

Independent auditor's report
on the consolidated financial statements of
***Public Joint-Stock Company OR
and its subsidiaries***
for 2019

March 2020

Translation of the original Russian version

**Independent auditor's report
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Public Joint-Stock Company OR
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Independent auditor's report

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To the Shareholders and Board of Directors of
Public Joint-Stock Company OR and its subsidiaries

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company OR and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Emphasis of matter

We draw attention to Note 30 to the consolidated financial statements that describes the coronavirus pandemic and subsequent quarantine measures, volatility on equity and currency markets, including the weakening of Russian ruble against US dollar and euro. As indicated in Note 30, these events may affect the Group's operations. We do not express a modified opinion on this matter.

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Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<i>Allowances for expected credit losses on cash loans issued to individuals and for trade receivables from retail customers</i>	
The appropriateness of allowances for expected credit losses on cash loans issued to individuals and for trade receivables from retail customers is a key area of judgment for the Group's management. The identification of impairment requires a professional judgment of management, the use of estimates, assumptions and analysis of various factors, including the counterparty's financial position and expected future cash flows.	Our audit procedures included testing of controls over the processes of issuing of loans to individuals and retail sales of goods, as well as an analysis of methods used to make allowances for expected credit losses, testing of selected inputs, and an analysis of assumptions used by the Group to calculate the allowance on a collective basis. In the course of our audit procedures, we analyzed consistency of management's assumptions applied in assessing economic factors and statistical information on losses incurred and amounts recovered, as well as their compliance with the generally accepted practices and our professional judgment.
The use of various assumptions may significantly affect the estimates of allowances for expected credit losses on cash loans and for trade receivables. Due to these factors, as well as the significance of amounts of cash loans and receivables, the assessment of allowances for expected credit losses is a key audit matter.	We also reviewed the respective disclosures in the consolidated financial statements.
Group management's approach to the creation of an allowance for expected credit losses on cash loans issued to individuals and trade receivables from retail customers and respective amounts are disclosed in Note 18 and 21 to the consolidated financial statements.	

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Key audit matter	How our audit addressed the key audit matter
<i>Net realizable value of goods and finished products</i>	
<p>Goods and finished products are recorded in the consolidated financial statements at the lower of acquisition cost and net realizable value. Making an allowance for potential impairment is a key audit matter because the assessment depends on management's professional judgment with regard to the determination of allowances for goods that can be sold at a price significantly lower than their cost, or never be sold.</p> <p>Information on the inventory impairment allowance is disclosed in Note 17 to the consolidated financial statements</p>	<p>Our audit procedures in respect of determining the possibility to sell and realizable value of goods included the following:</p> <ul style="list-style-type: none"> ▶ Testing of controls over the condition of inventory by attending stock-takings; ▶ Comparison of realizable value established for sales of inventory after the reporting period with the carrying amount of inventories for selected items; ▶ Analysis of inventory turnover and identification of non-moving inventories; ▶ Inquiries of management plans to sell the prior years' collection inventory; ▶ Calculation and analysis of allowances based on inventory aging.
<i>Recognition and measurement of wholesale revenue</i>	
<p>Recognition and measurement of wholesale revenue was one of the most significant matters identified in the course of our audit due to a significant increase in non-monetary transactions with a large number of counterparties in 2019. Assessment of the probability of returns, as well as the absence of evidence of non-monetary exchange that is not recognized as revenue, depends, among other things, on professional judgement of the Group's management.</p> <p>Information on wholesale revenue is disclosed in Note 5 to the consolidated financial statements.</p>	<p>Our audit procedures in respect of recognition and measurement of wholesale revenue included the following:</p> <ul style="list-style-type: none"> ▶ Testing of key controls over the revenue recognition process; ▶ Analysis aimed to determine corresponding revenue amounts based on existing contracts and primary documents; ▶ Analysis of quantifiable movements in goods; ▶ Analysis of average prices, profitability of goods by month and counterparty; ▶ Confirmation of balances of accounts receivable from counterparties and prepayments under barter contracts; ▶ Inquiries of management to confirm that there are no plans to repurchase goods; ▶ Monitoring of the shipment process, attendance of warehouses of counterparties; ▶ Analysis of transactions using automated data processing tools. <p>In addition, we reviewed the respective disclosures in the consolidated financial statements.</p>

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Other information included in the Group's 2019 Annual Report

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

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

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

Responsibilities of management, the Board of Directors and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, 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 its operations, or has no realistic alternative but to do so.

The Board of Directors and the Audit Committee 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is M.S. Khachaturian.

M.S. KHACHATURIAN
Partner
Ernst & Young LLC

30 March 2020

Details of the audited entity

Name: Public Joint-Stock Company OR
Record made in the State Register of Legal Entities on 12 August 2013; State Registration Number 1135476124101.
Address: Russia 630110, Novosibirsk, Bogdana Khmel'nitskogo street, 56.

Details of the auditor

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

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PJSC OR

Consolidated statement of comprehensive income

for the years ended 31 December 2019 and 2018

(in thousands of Russian rubles)

	Note	2019	2018
Revenue	5	13,702,497	11,554,483
Cost of sales	6	(6,140,522)	(4,765,642)
Gross profit		7,561,975	6,788,841
Selling and distribution expenses	7	(3,288,014)	(3,054,483)
Administrative expenses	8	(556,640)	(571,715)
Charge of allowance for expected credit losses	9	(496,026)	(419,535)
Other income	10	201,887	170,935
Other expenses	10	(181,439)	(322,384)
Finance income	11	32,650	50,940
Finance expense	11	(1,150,628)	(870,294)
Profit before tax		2,123,765	1,772,305
Income tax expense		(436,377)	(440,502)
Net profit for the year		1,687,388	1,331,803
Other comprehensive income		–	–
Total comprehensive income for the year		1,687,388	1,331,803
Weighted average number of ordinary shares (thousand)	13	113,045	113,056
Basic earnings per share, RUB	13	14.927	11.780

General Director

A.M. Titov

30 March 2020

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PJSC OR

Consolidated statement of financial position

as at 31 December 2019 and 2018

(in thousands of Russian rubles)

	Note	31 December 2019	31 December 2018
Non-current assets			
Property, plant and equipment	14	1,926,756	2,018,551
Right-of-use assets	15	140,819	–
Intangible assets	16	34,957	40,872
Other non-current financial assets	21	47,070	63,270
Advances issued for sales of goods		98,667	–
Advances for construction in progress	20	57,166	48,026
Deferred tax assets	12	278,925	271,102
Total non-current assets		2,584,360	2,441,821
Current assets			
Inventories	17	14,559,682	10,142,758
Trade and other receivables	18	2,742,266	3,163,452
Advances issued	19	5,259,434	5,074,509
Income tax receivable		22,310	28,399
Other taxes receivable and VAT recoverable		47,432	120,167
Other current financial assets	21	2,078,113	1,362,848
Cash and cash equivalents	22	707,396	536,001
Total current assets		25,416,633	20,428,134
Total assets		28,000,993	22,869,955
Equity			
Share capital	23	11,305,600	11,305,600
Additional paid-in capital	23	(5,715,802)	(5,715,802)
Retained earnings		8,876,490	7,455,914
Total equity		14,466,288	13,045,712
Long-term liabilities			
Interest-bearing loans and borrowings	24	4,355,243	4,988,457
Lease liabilities	15	69,848	–
Deferred tax liabilities	12	55,356	66,504
Total long-term liabilities		4,480,447	5,054,961
Short-term liabilities			
Interest-bearing loans and borrowings	24	8,054,078	3,939,508
Lease liabilities	15	67,736	–
Trade and other payables	25	584,219	336,474
Contract liabilities		4,739	2,839
Current income tax liabilities		52,955	88,351
Deferred revenue		1,445	1,945
Other taxes payable		286,715	395,709
Provisions		2,371	4,456
Total short-term liabilities		9,054,258	4,769,282
Total liabilities		13,534,705	9,824,243
Total equity and liabilities		28,000,993	22,869,955

General Director

A.M. Titov

30 March 2020

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

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Consolidated statement of changes in equity for the years ended 31 December 2019 and 2018 (in thousands of Russian rubles)

	Share capital (Note 23)	Treasury shares (Note 23)	Additional paid-in capital (Note 23)	Retained earnings	Total equity
Balance at 1 January 2018 restated under IFRS 9	11,305,600	–	(5,715,802)	6,386,401	11,976,199
Net profit for the year	–	–	–	1,331,803	1,331,803
Total comprehensive income for the year	–	–	–	1,331,803	1,331,803
Dividends accrued	–	–	–	(262,290)	(262,290)
Balance at 31 December 2018	11,305,600	–	(5,715,802)	7,455,914	13,045,712
Net profit for the year	–	–	–	1,687,388	1,687,388
Total comprehensive income for the year	–	–	–	1,687,388	1,687,388
Acquisition of treasury shares	–	(12,286)	–	–	(12,286)
Sale of treasury shares	–	12,286	–	–	12,286
Dividends accrued	–	–	–	(266,812)	(266,812)
Balance at 31 December 2019	11,305,600	–	(5,715,802)	8,876,490	14,466,288

General Director

A.M. Titov

30 March 2020

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

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Consolidated statement of cash flows

for the years ended 31 December 2019 and 2018

(in thousands of Russian rubles)

	Note	2019	2018
Profit before tax for the year		2,123,765	1,772,305
<i>Adjustments:</i>			
Depreciation of property, plant and equipment and amortization of intangible assets	14, 16	271,260	263,109
Depreciation of right-of-use assets	15	69,517	–
Allowances for expected credit losses	9	487,952	402,265
Reversal of allowances for expected credit losses	10	(10,624)	–
Write-down of goods for resale	10	37,805	46,019
Foreign exchange differences	10	19,055	14,531
Supplier discounts		(26,214)	(399,355)
Taxes and other penalties	10	63,976	202,897
Finance income	11	(32,650)	(50,940)
Finance expense	11	1,150,628	870,294
Loss on disposal of property, plant and equipment	10	27,700	9,752
Other	10	42,884	30,238
Operating profit before changes in working capital		4,225,054	3,161,115
Changes in working capital			
Decrease (increase) in trade and other receivables (except for the use of allowances for expected credit losses)		252,908	(412,322)
(Increase) in inventories		(5,267,973)	(3,911,996)
Decrease/(increase) in advances issued		511,421	(440,171)
Decrease/(increase) in VAT recoverable		72,735	(14,792)
(Increase) in cash loans to individuals (except for the use of allowances for expected credit losses)		(1,041,944)	(462,839)
Increase/(decrease) in trade and other payables		213,682	(40,004)
(Decrease) in other tax liabilities		(172,970)	(70,493)
Increase in payables to employees		24,740	3,294
(Decrease) in deferred revenue		(500)	(132)
Increase in advances from customers		1,900	209
Net cash used in operating activities before income tax and interest paid		(1,180,947)	(2,188,131)
Interest paid		(1,228,238)	(838,331)
Income tax paid		(484,655)	(420,041)
Net cash used in operating activities		(2,893,840)	(3,446,503)

