O'KEY
GROUP OF COMPANIES

Annual Report 2019

FRESHNESS

& QUALITY FOR EACH FAMILY

FRESHNESS & QUALITY FOR EACH FAMILY

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ABOUT THE REPORT

This Annual Report 2019 (the "Report") has been prepared by O'KEY GROUP S.A. ("O'KEY Group", the "Group", or the "Company").

This Report discloses information on the implementation of the Group's strategy in 2019, presents the Group's operating and financial results, describes the Group's corporate governance framework and corporate social responsibility. The Report has been prepared based on consolidated IFRS financial statements for 2019.

The Report has been prepared based on the information available to the Group as at the time when this Report was prepared, including information obtained from third parties. The Company reasonably believes that this information is complete and accurate as at the publication date of this Report; however, it does not make any representation or warranty that this information will not be updated, revised, or otherwise amended in the future.

This Report includes estimates or forward-looking statements related to operating, financial, economic, social and other measures that can be used to assess the performance of O'KEY GROUP S.A. The Company does not make any representation or warranty that the results anticipated by such forward-looking statements will be achieved. The Company shall not be liable to any individual or legal entity for any loss or damage which may arise from their reliance on such forward-looking statements.

FURTHER INFORMATION

Further information regarding **O'KEY Group's strategy**, **our business** and **performance, approach to governance** and **risk** can be found on our corporate **website**

An archive of **annual** and **strategic reports** as well as a full suite of additional information materials is available at **www.okeygroup.lu**

About
O'KEY Group

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O'KEY Group is **one of the leading Russian food retailers**. Since the opening of our first hypermarket in St. Petersburg in 2002, we have continued to strive for excellence. We have grown to 178 stores across Russia under two major formats: hypermarkets under the O'KEY brand and discounters under the "DA!" brand.

We are the first among Russian major food retailers to launch and **successfully develop e-commerce** operations in St. Petersburg and Moscow, offering a full range of hypermarket products for home delivery.

2019 AT A GLANCE:

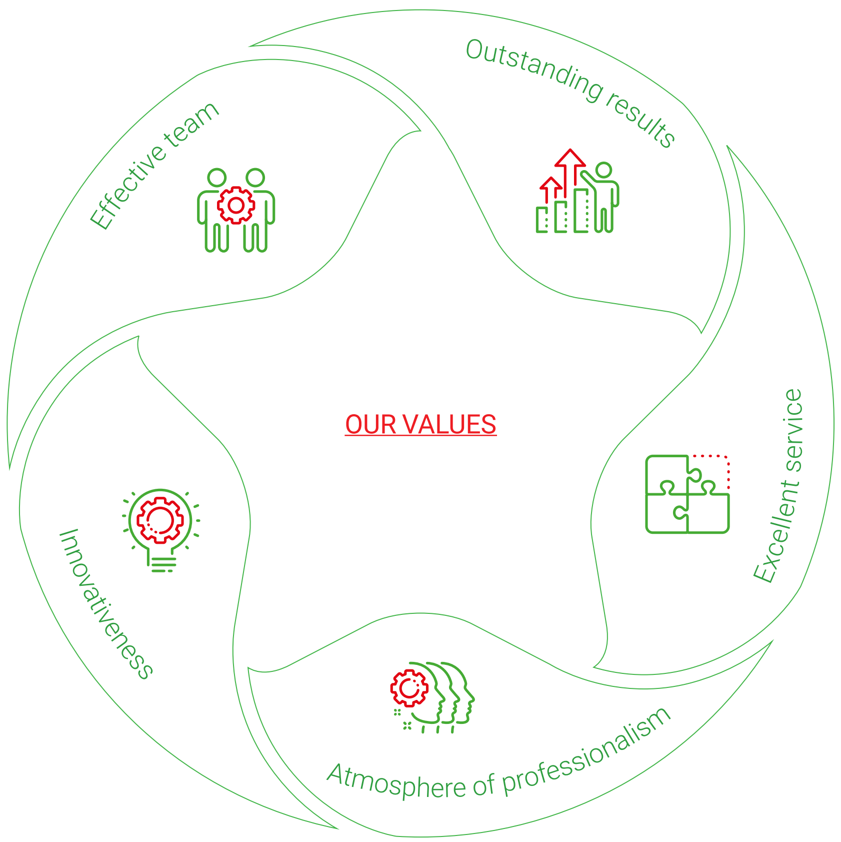
TOTAL GROUP REVENUE	TOTAL NUMBER OF HYPERMARKETS	TOTAL NUMBER OF DISCOUNTERS	ONLINE ORDERS IN 2019
RUB 165.1 bn	78	100	>600k
NEW STORE OPENINGS	**ORGANIC GROUP REVENUE GROWTH[1]**	**LFL DISCOUNTERS REVENUE GROWTH**	**NET PROFIT**
19	3.0 %	14.9 %	RUB 0.7 bn

OUR VISION

- The best city hypermarket
- The best value for money discounter

OUR MISSION

- We strive for excellence
- We offer fresh and high quality products to each family
- We provide a simple and easy shopping experience
- We aim to create an effective working environment



1/ Organic revenue (underlying revenue) – revenue excluding the effect of supermarket business sale.

Financial and Operational **Highlights**

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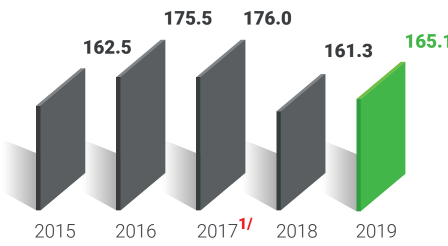
FINANCIAL HIGHLIGHTS

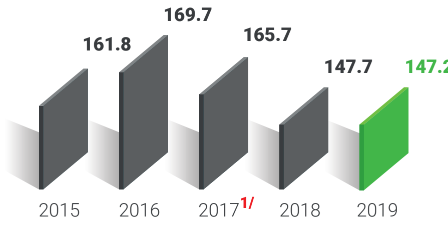
TOTAL REVENUE ▲2.3%

RUB 165.1 bn



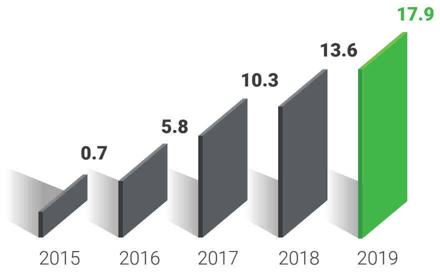
O'KEY REVENUE ▼0.3%

RUB 147.2 bn



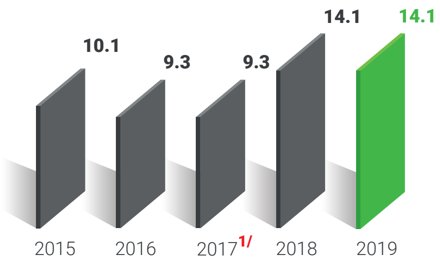
DA! REVENUE ▲31.5%

RUB 17.9 bn



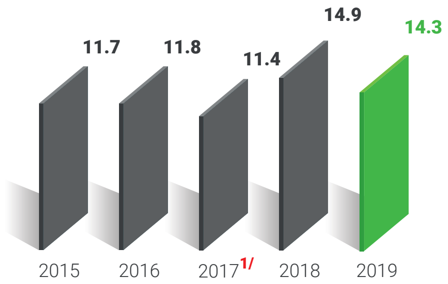
GROUP EBITDA 2/ ▲62.7%

RUB 14.1 bn



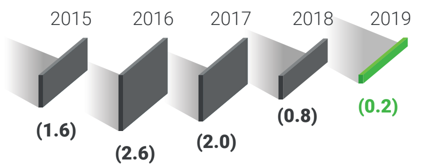
O'KEY EBITDA 2/ ▲37.1%

RUB 14.3 bn



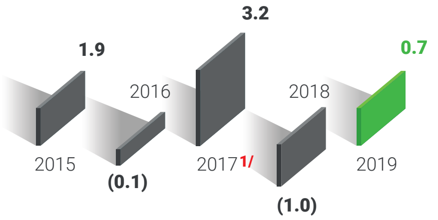
DA! EBITDA 2/ ▼87.8%

(RUB 0.2 bn)



NET PROFIT/LOSS

RUB 0.7 bn



More about **Financial Results** on page 40

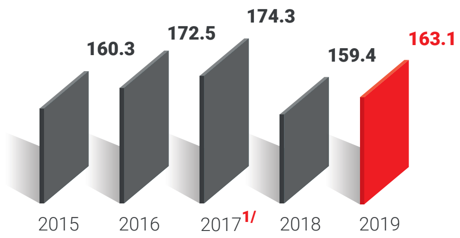
1/ In 2017 the Group sold its supermarket business, comprising of 32 supermarkets.

2/ EBITDA 2018-19 are presented under IFRS 16 lease standard. EBITDA 2015-17 are presented under IAS 17.

OPERATIONAL HIGHLIGHTS

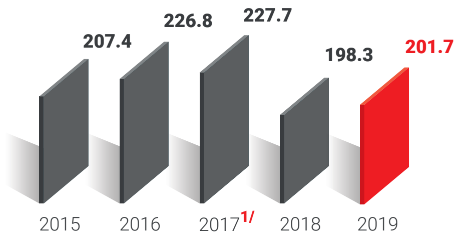
NET RETAIL REVENUE ▲2.4%

RUB 163.1 bn



TRAFFIC ▲2.1%

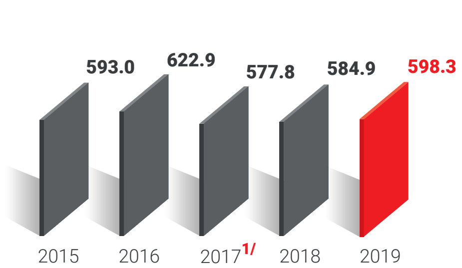
201.7 mln



More about **Operational Results** on page 22

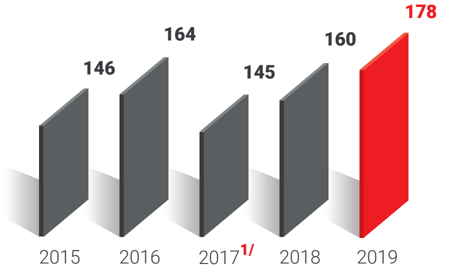
TOTAL SELLING SPACE ▲2.3%

598.3k m²



NUMBER OF STORES ▲11.3%

178 stores



Our Key **Strengths**

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OUR KEY STRENGTHS:

- A strong brand, well-known in major Russian cities
- Two shopping formats: hypermarkets and discounters, tailored to each customer's everyday needs
- Strong e-commerce platform: one of the leading online stores in Russia
- Strong fast-growing private labels and own products of high quality at affordable prices, as attested by multiple industry awards
- Wide selection of high quality fresh-category products
- Experienced international management team with unique multi-industry expertise
- Highly centralised logistics: four distribution centres in Moscow and St. Petersburg
- Cutting edge IT solutions

NUMBER OF STORES BY FORMAT (YEAR END)

HYPERMARKETS | **DISCOUNTER STORES ▲22%** | **TOTAL ▲11.3%**

OUR FORMATS

Hypermarkets

One of the retail market leaders in St. Petersburg, a strong presence in Moscow, Rostov-on-Don, Ekaterinburg, Krasnodar, Ufa and other major cities in Russia.

