Walsburg Investments Limited

Consolidated financial statements

for the year ended 31 December 2020

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Walsburg Investments Limited

Board of Directors and other corporate information

Director:	Christodoulos Ioannou A.J.K. Administration Services Limited (Alternate Director)
Independent auditors	Ernst & Young Cyprus Limited Certified Public Accountants and Registered Auditors Jean Nouvel Tower 6, Stasinou Avenue PO Box 21656 1511, Nicosia, Cyprus
Registered office:	3 Afentrikas, Apt. 102-1 6018, Larnaca, Cyprus
Registration number:	C337207

Walsburg Investments Limited

Management report

The Board of Directors presents its report and audited consolidated financial statements of Walsburg Investments Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2020.

Incorporation

The Company was incorporated under the Laws of the Republic of Cyprus on the 27 October 2014. Its registered office is at 3 Afentrikas, Apt. 102-1, 6018, Larnaca, Cyprus.

Principal activity

The principal activity of the Group, which is unchanged from last year, is retail sale of men's wear under the Henderson and Hayas brands.

Branches

The Company did not operate through a branch during the year 2020 and 2019.

Review of current position, future developments and significant risks

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

The Board of Directors does not anticipate any changes in the Company's activity in the foreseeable future.

The main risks and uncertainties faced by the Group and the steps taken to manage these risks, are described in Note 26 and 27 of the consolidated financial statements.

Results

The Group's results for the year are set out on page 8.

The loss of the Group for the year amounted to RUB 73,234 thousand (income for 2019: RUB 67,736 thousand).

Dividends

The Company did not declare dividends for 2020 and for 2019.

Share capital

During the year, there were no changes to share capital of the Company.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2020 and at the date of this report are presented on page 1. All of them were members of the Board of Directors throughout the year ended 31 December 2020.
There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Events after the reporting period

Any significant events that have occurred after the end of the reporting period are described in note 28 to the consolidated financial statements.

Independent auditors

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

By order of the Board of Directors,

Christodoulos Ioannou
Director

Larnaca

30 June 2021

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Independent auditors' report

To the Members of Walsburg Investments Limited

Opinion

We have audited the consolidated financial statements of Walsburg Investments Limited (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 7 to 46 and comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements 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 give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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Responsibilities of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion.

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Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient 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 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.

Report on Other Legal Requirements

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

- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matter

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

Andreas Avraamides
Certified Public Accountant and Registered Auditor

for and on behalf of Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
2 July 2021

Walsburg Investments Limited

Consolidated statement of financial position

as at 31 December 2020

(in thousands of Russian rubles)

	Notes	As at 31 December 2020	As at 31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	7	787,678	826,094
Right-of-use assets	15	4,715,414	5,421,873
Advances for capital repairs		17,276	18,621
Intangible assets	8	49,133	47,190
Deferred tax assets	24	78,358	27,811
Long-term loans issued	9	11,621	8,452
		5,659,480	**6,350,041**
Current assets			
Inventories	10	2,633,161	2,327,474
Trade receivables		4,298	11,507
Other receivables		15,963	30,379
Advances paid	11	163,763	266,426
Taxes receivable	12	15,660	17,790
Prepaid expenses		21,102	23,381
Cash and cash equivalents	13	97,939	92,710
		2,951,886	**2,769,667**
Total assets		**8,611,366**	**9,119,708**
Equity and liabilities			
Equity attributable to shareholders of the Parent			
Share capital	14	26,766	26,766
Presentation currency translation reserve		(85,635)	(21,043)
Retained earnings		216,907	290,141
Total equity		**158,038**	**295,864**
Non-current liabilities			
Long-term lease liabilities	15	4,116,667	4,530,068
		4,116,667	**4,530,068**
Current liabilities			
Trade payables	16	988,945	680,507
Other payable		6,226	2,665
Accrued expenses	17	194,042	177,424
Taxes payable	18	229,866	272,520
Income tax payable		52,961	57,323
Deferred revenue		192,734	127,896
Short-term lease liabilities	15	1,000,669	1,028,616
Short-term loans and borrowings	19	1,671,218	1,946,825
		4,336,661	**4,293,776**
Total liabilities		**8,453,328**	**8,823,844**
Total equity and liabilities		**8,611,366**	**9,119,708**

On 30 June 2021 the Board of Directors of Walsburg Investments Limited authorised these consolidated financial statements for issue.

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Christodoulos Ioannou
Director

Walsburg Investments Limited

Consolidated statement of comprehensive income

for the year ended 31 December 2020

(in thousands of Russian rubles)

	Notes	2020	2019
Revenue	20	6,801,899	7,566,733
Cost of sales	21	(2,660,010)	(2,747,613)
Gross profit		**4,141,889**	**4,819,120**
Selling, general and administrative expenses	22	(3,721,449)	(3,830,545)
Other operating expenses		(98,982)	(96,061)
Other operating income	25	420,493	34,971
Operating profit		**741,951**	**927,485**
Finance costs	23	(725,265)	(848,084)
Interest income		2,771	3,305
Foreign exchange (loss)/gain		(83,368)	175,134
Other non-operating expenses		(6,107)	(30,603)
(Loss)/Profit before tax		**(70,018)**	**227,237**
Income tax expense	24	(3,216)	(159,501)
(Loss)/Profit for the year		**(73,234)**	**67,736**
Other comprehensive (loss)/income			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods (net of tax):			
Effect on translation to presentation currency		(64,592)	2,549
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods.		**(64,592)**	**2,549**
Other comprehensive (loss)/income for the year, net of tax		**(64,592)**	**2,549**
Total comprehensive (loss)/income for the year, net of tax		**(137,826)**	**70,285**

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

Walsburg Investments Limited

Consolidated statement of cash flows

for the year ended 31 December 2020

(in thousands of Russian rubles)