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Consolidated statement of cash flows (continued)

	Note	2019	2018
Investing activities			
Purchase of property, plant and equipment and intangible assets		(206,373)	(289,644)
Proceeds from sale of property, plant and equipment and intangible assets		2,458	2,950
Loans issued		(22,625)	(328,933)
Repayment of loans issued		34,139	643,902
Interest received on loans issued		10,721	18,093
Interest received on deposits		19,103	24,290
Net cash from / (used in) investing activities		(162,577)	70,658
Financing activities			
Option premium received		–	10,209
Acquisition of treasury shares		(12,286)	–
Sale of treasury shares		12,286	–
Proceeds from loans and borrowings		8,080,149	5,186,546
Repayment of loans and borrowings		(4,521,183)	(3,191,433)
Dividends paid		(266,812)	(262,290)
Repayment of principal under leases		(64,342)	–
Net cash from financing activities		3,227,812	1,743,032
Net increase/(decrease) in cash and cash equivalents		171,395	(1,632,813)
Cash and cash equivalents at the beginning of the year		536,001	2,168,814
Cash and cash equivalents at the end of the year		707,396	536,001

General Director

A.M. Titov

30 March 2020



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PJSC OR

Notes to the consolidated financial statements

for the year ended 31 December 2019

(in thousands of Russian rubles)

1. General information

1.1. Corporate information

The consolidated financial statements of Public Joint-Stock Company OR (the "PJSC OR") and its subsidiaries for the year ended 31 December 2019 were authorized for issue by its General Director A.M. Titov on 30 March 2020.

PJSC OR (the "Company") and its subsidiaries (together referred to as the "Group") form a federal retail footwear chain, one of major players in the Russian footwear market. The Group was established in 2003; its head office is located at: Novosibirsk, st. Bogdana Khmel'nitskogo, building 56. The Company was founded on 12 August 2013 as a holding company of the Group.

The Group is developing several business lines:

- ▶ Retail trade of footwear, accessories and related goods;
- ▶ Omnichannel sales and e-commerce;
- ▶ Financial services: sales of goods via the Company's stores with payments made by installments, issuance of cash loans;
- ▶ Production of footwear and accessories;
- ▶ Cash transfers with no bank accounts opened;
- ▶ Distribution of postal orders.

In 2019, the Group changed its business model, format of its stores and began operating as a marketplace for vendors.

The Group is focused on making its retail network more efficient, expanding its product range without expanding the retail area, introducing new product categories to offset seasonal fluctuations.

Since 2019, the Group distributes postal orders in its retail stores.

The Group's aim is to integrate into a logistic infrastructure of the Russian e-commerce market.

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Notes to the consolidated financial statements (continued)

1. General information (continued)

1.1. Corporate information (continued)

The Group's brand portfolio comprises the following:

- ▶ Westfalika is the main retail chain of the Group that comprises mono-brand stores of the midprice segment selling classic shoes.
- ▶ Rossita: multi-brand family-centered stores selling footwear of various styles.
- ▶ Lisette: mono-brand stores of French design youth footwear of the mid-price segment.
- ▶ Emilia Estra: footwear boutiques selling fashionable footwear for young women.
- ▶ Peshekhod: multibrand footwear supermarkets that are used as outlet centers for the retail network of the Group.
- ▶ S-TEP is a casual brand of comfortable semi-sport everyday footwear made of natural leather and fur.
- ▶ All.go is a brand of hiking footwear for various seasons that uses polymeric materials (EVA) in production.
- ▶ Snow Guard is a brand of comfortable and fashionable outdoor activity clothes for all seasons.

The Group comprises:

Entity	Principal activity	2019	2018
PJSC OR	Operations management	Parent	Parent
Obuv Rossii LLC	Trade	100%	100%
Peshekhod LLC*	Trade	–	100%
Obuvrus LLC*	Trade	–	100%
OBUV ROSSII LLC	Manufacturing	100%	100%
Design Studia LLC	Trade	100%	100%
NKO Platezhny Standard LLC	Financial transactions	100%	100%
MKK Arifmetika LLC	Financial transactions	100%	100%
EvaLink LLC	Manufacturing	100%	100%

* In 2019, the Company completed reorganization through merger with Obuv Rossii LLC.

As at 31 December 2019 and 31 December 2018, Anton Michailovich Titov was the ultimate controlling party holding 50% of the Company's shares.

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Notes to the consolidated financial statements (continued)

1. General information (continued)

1.2. Business environment in the Russian Federation

The Group operates in the Russian Federation that displays certain characteristics of an emerging market.

Russian tax, currency and customs legislation continues to evolve and is subject to varying interpretations and changes, which can occur frequently.

The Russian economy continued to be negatively impacted by persistent political tension in the region and international sanctions imposed against Russia.

On 13 December 2019, the Bank of Russia decreased its key interest rate by 0.25 percentage point to 6.25% p.a. Inflation was slowing down faster than predicted. In 2019, the annual inflation was 3.0%. The main reasons for inflation slowdown were the expansion of food supply, ruble appreciation, weak demand, as well as non-recurring events, including the base effect.

In 2019 inflationary expectations of the population continued to fall. Price expectations of entities generally remained unchanged. It is still hard to estimate the stability of the Russian economy. Exports continued to decline, as global prices for energy and some metals remained below the last year's level in the context of a moderate growth in the global economy. The growth in imports intensified on the back of ruble appreciation and the accelerated growth in the Russian economy in the second half of 2019, also there are risks of a significant slowdown in the global economy due to, among other things, the effect of geopolitical factors and increased volatility in global commodity and financial markets, which may have an effect on the exchange rate and inflation expectations. In the upcoming quarters, coronavirus situation is an additional uncertainty factor.

These financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The actual impact of the future business environment may differ from management's assessment.

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

2. Basis of preparation and summary of significant accounting policies

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policies below.

All values in the financial statements are rounded to the nearest thousand except where otherwise indicated.

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Notes to the consolidated financial statements (continued)

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

2.2. Basis of consolidation

The Group started preparing the consolidated financial statements in 2013. The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries (Note 1) as at 31 December 2019.

Subsidiaries are entities controlled, directly or indirectly, by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- ▶ Exposure, or rights, to variable returns from its involvement with the investee;
- ▶ The ability to use its power over the investee to affect its returns.

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss, as well as every component within other comprehensive income, are attributable to owners of the parent company and the Group even if that results in a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows resulting from transactions within the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

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Notes to the consolidated financial statements (continued)

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

2.2. Basis of consolidation (continued)

If the Group loses control over a subsidiary, it:

- ▶ Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- ▶ Derecognizes the cumulative translation differences recorded in equity;
- ▶ Recognizes the fair value of the consideration received;
- ▶ Recognizes the fair value of any investment retained;
- ▶ Recognizes any surplus or deficit in profit or loss;
- ▶ Reclassifies the share of the parent company in the components previously recognized in other comprehensive income to profit or loss or retained earnings in accordance with specific IFRS requirements as if the Group disposed respective assets or liabilities.

Business combination and goodwill

Business combination is accounted for using the acquisition method at the acquisition date, which is the date when the Group gains control over an entity.

The Group measures goodwill at the acquisition date as:

- ▶ The fair value of the consideration transferred, plus
- ▶ The recognized amount of any non-controlling interests in the acquire, plus
- ▶ In a business combination achieved in stages, of fair value of previously held equity interest in the acquire, less
- ▶ Net amount (usually measured at fair value) of the identifiable assets acquired and the liabilities assumed.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

The consideration transferred does not include amounts relating to previous settlements. Such amount are recognized in profit or loss.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

Any contingent consideration for the acquiree is recognized at fair value at the acquisition date. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity. Otherwise, all subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Goodwill on an acquisition of a subsidiary is included in intangible assets.

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

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

2.2. Basis of consolidation (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Impairment losses relating to goodwill cannot be reversed. Where the impairment loss recognized in respect of a cash-generating unit exceeds the carrying amount of its goodwill, the exceeding amount is allocated pro rata to all other assets, however, the allocated amount shall not be less than the fair value of these assets.

Goodwill is not amortized. Instead it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

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

2.3. Going concern

These consolidated financial statements have been prepared on a going concern basis, assuming that the Group will continue its operations in the foreseeable future and will be able to realize its assets and meet its liabilities in the normal course of business.

2.4. Functional and presentation currency

These consolidated financial statements are presented in the national currency of the Russian Federation – Russian ruble (“RUB”), which is the functional currency of the Group.

2.5. Summary of accounting policies

Foreign currency transactions

Transactions in foreign currencies are initially recorded by the group companies in their functional currency at the spot rate effective at the date when the transaction qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at foreign exchange spot rate of functional currency, ruling at the reporting date. Differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as of the date when the fair value was determined. The gain or loss arising on restatement of non-monetary items is treated in line with the principles on recognizing of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Translation of the original Russian version

PJSC OR

Notes to the consolidated financial statements (continued)

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

2.5 Summary of accounting policies (continued)

Financial instruments

Financial assets – initial recognition and measurement

Financial assets of the Group comprise as follows:

- ▶ Loans issued (cash loans to individuals, loans to related and non-related parties);
- ▶ Receivables (trade receivables from wholesale customers, trade receivables from retail customers, other receivables and receivables from related parties);
- ▶ Cash and cash equivalents (cash on hand, cash with banks).

The Group determines the classification of its financial assets at initial recognition.

Financial assets regulated by IFRS 9 are classified as recorded at:

- ▶ Amortized cost;
- ▶ Fair value through other comprehensive income;
- ▶ Fair value through profit or loss.

Classification of financial assets depends on the following:

- (a) The Group's business model for managing financial assets, and
- (b) Characteristics of financial assets related to contractual cash flows.

Financial assets of the Group are measured at *amortized cost* if both of the following conditions are fulfilled:

- (a) The business model is aimed at obtaining contractual cash flows, and
- (b) The contractual cash flow represents solely payments of principal and interest on the principal amount outstanding.

Financial assets of the Group are measured at *fair value through other comprehensive income* if both of the following conditions are fulfilled:

- (a) The aim of the business model is reached both through obtaining contractual cash flows and through sale of financial assets, and
- (b) The contractual cash flow represents solely payments of principal and interest on the principal amount outstanding.

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

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

2.5 Summary of accounting policies (continued)

Financial instruments (continued)

In all other cases, the financial assets are measured *at fair value through profit or loss*.

Initial measurement of loans issued

The Group initially recognizes loans at the date when they are issued. At initial recognition, loans issued are recognized at fair value plus any directly attributable transaction costs.

Initial measurement of receivables

The Group initially recognizes receivables on the date that they are originated. At initial recognition, trade receivables are measured at the transaction cost.