STORES	TOTAL SELLING SPACE	AVERAGE PRODUCT RANGE
78	**529k** m²	**>30k** SKUs
present in 26 cities in 6 Federal Districts		

Discounter stores

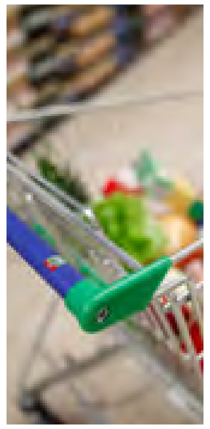
Fast-growing chain of stores in the most convenient locations providing a wide range of products and non-food items at the most attractive prices.

STORES	TOTAL SELLING SPACE	AVERAGE PRODUCT RANGE
100	**69.3k** m²	**2,520** SKUs
+19 new stores in 2019		

1/ Does not include the supermarket business consisting of 32 stores which was sold in 2017.

Highlights 2019

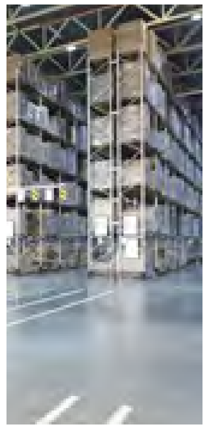
OPERATIONAL HIGHLIGHTS



19 DA! Discounter stores were opened in Moscow, Tver, Kaluga, Tula, and Ryazan regions, bringing the total number of discounter stores up to 100.

965 new Private Label products were introduced, including 879 new PL SKUs in "O'KEY" hypermarkets and 86 new PL SKUs in "DA!" discounters, with the total number of private label SKUs reaching 3,501.

The Assortment clusters were introduced in O'KEY hypermarkets, to standardise the assortment in stores and to increase on-shelf availability. Assortment was fully reviewed in all stores with focus on strengthening fresh and ultra-fresh categories.



The Axapta 12 (Microsoft Dynamics) solution was rolled out for distribution centres.

The "Fresh thinking" approach was implemented throughout our businesses, with improvement of internal processes, new standards and employee education.

The Hot Bread project within the O'KEY Bakery segment was launched in O'KEY Hypermarkets to provide our customers with freshly baked bread three times a day.

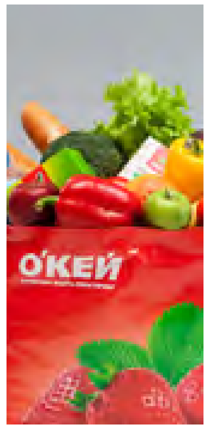
O'KEY private label products and own products were highly commended by the international Quality Guarantee awards.

CORPORATE GOVERNANCE HIGHLIGHTS

8 July 2019: RAEX affirmed O'KEY LLC, the main operating subsidiary of O'KEY Group S.A., a credit rating of 'ruA-' with a Stable outlook, reflecting the Group's stable position within the Russian food retail market.

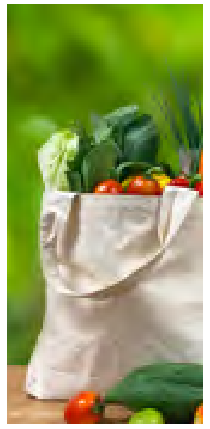
O'KEY Group focused on strengthening the top management team and made some appointments to key positions, with all new members possessing strong retail backgrounds.

SUSTAINABILITY HIGHLIGHTS



July 2019: O'KEY Group dispatched humanitarian aid to flood victims in Irkutsk.

October 2019: The Company launched its fourth "Kind Purchase" charitable fundraising campaign aimed at helping seriously ill children, in partnership with Rusfond, one of the oldest charitable foundations in Russia.



December 2019: O'KEY Group introduced a new Live Green corporate policy.

December 2019: The Company held its second "100% professional" contest for O'KEY employees which included its chief, baker and cashiers, with approximately 7,000 participants.

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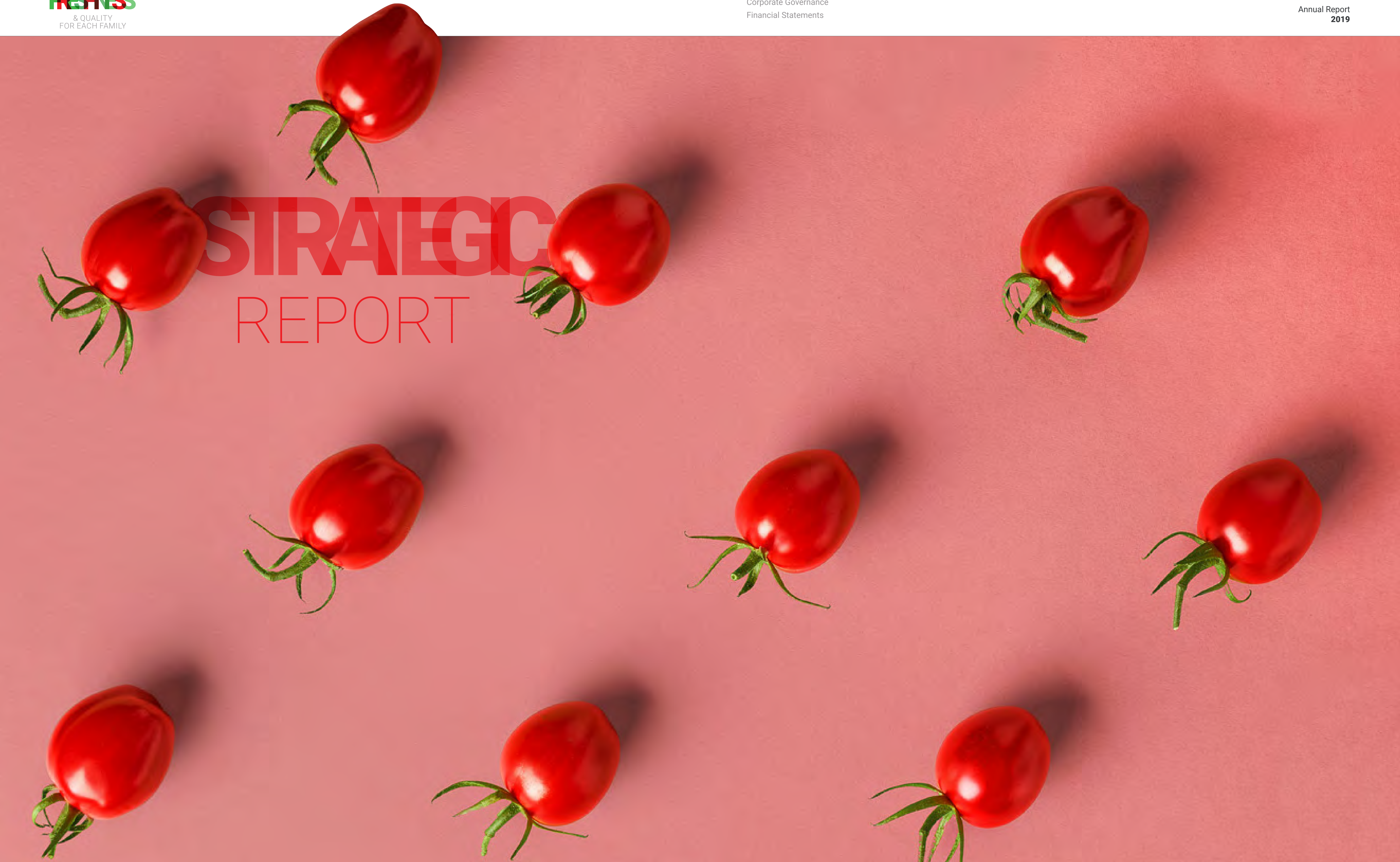

CEO's Statement

DEAR STAKEHOLDERS,

2019 was a year of continued growth for O'KEY Group, as we steadily developed our business to achieve our strategic goals. Our customers are at the heart of our strategy and we retained a keen focus on meeting their needs and providing excellent service as we worked to enhance our offering.

I am happy to report that despite the challenging macroeconomic environment and increasing competition in the retail sector, we maintained our market position and continued to deliver growth. O'KEY Group exhibited positive sales dynamics with 3.0% YoY growth in organic Group total revenue, supported by remarkable growth in our DA! discounter business, where LFL net retail revenue rose 14.9% YoY. We also maintained a stable financial position with overall net profit amounting to RUB 0.7 bn.

The Group's business is based on two well-balanced pillars, O'KEY city hypermarkets and DA! discounters, fulfilling the needs of different customer segments. We continued developing our ambitious DA! discounter business that has been delivering strong and stable growth in recent years, in line with our expectations. I am happy to announce that with the opening of 19 new DA! stores in 2019 we have reached a new milestone, increasing the total number of our discounters to 100, and the discounter business accounted for 11% of our overall revenue. As for the O'KEY brand, it has been the key pillar of our business since 2002. We believe the city hypermarkets format has excellent potential and we have the right strategy and management expertise to fully capitalise on the opportunities in the changing market landscape.

Our two-format business model enables us to exploit synergies such as joint procurement and import to generate economies of scale – both for the Company and our customers. Engaging in joint product development also supports our search for the best suppliers on the market and enables us to profit from cost sharing without compromising product quality.

As a Group, we strive to offer the best shopping proposition for our customers and to become a retailer of their choice. We aim to deliver the best value for the best possible prices, with quality as our first priority.