	Notes	2020	2019
Cash flows from operating activities			
Profit before tax		(70,018)	227,237
Adjustments for:			
Depreciation of property, plant and equipment	7	206,523	190,968
Amortization of intangible assets	8	42,604	30,043
Depreciation of right-of-use assets	15	1,159,721	1,158,932
Loss on disposal of property, plant and equipment		1,930	10,525
Foreign exchange income		(8,992)	(179,283)
Finance costs	23	725,265	848,084
Interest income		(2,771)	(3,305)
Reverse of impairment of property, plant and equipment	7	(6,233)	(9,350)
Write-off of payables		(19,972)	-
Loss on disposal of a subsidiary		10,380	-
Covid-19-Related Rent Concessions	25	(392,436)	-
Loss on disposal of right-of-use assets	14	5,869	-
Impairment/(Reversal of impairment) of goods for resale	10, 21	22	(1,426)
Impairment/(Reversal of impairment) of materials	10	2,954	(13,170)
Cash flows used in operating activities before working capital changes		**1,654,846**	**2,259,255**
Decrease in trade receivables		7,209	1,917
Decrease in other receivables		14,416	5,954
Decrease in advances paid		102,663	29,631
Decrease in taxes receivable		2,130	75,276
Increase in prepaid expenses		2,279	(8,225)
Increase in inventories		(308,663)	(276,005)
Decrease in lease deposits		-	100,969
(Decrease)/Increase in trade payables		308,438	(138,841)
Increase in other payable		3,561	2,664
Increase in taxes payable		(47,016)	66,348
Increase in accrued expenses		16,618	19,765
Increase in deferred revenue		64,838	7,759
Cash flows from operating activities		**1,821,319**	**2,146,467**
Income tax paid		(59,730)	(98,578)
Interest paid		(723,919)	(846,600)
Net cash from operating activities		**1,037,670**	**1,201,289**
Cash flows from investing activities			
Purchase of property, plant and equipment		(176,369)	(327,169)
Purchase of intangible assets		(44,547)	(52,869)
Proceeds from sale of property, plant and equipment		1,445	5,964
Granting of long-term loans		(3,169)	(4,846)
Interest received		-	3,305
Net cash used in investing activities		**(222,640)**	**(375,615)**
Cash flows from financing activities			
Proceeds from loans and borrowings		4,155,185	4,076,858
Repayment of loans and borrowings		(4,430,962)	(4,362,443)
Repayment of finance lease liabilities		–	–
Payments of principal portion of lease liabilities		516,226	857,023
Net cash used in financing activities		**(792,002)**	**(1,142,608)**
Effects of presentation currency exchange rate changes on cash and cash equivalents		(17,799)	(13,829)
Net (decrease)/increase in cash and cash equivalents		**23,028**	**(316,934)**
Cash and cash equivalents, beginning of year		92,729	423,473
Cash and cash equivalents, end of year	13	**97,939**	**92,710**

Walsburg Investments Limited

Consolidated statement of changes in equity

for the year ended 31 December 2020

(in thousands of Russian rubles)

	Share capital	Presentation currency translation reserve	Retained earnings	Total
As at 1 January 2019	26,766	(23,592)	222,405	225,579
Profit for the year	–	–	67,736	67,736
Other comprehensive income	–	2,549	–	2,549
Comprehensive income for the period	–	**2,549**	**67,736**	**70,285**
As at 31 December 2019	**26,766**	**(21,043)**	**290,141**	**295,864**
Loss for the year	–	–	(73,234)	(73,234)
Other comprehensive loss	–	(64,592)	–	(64,592)
Comprehensive loss for the period	–	**(64,592)**	(73,234)	**(137,826)**
As at 31 December 2020	**26,766**	**(85,635)**	**216,907**	**158,038**

Companies, which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the ultimate shareholders are both Cyprus tax resident and Cyprus domiciled. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

(all amounts are in thousands of Russian rubles unless otherwise indicated)

1. Corporate information

These consolidated financial statements of Walsburg Investments Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2020 were authorized for issue by the Board of Directors of Walsburg Investments Limited on 30 June 2021.

The Company was incorporated under the Laws of the Republic of Cyprus on the 27 October 2014. Its registered office is at 3 Afentrikas, Apt. 102-1, 6018, Larnaca, Cyprus.

The Group is engaged in the retail sale of men's wear under the Henderson and Hayas brands.

All of the Group's operational activities are conducted in the Russian Federation. Central office of the Group is located at 34, Repina Street, Khimki, Moscow region, Russian Federation, 141400.

Principal activities of the Group's subsidiaries all of which are incorporated in the Russian Federation, and the actual percentage ownership are as follows:

Company	**Country**	**Principal activities**	**Ownership interest 2020**	**Ownership interest 2019**
TAMI & Co. LLC	Russia	Retail	100%	100%
CJSC Greenters	Russia	Retail	–	100%
Grif-Vityaz D LLC	Russia	Purchase of goods	100%	100%

On the 26th of May 2020 100% shares of CJSC Greenters have been sold by Walsburg Investment Limited to a third party for EUR 150 and therefore CJSC Greenters no longer consolidated.

The Company's shareholder structure as at 31 December 2020 and 2019 was as follows:

Shareholder	**31 December 2020** Number of shares	**31 December 2020** Ownership interest, %	**31 December 2019** Number of shares	**31 December 2019** Ownership interest, %
Rubun Global Corp.	400,000	100%	400,000	100%
	400,000	**100%**	**400,000**	**100%**

Head office registered address of Rubun Global Corp: 33 Porter Road P. O. Box 3169, Road Town, Tortola, British Virgin Islands. Registered office in Cyprus: Afentrikas, 3, Flat/Office 102-1, 6018, Larnaca, Cyprus.

The Group's ultimate beneficiary is Mr. Ruben Arutyunyan.

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

2. Basis of preparation (continued)

Basis of accounting

The consolidated financial statements have been prepared under a historical cost convention. The consolidated financial statements are presented in Russian rubles ("RUB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group's operating companies maintain their accounting records in Russian rubles ("RUB") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these consolidated financial statements in accordance with IFRS as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

Going concern

These consolidated financial statements are prepared on a going concern basis. In determining whether this basis is appropriate (i.e. whether the Group will continue as a going concern for the foreseeable future), the management considered all factors likely to affect the Group's future development, performance and its financial position, including cash flows, liquidity position and borrowing facilities and the risks and uncertainties related to its business activities.

The Group generated net loss for the year of RUB 73,234 thousand (2019: net income of RUB 67,736 thousand). The Group generated losses due to influences of the COVID-19 as stores stopped sales to customers in premises due to lockdown measures in the April-June 2020. During this period, the group suffered significant losses to maintain its business, however other months were profitable. Group's current liabilities exceed current assets by an amount of 1,384,775 thousand RUB at 31 December 2020 (31 December 2019: 1,524,109 thousand RUB). However, as the main part of short-term loans and borrowings (1,898,200 thousand RUB) was repaid in 2021 (note 28) and Short-term lease liabilities are repaid according to the payment schedule, management evaluates that the Group will continue as a going concern for at least 12 months after the reporting date.

3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries).

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

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

3. Basis of consolidation (continued)

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 elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the holding company, using consistent accounting policies. All inter-group balances, transactions, unrealized gains and losses resulting from operations within the Group and dividends are entirely eliminated. Losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the ownership interest of a subsidiary, without a loss of control, are accounted for as equity transactions. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- 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 resulting surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings as appropriate.

4. Summary of significant accounting policies

Business combinations

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

4. Summary of significant accounting policies (continued)

Business combinations (continued)

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date in the statement of comprehensive income. Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in profit or loss in the statement of comprehensive income or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the acquired subsidiary's net assets exceeds the consideration transferred, the difference is recognized in the statement of comprehensive income.

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

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

Transactions with companies under common control

Acquisitions of companies under control of the same shareholders that control the Group, are recognized retrospectively, thus consolidating the original carrying amount of the acquiree's assets and liabilities and the carrying amount of the Company's assets and liabilities. The Group's consolidated financial statements for prior periods are restated retrospectively to reflect the results of the acquisition as if it had occurred in the period when the companies were under common control. The difference between the consideration paid and the net assets acquired is recognized in equity.