Financial assets – derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

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

2.5 Summary of accounting policies (continued)

Financial instruments (continued)

Financial assets – impairment

The Group recognizes an allowance for expected credit losses on financial assets measured at:

- ▶ Amortized cost;
- ▶ Fair value through other comprehensive income.

Credit loss is the present value of the difference between:

- (a) Contractual cash flows that are due to the Group under the contract, and
- (b) Cash flows the Group expects to obtain.

Measurement of expected credit losses reflects probability-weighted amount determined by estimating a range of possible results considering a time value of money.

The Group uses simplified approach to form an allowance for expected credit losses in the amount equal to life-time expected credit losses in respect of its trade and other receivables, cash and equivalents.

In order to calculate the allowance for expected credit losses on receivables, receivables are classified as follows:

- ▶ Receivables from large wholesale customers registered less than one year ago;
- ▶ Other receivables.

For receivables from large wholesale customers registered less than one year ago, the calculation of expected credit losses is based on the rating of a customer's financial position.

For other receivables, the Group applies a practical expedient to estimate expected credit losses and calculates expected credit losses using the allowance matrix. The Group uses the historical credit loss experience adjusting it for reasonable and supportable information on current circumstances and forecast economic conditions.

Financial liabilities – initial recognition and measurement

Financial liabilities of the Group comprise:

- ▶ Loans and borrowings received (bond loans, bank loans, borrowings from related and non-related parties);
- ▶ Payables (trade payables, other payables).

The Group determines the classification of its financial liabilities at initial recognition.

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

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

2.5. Summary of accounting policies (continued)

Financial liabilities within the scope of IFRS 9 are classified as follows:

- ▶ Financial liabilities at amortized cost;
- ▶ Financial liabilities at fair value through profit or loss;
- ▶ Other financial liabilities.

The Group initially recognizes financial liabilities on the date when they are originated.

Financial liabilities at amortized cost are initially recognized at fair value less directly attributable transaction costs.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. Gains and losses related to such financial liabilities are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

The effective interest rate amortization is included in finance costs in the income statement.

A financial liability is derecognized in the consolidated statement of financial position when the obligation under the liability is discharged or canceled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and their net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction of transaction costs (Level 1 of the hierarchy 1).

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

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

2.5. Summary of accounting policies (continued)

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- ▶ Using recent arm's length market transactions (Level 2 of the hierarchy);
- ▶ Reference to the current fair value of another instrument that is substantially the same (Level 2 of the hierarchy);
- ▶ Discounted cash flow analysis or other valuation models (Level 3 of the hierarchy).

For more details on fair values of financial instruments please refer to Note 28.

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks, cash in transit and at stores, short-term deposits with an original maturity of three months or less and credit card payments to be received during next 24 hours.

Equity instruments (equity)

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 carried at the amount of proceeds received, less any attributable costs of the issuance.

Equity instruments are classified either as liabilities or equity based on the substance of the contractual arrangements.

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. Gains or losses arising from the acquisition, sale, issue or cancellation of the Group's own equity instruments are not recognized in profit or loss. Any difference between the carrying amount of treasury shares and the consideration received from their subsequent sale is recorded in share premium.

Dividends are recognized as liabilities in the period in which they are declared by the decision of the general meeting of participants and are payable in accordance with the legislation. Dividends are disclosed in the financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of equipment and borrowing costs for long-term construction projects, if the recognition criteria are met.

Significant restoration or modernization of property, plant and equipment are capitalized and depreciated over the useful life of the respective asset. All other repairs and maintenance are recognized in the consolidated statement of comprehensive income as incurred.

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Notes to the consolidated financial statements (continued)

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

2.5. Summary of accounting policies (continued)

Depreciation is accrued to write off the cost or revaluation of assets using the straight-line method over its estimated useful life as follows:

Buildings	7-46 years
Machinery and equipment, office equipment	2-28 years
Vehicles	3-10 years
Retail space equipment	3-7 years
Other property, plant and equipment	2-26 years

Where an item of property, plant and equipment comprises several components having different useful lives, such components are accounted for as separate items of property, plant and equipment.

Retail equipment is depreciated over the specified estimated useful life except as where in-store equipment is planned to be totally upgraded before the end of its useful life. In such circumstances, residual value of retail equipment is depreciated over its remaining useful life which is equal to the period to complete the upgrade.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

A previously recognized item of property, plant and equipment or any significant component thereof is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

Intangible assets

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

Intangible assets acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

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

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

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

2.5. Summary of accounting policies (continued)

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Expected useful lives of intangible assets are adopted as follows:

Trademarks	50 years
Exclusive right for software and developments	15 years

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Leases

Right-of-use assets

The Group recognizes right-of-use assets at the commencement of the lease (i.e. the date at which the underlying asset becomes available for use). Right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses adjusted for remeasurement of lease liabilities. The cost of the right-of-use asset comprises the amount of recognized lease liabilities, incurred initial direct costs and lease payments made at or prior to the commencement of the lease less incentive lease payments received. If the Group is not reasonably certain that it will obtain the ownership right to the leased asset at the end of the lease term, the recognized right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's estimated useful life or the lease term. Right-of-use assets are tested for impairment.

Lease liabilities

At the commencement of the lease, the Group recognizes lease liabilities measured at present value of lease payments to be made during the lease term. Lease payments comprise fixed payments (including substantively fixed payments) less any incentive lease payments to be received, variable lease payments that depend on an index or rate, and amounts that are expected to be paid under residual value guarantees. Lease payments also include the call option exercise price if the Group is reasonably certain that it will exercise this option, and fines for lease termination if it is probable that the Group may exercise its early termination option during the lease term. Variable lease payments that do not depend on an index or rate are recognized as expenses in the period in which the event or circumstance leading to such payments occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement of the lease, the amount of lease liabilities increases to record the accrual of interest and decreases to record the lease payments made. In addition, the Group remeasures the carrying amount of a lease liability in case of modification, change of the lease term, change in substantively fixed lease payments or change in the valuation of an option to purchase an underlying asset.

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

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

2.5. Summary of accounting policies (continued)

Short-term leases and leases of low-value assets

The Group applies a recognition exemption to short-term leases (i.e. leases which have the contractual lease term of 12 months or less at the date of lease commencement and do not contain a call option). The Group also applies a recognition exemption to leases of low-value assets (i.e. assets with the value of less than RUB 300 thousand). Lease payments under short-term leases and leases of low value assets are recognized as lease expenses on a straight-line basis over the term of the lease.

Inventories

Inventories are carried at the lower of acquisition cost and net realizable value.

Supplier rebates which are not reimbursement of direct, incidental or identified costs to promote the goods, are eliminated from the cost of inventories.

The Group allocates part of its transportation costs incurred during the reporting period to non-realized inventories as at the end of the reporting period.

Transportation to the central distribution warehouse of the Group and to retail outlets is expensed to cost of sales. Other costs related to warehousing and storage are expensed as incurred and recognized in selling and administrative expenses.

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, deferred tax assets, non-current assets classified as held for sale and tax prepayments are tested for impairment at each of the reporting dates. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into a smaller group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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Notes to the consolidated financial statements (continued)

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

2.5. Summary of accounting policies (continued)

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss for the period. Impairment losses recognized in respect of cash-generating units (group of units) are allocated to the non-current assets of such unit (group of units) in proportion to the balance value of assets of such unit (group of units).

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, less accumulated depreciation or amortization, if no impairment loss had been recognized.

Employee benefits

Salaries paid to employees are recognized as expenses for the reporting period.

The Group makes contributions to the state pension and insurance funds. The Group does not have any employer-sponsored benefit plans.

Provisions

Provisions are recognized when the Group has a present obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation amount can be made.

The amount recognized as a provision represents the best estimate of costs to settle the obligation at the reporting date, given the risks and uncertainties related to the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the 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.

The Group's provisions represent warranties. The Group accrues the respective provision for warranties. Such expenses are recognized at the date of selling the respective goods in the amount of expenses assessed by management to cover respective obligations.

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Notes to the consolidated financial statements (continued)

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

2.5. Summary of accounting policies (continued)

Recognition of revenues from sale of goods

The Group accounts for the contract with the customer when all of the following criteria are met:

- ▶ The parties to the contract have approved the contract and are committed to perform their respective obligations;
- ▶ The Group can identify each party's right regarding the goods or services to be transferred;
- ▶ The Group can identify the payment terms for the goods or services to be transferred;
- ▶ The contract has commercial substance (i.e. risks, timing or the amount of the Group's future cash flows are expected to change as a result of the contract), and
- ▶ It is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of the amount of consideration is probable, the Group considers only the customer's ability and intention to pay that amount of consideration when it is due. If the consideration is variable, the amount of consideration to which the Group will be entitled may be less than the price stated in the contract because the Group may offer the customer a price concession.

Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to the customer, excluding amounts collected on behalf of third parties. The consideration in a contract may include fixed amounts, variable amounts, or both.

The Group acts as a principal under contracts providing for non-monetary compensation as it maintains control over the goods or services before they are delivered to the customer. The Group recognized revenue in gross amount of consideration it expects to receive in exchange for goods or services, when discharging the contractual obligations (or as soon as it discharges the contractual obligations).

Where the contract contains variable consideration, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring promised goods or services to the customer. Variable consideration can arise as a result of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items.

Revenues from intra-group sales of goods are eliminated for the purposes of the consolidated financial statements.

The Group recognizes retail revenue upon transfer to buyers.

Revenue from sale of gift certificates is recognized by the Group at the moment of exchanging the gift certificate to the goods. The amounts received by the Group from sale of gift certificates are recognized as deferred revenue.

The Group has also applied a practical expedient and does not recognize time component of installments as interest income due to a short installment period.

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

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

2.5. Summary of accounting policies (continued)

Finance income and expense

Finance income comprises interest income on funds invested and loans calculated based on the effective interest rate and gain on disposal of financial instruments.

Finance expense comprises interest expense on loans calculated based on the effective interest rate, interest expense on leases calculated under IFRS 16 *Leases*, recognized loss from impairment of financial assets and loss from disposal of financial instruments.

Income tax

Income tax expense comprises current and deferred taxes.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax is recognized using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax liabilities are not recognized in respect of the following:

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

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Notes to the consolidated financial statements (continued)

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

2.5. Summary of accounting policies (continued)

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

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a group entity may not be set off against taxable profits and current tax liabilities of other group entities. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

Value added tax and other taxes

Value added tax (VAT) on the goods sold is payable to the state budget. VAT paid on purchase of goods and services is generally recoverable against VAT related to sales revenue upon receipt of the VAT invoice.

VAT related to sales and purchases which have not been settled at the reporting date is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as assets and liabilities. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

Other taxes payable include tax liabilities except for income tax and VAT accrued in accordance with adopted or substantially adopted laws and repaid by the end of the reporting period.

