling shareholder of a certain stake in the Group to a third-party investor. Upon redemption of phantom shares, a participant receives either a respective number of shares in the Company or cash consideration computed on the basis of the market value of one ordinary share of the Company. This settlement choice is at the Group's discretion. Based on the Group's plans and historical experience, management expects that the settlement shall be done in cash. Thus, the Incentive Plan 2 is accounted for as a cash-settled share-based plan.

(in millions of Russian Rubles)

In February 2017 the Company completed an initial public offering meaning that the phantom shares provided under the Incentive Plan 2 vested. They will become exercisable in portions during 2018-2020.

Phantom shares granted by the Group to the participants of the Incentive Plan 2 as well as other changes in phantom shares outstanding are summarized below:

	Number of phantom shares	**Weighted average exercise price, Rubles**
Outstanding at 1 January 2018	**2,694,236**	**-**
Exercised during the period	(1,077,697)	91.84
Forfeited / cancelled during the period	-	-
Outstanding at 31 December 2018	**1,616,539**	-
Exercised during the period	(808,264)	86.86
Forfeited / cancelled during the period	-	-
Outstanding at 31 December 2019	**808,275**	**-**
Exercisable at 31 December 2019	**-**	-

Long-term incentive plans adopted in 2017

In August 2017, the Group's Board of Directors approved an employee long-term incentive plan (the "Incentive Plan 3"). Under the Incentive Plan 3, which covers a three-year period to 2020, the third anniversary of the Company's initial public offering, senior management in continuing employment as of that anniversary will be awarded with the Company's ordinary shares. As per the Board of Directors resolution, the total amount of awards to be granted to participants shall be equivalent of up to 2% of the appreciation in the Company's stock market value from the time of the initial public offering (being measured based on RUB 85 per one ordinary share) till February 2020, adjusted for dividends paid during the vesting period. Up to 31 December 2017 the Group granted individual awards to senior management team in the aggregate amount being the equivalent to 1.8% of the appreciation in the Company's stock market value.

The fair value of this award was assessed on the assumption that all of the employees participating in the Incentive Plan 3 will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to participants options to purchase ordinary shares at an exercise price of RUB 85 per share on a settlement date in 2020, assuming no dividend payments. The fair value of the awards, which are equivalent to 13,302,000 of such share options, on the grant date amounted to RUB 423 million, or RUB 32 per share option. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period starting from the IPO. Inputs into the model are as follows:

Grant date share price	RUB 100
Exercise price	RUB 85
Expected volatility	9.0%
Option life	2.5 years
Dividend yield	none
Risk-free interest rate	7.5%

In November 2019, the Group's Board of Directors modified the options so that they could only be settled in cash. Therefore the Incentive Plan 3 was reclassified from an equity-settled share-based plan to a cash-settled share-based plan.

(in millions of Russian Rubles)

Long-term incentive plans amended in 2018

In October 2018, the Group's Board of Directors approved an amendment to the Incentive Plan 3 for a number of employees participating in the plan. As per the Board of Directors resolution, the additional number of awards is granted to these employees. The additional number is equivalent of up to 2.6% of the appreciation in the Company's stock market value from the time of the amendment till February 2020, adjusted for dividends paid during the vesting period. Up to 31 December 2018 the Group granted the additional individual awards to the participants in full. Participants are entitled to the awards partly in the form of shares in the Company and partly in the form of cash consideration computed on the basis of dividends paid. Accordingly, the amendment to the Incentive Plan 3 for the participants is partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

The fair value of the additional part of the award that is equity-settled was assessed on the assumption that the participants will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to the participants options to purchase ordinary shares at an exercise price of RUB 85 per share on a settlement date in 2020, assuming a fixed dividend payment. The fair value of the additional equity-settled part of the award, which is equivalent to 19,214,000 of such share options, on the grant date amounted to RUB 171 million, or RUB 9 per share option. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period starting from the amendment date. Inputs into the model are as follows:

Grant date share price	RUB 90
Exercise price	RUB 85
Expected volatility	4.9%
Option life	1.5 years
Dividend yield	4.4%
Risk-free interest rate	7.7%

In November 2019, the Group's Board of Directors modified the options so that they could only be settled in cash. Therefore the equity-settled share-based part of the amendment to the Incentive Plan 3 was reclassified to a cash-settled share-based payment arrangement.