Disposal of companies under common control is accounted for on the basis of retrospective review of financial statements to reflect the effect of disposal as if it had occurred in the period when the companies were under common control. Any difference between the disposal proceeds and the value of the disposed net assets is taken to equity.

4. Summary of significant accounting policies (continued)

Foreign currency translation

The Group's consolidated financial statements are presented in Russian rubles (RUB), which is the functional currency of the Group's operating companies. The functional currency of the company incorporated in Cyprus is the US dollar. Each entity within the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group applies the direct consolidation method, whereby upon the disposal of a foreign operation the Group reclassifies the related foreign exchange gains and losses, resulting from the use of this method of consolidation, to profit or loss.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group companies at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate at the reporting date.

All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognized in other comprehensive income until the net investment is disposed, at which time they are recognized in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

ii) Companies of the Group

The assets and liabilities of foreign operations are translated into Russian rubles at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign subsidiary, the component of other comprehensive income relating to that particular foreign subsidiary is recognized in the income statement.

Revenue recognition

The Group recognizes its sales revenue when the goods are sold through its retail stores. Retail sales are settled with cash, as well as through the use of bank cards. Revenue is recognized at the fair value of the consideration received or receivable, net of VAT, reduced by the estimated returns of goods by customers. The Group uses the historical data on terms and frequency of returns in order to assess and accrue provision for such returns as at the date of sale.

4. Summary of significant accounting policies (continued)

Gift cards

The Group sells gift cards to customers through its retail stores. Each card has a certain maturity. The Group recognizes revenue from the gift cards at the earlier of the card amount fully used or the expiration date.

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in investment income in the income statement.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any.

Such cost includes expenditures for major improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repair and maintenance costs are recognized in the consolidated statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost of assets, other than land and construction in progress, using the straight-line method over their estimated useful lives. The estimated useful lives of the respective assets are as follows:

	Useful life, years
Leasehold improvements	10
Trade equipment	2-6
Other property, plant and equipment	1-8

Other property, plant and equipment includes office equipment and other relatively small groups of property, plant and equipment.

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

Intangible assets

Intangible assets acquired separately are measured at cost, net of any accumulated amortization and accumulated impairment loss. Amortization is calculated on a straight-line basis over the expected useful life of an asset.

4. Summary of significant accounting policies (continued)

Intangible assets (continued)

Subsequent to initial recognition, lease rights and other intangible assets acquired in a business combination are reported at cost less any accumulated amortization and accumulated impairment losses using the same principles as applied to intangible assets acquired separately.

Useful lives for amortization calculation are as follows:

Intangible asset	Useful life, years
Software	2-5
Website	3

Impairment of non-current assets

At each reporting date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication of impairment of such assets. If any such indication exists, the Group estimates the asset's recoverable amount to determine the amount of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

4. Summary of significant accounting policies (continued)

Group as a lessee

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The Group's right-of-use assets comprise leased buildings and transport with depreciation periods mostly ranging from 2 to 10 years.

Right-of-use assets obtained as part of acquisition of business are recognised at an amount equal to the lease liabilities and lease payments made at or before the acquisition date and adjusted to reflect the favourable terms of the lease relative to market terms.

Where an indication of impairment exists, the recoverable amount of any right-of-use assets is assessed and, when impaired, the asset is written down to its recoverable amount.

Lease liabilities

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

Lease liabilities obtained as part of acquisition of business are recognised at the present value of the remaining lease payments at the date of acquisition,

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

In the consolidated financial statement of cash flows payments of principal portion of lease liabilities are recognised as cash outflows related to financing activities, payments of interest portion of the lease liabilities are recognised within operating cash flows.

4. Summary of significant accounting policies (continued)

Leases (continued)

Short-term leases

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

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost comprises direct costs of goods, transportation and handling costs. Cost is determined using weighted average method. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.

Value-added tax

Value-added taxes ("VAT") related to sales of finished goods, goods for resale and are payable to the tax authorities upon shipment of goods to the customer. VAT incurred for purchases may be generally reclaimed, against VAT related to sales. VAT recoverable and receivable is included in trade and other receivables line of the consolidated statement of financial position.

Dividends

Dividends on ordinary shares are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Provisions

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

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

Income tax

Income tax expense comprises current and deferred tax. Income tax has been computed in accordance with the laws of the countries where the Group operates.

4. Summary of significant accounting policies (continued)

Income tax (continued)

Current income tax is measured at the amount of taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized, except:

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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 income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled and that reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

4. Summary of significant accounting policies (continued)

Income tax (continued)

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

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

Pension benefits

The operating entities of the Group make contributions to the Russian Federation state pension fund, as well as to medical and social insurance funds, on behalf of their employees. All related costs are expensed when incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the statement of comprehensive income in the period they occur. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

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

All other borrowing costs are expensed in the period when they occur.

Financial assets

General description

The Group's financial assets are classified as either financial assets at fair value through profit or loss or financial assets held-to-maturity and available-for-sale and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined on initial recognition.

4. Summary of significant accounting policies (continued)

Financial assets (continued)

General description (continued)

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All purchases or sales of financial assets that require the delivery of assets within a timeframe established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e. the date when the Group commits to purchase or sell the asset.

Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset.

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate method. Interest income is included in investment income in the statement of comprehensive income.

Loans and receivables

Receivables attributable to core activities, loans issued and other receivables with fixed or determinable payments that do not have a quoted market price are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Cash and cash equivalents

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

Impairment of financial assets

Before 1 January 2018, the Group assesses, at each reporting date, whether there is any objective evidence that a financial asset is impaired. An impairment loss is recognized when there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the respective allowance. Subsequent recoveries of amounts previously written off are credited against the impairment allowance. Changes in the carrying amount of the allowance account are recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date, except for available-for-sale equity instruments.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for all debt instruments not held at fair value through profit or loss. The Group recognises an allowance for expected credit losses (ELCs) for all debt instruments not held at fair value through profit or loss.

ELCs are based on the differences between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ELCs are recognized in two stages. For financial exposures for which there has not been a significant increase in credit risk since initial recognition, ELCs are provided for the credit losses that result from default events that are possible within the next 12-months (at 12-months ECL). For those credit exposure for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

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

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Disposal of financial assets

A financial asset is derecognized when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing control of the asset.

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.

Continuing control that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities and equity instruments issued by the Group

Equity instruments

Classification into liabilities or equity

Debt and equity financial instruments are classified as liabilities or equity based on the substance of the contractual arrangements.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are carried at the amount of proceeds received, less any attributable costs of the issuance.

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

Financial liabilities

Financial liabilities of the Group that include loans and borrowings, trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently recognized at amortized cost using the effective interest rate method. Interest expenses are recognized on an effective yield basis. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that discounts the estimated future cash flows through the expected life of the financial liability or a shorter period, where appropriate, to the net carrying amount of the financial liability.

Derecognition of financial liabilities

A financial liability is derecognized by the Group when, and only when, the liability is discharged or cancelled or expires.