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Notes to the consolidated financial statements (continued)

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

2.5. Summary of accounting policies (continued)

New retail stores pre-opening costs

New retail stores pre-opening costs which do not qualify for capitalization under IAS 16 *Property, Plant and Equipment* are expensed when incurred. Pre-opening costs comprise utilities payments and other operating expenses.

2.6. Changes in presentation

During the reporting period, the Group made some changes in presentation of certain values in order to provide more precise information about their nature in the consolidated statement of comprehensive income. Data for the previous reporting period was reclassified to ensure data compatibility:

- ▶ Allowance for expected credit losses previously recorded in administrative expenses was presented as a separate line item in the consolidated statement of comprehensive income.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Determination of the lease term under leases with an option to extend or an option to terminate the lease – the Group as a lessee

The Group determines the lease term as the non-cancellable period of a lease together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, or periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The Group has an option to extend certain leases of assets for the period of 2-5 years. The Group applies judgment to determine whether it is reasonably certain to exercise the extension option. In doing so, the Group considers all relevant factors resulting in an economic incentive to exercise the extension option. After the commencement date, the Group reassesses the lease term provided that there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the extension option (e.g. a change in business strategy).

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Notes to the consolidated financial statements (continued)

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

3.2. Estimates and assumptions

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

Useful lives of property, plant and equipment

Property, plant and equipment is depreciated over expected useful lives as disclosed in Note 2 above. Useful lives are reviewed at the end of the year and adjusted where necessary.

Net realizable value of inventories

Management analyzes trading balances to identify options to sell inventories at their carrying value or above plus cost to sell. Such analysis comprises identification of slow-selling inventories. Identification suggests analysis of historical data and current operating plans for respective inventories, industry trends and consumer preferences.

If the carrying amount of inventories exceeds its net realizable value, management writes such inventories to their net realizable value.

In case actual results differ from management estimates concerning sales of inventories at carrying amount or below, management will have to adjust the carrying amount of inventories.

Tax legislation

The existing Russian tax, currency and customs legislation allows for various interpretations and is subject to frequent changes. Tax authorities are able to claim for such transaction or accounting method for which it had no any claims before. As at 31 December 2019, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

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Notes to the consolidated financial statements (continued)

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

3.2. Estimates and assumptions (continued)

Recognition of financial instruments under transactions with related parties at fair value

In the course of its business, the Group has transactions with related parties, including provision of loans on terms which may differ from market terms. In accordance with IFRS 9, financial instruments are initially recognized at fair value. Where no active market exists, professional judgments are used to determine whether transactions were made at market rates. Judgments are based on prices in comparable unrelated party transactions and analysis of effective interest rate.

4. New standards, interpretations and amendments to existing standards and interpretations

The Group is a first-time adopter of IFRS 16 *Leases*. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

In 2019, the Group adopted some other amendments to the standards and interpretations, which had no effect on its consolidated financial statements. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

The Group applied IFRS 16 for the first time using the modified retrospective approach on 1 January 2019. Comparative information for the year ended 31 December 2018 and for the six months ended 30 June 2018 was not restated.

When adopting the new standard, the Group decided to use a practical expedient allowing to apply a recognition exemption for leases, which have the lease term of 12 months or less at the date of lease commencement and do not contain a call option (short-term lease), as well as for leases in which the underlying asset is of low value (leases of “low-value” assets).

The effect of adopting IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

Assets	
Right-of-use assets	115,755
Advances issued	(7,320)
Total assets	108,435
Liabilities	
Lease liabilities	108,435
Total liabilities	108,435

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

IFRS 16 Leases (continued)

The Group's leases mainly comprise real estate leases (stores, warehouses, office premises). Prior to adopting IFRS 16, the Group classified each lease, in which it acted as a lessee at the commencement of the lease, as an operating lease. Note 2.5 *Leases* describes accounting policy applied before 1 January 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

The Group recognized right-of-use assets and lease liabilities for leases previously classified as operating leases, except for short-term leases and leases of low-value assets.

Right-of-use assets were recognized in the amount equal to the amount of lease liabilities, as adjusted for previously made or accrued lease payments relating to respective leases, which were recognized earlier. Lease liabilities were recognized at the present value of the remaining lease payments, discounted using the rate of attracting additional borrowings at the date of initial application.

The Group also applied the available practical expedients, as a result of which it:

- ▶ Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- ▶ Instead of an impairment test, relied on its assessment of whether leases are onerous immediately before the date of initial application;
- ▶ Applied the recognition exemption for short-term leases to leases with a lease term that ends within 12 months from the date of initial application;
- ▶ Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- ▶ Used hindsight in determining the lease term where the contract contained an option to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- ▶ The Group recognized right-of-use assets and lease liabilities in the amount of RUB 115,755 thousand and RUB 108,435 thousand, respectively;
- ▶ The Group derecognized advance payments of 7,320 under leases within the scope of IFRS 16.

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

IFRS 16 Leases (continued)

Reconciliation between operating lease liabilities disclosed in accordance with IAS 17 as at 31 December 2018 and discounted using a weighted average borrowing rate and lease liabilities recognized in accordance with IFRS 16 as at 1 January 2019 is as follows:

Future minimum lease payments under operating leases as at 31 December 2018	8,705
Average weighted borrowing rate the Group uses as a lessor	11.06%
Discounted future minimum lease payments under operating leases as at 31 December 2018	8,407
Effect of estimating maturities of leases	100,028
Lease liabilities as at 1 January 2019	108,435

The difference between the present value of operating lease liabilities as at 31 December 2018 and the value of lease liabilities under IFRS 16, recorded on 1 January 2019, is explained by the fact that in accordance with the requirements of the previously applied IAS 17 the value of operating lease liabilities included only future payments for the period during which leases could not be terminated. The new standard requires that in determining lease liabilities the Group should record future payments considering an extension option.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

- ▶ Whether the entity considers uncertain tax interpretations separately;
- ▶ The assumptions that the entity makes with regard to review of tax interpretations by tax authorities;
- ▶ How the entity determines taxable profit (tax loss), tax base, unused tax losses, unused tax benefits and tax rates;
- ▶ How the entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

This Interpretation does not have a significant effect on the Group's consolidated financial statements, as the Group operates in one tax jurisdiction.

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Amendment to IFRS 9 – Prepayment Features with Negative Compensation

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

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

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

These amendments had no impact on the consolidated financial statements of the Group, as it does not have post-employment benefits.

Amendments to IAS 28: Long-Term Investments in Associates and Joint Ventures

The amendments clarify that an entity should apply IFRS 9 to long-term investments in an associate or a joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term investments). This clarification is important as it implies that the expected credit losses model is applied to such long-term investments in IFRS 9.

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

These amendments had no impact on the consolidated financial statements of the Group, as it does not have long-term investments in any associates or joint ventures.

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Annual improvements 2015-2017 cycle

IFRS 3 Business Combinations

The amendments clarify that if the entity obtains control over the business that is a joint operation, it must apply requirements towards business combinations achieved in stages, including the revaluation of previously existing interests in assets and liabilities of a joint operations at fair value. Simultaneously, the acquirer must remeasure all the previously existing interest in joint operations.

These amendments had no impact on the consolidated financial statements of the Group, as it was not involved in any such operations in the periods under review.

IFRS 11 Joint Arrangements

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

These amendments had no impact on the consolidated financial statements of the Group, as it was not involved in any operations in which it obtained joint control.

IAS 12 Income Taxes

Amendments clarify that income tax consequences of dividends are to a greater extent related to past operations or events that generated the distributable profits than to distributions among owners. Therefore, an entity must recognize income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating past operations or events.

On initial application of these amendments, an entity must apply them to income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

Since the Group's current policy is in line with the amendments, their application had no impact on the Group's consolidated financial statements.

IAS 23 Borrowing Costs

Amendments clarify that an entity must record specific borrowings related to the purchase of a qualifying asset, received as part of general borrowings, when almost all works required to prepare this asset for its intended use or sale are completed.

An entity must apply these amendments to borrowing costs incurred on or after the beginning of the annual period in which an entity first applies these amendments. Since the Group's current policy is in line with the amendments, their application had no impact on the Group's consolidated financial statements.

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, (IFRS 17), a comprehensive new financial reporting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 is based on the general model with the following additions:

- ▶ Certain modifications related to insurance contracts with direct participation features (variable compensation method);
- ▶ Simplified approach (based on premium distribution) related mainly to short-term contracts.

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

Amendments to IFRS 3 Definition of a Business

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations*. The amendments that changed the definition of the term "business" should help entities determine whether the acquired combination of activities and assets is a business or not. The amendments clarify minimum business requirements, eliminate the assessment of whether market participants are able to replace any missing component, add guidance to help organizations evaluate whether the acquired process is significant, restrict the definition of business and returns, and introduce an optional test for fair value concentration. New illustrative examples were introduced together with amendments.

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

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 1 and IAS 8 Definition of Material

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

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

5. Revenue

	2019	2018
Revenue from retail	6,871,571	6,659,736
Revenue from wholesale	4,702,964	3,380,602
Gains on issuance of cash loans	2,127,962	1,514,145
Total	13,702,497	11,554,483

In 2019, the Group supplied RUB 3,390,627 thousand worth of goods net of VAT (2018: 538,514 thousand, net of VAT) subject to non-cash settlements. In 2019, the Group did not enter into barter transactions (2018: RUB 1,873,014 thousand, net of VAT).

6. Cost

	2019	2018
Cost of sales	5,756,319	4,255,743
Material costs	176,246	316,808
Depreciation of property, plant and equipment and amortization of intangible assets	48,495	54,456
Payroll and social charges	22,968	45,303
Depreciation of right-of-use assets	533	–
Other	135,961	93,332
Total	6,140,522	4,765,642

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Notes to the consolidated financial statements (continued)

7. Selling and distribution expenses

	2019	2018
Leases	1,408,599	1,402,383
Payroll and social charges	994,096	852,632
Bank fees, cash collection in stores	220,628	171,680
Depreciation of property, plant and equipment and amortization of intangible assets	172,831	161,822
Advertising and marketing expenses	114,702	208,579
Material costs	103,951	107,954
Depreciation of right-of-use assets	68,951	–
Agency fee on sales of goods	52,891	–
Warehouse expenses	47,030	50,501
Information technologies	3,035	1,353
Property insurance	2,987	3,325
Other	98,313	94,254
Total	3,288,014	3,054,483

8. Administrative expenses

	2019	2018
Payroll and social charges	202,677	212,169
Communication, post	106,891	97,938
Depreciation of property, plant and equipment and amortization of intangible assets	49,934	46,831
Leases	47,328	40,802
Travel expenses	36,495	34,821
Remuneration to the members of the Board of Directors	27,963	33,421
Information, advisory, audit and legal services	27,094	32,237
Taxes other than income tax	15,899	23,130
Material costs	15,065	20,224
Fee and commission expense	17,276	18,564
Depreciation of right-of-use assets	33	–
Other	9,985	11,578
Total	556,640	571,715

9. Charge of allowance for expected credit losses

	2019	2018
Allowance for expected credit losses on cash loans (Note 21)	329,260	247,477
Allowance for expected credit losses on receivables from retail customers (Note 18)	158,692	132,538
Allowance for impairment of advances issued (Note 19)	8,074	16,502
Allowance for expected credit losses on receivables from wholesale and other customers (Note 18)	–	13,593
Allowance for expected credit losses on other financial assets (Note 21)	–	8,657
Allowance for expected credit losses on cash (Note 22)	–	768
Total	496,026	419,535

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Notes to the consolidated financial statements (continued)

10. Other income and expenses

Other income	2019	2018
Penalties received	147,915	161,143
Agency fee	24,896	–
Reversal of allowance for expected credit losses	12,680	–
Lease of premises and motor vehicles	3,958	172
Other	12,438	9,620
Other income	201,887	170,935

Penalties received comprise penalties paid by individuals for overdue payments under installment agreements and cash loans issued.