Long-term incentive plans adopted in 2019

In October 2019, the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 4.1"). Under the Incentive Plan 4.1, which covers a three-year period to February 2023, senior management in continuing employment as of certain dates within this period will be awarded. As per the Board of Directors resolution, the total amount of awards to be granted to participants shall be equivalent of up to 3% of the appreciation in the Company's stock market value from 8 February 2020 until 7 February 2023, adjusted for dividends paid during the vesting period. Up to 31 December 2019 the Group granted the additional individual awards to the participants in full. Participants are entitled to the awards partly in the form of shares in the Company and partly in the form of cash consideration. Accordingly, the Incentive Plan 4.1 for the participants will be partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

The award was assessed on the assumption that the participants will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to the participants options to purchase ordinary shares at an exercise price of RUB 94 per share on settlement date in 2023. The fair value of the award, which is equivalent to 22,170,000 of such share options, on the grant date amounted to RUB 409 million, or RUB 18.4 per share option. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period. Inputs into the model are as follows:

Grant date share price	RUB 94
Exercise price	RUB 94
Expected volatility	3.4%
Option life	3.4 years
Dividend yield	none
Risk-free interest rate	6.5%

(in millions of Russian Rubles)

In November 2019, the Group's Board of Directors approved another employee long-term incentive plan (the "Incentive Plan 4.2"). Under the Incentive Plan 4.2, which covers a four-year period to April 2024, senior management in continuing employment as of certain dates within this period will be awarded. As per the Board of Directors resolution, the total amount of awards to be granted to participants shall be equivalent of up to 1.6% of the appreciation in the Company's stock market value from 8 February 2020 until 7 February 2023, adjusted for dividends paid during the vesting period. Up to 31 December 2019 the Group granted the additional individual awards to the participants in full. Participants are entitled to the awards partly in the form of shares in the Company and partly in the form of cash consideration. Accordingly, the Incentive Plan 4.2 for the participants will be partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

The award was assessed on the assumption that the participants will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to the participants options to purchase ordinary shares at an exercise price of RUB 99 per share on settlement dates in 2022, 2023 and 2024. The fair value of the award on the grant date amounted to RUB 255 million, which is equivalent to a combination of 3,547,200 of share options with price of RUB 14.73 per share option and settlement date in 2022, 9,218,858 of share options with price of RUB 20.05 per share option and settlement date in 2023, and 707,451 of share options with price of RUB 25.04 per share option and settlement date in 2024. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period. Inputs into the model are as follows:

Grant date share price	RUB 99
Exercise price	RUB 99
Expected volatility	3.4%
Option life	2.5, 3.5, 4.5 years
Dividend yield	none
Risk-free interest rate	6.5%

Liabilities recognized in relation to long-term incentive plans

As at 31 December 2019, the Group recognized liabilities of RUB 62 million in relation to the cash-settled share-based payment arrangements, calculated as the fair value of the phantom shares granted to employees as at this date (31 December 2018: RUB 43 million). These liabilities include accrued social contributions of RUB 9 million (31 December 2018: RUB 6 million). When estimating these liabilities the Group assumed that the fair value of one phantom share approximates the fair value of one ordinary share of the Company (being RUB 100 per share as at 31 December 2019 and RUB 90.44 per share as at 31 December 2018), and that all of the participants will stay employed by the Group until their rights vest.

Also as at 31 December 2019, the Group recognized liabilities of RUB 901 million in relation to the cash-settled share-based payment arrangements, calculated based on the appreciation in the Company's stock market value, dividends paid and a Black-Sholes model (31 December 2018: RUB 240 million, calculated based on dividends paid). These liabilities include accrued social contributions of RUB 120 million (31 December 2018: RUB 32 million).