Fair value of financial instruments

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

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

Changes in accounting policies

Adoption of new and revised International Financial Reporting Standards and Interpretations

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2020. Standards, Interpretations and amendments other than those described below effective 1 January 2020 did not have a material impact on the financial position or performance of the Group.

New and amended standards and interpretations:

4. Summary of significant accounting policies (continued)

Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions – amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The effect of this amendment disclosed in Note 15.

(all amounts are in thousands of Russian rubles unless otherwise indicated)

Other standards and amendments, which were effective for annual periods beginning on or after 1 January 2020, had no impact on the consolidated financial statements of the Group.

Standards not yet effective for the financial statements for the year ended 31 December 2020	**Effective for annual periods beginning on or after**
► IFRS 17 Insurance Contracts	1 January 2023*
► Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	1 January 2023*
► Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018-2020 (All issued 14 May 2020)	1 January 2022*
► Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023*
► Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Error: Definition of Accounting Estimates	1 January 2023*

* *Subject to EU endorsement.*

The Group expects that the adoption of the pronouncements listed above will not have significant impact on the Group's results of operations and financial position in the period of initial application.

5. Significant accounting judgments and estimates

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

5. Significant accounting judgments and estimates (continued)

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

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; impairment of assets and taxation.

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit.

Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilizing the latest budget information available.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

Useful lives of property, plant and equipment

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

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

Useful life of leasehold improvements

The Group's leasehold improvements in stores used under operating leases are depreciated using the straight-line method over their estimated useful life beyond the legal expiry dates of operating lease agreements assuming leases will be renewed. Based on the history of the successful renewals of these agreements and pre-emptive rights for the prolongation of the lease agreements, the Group's management assumes a ten-year depreciation period for these leasehold improvements.

5. Significant accounting judgments and estimates (continued)

Inventory allowance

The Group determines the amounts to be written-down for obsolete or slow moving items of inventories based on their expected future use and realizable value. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Selling prices and costs to sale are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

Right-of-use assets

The Group periodically assesses whether there is any indication that right-of-use assets may be impaired. The Group performs assets impairment testing annually. The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss.

Taxation

The Group has obligations to pay income tax and other taxes. Significant judgment is required in determining the provision for income tax and other taxes due to the complexity of the Russian Federation tax legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

(all amounts are in thousands of Russian rubles unless otherwise indicated)

Lease term of contracts with extension options and termination options

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. For leases of retail stores the most relevant factors are profitability and revenue of particular stores, the value to the business in a particular region and investment strategy. For leases of warehouses and offices the most relevant factors are the value to the business, significance of termination penalties and significance of leasehold improvements' remaining value. At commencement of the lease such considerations generally result in determining the lease term equal to the non-cancellable lease period including the period covered by an option to terminate. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Incremental borrowing rates for calculation of lease liability

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Because there are normally no absolutely similar to lease agreements borrowings, which interest rates are observable in open market, the Group derives incremental borrowing rates from both internal and external data sources applying significant judgement in such calculations. The Group estimates incremental borrowing rates by using observable input data (such as the Russian government risk-free bonds), and uses certain estimates specific to the organization. Incremental borrowing rates are calculated on a monthly basis.

6. Balances and transactions with related parties

In the ordinary course of business the Group enters into transactions with related parties. The Group issues and receives loans and leases office premises. Related parties of the Group are represented by counterparties that are allied with the Group through key management and shareholders (Note 1). Transactions with related parties are made on terms not necessarily available to third parties. Outstanding balances as at the year-end are unsecured and interest free; settlement occurs in cash. There have been no guaranties provided or received for any related party receivables or payables. No significant expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Related party balances as at 31 December 2020 and 2019 consisted of the following:

	Shareholders of the Group		Other related parties	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Long-term loan issued (Note 9)	11,621	8,452	–	–
Long-term obligations under leases	–	–	614,428	712,055
Short-term obligations under leases	–	–	90,203	86,808
Advances to other suppliers (Note 11)	–	–	28	28,052
Trade receivables (Note 16)	–	–	306	270
Trade payables	–	–	752	6,542

(all amounts are in thousands of Russian rubles unless otherwise indicated)

In 2018 the Group entered into a credit facility agreement allowing borrowings to Rubun Global Corp. maturing in 5 years from the date of the borrowings. The borrowing was provided as of 13 April 2018 in amount USD 30,000, as of 20 April 2018 in amount USD 20,000, as of 24 January 2019 in amount USD 30,000, as of 11 October 2019 in amount USD 50,000, as of 10 April 2020 in amount USD 10,000, as of 7 August 2020 in amount USD 10,000, as of 21 October 2020 in amount USD 10,000 and as of 17 December 2020 in amount USD 4,000. The loan was partly returned as of 23 December 2020 in amount USD 20 500. Total principal amount of loan provided as of 31 December 2020 is USD 143 500 (10 601 thousand RUB). The borrowing bear 5.20% interest per annum, as of 31 December 2020 interest receivables 1 020 thousand RUB.

The Group's transactions with related parties for the years ended at 31 December 2020 and 2019 consisted of the following:

6. Balances and transactions with related parties (continued)

	Shareholders of the Group		Other related parties	
	2020	2019	2020	2019
Interest expense on lease liabilities (Note 23)	-	-	63,718	78,175
Rent and utilities (Note 22)	-	-	6,609	6,472

Short-term employee benefits of Group management for 2020 were RUB 66,336 thousand (2019: RUB 93,873 thousand).

7. Property, plant and equipment

Property, plant and equipment as at 31 December 2020 consist of the following:

	Leasehold improvements	Trade equipment	Other assets	PPE in unopened stores	Total
Cost					
At 1 January 2020	**566,456**	**763,285**	**327,563**	**14,610**	**1,671,914**
Acquisitions	32,906	96,121	32,400	16,287	177,714
Assets put into operation	22,714	-	-	(22,714)	-
Disposals	(18,735)	(21,249)	(1,384)	-	(41,368)
At 31 December 2020	603,341	838,157	358,579	8,183	1,808,260
Accumulated depreciation and impairment					
At 1 January 2020	**(233,383)**	**(384,914)**	**(227,522)**	**-**	**(845,819)**
Charged for the year (Note 22)	(58,845)	(101,458)	(46,220)	-	(206,523)
Disposals	13,956	17,804	-	-	31,760
At 31 December 2020	(278,272)	(468,569)	(273,742)	-	(1,020,582)
Net book value					
1 January 2020	**333,073**	**378,371**	**100,040**	**14,610**	**826,094**
At 31 December 2020	325,069	369,589	84,837	8,183	787,678

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

	Leasehold improvements	Trade equipment	Other assets	PPE in unopened stores	Total

Cost					
At 1 January 2019*	**487,967**	**652,417**	**402,663**	**8,588**	**1,551,635**
Acquisitions	64,063	147,144	60,978	53,752	325,937
Assets put into operation	47,730	-	-	(47,730)	-
Disposals	(42,654)	(36,276)	(136,078)	-	(215,008)
Reverse of Impairment	9,350	-	-	-	9,350
At 31 December 2019	566,456	763,285	327,563	14,610	1,671,914
Accumulated depreciation and impairment					
At 1 January 2019*	**(206,160)**	**(320,702)**	**(323,285)**	**-**	**(850,147)**
Charged for the year (Note 22)	(61,551)	(89,102)	(40,315)	-	(190,968)
Disposals	34,328	24,890	136,078	-	195,296
At 31 December 2019	(233,383)	(384,914)	(227,522)	-	(845,819)
Net book value					
1 January 2019*	**281,807**	**331,715**	**79,378**	**8,588**	**701,488**
At 31 December 2019	333,073	378,371	100,040	14,610	826,094

*Property, plant and equipment decreased by RUB 11,124 as of 1 January 2019 due to the effect of reallocation of Equipment under financial lease to Right-of-use assets (Cost: RUB 70 487 thousand, Accumulated depreciation: RUB 59,364 thousand).