Other expenses	2019	2018
Taxes and other penalties	63,976	204,805
Write-down of goods for resale	37,805	46,019
Loss on disposal of property, plant and equipment	27,700	9,709
Foreign exchange difference	19,055	14,531
Write-down of receivables and advances issued	11,348	2,593
Agency fee	–	10,779
Expenses from transfer of rights to claim on installment payments	–	2,520
Other expenses	21,555	31,428
Other expenses	181,439	322,384

11. Finance income and expenses

	2019	2018
Finance income		
Interest receivable on loans	32,650	50,940
Total	32,650	50,940
Finance expense		
Interest on loans	860,498	421,299
Interest on bonds	276,310	448,995
Interest expense on leases (Note 15)	13,820	–
Total	1,150,628	870,294

12. Income tax

	2019	2018
Current income tax	(455,348)	(478,586)
Deferred income tax	18,971	38,084
Total	(436,377)	(440,502)

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Notes to the consolidated financial statements (continued)

12. Income tax (continued)

The taxation charge for the year is different from the amount that would have been received when applying the statutory income tax rate to the net profit before income tax. Reconciliation between the theoretical income tax calculated at the statutory rate of 20% applicable for 2019 and 2018, and the actual income tax expense recorded by the Group in the consolidated statement of comprehensive income is provided below:

	2019	2018
Profit before tax	2,123,765	1,772,305
Theoretical tax at the rate of 20%	(424,753)	(354,461)
Effect from a change in unrecognized deferred tax assets	–	(7,755)
Effect from non-deductible expenses	(11,624)	(78,286)
Total	(436,377)	(440,502)

Differences between the value of assets and liabilities recorded in the consolidated financial statements and their value for tax purposes give rise to certain temporary differences. Tax effect of changes in these temporary differences is recorded at the rate of 20%.

Tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2019, 2018 and 2017 is as follows:

	31 December 2017	Effect of adopting IFRS 9	As stated in profit or loss	31 December 2018	As stated in profit or loss	31 December 2019
Deferred tax asset						
Leases	–	–	–	–	719	719
Receivables	38,260	9,064	(18,287)	29,037	5,532	34,569
Inventories	64,572	–	57,776	122,348	(8,898)	113,450
Provisions	1,506	–	3,163	4,669	3,544	8,213
Trade and other payables	2,396	–	(1,869)	527	8	535
Tax losses	101,566	–	1,409	102,975	3,586	106,561
Other assets	–	387	153	540	(540)	–
Netting	(11,091)	–	–	11,006	–	14,878
Total deferred tax asset	197,209	9,451	42,345	271,102	3,951	278,925
Deferred tax liability						
Property, plant and equipment	(29,849)	–	13,568	(16,281)	11,921	(4,360)
Intangible assets	(3,230)	–	68	(3,162)	68	(3,094)
Financial assets	(18,158)	–	(17,897)	(36,055)	3,031	(33,024)
Netting	11,091	–	–	(11,006)	–	(14,878)
Total deferred tax liability	(40,146)	–	(4,261)	(66,504)	15,020	(55,356)
Total net deferred tax asset	157,063	9,451	38,084	204,598	18,971	223,569

As at 31 December 2019 and 2018, the Group did not recognize a deferred tax liability in respect of investments in subsidiaries, as the following conditions were met:

- The Group's parent controls reversals of the temporary differences arising on investments in subsidiaries.
- The temporary differences are unlikely to reverse in the foreseeable future.

The aggregate temporary differences associated with investments in subsidiaries for which a deferred tax liability was not recognized amounted to RUB 8,857,408 thousand (2018: RUB 7,405,561 thousand).

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Notes to the consolidated financial statements (continued)

13. Earnings per share

For the years ended 31 December 2019 and 2018, earnings per one share were based on annual net profit and average weighted number of outstanding ordinary shares during the year.

Earnings per share for the years ended 31 December 2019 and 2018 were calculated as follows:

	2019	2018
Profit for the year attributable to ordinary shareholders	1,687,388	1,331,803
Weighted average number of ordinary shares, thousand	113,045	113,056
Basic and diluted earnings per share, RUB	14.927	11.780

The Group has no potential dilutive equity instruments.

14. Property, plant and equipment

Property plant and equipment as at 31 December 2019 and 2018 comprised the following:

	Land	Buildings	Machinery and equipment, office equipment	Vehicles	Retail space equipment	Other property, plant and equipment	Construction in progress	Total
Carrying amount at 1 January 2019	39,743	607,462	427,401	7,999	534,624	23,882	377,440	2,018,551
Cost								
Balance at the beginning of the year	39,743	734,802	567,490	25,619	996,590	58,963	377,440	2,800,647
Additions	–	–	–	–	–	–	202,961	202,961
Commissioning	–	–	1,274	–	121,520	9,857	(132,651)	–
Disposals	(10 682)	–	(46)	(4,008)	(159,790)	(427)	(15 721)	(190,674)
Balance at the end of the year	29,061	734,802	568,718	21,611	958,320	68,393	432,029	2,812,934
Accumulated depreciation								
Balance at the beginning of the year	–	(127,340)	(140,089)	(17,620)	(461,966)	(35,081)	–	(782,096)
Depreciation charge	–	(28,721)	(60,702)	(1,605)	(160,295)	(13,275)	–	(264,598)
Depreciation disposal	–	–	46	2,635	157,705	130	–	160,516
Balance at the end of the year	–	(156,061)	(200,745)	(16,590)	(464,556)	(48,226)	–	(886,178)
Carrying amount at 31 December 2019	29,061	578,741	367,973	5,021	493,764	20,167	432,029	1,926,756

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Notes to the consolidated financial statements (continued)

14. Property, plant and equipment (continued)

	Land	Buildings	Machinery and equipment, office equipment	Vehicles	Retail space equipment	Other property, plant and equipment	Construction in progress	Total
Carrying amount at 1 January 2018	39,743	604,332	449,636	9,441	451,533	21,613	248,568	1,824,866
Cost								
Balance at the beginning of the year	39,743	703,421	535,520	30,488	856,374	45,032	248,568	2,459,146
Additions	–	–	–	–	–	–	455,954	455,954
Commissioning	–	31,381	34,230	1,528	235,689	14,154	(316,982)	–
Disposals	–	–	(2,260)	(6,397)	(95,473)	(223)	(10,100)	(114,453)
Balance at the end of the year	39,743	734,802	567,490	25,619	996,590	58,963	377,440	2,800,647
Accumulated depreciation								
Balance at the beginning of the year	–	(99,089)	(85,884)	(21,047)	(404,841)	(23,419)	–	(634,280)
Depreciation charge	–	(28,251)	(56,225)	(2,426)	(150,922)	(11,786)	–	(249,610)
Depreciation disposal	–	–	2,020	5,853	93,797	124	–	101,794
Balance at the end of the year	–	(127,340)	(140,089)	(17,620)	(461,966)	(35,081)	–	(782,096)
Carrying amount at 31 December 2018	39,743	607,462	427,401	7,999	534,624	23,882	377,440	2,018,551

Depreciation of property, plant and equipment is included in cost of goods sold, selling and distribution and administrative expenses in the amount of RUB 48,288 thousand, RUB 172,483 thousand and RUB 43,524 thousand, respectively (2018: RUB 46,422 thousand, RUB 161,474 thousand and RUB 41,411 thousand). In 2019, capitalized depreciation amounted to RUB 303 thousand (2018: RUB 303 thousand).

In 2019, fully depreciated property, plant and equipment that were still in use amounted to RUB 135,016 thousand (2018: RUB 86,845 thousand).

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Notes to the consolidated financial statements (continued)

15. Leases

The carrying amounts of right-of-use assets held by the Group and respective movements during the period are as follows:

	Lease of stores	Lease of other facilities	Total
Carrying amount at 1 January 2019	114,856	899	115,755
Cost			
Balance at the beginning of the year	114,856	899	115,755
Additions	93,701	7,115	100,816
Remeasurement	(4,163)	351	(3,812)
Disposals	(3,095)	(376)	(3,471)
Balance at the end of the year	201,299	7,989	209,288
Accumulated depreciation			
Balance at the beginning of the year	–	–	–
Depreciation charge	(66,564)	(2,953)	(69,517)
Remeasurement	642	(162)	480
Depreciation disposal	357	211	568
Balance at the end of the year	(65,565)	(2,904)	(68,469)
Carrying amount at 31 December 2019	135,734	5,085	140,819

For the year ended 31 December 2019, depreciation charge for right-of-use assets was included in the cost of goods sold and selling and administrative expenses in the amount of RUB 533 thousand, RUB 68,951 thousand and RUB 33 thousand, respectively.

The carrying amounts of lease liabilities held by the Group and respective movements during the period are as follows:

	Lease liabilities
Carrying amount at 1 January 2019	108,435
New leases	99,726
Remeasurement	(3,332)
Lease payments for the period	(78,162)
Interest expense on leases	13,820
Disposal of leases	(2,903)
Carrying amount at 31 December 2019	137,584

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Notes to the consolidated financial statements (continued)

16. Intangible assets

	Trademarks	Software	Other	Total
Carrying amount at 1 January 2019	17,188	21,061	2,623	40,872
Cost				
Balance at the beginning of the year	18,992	31,251	2,709	52,952
Additions	189	861	–	1,050
Balance at the end of the year	19,181	32,112	2,709	54,002
Accumulated amortization				
Balance at the beginning of the year	(1,804)	(10,190)	(86)	(12,080)
Amortization charge	(511)	(6,247)	(207)	(6,965)
Balance at the end of the year	(2,315)	(16,437)	(293)	(19,045)
Carrying amount at 31 December 2019	16,866	15,675	2,416	34,957

	Trademarks	Software	Other	Total
Carrying amount at 1 January 2018	17,753	19,526	2,709	39,988
Cost				
Balance at the beginning of the year	19,041	24,470	2,709	46,220
Additions	–	6,781	–	6,781
Disposals	(49)	–	–	(49)
Balance at the end of the year	18,992	31,251	2,709	52,952
Accumulated amortization				
Balance at the beginning of the year	(1,288)	(4,944)	–	(6,232)
Amortization charge	(522)	(5,246)	(86)	(5,854)
Amortization disposal	6	–	–	6
Balance at the end of the year	(1,804)	(10,190)	(86)	(12,080)
Carrying amount at 31 December 2018	17,188	21,061	2,623	40,872

Amortization of intangible assets is included in cost of goods sold, selling and distribution and administrative expenses in the amount of RUB 207 thousand, RUB 348 thousand and RUB 6,410 thousand, respectively (2018: RUB 86 thousand, RUB 348 thousand and RUB 5,420 thousand).