During the reporting year, we upgraded the "fresh thinking" approach throughout our businesses, from the supply chain to the shelves. This required the improvement of internal processes, the implementation of new standards for freshness and additional training for our employees. In order to successfully reach our strategic goals, we strengthened our management team with highly experienced professionals with proven retail expertise.

O'KEY Group is committed to sustainability and considers the views and needs of all stakeholders when developing the business. We maintain mutually beneficial relationships with the main social groups affected by our operational activity, make timely disclosures of significant information about our business, and strictly comply with all regulatory requirements. We are also developing long-term partnerships with charities and NGOs such as Rusfond to deliver value to vulnerable groups amongst our population.

O'KEY review

O'KEY hypermarkets produced satisfying sales results and we were able to achieve a general recovery in operating processes in 2019 in a stagnating macroeconomic environment. The organic net retail revenue of our hypermarkets increased by 0.3% YoY to RUB 145,298 mln in 2019. We returned to a positive sales trend in our most valuable Federal district – the North-West, delivered one of the best sets of LFL results in the market. The business showed positive dynamics for the better part of the year, driven both by average ticket growth and traffic.

The current strategic priority for our hypermarkets business is business is to focus on our competitive advantage our competitive advantages, such as the wide choice we provide for all types of consumers, the freshness of our assortment and our excellent service.

In 2019 we significantly grew direct imports of fresh fruits and vegetables and introduced a "Hot Bread" project within the O'KEY bakery segment. We also expanded the private label range by 917 SKUs, across various price categories including private labels such as That's What You Need, O'KEY and Selection of O'KEY. We introduced new assortment clusters which depend on various parameters of our stores and enable us to standartise assortment thus improving overall efficiency.

Throughout the year, O'KEY Group worked diligently to optimise internal processes and embed new IT solutions in the business. As a result, the links between our departments improved our overall efficiency. We were steadily making our business "greener", utilising new recyclable packaging and working to reduce CO_2 emissions by optimising the utilisation of the delivery fleet.

In the near future we plan to introduce and pilot a new O'KEY hypermarket concept which is intended to be more efficient from an operational and environmental point of view. Furthermore, we plan to renovate several stores and implement additional initiatives concerning IT solutions, logistics operations and internal process optimisation which will contribute to our future growth.

DA! review

We are happy to confirm that 2019 has been another successful year for DA!, in spite of certain pressures exerted by the market environment. The value-for-money concept continued to show its efficiency: net retail revenue of DA! grew by 31.7% YoY, supported by a steady increase in traffic and the average ticket (up 24.5% YoY and 5.8% YoY respectively). The opening of 19 new discounters allowed us to increase the total selling space by 13.4 k m^2.

In 2019 we particularly focused on developing the DA! private label assortment: we introduced 86 new SKUs, and upgraded our existing recipes and packaging to make products more attractive for customers. Currently our DA! private label brand accounts for 1,019 SKUs and 40% of our total SKU number.

In line with our strategy, we plan to maintain low pricing strategy and rapidly develop the discounter business. We will continue the expansion of DA! stores in the Central Federal District of Russia with the opening of up to 30 new discounters in 2020.

Outlook

We see the development of our retail business as an ongoing process, with ongoing improvements required to keep pace with customers changing needs.

Due to the current impact of oil prices decline and the coronavirus pandemic it is expected that the Russian economy slows down with customers remaining cash-constrained, this will present challenges for all market players. Therefore, in line with our strategic priorities in both segments, O'KEY Group will mainly focus on optimising its costs base, continue to enhance our assortment, recalibrate internal processes, provide extensive training to employees and increase synergies between the two businesses. We will do our best to fulfill our obligations to all our major stakeholders.

The Group will continue to deliver the best quality products at a reasonable price to our customers. We will strive to become a leader in certain product categories, including fresh and ultra-fresh, wines and non-food. As for our private label development, we will maintain strict and robust quality control systems and use all synergies in cooperation with our suppliers.

We believe that city hypermarkets have a bright future as this retail format provides customers with the freshest food and the best shopping experience, at a reasonable price. Given the highly competitive market environment, deep expertise in managing hypermarkets is a necessity for success. We believe that our experience, along with our programme of constant business improvement, give us the right tools to succeed and vindicate our optimistic outlook.

I would like to commend the O'KEY management team and all of our employees for their vital contribution in achieving our common goals. It's their professionalism, enthusiasm and commitment to the Group's values that enable us to satisfy our customers, deliver good results, maintain our market position and look positively towards the future.

Armin Burger
Chief Executive Officer

Our Geography

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TOTAL STORES

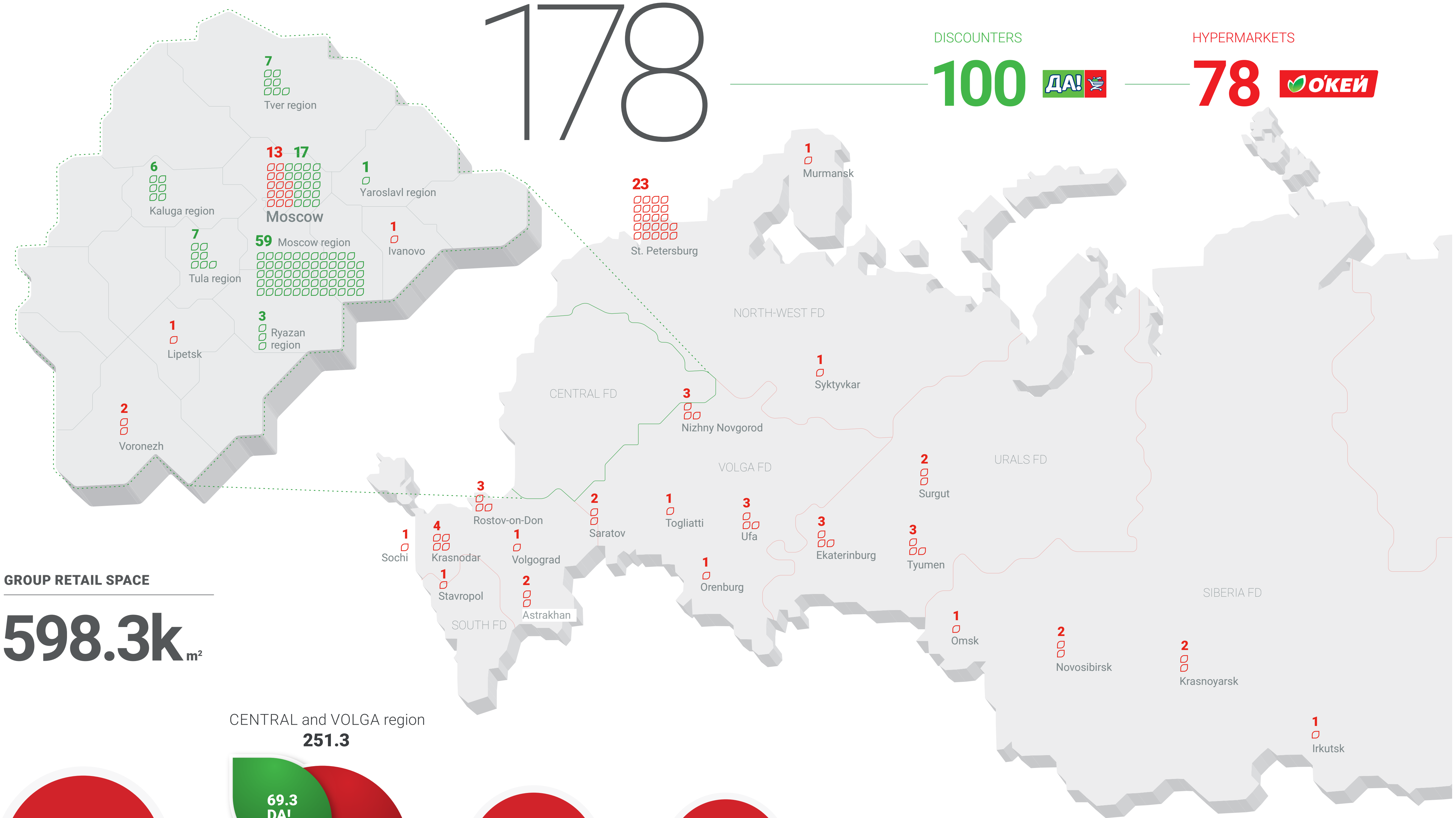
178

DISCOUNTERS

100 ДА!

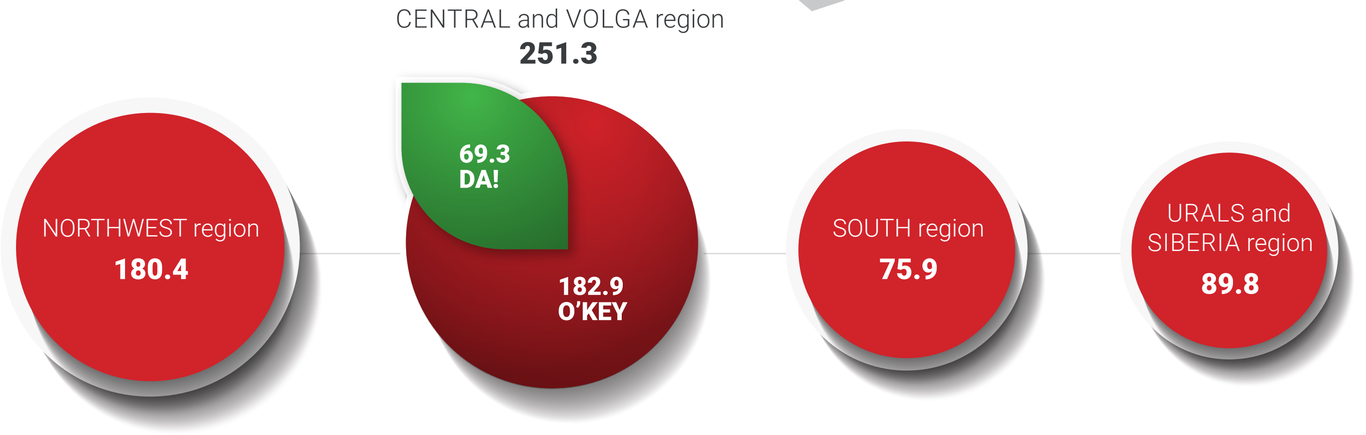
HYPERMARKETS

78 О'КЕЙ



GROUP RETAIL SPACE

598.3k m²



DA! SELLING SPACE

69.3k m²

O'KEY SELLING SPACE

529k m²

Our History

2019

- **100 DISCOUNTER STORES** under the DA! brand operating across Russia
- **2,482 AND 1,019 PRIVATE LABEL SKUs** presented in our O'KEY hypermarkets and "DA!" discounters respectively

2018

- **DISCOUNTER'S REVENUE** under the DA! brand reached 8.5% of the Group revenue
- **OMNICHANNEL MOBILE APP** launched providing a unified approach to communications with customers in stores and online

2017

- O'KEY-auto and **24 hour delivery service** launched for the hypermarket segment
- **Sale of supermarket business** including 32 supermarkets across Russia

2016

- **Mobile app** for iOS and Android launched in 2016

2015

- **Online sales** platform launched for market-leading hypermarket
- **DA! BRAND** New discounter format

2014 - 2009

- **RAPID EXPANSION** in Moscow and key regional markets
- **IPO on the London Stock Exchange**
- **Top-3 retailer** by revenue

2009 - 2007

- Focus on **EXPANSION** in Russia's key regional markets
- **TOP-10** retailer by revenue
- **6 new** regions

2007 - 2003

- Strategy to establish **regional market leadership**

2003 - 2001

- O'KEY Group founded
- **First O'KEY hypermarket** opened in St. Petersburg

Delivering on **Our Strategy**

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O'KEY Group's operational activity is based on two pillars, hypermarkets and discounters. The strategic priorities depend on the retail format, however in each business we do our best to provide customers with high quality goods, an outstanding value proposition and excellent service.