In 2020, the Group did not acquire property, plant and equipment under finance lease agreements (2019: RUB - thousand).

8. Intangible assets

At 31 December 2020, intangible assets comprised the following:

	Software	Total
Cost		
At 1 January 2020	**155,898**	**155,898**
Acquisitions	44,547	44,547
At 31 December 2020	**200,445**	**200,445**
Accumulated depreciation and impairment		
At 1 January 2020	**(108,708)**	**(108,708)**
Charged for the year (Note 22)	(42,604)	(42,604)
At 31 December 2020	**(151,312)**	**(151,312)**
Net book value		
At 1 January 2020	**47,190**	**47,190**
At 31 December 2020	**49,133**	**49,133**

At 31 December 2019, intangible assets comprised the following:

	Software	Total
Cost		
At 1 January 2019	**175,194**	**175,194**

(all amounts are in thousands of Russian rubles unless otherwise indicated)

Acquisitions	52,869	52,869
Disposals	(72,164)	(72,164)
At 31 December 2019	**155,898**	**155,898**
Accumulated depreciation and impairment		
At 1 January 2019	**(150,829)**	**(150,829)**
Charged for the year (Note 22)	(30,043)	(30,043)
Disposals	72,164	72,164
At 31 December 2019	**(108,708)**	**(108,708)**
Net book value		
At 1 January 2019	**24,365**	**24,365**
At 31 December 2019	**47,190**	**47,190**

9. Long-term loans issued

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

	Interest rate	31 December 2020	Interest rate	31 December 2019
Rubun Global Corp. (Note 6)	5.20%	11,621	5.20%	8,452

10. Inventories

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

	31 December 2020	31 December 2019
Goods for resale	2,480,781	2,124,889
Packaging and other materials	111,497	134,719
Materials in processing	54,107	78,114
Provision for impairment of goods for resale (Note 21)	(164)	(142)
Provision for impairment of packaging and other materials	(13,060)	(10,106)
	2,633,161	**2,327,474**

As at 31 December 2020 goods in amount of RUB 1,110,573 thousand (2019: RUB 1,338,573 thousand) were pledged as collateral under the Group's long-term and short-term loan agreements (Note 19).

Provision for impairment of packaging and other materials is included in other operating expenses.

11. Advances paid

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

(all amounts are in thousands of Russian rubles unless otherwise indicated)

	31 December 2020	31 December 2019
Advances to suppliers – goods for resale	163,521	237,470
Advances to other suppliers – related parties (Note 6)	28	28,052
Other advances	214	904
	163,763	**266,426**

Other advances mainly consist of rent advances and other prepayments.

12. Taxes receivable

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

	31 December 2020	31 December 2019
Value added tax	7,929	3,896
Insurance contributions receivable	4,119	4,359
Other taxes receivable	3,612	9,535
	15,660	**17,790**

13. Cash and cash equivalents

Cash and cash equivalents consisted of the following as at 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Petty cash, in RUB	26,698	26,620
Cash in banks, in RUB	13,211	18,290
Cash in banks, in foreign currency	8,187	3,260
Cash in transit, in RUB	49,843	44,540
	97,939	**92,710**

As at 31 December 2020, the amount of Bank guarantees received is RUB 179,746 thousand.
Cash in transit represents cash collected by banks from the Group's stores, paid by bank cards in the Group's stores and not deposited in bank accounts as at 31 December 2020.

14. Share capital

At 31 December 2020 and 2019, authorized share capital was as follows:

	31 December 2020	31 December 2019

	No.	No.
Authorized share capital (ordinary shares with a par value of EUR 1.00)	400,000	400,000
Issued and fully paid share capital (with a par value EUR 1.00per share)	400,000	400,000

At 31 December 2020 and 2019, issued and fully paid share capital was as follows:

	No.	RUB'000
Balance of shares outstanding at 31 December 2019	400,000	26,766
Balance of shares outstanding at 31 December 2020	400,000	26,766

During 2020 and 2019 dividends were not declared and paid.

15. Leases

Group as a lessee

The Group has lease contracts for buildings and transport used in its operations. Leases of buildings generally have fixed lease terms between 2 and 10 years and contain extension options provided by the law. However vast majority of lease contracts include cancellation options on 2-12 months notice.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

15. Leases (continued)

Group as a lessee (continued)

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period 2020:

	Right-of-use assets	Lease liabilities
At 1 January 2020	**5,421,873**	**(5,558,864)**
Additions	952,814	(952,731)
Modifications	(171,736)	171,629
Disposals	(327,816)	321,947
Depreciation expense	(1,159,721)	–
Interest accrued	–	(486,229)
Payments	–	1,002,455
Covid-19-Related Rent Concessions	–	392,436
Effect of changes in foreign exchange rates	–	(7,979)
At 31 December 2020	**4,715,414**	**(5,117,336)**

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period 2019:

	Right-of-use	Lease

(all amounts are in thousands of Russian rubles unless otherwise indicated)

	assets	liabilities
At 1 January 2019	**5,642,576**	**(5,559,947)**
Additions	938,230	(934,083)
Depreciation expense	(1,158,932)	–
Interest accrued	–	(514,193)
Payments	–	1,371,217
Effect of changes in foreign exchange rates	–	78,323
At 31 December 2019	**5,421,873**	**(5,558,684)**

The expense related to variable lease payments not included in the measurement of lease liabilities for the year ended 31 December 2020 amounted to RUB 215,971 thousand (2019: RUB 121 951 thousand). Variable lease payments are mainly linked to sales generated from a store. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base. The expenses related to utility charge for the year ended 31 December 2020 amounted to RUB 50 323 thousand(2019: RUB 65,421 thousand).

Maturity analysis of the lease liabilities is disclosed in the Note 27.

16. Trade payable

Trade accounts payable as at 31 December 2020 and 2019 consisted of the following:

	31 December 2020	31 December 2019
Trade payables to third parties	988,193	673,965
Trade payables to related parties (Note 6)	752	6,542
	988,945	680,507

The average period of trade accounts payable turnover was 115 days in 2020 and 99 days in 2019. Interest may be charged on the outstanding balance based on market rates in accordance with certain agreements with vendors, however no significant amounts of interest were charged to the Group during the reporting period.