Expenses recognized in relation to long-term incentive plans

In the year ended 31 December 2019, expenses totalling RUB 899 million (year ended 31 December 2018: RUB 783 million) incurred by the Group in relation to the Incentive Plan 2, Incentive Plan 3, amendment to the Incentive Plan 3, Incentive Plan 4.1 and Incentive Plan 4.2 were recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income, including RUB 8 million (year ended 31 December 2018: RUB 182 million) arising from share-based payment transactions. These expenses, RUB 8 million, were recognized as a credit to equity within Accumulated Deficit line in relation to equity-settled share-based payment arrangements in 2019 (2018: RUB 182 million).

Reclassification of equity-settled share-based payment arrangement to cash-settled share-based payment arrangement (the Incentive Plan 3 and the amendment to the Incentive Plan 3) was recognized as a debit to equity within Accumulated Deficit line in 2019 in the amount of RUB 248 million (2018: nil).

(in millions of Russian Rubles)

21. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

Advances received, other payables and accrued expenses as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Accrued expenses and other current liabilities	3,310	2,894
Payables to employees	1,387	975
Advances received	680	541
Taxes payable other than income tax	470	423
Interest payable on bonds	182	68
Interest payable on bank loans	13	37
Total	**6,042**	**4,938**

22. DEFERRED REVENUE

Deferred revenue arising from the Group's customer loyalty program as at 31 December 2019 and 2018 was as follows:

	2019	2018
As at 1 January	**720**	**606**
Revenue deferred during the period	5,499	3,308
Revenue recognized in the consolidated statement of profit or loss and other comprehensive income	(5,783)	(3,194)
As at 31 December	**436**	**720**

During 2019 the Group recognized revenue in amount of RUB 720 million that was deferred as at 31 December 2018 (during 2018: RUB 606 million).

Revenue of the Group is disclosed in Note 6.

23. RELATED PARTIES

Parties are considered related if they are under common control or one party has the ability to control the other party or can exercise significant influence or joint control over decisions on matters of economic and financial activity. In considering each possible related party, the management paid special attention to the substance of the relationship and not merely the legal form, based on reasonable judgment.

Transactions with related parties may be on terms that are not always accessible to third parties. This table presents the list of transactions and balances in the calculation of the Group with subsidiaries of PJSFC Sistema, which was the controlling shareholder as at 31 December 2018 and retains the largest non-controlling stake in the Company as at 31 December 2019, and other related parties:

	31 December 2019		31 December 2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Balances outstanding with related parties				
Cash and cash equivalents	72	-	257	-
Trade receivables/ (payables)	26	(221)	1	-
Other receivables/ (payables)	1	(12)	10	(19)

Outstanding balances with related parties are unsecured and will be settled in cash.

(in millions of Russian Rubles)

The Group's transactions with subsidiaries of PJSFC Sistema and other related parties for the year ended 31 December 2019 and 2018, as follows:

Related party	Type of transaction	2019	2018
MTS (i)	Communication costs	31	30
MTS (i)	Advertising and marketing expenses	43	87
MTS – Bank (i)	Bank commission	1	1
MTS – Bank (i)	Interest income	2	3
JSC PA-Maxima (ii)	Marketing expenses	-	50
CJSC "NVision group" (i)	Acquisition of fixed assets	13	71
CJSC "NVision group" (i)	Software maintenance	4	14
LLC "Concept Group" (ii)	Acquisition of goods	-	593
JSC "Progress" (iii)	Acquisition of goods, net of bonuses received	2,362	1,869
LLC "UK LandProfit" (i)	Acquisition of property, plant and equipment	-	466
LLC "UK LandProfit" (i)	Rent	-	13
JSC "Reestr" (i)	Consulting and information services	-	1
LLC Segezha packaging (i)	Acquisition of goods	5	2
JSC "Business property" (i)	Rent	2	2

(i) subsidiary of PJSFC "Sistema";
(ii) associate of PJSFC "Sistema";
(iii) other related parties, not included in PJSFC "Sistema" Group.

The information about dividends declared and paid is disclosed in Note 17.