О'КЕЙ

PRIORITIES

DELIVER THE BEST VALUE PROPOSITION

- Focus on providing our customers excellent value for money
- Introduce new products and expand our assortment with a focus on fresh and ultra-fresh products
- Delist non-performing assortment or SKUs
- Increase the share of private label products and own products in total sales
- Improve product layout to offer the best customer experience

PROVIDE UNIQUE CUSTOMER SERVICE

- Maintain an excellent shopping experience with the help of our modern design and well-trained personnel
- Further develop the e-commerce format with a wide range of SKUs, attractive pricing and convenient delivery services
- Upgrade the loyalty programme enabling customers to engage with us on the most attractive terms

ENSURE THE BEST QUALITY CONTROL

- Strengthen quality standards for suppliers
- Introduce new quality standards for our own production
- Conduct regular and thorough audits of suppliers

IMPROVE EFFICIENCY

- Recalibrate internal processes with a focus on efficiency and implementing cutting edge IT solutions
- Elaborate the new hypermarkets concept of better operational efficiency and sustainability
- Develop synergies with the discounter business in joint procurement and import thus securing better terms with suppliers

ENHANCE SUPPLY CHAIN

- Maintain high on-shelf availability and optimal inventory levels
- Develop a smart supply chain with optimal centralisation level
- Improve the efficiency of logistics by implementing state-of-the-art IT technologies
- Maintain a balance between a high standard of service, stock management and logistical costs
- Optimise sales forecasting and replenishment

ДА!

PRIORITIES

GROWTH AND EXPANSION

- Open up to 30 new stores in 2020 in Moscow and the surrounding regions

STRONG PRIVATE LABELS

- Maintain and enhance a wide portfolio of private label brands
- Improve the recipes and packaging of private label goods
- Benefit from synergies with O'KEY hypermarkets
- Ensure the best possible quality by carefully selecting our private label producers
- Increase the share of private labels in the product range and in total sales

THE BEST VALUE PROPOSITION

- Focus on developing the "every day low price" concept
- Offer the most competitive pricing on the market without compromising the quality
- Expand our assortment in the fresh and ultra-fresh categories

Russia's Food **Retail Market**

THE MARKET IN 2019

The Russian food retail market is the world's 8th largest in monetary terms.

In 2019, the share of the top 10 FMCG retailers in the grocery retail market increased by 1.9 p.p. to 32.9% (growth was also 1.9 p.p. in 2018).

According to Infoline, in 2019 the total selling space of the top 200 Russian food retailers increased by 7.8% YoY to 26.9 mln m², while their total number of stores amounted to approximately 65.5 thous. The speed of expansion showed continuous deceleration, unlike nominal food retail turnover (up 6.7% YoY): alongside a withdrawal of smaller retailers from the market that supported the LFL sales of existing retailers.

1.3 **% annually**

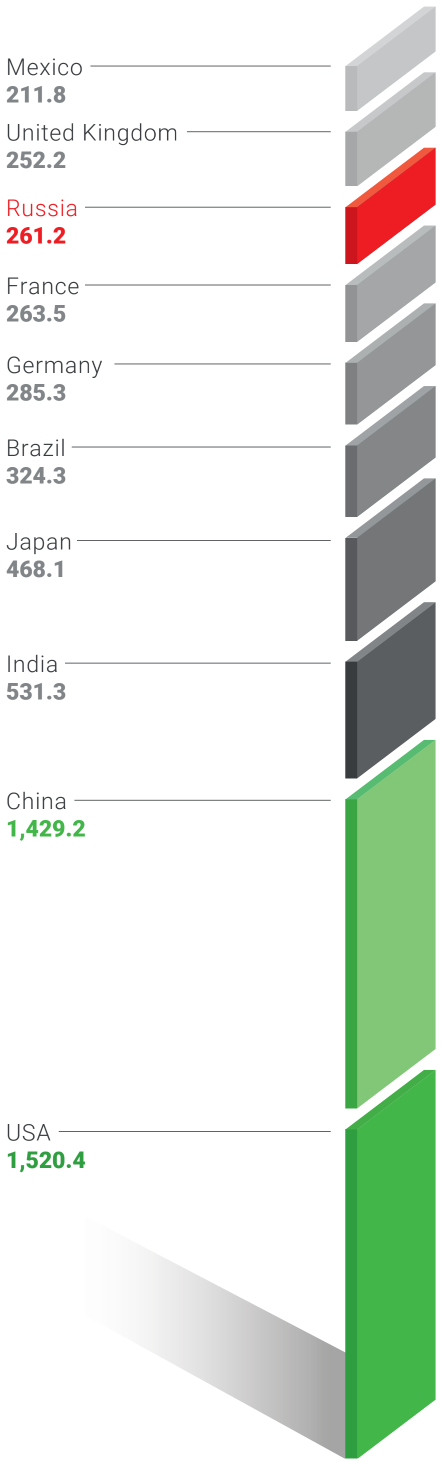
EXPECTED GROWTH OF THE RUSSIAN FOOD RETAIL MARKET BETWEEN 2019 AND 2024

32.9 **%**

SHARE OF TOP 10 FOOD RETAILERS IN RUSSIA

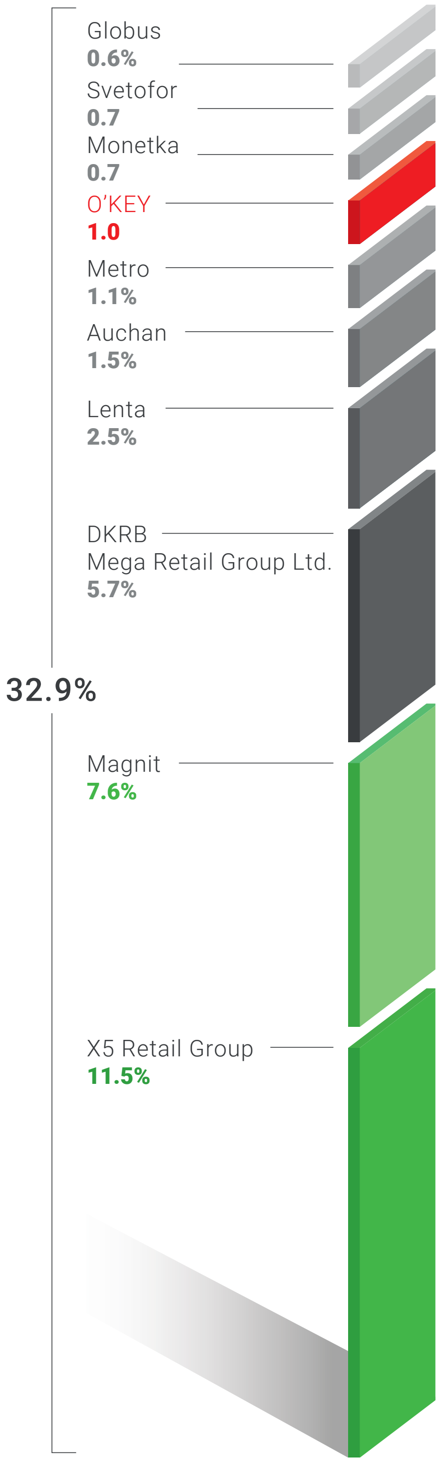
1/ Other – 67.1%.

TOP 10 GROCERY RETAIL MARKET SIZE IN 2019, USD BN



Source: IGD research

TOP 10 FOOD RETAILERS IN RUSSIA (BY NET RETAIL REVENUE),[1] %



Source: Infoline

Online grocery market in Russia

In 2019, the online grocery retail market in Russia was on the verge of a rapid surge, driven by demand growth in big cities where customers are actively switching to online shopping.