17. Accrued expenses

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

	31 December 2020	31 December 2019
Accrued salaries and wages	105,486	112,861
Accrued vacation provision	46,471	51,187
Other accrued expenses	42,085	13,376
	194,042	177,424

(all amounts are in thousands of Russian rubles unless otherwise indicated)

18. Taxes payable

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

	31 December 2020	31 December 2019
Value added tax	212,452	251,827
Personnel income tax	16,355	19,450
Other taxes	1,059	1,243
	229,866	**272,520**

19. Short-term loans and borrowings

Short-term loans and borrowings as at 31 December 2020 and 2019 consisted of the following:

	Weighted average interest rate	31 December 2020	Weighted average interest rate	31 December 2019
Short-term loans and borrowings				
Sberbank	8.05%	1,460,096	9.15%	1,299,819
Vozrozhdenie		-	9.45%	400,000
VTB	5.25%	211,122	8.98%	247,006
		1,671,218		**1,946,825**

19. Short-term loans and borrowings (continued)

Sberbank

In 2019 the Group entered also into a credit line agreement allowing borrowings of up to RUB 1,200,000 thousand, period of validity up to December 2022. The total amount outstanding as at 31 December 2020 is RUB 305,793 thousand include accrued interest of RUB 523 thousand maturing in July 2021.

In 2020 the Group entered also into a credit line agreement allowing borrowings of up to RUB 600,000 thousand, period of validity up to December 2022. The total amount outstanding as at 31 December 2021 is RUB 601,112 thousand include accrued interest of RUB 1,112 thousand maturing in December 2021.

In 2019 the Group entered also into a credit line agreement allowing borrowings of up to RUB 400,000 thousand, period of validity up to June 2022. The total amount outstanding as at 31 December 2020 is RUB 400,165 thousand include accrued interest of RUB 165 thousand maturing in October 2021.

In 2020 the Group entered also into a revolving credit line agreement allowing borrowings of up to RUB 442,500 thousand, period of validity up to September 2021. The total amount outstanding as at 31 December 2020 is RUB 153,026 thousand include accrued interest of RUB 126 thousand maturing in September 2021.

In 2020, the Group entered into a letter of credit with credit limit up to RUB 400,000 thousand, period of validity up to December 2023. As at 31 December 2020 there is no debt on the letter of credit

In 2020, the Group entered also into an overdraft credit line with credit limit up to RUB 300,000 thousand, period of validity up to February 2022. As at 31 December 2020 there is no debt on the loan.

As at 31 December 2020, credit lines are secured by a pledge of goods with the carrying amount of RUB 654,323 thousand.

VTB

In 2018 the Group entered into a credit line agreement allowing borrowings of up to RUB 300,000 thousand, period of validity up to April 2021. The total amount outstanding as at 31 December 2020 is RUB 211,121 thousand include accrued interest of RUB 621 thousand maturing in April 2021.

UniCredit Bank

In 2018 the Group entered into uncovered letters of credit line without postponed financing up to RUB 1,200,000 thousand, with period of validity up to January 2022. As at 31 December 2020 there is no debt.

As at 31 December 2020, uncovered letters of credit line are secured by a pledge of goods with the carrying amount of RUB 400,000 thousand.

19. Short-term loans and borrowings (continued)

Reiffeisen Bank

In 2018 the Group entered into uncovered letters of credit line without postponed financing up to RUB 400,000 thousand, with period of validity up to October 2021. As at 31 December 2020 there is no debt on the letter of credit.

Rosbank

In 2019 the Group entered intouncovered letters of credit line without postponed financing up to RUB 332,441 thousand period of validity up to December 2021. As at 31 December 2020 there is no debt on the contract.

CitiBank

In 2019, the Group entered into a letter of credit with credit limit up to RUB 328,747 thousand, period of validity up to March 2022. As at 31 December 2020 there is no debt on the letter of credit.

In 2019, the Group entered into a letter of credit with credit limit up to RUB 25,856 thousand, period of validity up to March 2022. As at 31 December 2020 there is no debt on the letter of credit.

As at 31 December 2020, credit is secured by a pledge of goods with the carrying amount of RUB 56,250 thousand.

20. Revenue

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

(all amounts are in thousands of Russian rubles unless otherwise indicated)

	2020	2019
Retail	6,339,522	7,456,085
Wholesale	259,997	33,031
Retail trade through an on-line store	202,380	77,617
	6,801,889	**7,566,733**

21. Cost of sales

Cost of sales, classified by types of operations, for the years ended 31 December 2020 and 2019 consisted of the following:

	2020	2019
Retail	2,558,333	2,735,619
Wholesale	101,357	11,994
	2,660,010	**2,747,613**

21. Cost of sales (continued)

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

	2020	2019
Cost of goods sold	2,659,987	2,749,039
Reversal of provision for impairment of goods (Note 10)	23	(1,426)
	2,660,010	**2,747,613**

22. Selling, general and administrative expenses

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

	2020	2019
Depreciation of Right-of-use assets (Note 15)	1,159,721	1,158,932
Payroll	1,056,876	1,151,699
Social Insurance Contributions	297,732	319,916
Depreciation of property, plant and equipment (Note 7)	206,523	190,968
Rent and utilities	262,400	180,900
Rent and utilities from related parties (Note 6)	6,609	6,472
Advertising	83,864	130,117
Transport expenses	97,702	115,530
Bank services	95,657	109,582
Consulting services	71,057	56,157
Security	22,954	54,995
Materials and packaging	39,727	40,719
Repair and maintenance of equipment	41,673	37,054
Amortization of intangible assets (Note 8)	42,604	30,043
Business trips	3,236	16,551
Audit fee	10,535	8,438

(all amounts are in thousands of Russian rubles unless otherwise indicated)

Property tax	5,293	6,274
Other expenses	217,286	216,198
	3,721,449	**3,830,545**

Average number of employees for 2020 is 1,388 employees (2019: 1,384).

23. Finance costs

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

	2020	2019
Interest on loans	184,658	269,682
Interest expense on lease liabilities	422,511	436,048
Interest expense on lease liabilities – related parties (Note 6)	63,718	78,145
Expenses on letters of credit	43,434	52,925
Bank guarantee	10,944	11,284
	725,265	**848,084**

24. Income tax

The Group's income tax expense for the years ended 31 December 2020 and 2019 consisted of the following:

	2020	2019
Consolidated statement of comprehensive income		
Current income tax	53,763	59,827
Adjustment in respect of current income tax of prior years	-	70,477
Deferred income tax	(50,547)	29,197
Income tax expense reported in the consolidated statement of comprehensive income	**3,216**	**159,501**

The movements for the years 2020 and 2019 in the Group's deferred tax position are as follows:

	2020	2019
Asset at the beginning of the year	27,811	57,008
Charged for the year	50,547	(29,197)
Deferred tax asset at the end of the year	**78,358**	**27,811**

The tax effect of the major temporary differences that lead to the deferred tax assets and liabilities as at 31 December 2020 and 2019 is as follows:

	Consolidated statement of financial position	Consolidated statement of comprehensive income

	As at 31 December 2020	As at 1 January 2020	2020	2019
Deferred tax assets				
Accrued expenses	51,911	40,699	11,212	24,352
Tax loss	-	-	-	(14,676)
Inventory	83	7,605	(7,522)	(6,981)
Lease liabilities	1,062,204	1,111,576	(49,372)	(186)
Other	4,814	23,228	(18,414)	(8,799)
Deferred tax liabilities				
Right of use assets	943,083	1,084,190	(141,107)	(44,094)
Property, plant and equipment	97,571	71,107	26,464	67,001
Net deferred tax asset	**78,358**	**27,811**	**50,547**	**(29,197)**

24. Income tax (continued)

The Company is resident in Cyprus for tax purposes and is taxed at rate 12.5%. The Group's key subsidiaries are residents of Russian Federation and are taxed at rate 20%. There were no material income from other jurisdictions. Reconciliation of tax expense and the accounting profit multiplied by tax rate in Russian Federation for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
(Loss)/profit before tax	(70,018)	227,237
Theoretical income tax (income)/expense at 20% tax rate in Russian Federation	(14,004)	45,477
Adjustments for:		
Current income tax of prior years	-	70,477
Effect of foreign exchange that is not deductible in determining taxable profit	38	81
Tax effect of other income/expenses that are not deductible in determining taxable profit	17,182	43,496
Income tax expense	**3,216**	**159,501**

25. Other operating income

	2020	2019
Covid-19-Related Rent Concessions	392,436	-
Other operating income	28,057	34,971
	420,493	**34,971**

26. Contingencies, commitments and operating risks

Operating environment

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

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

26. Contingencies, commitments and operating risks (continued)

Impact of COVID-19 and risks associated with COVID-19 pandemy

First identified in December 2019, the COVID-19 or coronavirus pandemic outbreak has impacted the global macroeconomic environment and caused coupled with certain other factors the volatility in the oil market and devaluation of the Russian ruble. The impact of the pandemic on the financial position of the Group is disclosed in Note 2. However, the future impact is still under assessment and monitored by the Group. As stores stopped sales to customers in premises due to lockdown measures and continue sales only through online sales, the most considerable sales drop (around 93%) is observed in the April-May 2020.

Given the unpredictable nature of the future events which will define the extent of the COVID-19 impact, the business of the Group may be materially affected if the Group is not able to respond to the situation promptly. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances of the global pandemic, however, its consequences are currently hard to predict. The main measures are: decrease of overhead expenses, negotiation with lessors of lease payment reduction or lease "holidays" during the lockdown period, promotion of e-commerce, etc.

Taxation

Russian tax, currency and customs legislation can be interpreted in different ways and is susceptible to frequent changes. The interpretation made by the Company's management of the legislation in question as applied to the operations and activities of the Company's enterprises may be challenged by the relevant regional or federal authorities.

In 2020, Russian tax authorities implemented mechanisms aimed at countering the use of low tax jurisdictions and aggressive tax planning structures for tax evasion. The concepts of beneficial ownership and tax residency of legal entities by place of actual business activity, permanent establishment, as well as the approach to taxation of controlled foreign companies in Russia were further elaborated.

The Russian tax authorities continue to keep a close eye on transactions of Russian companies with foreign companies of the group and carefully analyze them for economic feasibility and transparent documentary support using various sources of information (documents received from the taxpayer, inquiries of witnesses and counterparties, public data sources, etc.).

The Russian tax authorities continue to actively cooperate with their foreign counterparts as part of cross-border tax information exchange to make international business transactions more transparent and better justified in terms of the commercial purpose behind their international structures.

The legislation on international automatic exchange of information and documentation relating to multinational corporations (MNCs) has been implemented, requiring the preparation of documents on MNCs for financial years beginning on or after 1 January 2017. The new legislation sets out a three-tiered approach to preparing transfer pricing documentation (master file, local file and country-by-country report) and requires the filing of a notice on participation in the MNCs.

26. Contingencies, commitments and operating risks (continued)

Taxation (continued)

These rules apply to MNCs with consolidated revenue of RUR 50 billion or more in the financial year preceding the reporting period if the parent company is a Russian tax resident or the MNC's consolidated revenue exceeds the statutory threshold for the preparation of country-by-country reports established by regulations governing the preparation of country reports in a foreign state, of which the MNC's parent is the tax resident.

These changes, as well as recent trends in the application and interpretation of certain provisions of Russian tax legislation, indicate that the tax authorities may take a tougher line in interpreting the law and checking tax returns. As a result, tax authorities may raise questions about transactions and accounting methods which they did not question before. This may result in significant amounts of additional tax charges, penalties and fines being imposed. It is not possible to determine claim amounts for suits which may be, but have not actually been, filed, or to assess the likelihood of an adverse outcome. Tax audits may cover the three calendar years immediately preceding the year in which the audit occurs. In certain circumstances an audit can also cover earlier periods.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies not only for the periods open for tax audit but also for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist.

Management estimates that possible exposure in relation to the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times more than accrued liabilities and provisions reflected on the statement of financial position at that date. This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability.

Litigations

(all amounts are in thousands of Russian rubles unless otherwise indicated)

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position, operating results and cash flows.

Insurance

The Russian insurance market is in the process of development and many forms of insurance protection common in developed countries are not yet available in Russia. The Group does not fully cover many risks that a group of a similar size and nature operating in a more economically developed country would insure. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations and financial position.

27. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, finance leases and trade and other payables. The major objective of these financial liabilities is to finance the Group's transactions. The Group has loans issued, trade and other receivables, and cash that arrive directly from its operations. The Group is exposed to market risk, credit risk and liquidity risk.

The Group's management oversees the management of these risks.

Capital risk management

The Group's main objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns on equity for shareholders and to maintain an optimal structure to reduce the cost of capital.

The Group manages its capital based on the gearing and net financial debt to EBITDA before IFRS 16 ratios. EBITDA before IFRS 16 is calculated as operating profit/(loss) adjusted for depreciation of property, plant and equipment, depreciation of right-of-use assets and amortisation of intangible assets less operating lease expenses calculated based on per-IFRS 16 accounting policies. The target Total Debt / EBITDA ratio is 3.

The Group includes within net debt borrowings, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

	31 December 2020	31 December 2019
Short-term loans and borrowings (Note 19)	1,671,218	1,946,825
Less: cash and cash equivalents	(97,939)	(92,710)
Net financial debt	**1,573,279**	**1,854,115**
Profit for the year (Pre- IFRS 16)	158,676	246,604
Income tax (Pre-IFRS 16)	61,193	204,218
Net financial expense (Pre-IFRS 16)	236,285	330,586
Foreign exchange loss/(income) (Pre-IFRS 16)	75,389	(96,811)
Other non-operating expenses	-	30,603
Depreciation of property, plant and equipment (Note 7)	206,523	190,968
Amortization of intangible assets (Note 8)	42,604	30,043

(all amounts are in thousands of Russian rubles unless otherwise indicated)

Adjusted EBITDA before IFRS 16	**780,671**	**936,211**
Net debt / EBITDA	**2,02**	**1,98**

27. Financial risk management objectives and policies (continued)

Capital risk management (continued)

The Group also measures sufficiency of capital based on Pre-IFRS 16 equity and profitability.