17. Inventories

	2019	2018
Raw materials and supplies	161,434	143,005
Work in progress	18,607	10,751
Finished goods and goods for resale	14,379,641	9,989,002
Total	14,559,682	10,142,758

The allowance for impairment finished goods and goods for resale to net realizable value amounted to RUB 56,116 thousand (2018: RUB 30,569 thousand), expenses for the allowance amounted to RUB 25,547 thousand (2018: RUB 11,478 thousand).

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Notes to the consolidated financial statements (continued)

18. Trade and other receivables

	2019	2018
Trade receivables from wholesale customers	220,949	769,860
Allowance for expected credit losses from wholesale customers	(114)	(4,700)
Carrying amount	220,835	765,160
Other receivables	345,802	438,804
Allowance for expected credit losses on other receivables	(36,007)	(39,385)
Carrying amount	309,795	399,419
Trade receivables from retail customers	3,200,757	2,915,691
<i>Neither past due nor impaired</i>	<i>1,844,030</i>	<i>1,670,744</i>
<i>Past due 1 to 90 days</i>	<i>78,233</i>	<i>53,932</i>
<i>Past due 91 to 540 days</i>	<i>216,975</i>	<i>269,239</i>
<i>Past due over 540 days</i>	<i>1,061,519</i>	<i>921,776</i>
Allowance for expected credit losses from retail customers	(995,996)	(919,673)
Carrying amount	2,204,761	1,996,018
Receivables from related parties (Note 26)	6,897	2,930
Allowance for expected credit losses on receivables from related parties (Note 26)	(22)	(75)
Carrying amount	6,875	2,855
Total	2,742,266	3,163,452

Trade receivables from wholesale customers and other receivables are denominated in Russian rubles and are normally settled within 12 months. Trade receivables of wholesale customers and other receivables are interest free.

Trade receivables from retail customers are denominated in Russian rubles and arise on sales with deferred payments. Terms of installment range from one to ten months. Trade receivables from retail customers are subject to commission ranging from 0% to 20% from the purchase amount depending on the terms of special offers effective at the certain date.

Movement in allowance for expected credit losses are as follows:

	2019		2018	
	Receivables from retail customers	Receivables from wholesale customers and other receivables	Receivables from retail customers	Receivables from wholesale customers and other receivables
At 1 January	919,673	44,160	815,562	–
Effect of adoption of IFRS 9	–	–	14,755	30,567
Charge (Note 9)	158,692	–	132,538	13,593
Reversal	–	(8,017)	–	–
Write-off	(82,369)	–	(43,182)	–
At 31 December	995,996	36,143	919,673	44,160

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Notes to the consolidated financial statements (continued)

19. Advances issued

	2019	2018
Advances issued for delivery of goods	5,164,798	4,900,444
Allowance for impairment of advances issued	(24,576)	(16,502)
Advances issued to related parties	–	214
Other advances issued	119,212	190,353
Total	5,259,434	5,074,509

Advances present prepayments for delivery of goods from producers to be offset against future deliveries in 2020. Average repayment term is 6-12 months.

As at 31 December 2019, non-cash settlement advances amounted to RUB 2,237,316 thousand (2018: RUB 1,632,859 thousand).

Movements in allowance for impairment are as follows:

	2019	2018
At 1 January	16,502	–
Charge (Note 9)	8,074	16,502
Write-off	–	–
At 31 December	24,576	16,502

20. Advances for construction in progress

Advances for construction in progress comprise prepayments for construction work and supply of production and trading equipment. As at 31 December 2019, the advances amounted to RUB 57,166 thousand (2018: RUB 48,026 thousand).

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Notes to the consolidated financial statements (continued)

21. Other financial assets

	2019	2018
Long-term loans to third parties (Neither past due nor impaired)	52,300	70,300
Allowance for expected credit losses on other financial assets	(5,230)	(7,030)
Total other non-current financial assets	47,070	63,270
Loans to third parties (Neither past due nor impaired)	18,390	16,545
Allowance for expected credit losses on other financial assets	(1,985)	(2,792)
Carrying amount	16,405	13,753
Cash loans to individuals	2,502,268	1,750,963
<i>Neither past due nor impaired</i>	1,336,600	841,083
<i>Past due 1 to 90 days</i>	128,262	64,557
<i>Past due 91 to 540 days</i>	320,814	221,158
<i>Past due over 540 days</i>	716,592	624,165
Allowance for expected credit losses on cash loans	(852,239)	(696,808)
Carrying amount	1,650,029	1,054,155
Interest on cash loans receivable	1,364,973	1,173,226
<i>Neither past due nor impaired</i>	102,559	60,377
<i>Past due 1 to 90 days</i>	47,919	25,585
<i>Past due 91 to 540 days</i>	298,287	206,071
<i>Past due over 540 days</i>	916,208	881,193
Allowance for expected credit losses on cash loans	(953,294)	(878,357)
Carrying amount	411,679	294,869
Loans to related parties (Neither past due nor impaired)	–	71
Carrying amount	–	71
Total other current financial assets	2,078,113	1,362,848

In 2019, no loans to third parties were issued (2018: loans issued had interest rates ranging from 9.1% to 14%). Loans previously issued to third parties are secured by property collateral.

Cash loans issued to individuals comprise RUB-denominated unsecured amounts of less than RUB 100 thousand with no collateral and with maturities ranging from 1 to 12 months. Interest rates on such cash loans range from 25.55% to 766.5% p.a. and mainly depends on the amount and maturity of the cash loan (2018: from 25.55% to 766.5%).

The Group does not assign credit ratings to its borrowers when issues loans to third parties, related parties and cash loans to individuals. To analyze the borrowers' creditworthiness and classification to the respective category, management examines overdue periods for the following loans:

- ▶ Stage 1 – Loans issues not past due;
- ▶ Stage 2 – Past due 1 to 90 days;
- ▶ Stage 3 – Past due more than 91 days.

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Notes to the consolidated financial statements (continued)

21. Other financial assets (continued)

Movements in the allowance for expected credit losses on cash loans issued to individuals and interest receivables on cash loans are as follows:

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	14,870	29,295	1,531,000	1,575,165
Transfer between stages	(2,883)	(27,230)	30,113	–
Net revaluation of allowance	11,783	58,297	259,180	329,260
Write-off	–	–	(98,892)	(98,892)
At 31 December 2019	23,770	60,362	1,721,401	1,805,533
At 1 January 2018	13,014	34,311	1,321,662	1,368,987
Effect of adopting IFRS 9	(570)	–	–	(570)
Transfer between stages	(1,551)	(41,361)	42,912	–
Net revaluation of allowance	3,977	36,345	207,155	247,477
Write-off	–	–	(40,729)	(40,729)
At 31 December 2018	14,870	29,295	1,531,000	1,575,165

Movements in the allowance for expected credit losses on other financial assets are as follows:

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	9,822	–	–	9,822
Transfer between stages	–	–	–	–
Net revaluation of allowance	(2,607)	–	–	(2,607)
Write-off	–	–	–	–
At 31 December 2019	7,215	–	–	7,215
At 1 January 2018	–	–	–	–
Effect of adopting IFRS 9	1,165	–	–	1,165
Transfer between stages	–	–	–	–
Net revaluation of allowance	8,657	–	–	8,657
Write-off	–	–	–	–
At 31 December 2018	9,822	–	–	9,822

The change in the allowance for expected credit losses on cash loans issued to individuals and interest receivable on cash loans mostly results from new cash loans.

The change in the allowance for expected credit losses on other financial assets mostly results from the repayment of previously issued loans to third parties.

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Notes to the consolidated financial statements (continued)

22. Cash and cash equivalents

	2019	2018
Cash on hand	206,990	38,897
Cash at bank accounts	383,456	343,510
Cash deposits with banks	117,000	155,700
Allowance for expected credit losses on cash	(50)	(2,106)
Total	707,396	536,001

Cash at bank accounts comprises cash at current accounts, cash in transit, cash at the correspondent bank accounts, as well as cash at accounts with the Bank of Russia. Cash at correspondent accounts with the Bank of Russia is used as a security for the operations with bank cards issued by NKO Platezhny Standard LLC.

No interest accrues on cash at current bank accounts.

In 2019, cash deposits were placed for the period of up to 1 month with the interest rates ranging from 3.75% to 6.15% p.a. (2018: for the period of up to 1 month with the interest rates ranging from 5.25% to 7.5% p.a.).

Movement in allowance for expected credit losses are as follows:

	2019	2018
At 1 January	2,106	-
Effect of adoption of IFRS 9	-	1,338
Charge (Note 9)	-	768
Reversal	(2,056)	-
At 31 December	50	2,106

23. Equity

Share capital

As at 31 December 2019 and 2018, share capital of PJSC OR comprises 113,056,000 shares with the nominal value of RUB 100 each.

Treasury shares

During the year ended 31 December 2019, the Group acquired 271,230 treasury shares totaling RUB 12,286 thousand. As at 31 December 2019, 271,230 treasury shares were sold in the open market at the acquisition cost.

Additional paid-in capital

Additional paid-in capital is the difference at the date of payment between the nominal value of the share capital and the current value of the share capitals of the companies contributed as a payment for the share capital of RUB 6,904,204 thousand, and the difference between cash received and the nominal value of shares in the amount of RUB 1,695,840 thousand net of transaction costs to issue the share capital in the amount of RUB 507,438 thousand recorded as share premium in the amount of RUB 1,188,402 thousand.

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Notes to the consolidated financial statements (continued)

23. Equity (continued)

Dividends

In 2019, the Group declared dividends to its shareholders for 2018 in the amount of RUB 266,812 thousand (2018: RUB 262,290 thousand). As at 31 December 2019, the Group has no dividends payable.

24. Interest-bearing loans and borrowings

Long-term loans and borrowings	2019	2018
Bank loans	2,490,962	4,388,694
Bonds	1,864,281	599,763
Total	4,355,243	4,988,457
Short-term loans and borrowings	2019	2018
Bank loans	7,239,902	1,546,727
Bonds	812,421	2,391,622
Loans from organizations	1,755	1,159
Total	8,054,078	3,939,508

Bank loans are denominated in Russian rubles and bear interest rates ranging from 7.3% to 10.7% p.a. (2018: from 9.68% to 10.56% p.a.). Long-term bank loans mature in 2021-2023.