Remuneration of key management personnel of the Group

During 2019 and 2018, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 1,474 million (including RUB 790 million of short-term non-share-based benefits, RUB 634 million of accrued short-term share-based compensation and RUB 50 million of accrued long-term share-based compensation) and RUB 1,264 million (including RUB 917 million of short-term non-share-based benefits, RUB 168 million of accrued short-term share-based compensation and RUB 179 million of accrued long-term share-based compensation), respectively.

24. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 19 offset by cash and cash equivalents as detailed in Note 16) and equity of the Group.

The Group's management periodically reviews the capital structure of the Group. As part of this review, management considers the cost of capital, risks associated with each class of capital and the level of debt-to-equity ratio.

(in millions of Russian Rubles)

Categories of financial instruments as at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Financial assets at amortized cost		
Cash and cash equivalents	1,769	3,335
Trade accounts receivable	4,048	4,473
Other receivables	166	106
Security deposits (refundable)	118	132
	6,101	**8,046**
Financial liabilities at amortized cost		
Lease liabilities	(34,780)	(30,546)
Trade payables	(32,911)	(29,747)
Loans and borrowings	(19,250)	(21,470)
Other payables	(4,892)	(3,974)
	(91,833)	**(85,737)**
Net financial liabilities	**(85,732)**	**(77,691)**

Reconciliation of liabilities arising from financing activities

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 2019	New lease contracts and modification of existing lease contracts	Translation to presentation currency	Financing cash flows (i)	31 December 2019
Bank loans	18,470	-	-	(10,220)	8,250
Bonds	3,000	-	-	8,000	11,000
Lease liabilities	30,546	10,865	(42)	(6,589)	34,780
Total	**52,016**	**10,865**	**(42)**	**(8,809)**	**54,030**

	1 January 2018	New lease contracts and modification of existing lease contracts	Translation to presentation currency	Financing cash flows (i)	31 December 2018
Bank loans	10,591	-	-	7,879	18,470
Bonds	3,000	-	-	-	3,000
Lease liabilities	33,822	2,846	-	(6,122)	30,546
Total	**47,413**	**2,846**	**-**	**1,757**	**52,016**

(i) The cash flows from bank loans and bonds make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows. The cash flows from lease liabilities comprise lease payments.

(in millions of Russian Rubles)

25. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk, foreign currency risk and interest rate risk. A description of the Group's risks and management policies in relation to those risks is described below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group thoroughly controls and manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The average credit period on purchases of merchandise inventories is 3 to 5 months. No interest is charged on the trade payables.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the principal cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables below present the maximum amount the Group could be forced to settle.

	Total	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years
At 31 December 2019					
Loans and borrowings with fixed rate					
Loan principal	18,420	6,670	3,600	8,150	-
Interest	193	193	-	-	-
	18,613	**6,863**	**3,600**	**8,150**	**-**
Loans and borrowings with floating rate					
Loan principal (bank overdraft)	830	-	-	830	-
Interest	2	2	-	-	-
	832	**2**	**-**	**830**	**-**
Lease liabilities					
Lease liabilities with interest	43,645	2,425	7,167	26,849	7,204
	43,645	**2,425**	**7,167**	**26,849**	**7,204**
Other financial liabilities					
Trade payables	32,911	-	32,911	-	-
Other non-interest bearing liabilities	4,697	4,697	-	-	-
	37,608	**4,697**	**32,911**	**-**	**-**
Total	**100,698**	**13,987**	**43,678**	**35,829**	**7,204**

(in millions of Russian Rubles)

	Total	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years
At 31 December 2018 (restated)					
Loans and borrowings with fixed rate					
Loan principal	21,006	313	11,765	8,928	-
Interest	103	103	-	-	-
	21,109	**416**	**11,765**	**8,928**	**-**
Loans and borrowings with floating rate					
Loan principal (bank overdraft)	464	451	13	-	-
Interest	2	2	-	-	-
	466	**453**	**13**	-	-
Lease liabilities					
Lease liabilities with interest	39,077	2,258	6,308	23,465	7,046
	39,077	**2,258**	**6,308**	**23,465**	**7,046**
Other financial liabilities					
Trade payables	29,747	-	29,747	-	-
Other non-interest bearing liabilities	3,869	3,869	-	-	-
	33,616	**3,869**	**29,747**	**-**	**-**
Total	**94,268**	**6,996**	**47,833**	**32,393**	**7,046**

The weighted average interest rate for borrowings as at 31 December 2019 was 7.11% (as at 31 December 2018: 9.25%).