IFRS 16 equity reconciles to Pre-IFRS 16 as follows:

	31 December 2020	31 December 2019
Total shareholder's deficit IFRS 16	158,038	295,864
Adjusted for:		
Derecognition of right-of-use assets	(4,715,414)	(5,421,873)
Recognition of PPE (finance lease)		3,223
Recognition of long term lease prepayments	76,514	86,076
Recognition of other receivables (current lease prepayment)	110,744	
Recognition of finance lease liabilities		(446)
Derecognition lease liabilities	5,117,336	5,558,684
Recognition of other payables (current lease payables)	(75,708)	(2,078)
Deferred tax effect	(102,695)	(44,717)
Total shareholder's equity Pre-IFRS 16	**568,816**	**474,732**

For informative purposes of change in Pre-IFRS 16 equity the Group also provides below reconciliation of IFRS 16 profit for the year to Pre-IFRS 16 profit for the year:

	Year ended 31 December 2020	Year ended 31 December 2019
Profit for the year (IFRS 16)	(73,234)	67,736
Adjusted for:		
Less:		
Depreciation of right-of-use assets	1,159,721	1,158,932
Loss from disposal of lease liabilities	5,869	-
Net foreign exchange (gain)/loss on lease liabilities	7,979	(78,323)
Unwind of discounting related to lease liabilities	(486,229)	514,193

(all amounts are in thousands of Russian rubles unless otherwise indicated)

Add:		
Operating lease expense	(1,369,730)	(1,371,217)
Income tax effect of the above	(57,977)	(44,717)
Profit for the year (Pre-IFRS 16)	**158,676**	**246,604**

Fair value

As at 31 December 2020 and 2019, the fair value of the Group's financial instruments approximates their carrying amount. Short-term loans and borrowings are classified as Level 2 within the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during the reporting period.

27. Financial risk management objectives and policies (continued)

Foreign currency risk management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's procurements of goods for resale from foreign suppliers resulting in attracting borrowings denominated a different currency from the Group's functional currency.

Foreign currency sensitivity

A part of Group's accounts payable and borrowings is denominated in currency. The following table demonstrates the sensitivity of the Group's profit before tax (due to possible changes in the fair value of monetary assets and liabilities) to reasonably possible changes in the USD, CNY and euro exchange rates, with all other variables held constant. The Group's exposure to foreign currency risk for other currencies is not material.

	Change in USD rate	Effect on profit before tax	Change in EUR rate	Effect on profit before tax	Change in CNY rate	Effect on profit before tax	Change in HKD rate	Effect on profit before tax
2020	+16.00%	20,948	+16.00%	(18,501)	+16.00%	(72,134)	+5.00%	(370)
	-16.00%	(20,948)	-16.00%	18,501	-16.00%	72,134	-13.00%	962

	Change in USD rate	Effect on profit before tax	Change in EUR rate	Effect on profit before tax	Change in CNY rate	Effect on profit before tax	Change in HKD rate	Effect on profit before tax
2019	+13.00%	48,367	+13.00%	(20,077)	+12.00%	(43,253)	+5.00%	(523)
	-11.00%	(40,926)	-11.00%	16,988	-6.00%	21,626	-2.00%	209

Interest rate risk management

(all amounts are in thousands of Russian rubles unless otherwise indicated)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term debt obligations with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises with respect to operating activities (primarily for trade and other receivables) and investing activities (cash, short-term financial assets).

27. Financial risk management objectives and policies (continued)

Credit risk management (continued)

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

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

The credit risk arising from the Group's investing activities is managed by the Group's management in accordance with the Group's policy. The Group engages only approved counterparties to invest surplus funds.

The maximum credit risk exposure as at the reporting date is represented by the carrying amount of each class of financial assets presented in the statement of financial position.

Liquidity risk management

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

Liquidity risk tables

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

	Weighted average effective interest rate, %	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
31 December 2020							
Trade and other payables	–	202,690	242,900	543,355	–	–	**988,945**
Lease liabilities	9.33%	118,818	239,528	1,082,234	4,314,225	849,609	**6,604,414**
Floating interest rate instruments	6.63%	–	-	1,752,062	-	–	**1,752,062**
		321,508	**482,428**	**3,377,651**	**4,314,225**	**849,609**	**9,345,421**

(all amounts are in thousands of Russian rubles unless otherwise indicated)

27. Financial risk management objectives and policies (continued)

Liquidity risk tables (continued)

	Weighted average effective interest rate, %	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
31 December 2019							
Trade and other payables	–	30,474	409,345	240,688	–	–	**680,507**
Lease liabilities	9.78%	129,912	261,808	1,184,855	5,188,319	1,042,167	**7,807,061**
Floating interest rate instruments	8.49%	–	1,253,201	744,208	-	–	**1,997,409**
Fixed interest rate instruments	12.00%	-	14,152	-	-	–	**14,152**
		160,386	**1,938,506**	**2,169,751**	**5,188,319**	**1,042,167**	**10,499,129**

The Group has access to financing facilities of RUB 6,329,544 thousand (2019: RUB 6,355,900 thousand), include loans in amount RUB 3,242,500 thousand of which RUB 1,573,830 thousand remains unused at 31 December 2020 (2019: RUB 1,780,660 thousand) and RUB 3,087,044 thousand of bank guarantees and letters of credit. The Group expects to meet its other obligations from operating cash flows and proceeds from maturing financial assets.

28. Events after the reporting date

The Group has assessed the impact of the coronavirus pandemic outbreak and preliminarily concluded that other than events described in Note 26 the impact has been limited on the financial position of the Group up to the date of this report. The impact of the coronavirus pandemic outbreak continues to evolve subsequent to the year ended 31 December 2020 and as of the date these consolidated financial statements are issued.

The pandemic did not have a significant impact on the group's strategy and long term development plans. By the date of authorisation of the financial statements for issue, all the stores are opened and are fully operational. There were no unplanned cancellations of lease agreements due to the COVID-19. The Management of the Group estimated that the losses due to the forced outage and the consequences of the pandemic did not have an impact on the ability to continue the Group's operating activity in the foreseeable future.

However, the full magnitude that the pandemic will ultimately have on the financial condition, liquidity and future results of operations of the Group is uncertain. The Group will continue to monitor the situation on the coronavirus pandemic outbreak and react immediately to mitigate any significant impacts on the operations and financial position of the Group.

Short-term loans and borrowing in the amount of 1,898,200 thousand RUB were repaid during 2021. In

2021 The Group has borrowed new short-term loans under current credit limits in amount of 1,648,698 thousand RUB and current liability is 1,419,168thousand RUB.

Other than above, there were no significant events after the reporting date, which have a bearing on the understanding of this consolidated financial statements.