A bonded loan issued in 2017 (stock-exchange bonds with identification number 4B02-07-16005-R dated 21 March 2016) is represented by 500 bonds with the nominal value of RUB 2,000 thousand each and matures on 20 January 2022. Coupon is paid quarterly during the entire maturity term. As at 31 December 2019, the coupon rate was 13.8% p.a. (2018: 13.8% p.a.). The effective rate was 14.35% p.a.

On 19 December 2019, under a bonded loan (stock-exchange bonds with identification number 4B02-07-16005-R dated 21 March 2016), Obuvrus LLC, the Issuer, was replaced with Obuv Rossii LLC, the successor, due to reorganization of Obuvrus LLC.

The bonded loan (stock-exchange bonds with identification number 4B02-07-16005-R dated 21 March 2016) provides for an offer dated 30 January 2020 allowing the bondholders to demand early redemption of the bonds in the amount of RUB 800,000 thousand.

A bonded loan issued in 2019 (stock exchange bonds with identification number 4B02-01-00412-R-001P dated 12 August 2019) is represented by 1,500,000 bonds with the nominal value of RUB 1,000 thousand each and matures on 22 September 2022. As at 31 December 2019, the Group purchased bonds amounting to RUB 342,793 thousand. Coupon is paid quarterly during the entire maturity term.

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Notes to the consolidated financial statements (continued)

24. Interest-bearing loans and borrowings (continued)

As at 31 December 2019, the coupon rate was 12.0% p.a. The effective rate was 12.5% p.a.

A bonded loan issued in 2019 (stock exchange bonds with identification number 4B02-02-00412-R-001P dated 9 December 2019) is represented by 1,000,000 bonds with the nominal value of RUB 1,000 thousand each and matures on 14 November 2024. As at 31 December 2019, the Group purchased bonds amounting to RUB 149,500 thousand. Coupon is paid monthly during the entire maturity term.

As at 31 December 2019, the coupon rate was 12.0% p.a. The effective rate was 12.64% p.a.

As at 31 December 2019, the Group has undrawn loan facilities of RUB 3,310,786 thousand (31 December 2018: RUB 1,317,887 thousand).

For more details on maturity profile of loans and borrowings refer to Note 28.

Pledges

As at 31 December 2019, property, plant and equipment, as well as goods for resale pledged as collateral under the loans received amounted to RUB 930,829 thousand and nil, respectively (2018: RUB 930,829 thousand and nil, respectively).

25. Trade and other payables

	2019	2018
Trade payables	305,909	92,757
Payables to employees	79,923	55,183
Other payables	196,298	185,046
Payables to related parties	2,089	3,488
Total	584,219	336,474

26. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include key management personnel, entities controlled by management personnel and other related parties.

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Notes to the consolidated financial statements (continued)

26. Related party transactions (continued)

The following table provides the total amount of transactions with related parties and respective balances:

	Sales to related parties	Purchases from related parties	Receivables from related parties	Allowance for expected credit losses on receivables from related parties	Advances issued to related parties	Payables to related parties	Lease liabilities of related parties
2019							
Entities where key management participates	7,668	17,584	6,897	(22)	34,922	1,975	1,316
Other related parties	–	5,933	–	–	–	114	–
Total	7,668	23,517	6,897	(22)	34,922	2,089	1,316

	Sales to related parties	Purchases from related parties	Receivables from related parties	Allowance for expected credit losses on receivables from related parties	Advances issued to related parties	Payables to related parties
2018						
Entities where key management participates	5,682	7,959	2,930	(75)	39,889	3,124
Other related parties	–	11,697	–	–	214	364
Total	5,682	19,656	2,930	(75)	40,103	3,488

Sales to related parties primarily included sales of goods and provision of services.

Terms and conditions of related party transactions

Related parties may enter into transactions which unrelated parties might not, and the terms, conditions and amounts of those may differ from the terms, conditions and amounts of transactions between unrelated parties. Balances with related parties outstanding as at the end of the year were unsecured; respective settlements were made in cash. No guarantees were provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Group made an allowance for expected credit losses on receivables from related parties of RUB 22 thousand (2018: RUB 75 thousand). The Group assesses whether there are any indicators of impairment in each financial year by analyzing the financial position of the respective related party and conditions existing on the market where such related party operates.

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Notes to the consolidated financial statements (continued)

26. Related party transactions (continued)

Terms and conditions of related party transactions (continued)

Loans issued to and received from related parties are detailed below:

2019	Interest income	Interest expense
Entities where key management participates	3,220	157
Total	3,220	157

2018	Loans to related parties	Interest income	Interest expense
Entities where key management participates	–	3,955	–
Key management personnel	71	–	87
Other related parties	–	–	36
Total	71	3,955	123

In 2019, loans were issued to related parties at the interest rate of 11% p.a. (2018: from 0% to 11% p.a.). Loans issued to related parties as at 31 December 2019 were repaid.

Compensation to key management personnel of the Group

As at 31 December 2019, key management personnel comprised twelve top-managers and members of the Board of Directors (31 December 2018: ten). In 2019, compensation paid to the key management personnel amounted to RUB 61,408 thousand (2018: RUB 68,517 thousand). The amount of compensation included payroll, bonuses, paid vacations, payments for serving on the management bodies and other short-term payments.

27. Commitments and contingencies

Litigations

In the course of its business activity, the Group is exposed to various legal actions and complaints. While there are inherent uncertainties and the outcome of those litigations cannot be reliably predicted, the Group's management believes that these issues will not significantly affect the Group's financial position or annual performance.

As at 31 December 2019, the Group's management is unaware of any significant litigations, suits or claims against the Group, that could result in potential losses.

In the Russian Federation, tax returns remain open for review and tax audits during a three-year period. Even if the tax authorities have already carried out an on-site tax audit or audited any tax return for the current year, a recurrent tax audit is possible during the above three-year period.

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Notes to the consolidated financial statements (continued)

27. Commitments and contingencies (continued)

Litigations (continued)

Management believes that the Group has paid or accrued all taxes that are applicable. For taxes where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Russian legislation governing business operations is constantly changing. Management's interpretation of legislation as applied to the Group's activities may be challenged by the relevant regional or federal authorities. Recently, the tax authorities have been taking a more assertive position in their interpretation of legislation. As a result, the approaches to calculation of taxes that have not been challenged by tax authorities in the past may be challenged during future tax audits. As a rule, tax audits by the tax authorities may cover three years preceding the reporting year. Under certain circumstances, reviews may cover longer periods. Based on its interpretation of the tax legislation, management of the Group believes that all applicable taxes had been accrued. Nevertheless, tax authorities may apply a different interpretation of applicable tax legislation, which may have a significant effect on the consolidated financial statements of the Group.

The Group also identified possible contingent liabilities for the three-year period ended 31 December 2019. According to management, possible risks under these tax issues, if they arise, will not exceed RUB 386,853 thousand (31 December 2018: RUB 394,422 thousand).

Management continues to track changes related to these risks and regularly reassesses risks and respective liabilities, provisions and disclosures.

28. Financial risk management objectives and policies

Financial function of the Group analyzes risks related to financing of the Group's operations. The purposes of addressing financial risks comprise mitigation of liquidity gaps, lower weighted average cost of financing of operations and improvement of financial flows within the Group.

The Group is exposed to market risk, foreign currency risk, credit risk and liquidity risk.

The management of the Group reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are also subject to four types of risk: interest rate risk, foreign currency risk, commodity price risk, and other price risks, such as equity risk.

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Notes to the consolidated financial statements (continued)

28. Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt liabilities with floating interest rates.

The Group's loan portfolio mainly includes loans with fixed interest rates. In case of loans with floating interest rates, the Group partially uses interest rate swaps, in which it agrees to pay or receive, at specified intervals, the difference between fixed and floating rate amounts calculated by reference to an agreed-upon notional principal amount.

When the interest rates change the Group generally applies various instruments in order to minimize the adverse effect on the Group's financial performance. Those instruments include refinancing, renewal of existing positions and alternative financing. The Group has sufficient open undrawn credit facilities with fixed interest rates.

The effect of loans with floating interest rates (2019: the key rate of the CBR; 2018: there were no loans with floating interest rates in the loan portfolio) on the Group's profit before tax (provided all other parameters remain unchanged) is presented below.

	Increase/ decrease in basis points	Effect on profit before tax
2019		
RUB	25	(13,656)
RUB	(25)	8,656

Three bonded loans totaling RUB 2,697,677 thousand (31 December 2018: RUB 2,991,385 thousand) represent a significant share of the Company's loan portfolio. The interest rate on exchange-traded bonds of BO-07 issue is fixed until the end of the twelfth coupon period (23 January 2020); the interest rate on exchange-traded bonds BO-001R-01 and BO-001R-02 is fixed for the whole period (22 September 2022 and 14 November 2024, respectively). Therefore, interest rates on bonded loans cannot be increased unilaterally prior to the dates specified above.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

As at 31 December 2019 and 2018, the Group did not have any material financial assets and liabilities denominated in foreign currencies.

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Notes to the consolidated financial statements (continued)

28. Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk arising from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, and other financial instruments.

Credit risks related to trade and other receivables are continuously monitored. Where necessary, allowances for expected credit losses are charged. The present value of trade and other receivables, net of allowance for expected credit losses, represents the maximum amount exposed to credit risk with respect to a certain asset.

As at each reporting date, the Group uses the loss allowance matrix to analyze whether it is necessary to recognize impairment and to estimate the expected credit losses. Allowance rates depend on the number of days the payment is overdue and type of receivables with similar loss-origination characteristics (trade accounts receivable from wholesale customers, receivables from related parties, other receivables).

Settlements reflect probability-weighted results, temporary value of money and reasonable and supportable information on past events, current circumstances, forecast economic conditions existing as at the reporting date.

Credit risk is managed at the Group level. Each new wholesale customer is approved by the Group's management.

Credit quality of large wholesale customers is determined by their credit ratings, which are based on analysis of the following characteristics of a counterparty:

- 1) Financial position;
- 2) Creditworthiness;
- 3) Probability of bankruptcy;
- 4) Information from public sources.

Based on the previous experience with such customers and taking into consideration the history of payments during the recent credit crisis, the Group's management determines the risk that such customers will not meet their obligations as remote.

While settlement of receivables depends on economic factors, the Group management believes that the credit risk exposure related to trade and other receivables does not exceed the amount of allowance recorded in the statement of financial position (Note 18).

Credit risk related to retail installment sales is managed by assessing the retail customers' solvency, including their financial position, the history of relations and other factors. Overdue amounts are recovered according to the approved regulation on overdue amounts which provides for engaging the Financial Safety Department and going to court.