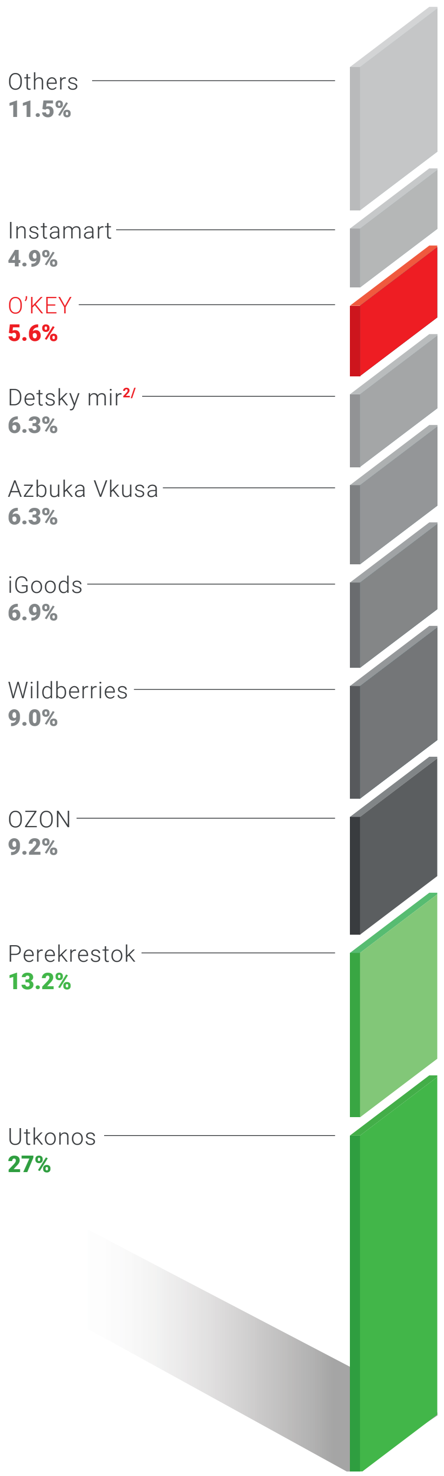
According to Infoline, the online grocery market rocketed by 64% in the reporting year and approached RUB 37.8 bn, excluding food baskets and ready meals. In the reporting year, the online grocery retail market in Russia accounted for 0.2% of the total grocery market compared with 0.15% in 2018. The market has the potential to increase 5-8x by 2025 to RUB 186-300 bn, and from a food retail contribution of almost zero to 1.3% vs. the 2-5% seen in more developed markets.

RUB **37.8** bn

TOTAL ONLINE MARKET VOLUME

2/ Includes grocery on-line retail.

TOP ONLINE GROCERY RETAILERS IN RUSSIA, %



Source: Infoline

Economic **Environment**

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In 2019, food retail sales in Russia outstriped general economic growth, with nominal food retail turnover increasing by 6.7% YoY, while nominal GDP growth was 4.8% YoY.

In real terms, food retail sales saw a slower rate of growth of 1.4% YoY (vs 1.3% YoY real GDP growth) and amounted to RUB 16.08 tn. Meanwhile, the consumer confidence index marginally grew throughout 2019 from the initial drop shown during the fourth quarter of 2018 and reached –13% in the fourth quarter of 2019.

The macroeconomic factors which added to the positive dynamics in retail were:

- a considerably lower level of inflation (3% YoY in 2019 vs 4.3% YoY in 2018);
- low food price inflation (2.6% YoY in 2019 vs 4.7% YoY in 2018);
- recovery of income: the nominal wage grew 7.8% YoY, the real wage showed growth of 2.9% YoY and real disposable income slightly increased by 0.8% YoY, after four consecutive years of falling and one year of stagnation;
- an increase in social spending (pension income, accounting for 12% of Russians' total income, grew by 6% YoY, while other social payments making up 7% of total household income were up 4.6%).

According to the Sberbank "Ivanov Consumer Confidence Index", customers became less price-sensitive due to the above-mentioned factors.

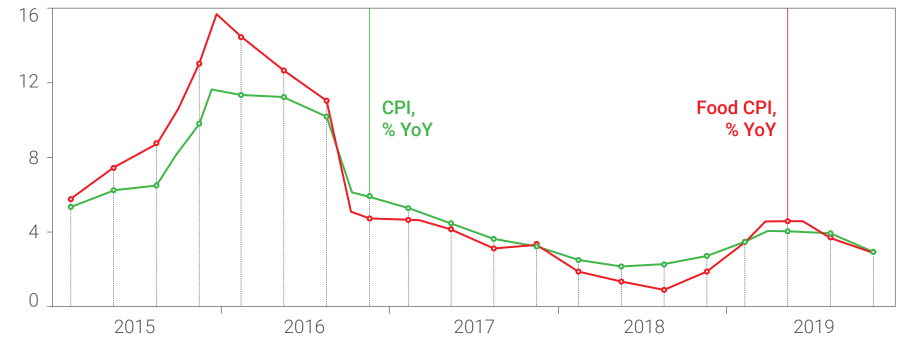
Freshness and a high quality of goods have become a necessity for retailers: 83% of respondents said they would visit a store with an increased fresh offering more often, and 50% were likely to buy some other items besides fresh category during their shopping. An in-house bakery is also seen as an advantage: 47% respondents would visit a grocery store for fresh bread. In order to keep up to date with the most recent trends, O'KEY Group is continuously developing its freshness approach and own production assortment (e.g. bakeries and prepared food) in the stores, both in hypermarkets and discounters.

OUTLOOK

At the time of writing this report, various events of global significance are taking place, such as the COVID-19 pandemic and a sharp decline in oil prices, which in turn is leading to further ruble devaluation. These factors are certain to impact the Russian economy at large and the retail industry: we expect a major slowdown in the economy which will lead to a more competitive and price sensitive market.

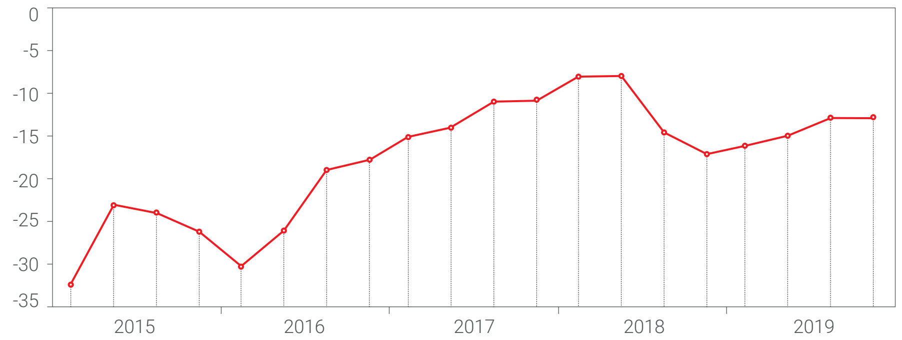
We therefore remain cautious on the outlook on Russian retail market and its existing growth opportunities. We will continue to grow our business in both segments with a focus on operational efficiency and quality, ensuring a wide assortment of goods are available at the competitive prices in our stores.