The effective interest rate for bonds as at 31 December 2019 varied from 6.15% for the short-term bonds up to 7.22% for the long-term portion (as at 31 December 2018: 9.72%).

The weighted average effective interest rate for lease liabilities as at 31 December 2019 was 6.64% (as at 31 December 2018: 8.63%).

Credit risk management

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Group. Financial assets which potentially subject the Group to credit risk consist primarily of trade and other receivables as well as cash in current and deposit accounts with banks and other financial institutions.

Trade receivables are either offset against respective accounts payable where legal right of offset exists or paid in cash. At 31 December 2019 trade receivables from three major suppliers comprised 49% of the Group's consolidated trade receivables (31 December 2018: 32%). The Group believes no significant credit risk is associated with these receivables since all of the debtors are represented by the Group's major suppliers.

The credit risk on liquid funds (see the table below) is managed by the Group's treasury function. Management believes that 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.

(in millions of Russian Rubles)

The table below shows the balances that the Group has with 7 of its major banks as at the balance sheet date:

Bank	Rating	Carrying amount as at 31 December 2019	Carrying amount as at 31 December 2018
Sberbank	Ba2 (Moody's)	987	2,038
Alfa-Bank	Ba2 (Moody's)	125	265
MTS bank	BB- (Fitch)	94	257
Raiffeisenbank	Ba2 (Moody's)	82	250
Gazprom Bank	Ba2 (Moody's)	71	4
VTB	Ba2 (Moody's)	59	137
Rosbank	Baa3(Moody's)	11	1
Total		**1,429**	**2,952**

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. There were no other concentrations of credit risk as at 31 December 2019 and 2018.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

During the year ended 31 December 2019 the Group entered into foreign currency forward contracts to economically hedge the USD merchandise purchases from its suppliers. The Group entered into these contracts in order to reduce its exposure to the variability in expected cash outflows attributable to changes in foreign currency rates. The Group's foreign exchange forward contracts typically matured within 12 months and did not require the Group to post collateral.

As at 31 December 2019 outstanding liabilities from forward contracts amounted to RUB 45 million and were included in Advances received, other payables and accrued expenses line item (Note 21). As at 31 December 2018 outstanding assets from forward contracts amounted to RUB 396 million and were included in advances paid and other receivables line item (Note 15). During 2019 losses from foreign exchange forward contracts amounted to RUB 441 million and were included in the foreign exchange loss line item in the consolidated statement of profit and loss and other comprehensive income (2018: RUB 491 million of gains).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	31 December 2019		31 December 2018	
	EUR	USD	EUR	USD
Assets				
Cash and cash equivalents	3	2	1	5
Trade and other receivables	3	219	4	140
Total assets	**6**	**221**	**5**	**145**
Liabilities				
Trade and other payables	(141)	(7,497)	(217)	(7,189)
Lease liabilities	(334)	(303)	(112)	(295)
Total liabilities	**(475)**	**(7,800)**	**(329)**	**(7,484)**
Total net position	**(469)**	**(7,579)**	**(324)**	**(7,339)**

(in millions of Russian Rubles)

Foreign currency sensitivity analysis

The tables below detail the Group's sensitivity to a strengthening/weakening of the RUB against the primary foreign currencies of the Group by 20%, which management believes is an appropriate measure in the current market conditions and which would affect its operations.

	USD		**Euro**	
	Change in currency exchange rate, %	**Impact on profit before tax**	**Change in currency exchange rate, %**	**Impact on profit before tax**
2019	+20%	(1,516)	+20%	(94)
	-20%	1,516	-20%	94

	USD		**Euro**	
	Change in currency exchange rate, %	**Impact on profit before tax**	**Change in currency exchange rate, %**	**Impact on profit before tax**
2018	+20%	(1,468)	+20%	(65)
	-20%	1,468	-20%	65

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes that this risk is not significant because as at 31 December 2019 the Group has only 1 credit overdraft amounted to RUB 830 million bearing floating interest rates. As at 31 December 2018 the Group had 2 credit overdrafts amounted to RUB 464 million bearing floating interest rates. One of the overdrafts amounted to RUB 451 million was fully repaid in January 2019.