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Notes to the consolidated financial statements (continued)

28. Financial risk management objectives and policies (continued)

Credit risk (continued)

Risk exposure under the cash loans program is managed by assessing the credit worthiness of individual borrowers, including reviewing their financial position, the history of relations with the Group and personal details, as well as taking other measures.

Cash and short-term deposits are placed with credit and financial institutions which are considered to have minimal risk of default at the time of placing a deposit or opening an account.

Other financial assets include loans issued to third and related parties. The Group management believes that the credit risk does not exceed the allowance recorded in the financial statement of financial position (Note 21).

The Group neither holds nor issues financial instruments for hedging or resale purposes. Major part of borrowings issued is secured by pledge of property and warranties. Receivables are unsecured. The maximum credit risk exposure is treated as equal to the present value of each financial asset in the statement of financial position as at 31 December as detailed below:

	2019	2018
Cash and cash equivalents	707,396	536,001
Short-term trade and other receivables	2,742,266	3,163,452
Other current financial assets	2,078,113	1,362,848
Other non-current financial assets	47,070	63,270
Total	5,574,845	5,125,571

Fair value measurements of financial assets are classified at Level 3 of the hierarchy. During the year ended 31 December 2019, no transfers between levels of fair value hierarchy took place.

Liquidity risk

Liquidity risk is the risk that the Group will not have enough assets available for timely settlement of financial liabilities when they fall due.

Liquidity risk is the risk that the Group will not be able to meet its financial liabilities as they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, finance leases and hire purchase contracts.

The Group monitors its risk of a shortage of funds using a liquidity planning tool.

In order to provide continuous daily control over liquidity the Group established separate operating units within its finance function.

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Notes to the consolidated financial statements (continued)

28. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The Budgeting and Financial Analysis Department develops and regularly updates long-term, mid-term and short-term plans of cash flows from operating and financing activities, taking into account the planned retail chain development, increase in the number of stores and seasonal nature of sales. By doing so, the Group is able to accurately determine its liquidity needs in the forecast period. During low liquidity season the Group plans to attract borrowings in order to fulfill its obligations. Due to seasonal nature of sales, the Group attracts borrowings during the low season and settles liabilities during the high season when sufficient revenue proceeds are available.

The Group established the Corporate Finance Department responsible for arranging bank credit facilities and Capital Markets Department responsible for attracting funds using the open financial market instruments. The Corporate Finance Department manages the liquidity risk by providing sufficient open and undrawn credit facilities in several banks and by using short-term bank deposits to accumulate funds for settling major non-current liabilities (bank loans, bonds).

All of the Group's financial liabilities represent non-derivative financial instruments.

The Group assessed the concentration of its debt refinancing risk and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

Summary of contractual non-discounted payments under the Group's financial liabilities broken down by maturities of these liabilities is provided in the table below:

At 31 December 2019	Carrying amount	Contractual payments	Less than 1 year	2 years	3 years and more
Bank loans (Note 24)	9,730,864	10,813,390	7,888,422	1,055,580	1,869,388
Bonded loan (Note 24)	2,676,702	3,395,777	1,053,802	522,895	1,819,080
Lease liabilities (Note 15)	137,584	168,137	77,128	40,894	50,115
Trade payables (Note 25)	305,909	305,909	305,909	-	-
Payables to employees (Note 25)	79,923	79,923	79,923	-	-
Other payables (Note 25)	196,298	196,298	196,298	-	-
Payables to related parties (Note 26)	2,089	2,089	2,089	-	-
Total	13,129,369	14,961,523	9,603,571	1,619,369	3,738,583

At 31 December 2018	Carrying amount	Contractual payments	Less than 1 year	2 years	3 years and more
Bank loans (Note 24)	5,935,421	7,010,126	1,881,034	2,987,324	2,141,768
Bonded loan (Note 24)	2,991,385	3,296,397	2,668,873	627,524	-
Trade payables (Note 25)	92,757	92,757	92,757	-	-
Payables to employees (Note 25)	55,183	55,183	55,183	-	-
Other payables (Note 25)	185,046	185,046	185,046	-	-
Payables to related parties (Note 26)	3,488	3,488	3,488	-	-
Total	9,263,280	10,642,997	4,886,381	3,614,848	2,141,768

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Notes to the consolidated financial statements (continued)

28. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Fair value measurements of loans and borrowings are classified at Level 2 of the hierarchy; the remaining financial liabilities are classified at Level 3. During the year ended 31 December 2019, no transfers between levels of fair value hierarchy took place.

Management believes that the carrying amounts of the financial assets and financial liabilities recorded in the consolidated statement of financial position of the Group as at 31 December 2019 and 2018 approximate their fair values.

Capital management

The primary objective of the Group's capital management is to ensure that the Group has adequate funds to support the Group operations, to maximize shareholders' value and to ensure sustainable solvency.

The Group's equity comprises its charter/share capital, retained earnings and additional paid-in capital, which also includes share premium. In order to maintain or adjust its capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new shares.

Loans and borrowings include short-term and long-term loans, bonds and payables to suppliers.

In the course of equity management, the Group mainly focuses on its gearing ratio. Acceptable level of the gearing ratio is at least 1:2.

29. Operating segments

For management purposes, the Group is divided into two reportable operating segments:

- 1) Retail and wholesale trade of footwear, accessories and related goods (sale of goods).
- 2) Issuance of cash loans.

Management of the Group evaluates performance of its operating segments on the basis of consolidated data prepared in accordance with the International Financial Reporting Standards. The segment performance indicator communicated to management of the Group is EBITDA of the segments, which represents operating earnings before interest, taxes, depreciation and amortization, and group-wide income and expenses.

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Notes to the consolidated financial statements (continued)

29. Operating segments (continued)

EBITDA of the reporting segments includes items of income and expenses, which are directly attributable to the segment on a reasonable basis:

- ▶ Revenue;
- ▶ Cost of sales;
- ▶ Selling and distribution expenses;
- ▶ Administrative expenses allocated to segments:
 - ▶ Allowance for expected credit losses on cash loans;
 - ▶ Allowance for expected credit losses on receivables from retail customers;
 - ▶ Allowance for expected credit losses on receivables from wholesale customers;
 - ▶ Allowance for impairment of advances issued.
- ▶ Other income/expenses allocated to segments:
 - ▶ Income/expenses from transfer of right to claim on installments receivable and from cash loans to individuals;
 - ▶ Foreign exchange differences;
 - ▶ Write-down of accounts receivable/payable and advances issued;
 - ▶ Penalties received;
 - ▶ Write-off of goods for resale.

The following expenses are not allocated to segments:

- ▶ Other administrative (corporate) expenses, other (corporate) operating income and expenses;
- ▶ Depreciation of property, plant and equipment and amortization of intangible assets;
- ▶ Finance income and expense;
- ▶ Income tax expense.

Assets are not allocated to operating segments and are not subject to analysis by an operating decision-maker.

Analysis of financial information on reporting segments analyzed by management for the years ended 31 December 2019 and 2018 is presented in the table below.

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Notes to the consolidated financial statements (continued)

29. Operating segments (continued)

Revenue and EBITDA of reporting segments for the year ended 31 December 2019 comprise the following:

2019	Sale of goods	Issuance of cash loans
Revenue		
Revenue from external customers	11,574,535	2,127,962
Cost, selling and administrative expenses	(8,680,635)	(457,091)
Charge of allowance for expected credit losses	(166,766)	(329,260)
Other income (direct)	147,915	–
Other expenses (direct)	(68,208)	–
Segment EBITDA	2,806,841	1,341,611

Reconciliation of EBITDA of reporting segments and net profit for the year ended 31 December 2019 is presented in the table below:

Total EBITDA of segments	4,148,452
<i>Unallocated items by segment:</i>	
Depreciation of property, plant and equipment and amortization of intangible assets	(271,260)
Depreciation of right-of-use assets	(69,517)
Administrative (corporate) expenses	(506,673)
Other (corporate) income	53,972
Other (corporate) expenses	(113,231)
Finance income	32,650
Finance expense	(1,150,628)
Income tax expense	(436,377)
Net profit	1,687,388

Revenue and EBITDA of reporting segments for the year ended 31 December 2018 comprise the following:

2018	Sale of goods	Issuance of cash loans
Revenue		
Revenue from external customers	10,040,338	1,514,145
Cost, selling and administrative expenses	(7,222,410)	(372,012)
Charge of allowance for expected credit losses	(172,058)	(247,477)
Other income (direct)	161,143	–
Other expenses (direct)	(65,663)	–
Segment EBITDA	2,741,350	894,656

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Notes to the consolidated financial statements (continued)

29. Operating segments (continued)

Reconciliation of EBITDA of reporting segments and net profit for the year ended 31 December 2018 is presented in the table below:

Total EBITDA of segments	3,636,006
<i>Unallocated items by segment:</i>	
Depreciation of property, plant and equipment and amortization of intangible assets	(263,109)
Administrative (corporate) expenses	(534,309)
Other (corporate) income	9,792
Other (corporate) expenses	(256,721)
Finance income	50,940
Finance expense	(870,294)
Income tax expense	(440,502)
Net profit	1,331,803

30. Subsequent events

In December 2019 the Group began and on 6 January 2020 it completed placement of 1,000,000 (one million) 5 year stock-exchange bonds (identification number 4B02-02-00412-R-001P dated 9 December 2019) under a stock-exchange bond program of Obuv' Rossii LLC (identification number 4-00412-R-001P-02E dated 24 December 2018). The nominal value of the bonds is RUB 1,000 (one thousand of Russian rubles) each; the coupon rate is 12.0% p.a.

Due to the recent rapid spread of the coronavirus COVID-19 pandemic, many countries, including the Russian Federation, introduced quarantine measures that significantly affected the level and volume of business activity of the market participants.

It is expected that both the pandemic and the response measures negatively affect entities in various industries.

Since March 2020, there is a significant volatility on equity, currency and commodity markets, including the depreciation of Russian ruble against US dollar and euro.

Currently, the Group's management is analyzing possible impacts of changing micro and macroeconomic conditions on the financial position and results of the Group. The Group believes that these events may affect its operations, i.e. result in a lower buying activity, a possible decline of demand, higher prices for goods and services, which may negatively affect the cash flows of the Group.

Currently, the Group is performing certain measures aimed to stabilize the situation. It is set to expand its footwear production to mitigate foreign currency and import-related risks, as well as to reduce international business uncertainties and dependence on external markets. In the short-term perspective, the effect of the currency risks will not be significant for the Group as it made prepayments for goods and has no debt denominated in foreign currency.

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Notes to the consolidated financial statements (continued)

30. Subsequent events (continued)

In the short-term perspective, the Group's expectations in respect of the consumer demand for the footwear remain at least at the average annual level. To mitigate the risks of lower demand and lower traffic in offline stores, the Group diversifies the range of its products and services, supply and distributions channels.

The Group considers the pandemic as a non-adjusting event after the reporting period that cannot be reliably measured at the moment.

General Director

A.M. Titov

30 March 2020