RUSSIA'S CONSUMER PRICE INDEX, %



Source: Infoline

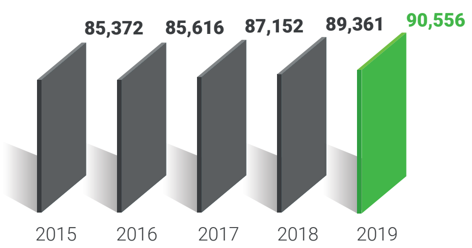
RUSSIA'S CONSUMER CONFIDENCE INDEX IN 2015-2019, Q YOY, %



Source: Infoline

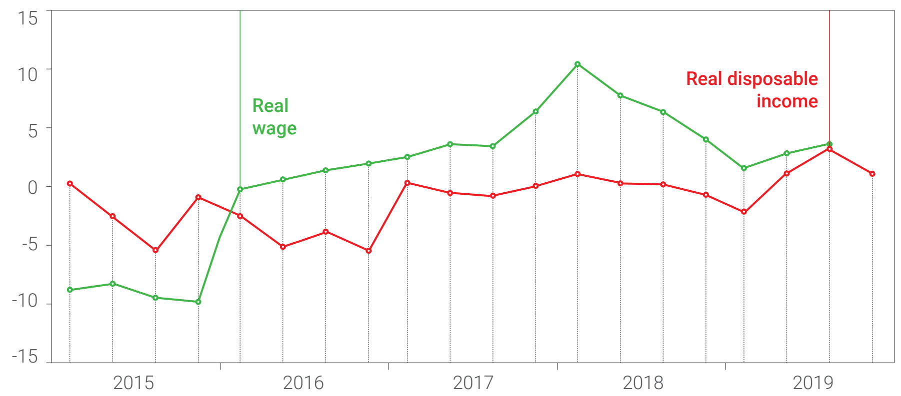
REAL GDP IN 2015–2019 ▲1.3%

RUB 90,556 bn



Source: Rosstat

REAL DISPOSABLE INCOME AND REAL WAGES IN 2015-2019, %

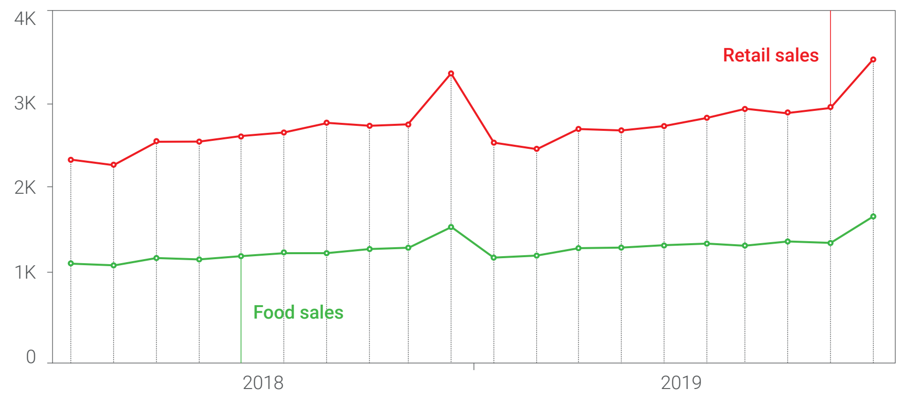


Source: Rosstat

83%
OF RESPONDENTS SAID THEY WOULD VISIT A STORE WITH AN INCREASED FRESH OFFERING MORE OFTEN

47%
RESPONDENTS WOULD VISIT A GROCERY STORE FOR FRESH BREAD

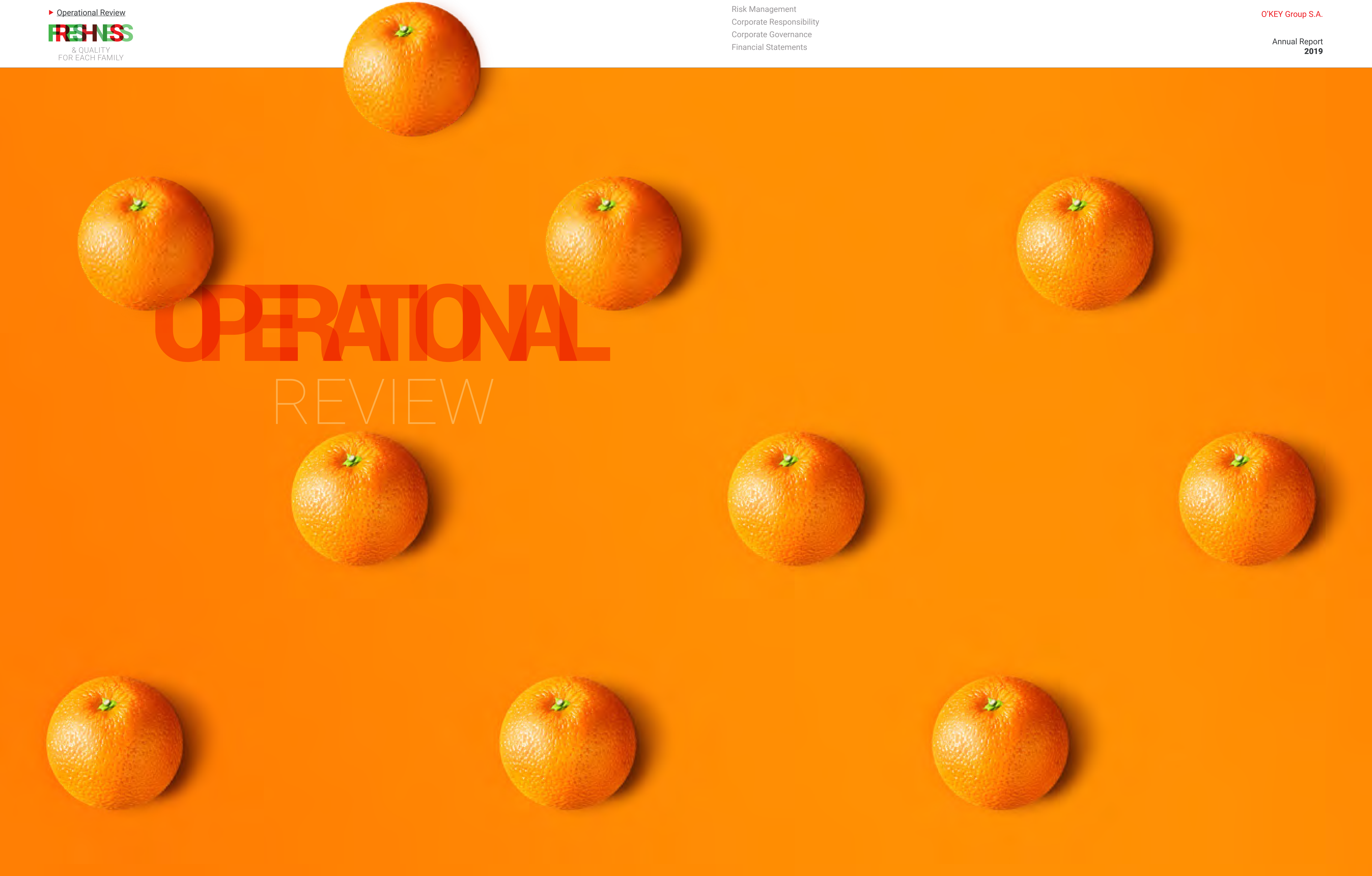
REAL RETAIL AND FOOD SALES IN 2018–2019, RUB BN



Source: Rosstat

Overview
Strategic Report
Operational Review
Financial Review
Risk Management
Corporate Responsibility
Corporate Governance
Financial Statements

24 Hypermarkets
36 Discounters



OPERATIONAL REVIEW

O'KEY City Hypermarket Format

O'KEY Group has a strong commitment to providing customers with the best fresh products and to ensuring the highest quality of service in our stores. In our hypermarkets, customers may find everything they need in one location, at reasonable prices. Due to our well-balanced customer value proposition, we are able to maintain our position as one of the key players in the Russian food retail market. In 2019 we updated our strategy, with hypermarket remaining the prospective format.

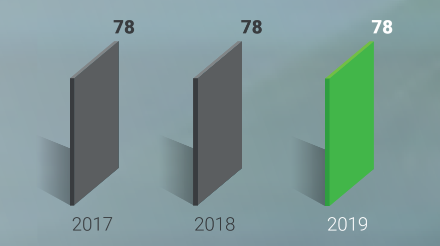
WE REMAIN DEDICATED TO OUR STRATEGIC PRIORITIES:

1. Excellent service
2. Freshness and a high quality of goods
3. The best assortment
4. A strong private label offering
5. Attractive promotional campaigns

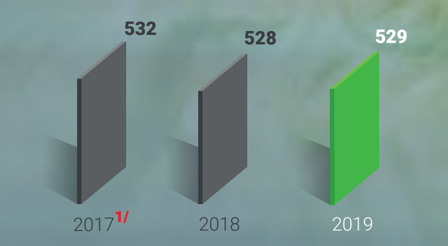
Strong focus on freshness demonstrates our commitment to customer needs

KEY PERFORMANCE INDICATORS

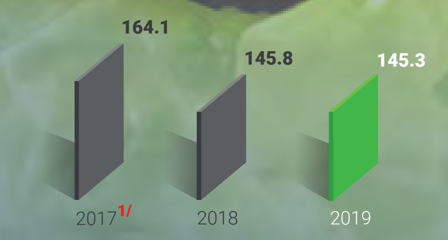
NUMBER OF STORES



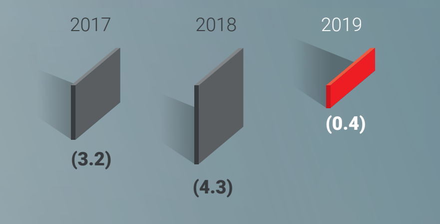
SELLING SPACE, K M²



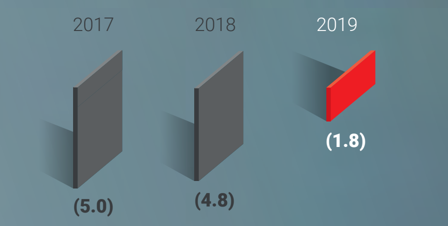
NET RETAIL REVENUE, RUB BN



LFL NET RETAIL REVENUE, %



LFL TRAFFIC, %



LFL AVERAGE TICKET, %

1/ In 2017 the Group sold its supermarket business, comprising of 32 supermarkets.

PERFORMANCE OVERVIEW

In 2019, we continued to focus on operational efficiency and service improvement, assortment management, including the development of fresh and ultra-fresh categories. We maintained the high quality of our assortment, strengthened our presence in the Fresh and Ultra-Fresh segments and enhanced our internal processes efficiency by implementing new IT solutions in our logistics system.

In the reporting year, we were especially focused on developing our fresh and ultra-fresh categories. This included the roll-out of new standards and operational procedures to guarantee the freshness of goods. We also improved our own production, upgraded our recipes and reviewed our ingredients. Furthermore, in 2019 we improved our promo offers, significantly increased direct imports of fruits and vegetables and continued the private label development programme.

The above-mentioned measures enabled us to show stable operational and financial results in 2019 and maintain our market position despite the tough food retail environment: O'KEY's underlying net retail revenue increased by 0.3% YoY to RUB 145,298 mln, LFL net retail revenue fell by 0.4% for the year on the back of a 1.8% decrease in LFL traffic and a 1.4% increase in LFL average ticket. The weaker-than-expected LFL performance was primarily attributable to lower LFL in December, which was in turn triggered by one-off factors, namely the renovation of one of our shopping malls (to be completed in Q2), and abnormal warm weather conditions, leading to weaker-than-expected sales in seasonal categories.

In 2019, the Company did not open new hypermarkets: as at 31 December 2019, the total number of hypermarkets remained 78, with the total selling space at 529 k m².

HYPERMARKET BUSINESS 2019 AT A GLANCE

AVERAGE STORE SELLING SPACE

6.8k m²

AVERAGE PRODUCT RANGE, SKU

30k

CLIENTS SHOPPED WITH US

160.4 mln

HYPERMARKETS SHARE IN SALES

89 %

NUMBER OF STORES

78

NET RETAIL REVENUE, RUB

145.3 bn

O'KEY City Hypermarket Format

In 2020, we will focus on enhancing our operational efficiency, reducing our cost base and doing our best to provide customers with excellent value for money. We also expect to finalise the development of our new O'KEY hypermarkets concept, which is designed to be more sustainable and attractive for customers.

LOYALTY PROGRAMME

Our loyalty programme provides our customers with multiple options for purchasing goods of the highest quality on the most attractive terms. It is designed to reward customer loyalty and enable them to engage with us as their preferred hypermarket of choice.

In 2019, we maintained a high level of service in our loyalty programme and introduced basic reporting on offers and communication. We also focused our efforts on the development of the new loyalty programme, which included thorough market research, both locally and internationally. In 2019, our loyalty programme did not presume accumulating of award points by customers for purchases made which entitle them to price discount on future purchases.

Plans

Launched in January 2020, the new loyalty programme integrates innovative IT solutions, such as machine learning and personalisation analytics software, providing customers with individual offers based on their own spending patterns and purchase history, ensuring they receive the right offers at the right time.

The programme will also offer our customers the facility to collect points with each shop and exchange for product or category discounts, both online and offline. We will also work on the digital customer experience to ensure that the loyalty programme is at the heart of our customer's journey whether in the mobile app, website or in one of our stores.

Throughout 2020, we also plan to collaborate with other non-food retailers, financial service providers and restaurants to extend the O'KEY experience beyond our own network, by making co-promotions in particular.

LOYALTY PROGRAMME IN 2019

MEMBERS

UP TO **10.4** mln

LOYALTY TRANSACTIONS

117.6 mln

73%
OF ALL TRANSACTIONS

LOYALTY REVENUE, RUB

144.3 bn

88%
OF TOTAL REVENUE

PRIVATE LABEL

Wide selection of O'KEY private label (PL) items is a competitive advantage of our hypermarkets. We provide our customers with products 15%-25% cheaper than branded alternatives without compromising in quality.

2019 was marked by an intensive development of our private label product lines. We actively worked to expand assortment in of our "That's What You Need!" and "O'KEY" brands: in total, 833 new SKUs were added to the two brands, including 423 seasonal non-food products, while 101 SKUs were relaunched.

With the ultimate goal to offer the premium goods in all categories we introduced "Selection of O'KEY" with 84 SKUs. This brand is distinguished by a better affordability of premium products despite the comparable quality.

The total share of the private label products (including non-food PLs) within the assortment range grew from 6.6% in 2018 to 7.1% in 2019. The share of private label products under the brands That's what you need!, O'KEY and O'KEY Selection increased to 6.7% (vs 6.3% in 2018).