26. COMMITMENTS AND CONTINGENCIES

Contractual commitments

At 31 December 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and intangible assets amounting to RUB 67 million, which related mostly to IT equipment and software (31 December 2018: RUB 79 million, which related to equipment for the new warehouse).

Taxation and legal proceedings

Laws and regulations affecting business in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In the ordinary course of business, the Group may be a party to various tax and legal proceedings, and be subject to claims. In the opinion of management, the Group's liability if any, in all, in all pending litigation, other legal proceedings or other matters, will not have a material effect on the consolidated financial position, consolidated results of operations or liquidity of the Group: exposure of possible contingent liabilities identified by the Group will not exceed 1% of the Group's revenue.

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, executives and companies.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

27. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Group has evaluated subsequent events through 28 February 2020, the date on which the consolidated financial statements were approved.

In February 2020 the Company made a decision to establish a subsidiary LLC Detmir KGZ in the Kyrgyz Republic.

SUPPLEMENTARY INFORMATION: NON-IFRS MEASURES (UNAUDITED)

In this note, additional information is disclosed, which was not subject to audit procedures, performed by the independent auditor. In order to maintain comparability of the consolidated financial results, consolidated financial position and consolidated cash flows of the Group for the recent years, the Group decided to disclose supplementary information for the year ended 31 December 2019, prepared according to IAS 17 "Leases" instead of IFRS 16 "Leases", including comparatives. The information set out below is not IFRS information; it is not audited and should be considered and read in addition to, but not as a substitute for, the information contained in the consolidated financial statements.

Starting 1 January 2018, the Group has been applying requirements of IFRS 16 with respect to lease agreements. Comparing to previously effective IAS 17, IFRS 16 introduced significant changes to the lessee accounting.

According to IAS 17, until 1 January 2018 the Group had recognized operating lease payments as an expense on a straight-line basis over the lease term, except where another systematic basis was more representative of the time pattern in which economic benefits from the leased asset were consumed. Contingent rentals arising under operating leases used to be recognized as an expense in the period in which they were activated.

Applying IFRS 16, for all leases (except as noted below), the Group:

(a) Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;

(b) Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and

(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

(in millions of Russian Rubles)

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 would have been as follows:

	2019	2018
As if IAS 17 "Leases" was applied		
Revenue	128,764	110,874
Cost of sales	(87,232)	(74,045)
GROSS PROFIT	**41,532**	**36,829**
Selling, general and administrative expenses	(30,247)	(27,011)
Other operating expenses, net	(8)	(48)
OPERATING PROFIT	**11,277**	**9,770**
Finance income	5	5
Finance expense	(2,305)	(1,824)
Foreign exchange (loss)/ gain, net	(124)	106
PROFIT BEFORE INCOME TAX	**8,853**	**8,057**
Income tax expense	(1,550)	(1,454)
PROFIT FOR THE PERIOD	**7,303**	**6,603**
Other comprehensive income/(loss):		
Items that may be reclassified subsequently to profit or loss		
Effect of translation to presentation currency	12	(10)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**7,315**	**6,593**
Earnings per share		
Weighted average number of shares outstanding, basic and diluted:	735,677,738	737,806,153
Earnings per share, basic and diluted (in Russian Rubles per share)	9.93	8.94

(in millions of Russian Rubles)

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's consolidated statement of financial position as at 31 December 2019 would have been as follows:

	31 December 2019	31 December 2018
As if IAS 17 "Leases" was applied		
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	9,755	9,226
Intangible assets	1,464	1,255
Deferred tax assets	1,998	1,630
Other non-current assets	241	227
Total non-current assets	**13,458**	**12,338**
CURRENT ASSETS		
Inventories	38,636	35,063
Trade receivables	4,048	4,473
Advances paid and other receivables	1,756	2,328
Prepaid income tax	13	1
Cash and cash equivalents	1,769	3,335
Total current assets	**46,222**	**45,200**
TOTAL ASSETS	**59,680**	**57,538**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1	1
Treasury shares	(317)	(214)
Additional paid-in capital	5,793	5,793
Accumulated deficit	(5,637)	(5,700)
Currency translation reserve	130	118
Total equity deficit	**(30)**	**(2)**
NON-CURRENT LIABILITIES		
Long-term loans and borrowings	8,980	8,928
Deferred tax liabilities	104	152
Total non-current liabilities	**9,084**	**9,080**
CURRENT LIABILITIES		
Trade payables	32,911	29,747
Short-term loans and borrowings and current portion of long-term loans and borrowings	10,270	12,542
Advances received, other payables and accrued expenses	6,204	5,094
Deferred revenue	436	720
Income tax payable	805	357
Total current liabilities	**50,626**	**48,460**
Total liabilities	**59,710**	**57,540**
TOTAL EQUITY DEFICIT AND LIABILITIES	**59,680**	**57,538**

(in millions of Russian Rubles)

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's consolidated statement of cash flows for the year ended 31 December 2019 would have been as follows:

	2019	2018
As if IAS 17 "Leases" was applied		
OPERATING ACTIVITIES:		
Profit for the period	7,303	6,603
Adjustments for:		
Depreciation and amortization expense	2,549	2,113
Finance expenses	2,305	1,824
Income tax expense recognized in profit or loss	1,550	1,454
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	1,270	1,233
Foreign exchange loss/(gain), net	124	(106)
Impairment recognized for non-current assets	20	48
Expense on equity-settled share-based compensation	8	182
Finance income	(5)	(5)
Gain on disposal of fixed assets and intangible assets	(22)	(1)
Bad debts written-off and change in loss allowance for doubtful receivables on advances paid and other receivables	(29)	8
Changes in working capital:		
Decrease/ (increase) in trade receivables	200	(2,230)
Decrease/ (increase) in advances paid and other receivables	194	(608)
Increase in inventories	(4,818)	(9,856)
Increase in trade payables	3,404	5,034
Increase in advances received, other payables and accrued expenses	1,172	391
(Decrease)/increase in deferred revenue	(284)	114
Cash generated by operations	**14,941**	**6,198**
Interest paid	(2,027)	(1,629)
Interest received	4	5
Income tax paid	(1,696)	(1,083)
Net cash generated by operating activities	**11,222**	**3,491**
INVESTING ACTIVITIES:		
Payments for property, plant and equipment	(2,789)	(3,487)
Payments for intangible assets	(718)	(307)
Proceeds from sale of property, plant and equipment	40	-
Net cash used in investing activities	**(3,467)**	**(3,794)**
FINANCING ACTIVITIES:		
Purchase of treasury shares	(139)	(195)
Sale of treasury shares	36	41
Proceeds from loans and borrowings	70,302	52,052
Repayment of loans and borrowings	(72,522)	(44,173)
Dividends paid	(6,998)	(7,242)
Net cash (used in)/ generated by financing activities	**(9,321)**	**483**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(1,566)**	**180**
CASH AND CASH EQUIVALENTS, beginning of the period	**3,335**	**3,155**
CASH AND CASH EQUIVALENTS, end of the period	**1,769**	**3,335**

(in millions of Russian Rubles)

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's selling, general and administrative expenses for the year ended 31 December 2019 would have been as follows:

	2019	2018
As if IAS 17 "Leases" was applied		
Payroll and other personnel expenses	11,154	9,609
Rent and utilities	11,028	10,186
Depreciation and amortization	2,549	2,113
Advertising and marketing expenses	1,399	1,494
Banking services	1,271	1,036
Repair and maintenance	603	501
Promotional materials	470	396
Security expenses	429	400
Software maintenance	362	320
Consulting services	243	193
Office equipment	149	133
Communication expenses	131	121
Travel expenses	95	99
Stationery and other materials	46	37
Impairment of property, plant and equipment	20	48
Taxes (other than income tax)	(55)	136
Other	353	189
Total	**30,247**	**27,011**