/O'KEY HYPERMARKETS PRIVATE LABEL PRODUCTS/[1/]

That's what you need!	O'KEY	Selection of O'KEY
914 SKUs	1.484 SKUs	84 SKUs
Entry segment	Medium segment	Premium segment

2,482 private label SKUs available in O'KEY hypermarkets

To ensure the high quality of our private label goods, we conduct regular checkups at the production facilities and test samples in independent and accredited laboratories under the "Trademark O'KEY – Customers' guarantee" programme.

In 2019, O'KEY continued to strengthen the private label quality standards. Our efforts in this area were recognised with various quality awards received throughout the year. Five O'KEY private label products, Selection of O'KEY Roasted Almonds, O'KEY Pilau Rice, O'KEY Brined Calamari, Selection of O'KEY Honey-Roasted Peanuts, and O'KEY Ukrainian Style Fried Sausage, won top awards at the prestigious international Quality Guarantee 2019 competition, and the O'KEY Ukrainian Style Fried Sausage received the special "Meat Oscar" award. Our private labels were also rewarded by independent customer surveys such as Roskontrol which named the O'KEY private label ketchup the best in the rating which included well-known brands.

Plans

In the end of 2019 we started to renew our packaging of all three major PL brands. It is planned that during 2020 all private label SKUs will be relaunched in the new design. We expect that this redesign will help us to increase sales and brand awareness, especially in the medium and premium segments.

We will continue to ensure the highest quality of private label goods and further increase margins and profitability of O'KEY private label products. We will continue the mutually beneficial collaboration with DA! discounters in terms of choosing common producers of our private label goods.

1/ In O'KEY Hypermarkets, we offer customers an extensive variety of private label products under three major brands covering entry, medium and new premium price segments.

O'KEY
City Hypermarket Format

OWN PRODUCTION

In 2019 the Company continued to enhance its own production unit, with the aim of increasing the level of customer satisfaction and improving operational efficiency. The fast pace of life in a big city creates demand for ready-to-eat food of high quality and impeccable freshness. To meet customers' needs, O'KEY hypermarkets provide a wide range of freshly prepared salads, hot meals, pastries and confectionery.

We strictly adhere to our "Ultra Freshness" approach and offer evening promotions and discounts every day. Inside and outside our stores, O'KEY customers can also benefit from the "sit and eat" format and enjoy a hot drink or snack.

Own production unit 2019 at a glance:

- we developed and implemented our own production standards;
- we've begun to educate our chefs and technologists to improve their culinary and baking skills;
- we significantly upgraded our own production assortment by introducing a new variety of pizzas, and expanding our range of meatloaves, breakfast porridges, hot meals and salads;
- we launched the "Hot Bread" project within the O'KEY Bakery segment to provide our customers with freshly baked bread three times a day; and
- we reviewed and launched planograms to improve store layout and convenience for our customers.

In September 2019, the Company participated for the first time in the "Quality guarantee 2019"[1/] contest with own production. Our products were awarded two silver medals and diplomas, while our grilled chicken was awarded a special prize called the "Meat Oscar".

Freshness approach

We strictly control our own production at all stages, including storage at distribution centres where products are preserved before reaching the customer, and in hypermarkets. Quality control includes daily optical and hygiene checks, as well as employee control and education.

OWN PRODUCTION HIGHLIGHTS

UP TO 300 SKUs
IN THE ASSORTMENT

160 products
INTRODUCED IN 2019

40 SKUs
UNIVERSAL SKUS IN EVERY STORE

+0.2 % LFL

THE QUALITY CONTROL SYSTEM FOR OUR OWN PRODUCTION INCLUDES:

- Control of raw materials from suppliers during delivery to hypermarkets and storage
- Degustation, optical freshness check, shelf-life control
- Staff education, hygiene control and process control
- System of quality checks

Plans

In 2020, we intend to:

- review the assortment range in accordance with recent trends;
- increase the share of raw materials and ingredients requiring little preparation;
- further improve the quality control system for our own production;
- continue our employee training programme.

1/ The contest is held by the Federal science centre of food systems named after V.M Gorbatov under the Russian Academy of Sciences and supported by the Committee of the Federation Council on agricultural and food policy and the Ministry of Agriculture of Russian Federation.

QUALITY AND SAFETY

O'KEY Group does not accept any compromises in the area of quality management. Our top priority is maintaining the high quality of goods in our stores, in strict compliance with major quality and food safety legislation. O'KEY's quality management system covers all stages of our operations and complies with the requirements of Russian laws and the HACCP system. The Company also has implemented internal quality standards which often go beyond the necessary requirements.

Quality and safety monitoring in O'KEY is executed by our quality control department. The standard procedures include preliminary quality control measures, assortment monitoring both in stores and warehouses, and internal and external auditing of stores and the supply chain. We strictly pay attention to the quality of our own production and private labels, which is confirmed by laboratory control.

O'KEY Group participates in regional and national initiatives, such as "Made in Don Land", "St. Petersburg Quality Mark", and North-Western and Central regional voluntary certification initiatives.

This ensures the high quality of goods and the Company's conformity to international standards. We also take part in ACORT quality committee initiatives such as rolling tests, a single checklist for supplier auditing and communication with the authorities on legislative initiatives.

Following the principle of continuous quality improvement, in 2019 the Company undertook the following actions:

- O'KEY continued the transition to electronic veterinary control under the State information system "Mercury". Dairy products, including cheeses, were added to the system, minimising the risk of the fraud in these categories;
- public catering facilities in Moscow and St. Petersburg successfully underwent surveillance audits;
- the Company optimised its business processes in accordance with the legislative changes in the certification and declaration of directly imported goods; and
- O'KEY successfully underwent planned periodic audits under the "St. Petersburg Quality Mark" and "Made in Don Land" programmes and confirmed the validity of the certificates.

In case of any incidents regarding quality and safety occur, the Company immediately reacts by a thorough audit and all measures to prevent similar cases in the future. If necessary, it may include withdrawing the product from the stores, returning it to the producer, and ceasing a contract with a supplier.

Plans

In the future, the Company intends to further improve its quality management system and food safety control procedures. We will continue to refine the quality of our private label brands, develop our own production certification and improve our approach towards supplier auditing.

Improving our auditing of suppliers entails educating audit specialists and conducting our own audits of new suppliers of high risk categories, as well as updating the auditing checklist with a focus on our potential risks.

O'KEY City Hypermarket Format

OPERATIONS

Our Hypermarkets business functions as a single ecosystem with its own needs and rhythms. Therefore it is necessary to improve the business by taking a holistic approach, encompassing different aspects of operational activity. This ensures we can deliver the best experience for our customers and a satisfying level of profitability for us.

In 2019, we continued to focus on operational efficiency, implemented several new initiatives and pursued the realisation of previously launched projects:

- we improved cashier zone management, which enabled us to avoid queues even in the high season (the month of December);
- we raised the on-shelf availability of our goods by 1.1% while reducing personnel involvement;
- we piloted initiatives such as Retail Daily Routines, control instruments, operational standards and new store structures;
- we successfully continued to develop an electronic veterinary certification system "Mercury", which allows employees to receive tasks via scanners and improve their productivity;
- we launched a new approach toward the management of Fresh and Ultra Fresh categories by developing and rolling out improved operational procedures and freshness standards.

Plans

In 2020, we will continue improving our operational efficiency and will fully roll-out initiatives piloted the year before. We will finalise the development of new planograms and introduce a new hypermarket concept which will require updated equipment.

SUPPLY CHAIN

O'KEY has a well-balanced supply chain which allows us to serve our customers' needs in all regions of operation. In 2019, we worked to improve it further with a focus on efficiency and productivity. In particular, we developed the warehouse infrastructure, built mutually beneficial partnerships with suppliers and transport carriers, and introduced cutting-edge IT solutions.

O'KEY hypermarkets operate three distribution centres: one federal in Moscow and two regionals in St. Petersburg. The federal distribution centre located in Moscow is specialised in the distribution of fresh products, fruits and vegetables, FMCG, non-food and alcohol products to all stores across the country. Both regional distribution centres are based in St. Petersburg, with one of them specialising in FMCG and the other in fruits and vegetables and fresh products. This supply chain organisation is among O'KEY's competitive advantages as it enables the Company to keep a balance between logistical costs, stock management and high levels of service.

In 2019, we:

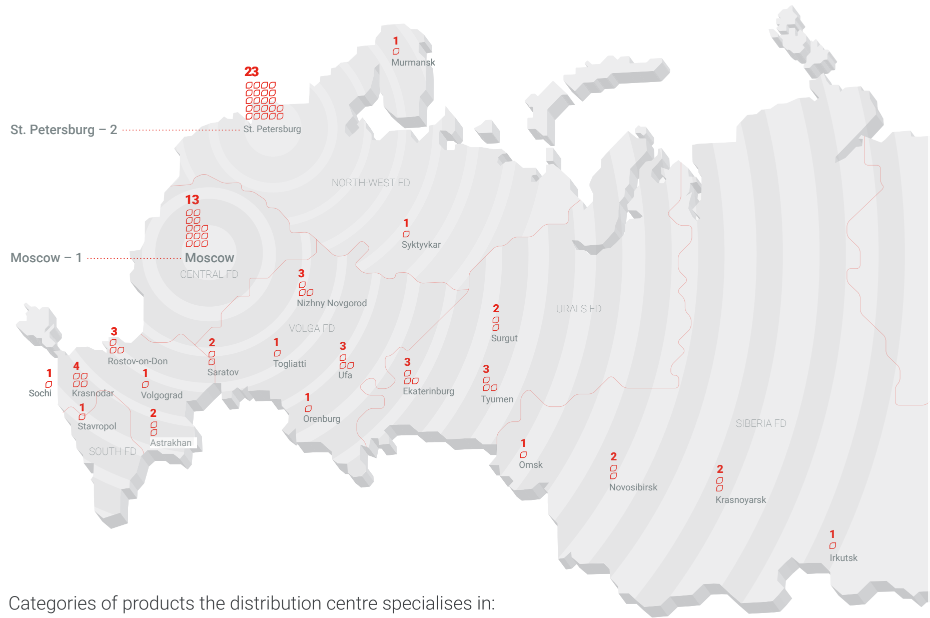
- developed a system of centralised forecasting and replenishment;
- rolled out a new AXAPTA 12 IT solution in our distribution centres;
- launched the JDA solution used in assortment and implantation management;
- expanded our storage capacities in line with our assortment extension; and
- optimised the number of transport carriers and introduced a new system for their evaluation.

Plans

In 2020, we plan to finalise the rollout of ORACLE RPAS for all categories. We will also increase centralisation in the fresh category which will further contribute to the overall rate of centralisation.

In addition, we plan to continue the development of our warehouse infrastructure and supply models to provide our hypermarkets with service of the highest quality.

LOCATION AND SERVICE AREAS OF O'KEY DISTRIBUTION CENTRES (DCS)



Categories of products the distribution centre specialises in:

- Fruits and vegetables
- Fast Moving
- Non-Food
- Fresh
- Alcohol

OVERALL NUMBER OF DCS

3

MOSCOW – 1

52 K m²

ST. PETERSBURG – 2

21.8 and **7.6** K m²

CENTRALISATION RATE

62% (+2 p.p.)

O'KEY
City Hypermarket Format

IT SOLUTIONS

O'KEY strives to be at the forefront of the retail industry which is currently undergoing a rapid transformation. We believe that the implementation and development of cutting-edge IT systems and mobile applications is necessary to maintain our market position and our level of competitiveness. New digital technologies allow us to deeply analyse customer preferences, develop new ways to communicate with customers and provide other beneficial opportunities.

Our operational activity is supported by various digital solutions covering the main aspects of our business. Our multi-faceted IT infrastructure allows us to achieve our strategic goals, increase customer loyalty and optimise our costs.

In 2019, we continued to implement and improve our integrated IT platform using cutting-edge solutions and widely recognised software. The updates will contribute to business efficiency, facilitate sales forecasting and enhance general business processes. In 2019, the Group did not carry out any significant research and development.

In 2019, we:

- extended EDI by implementing the internal document flow initiative, the rollout of the automation of penalties, facilitating the exchange of electronic documents for service procurement and extending functionality for exchanging electronic invoices;
- continued the implementation of the new ERP platform and finished the roll-out of Axapta 12 (Microsoft Dynamics) for distribution centres, which will enable an increase in operational efficiency going forward;
- finalised the Oracle RPAS rollout for sales forecasting and replenishment optimisation, which already covered approximately 70% of our assortment;
- upgraded the POS platform to the newest version of CSI solution (SET 10), with an ongoing project to upgrade store servers to SET 10;
- fully implemented a Boss HR solution with core HR functions, and extended its functionality to employee self-service.

Plans

In 2020, we plan to continue the implementation and extension of innovative IT technologies.

We will complement EDI functionality with implementation of a vendor portal and with extended services, such as Master data information management, logistics and finance vendor collaboration. This will further reduce paper workflows.

We plan to extend Oracle RPAS to cover UltraFresh and Non-Food categories. We will also complete the implementation of a new ERP platform, finalising master data and finance functionality in Axapta 12. We will also work to improve supply chain efficiency by implementing Transport Management and Yard Management solutions, as well as upgrading store servers to SET 10.

In February 2020 we launched a new bonus loyalty programme, with the use of modern data analysis solutions and CRM Manzana. All of this will allow O'KEY to provide customers with targeted personalised offers.

/OUR MULTI-FACETED IT INFRASTRUCTURE/

ERP	Supply chain	Category management	Cash Register	Online Store	HR System	Customer relations
Microsoft Dynamics AXAPTA 2012	Manhattan WMS	JDA Software[1/]	Crystal Service Integration	IBM Web-Sphere Commerce (CMS, Promo)	Boss HR application	CRM Manzana
	Oracle RPAS	Oracle RPAS	POS platform CSI solution (SET 10)			

1/ In the process of implementation.

E-COMMERCE

O'KEY Group is one of the leaders in the Russian e-commerce food market. Among our competitive advantages are our wide assortment, affordablity and high quality service. We use cutting-edge IT solutions and constantly develop our e-commerce system in order to provide excellent service to our customers.

In 2019, e-commerce continued to grow strongly in Russia, especially in the food segment. Online grocery shopping has become a daily routine for many customers, who prefer online stores to convenience stores or hypermarkets. The popularity of grocery delivery services is accelerating especially rapidly in Moscow, St. Petersburg and in other big cities of Russia.

New players in Russian retail are also developing online stores, making the market environment more competitive.

Fast market growth requires flexibility and swiftness from retailers: currently, one of the leading trends is customer demand for delivery within 1-2 hours, are ready to pay more to get their orders which requires market players to develop the logistics system, including the deployment of cutting-edge IT solutions. Another important trend is the unification of the customer base, which means retailers increasingly need to approach the same customers through both online and offline channels.

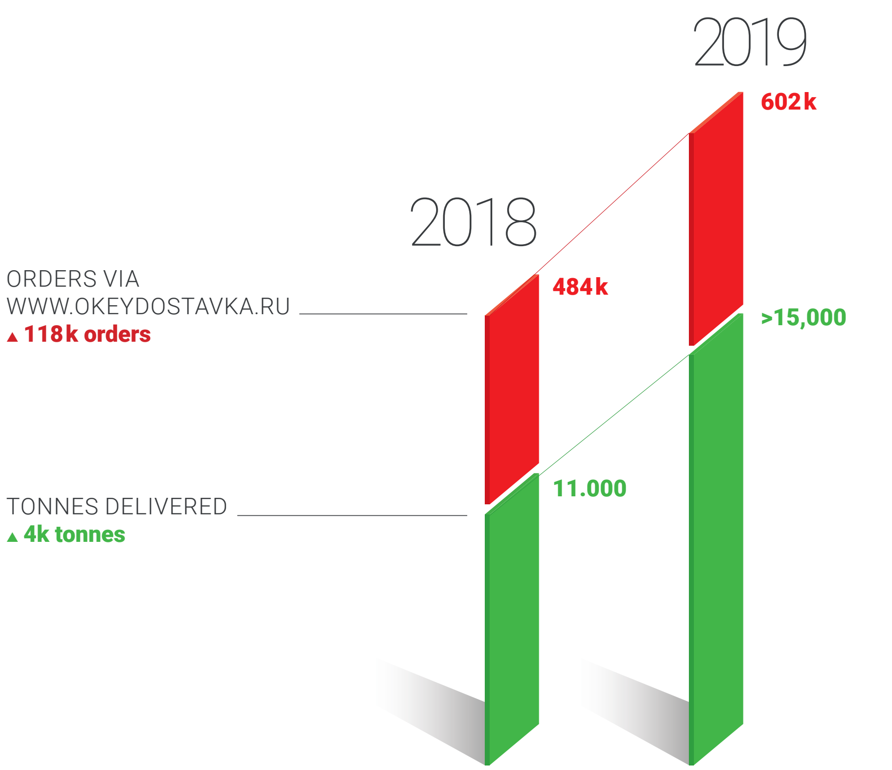
In 2019, O'KEY Group was among the top eight market players by revenue in the industry.

Despite strong competition in the sector, our online revenue increased by 20% and reached RUB 2 bn, while our online customer base grew to 200 thous. people.

We strive to improve our quality of service and facilitate the purchase process for our customers. In the reporting year, we continued to develop our omnichannel system, with every initiative thoroughly reviewed before implementation. We automated and optimised several business processes, fully modernised our e-commerce platform, updated our website, increased productivity in our logistics and thus established a strong platform for further development.

The Company is a member of the Association of Internet Trade Companies, which strives to promote fair competition, innovation and the positive development of the industry in Russia.

O'KEY GROUP E-COMMERCE 2019 VS. 2018



ORDERS MADE VIA THE MOBILE APP

30%

E-COMMERCE REVENUE

6%

OF HYPERMARKET REVENUE WHERE ECOMMERCE IS PRESENT

ORDERS VIA WWW.OKEYDOSTAVKA.RU

602k

O'KEY City Hypermarket Format

Logistics and infrastructure

The Company has 12 pick up points in Moscow and St. Petersburg, spread equally between the two cities.
Over 100 transport vehicles go on routes each day in two cities.

In 2019, the Company continued to develop its logistics IT system. The most ambitious initiative of the year was the launch of the latest version of the Web Sphere Commerce 9 platform, which uses modern technology and opens up new opportunities for business development. As a result, our website loading speed increased significantly.

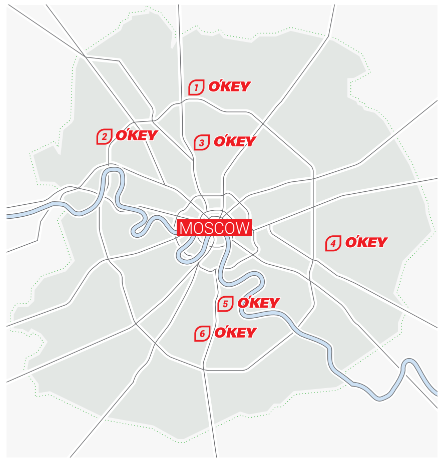
As for the logistics function, in 2019 we started to use new software systems which enabled us to increase efficiency in the following ways:

A new system for planning and optimisation of delivery routes helped us to reduce route planning times by 30% and delays to customers by 20%, meaning couriers began to spend more time with the client than on the road. This also resulted in better energy efficiency: mileage and fuel consumption decreased by 20%.

An order delivery management system and mobile app monitors the location and work of couriers. This application enabled us to promptly respond to changes in instructions by the client and to build an objective motivation system for our couriers.

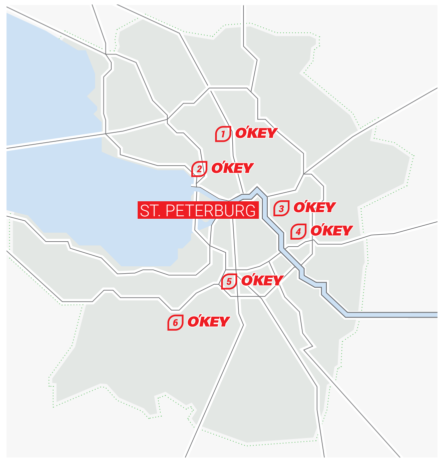
/MOSCOW AND ST. PETERSBURG DELIVERY ZONE MAPS/[1/]

Moscow delivery zone



1. HM "Vesna Altufevo"
2. HM "Putilkovo"
3. HM "Rostokino"
4. HM "Svyatoozerskaya"
5. HM "GOOD ZONE"
6. HM "Kirovograd Columbus"

St. Petersburg delivery zone



1. HM "Vyborgskoye"
2. HM "Bogatyrskiy Yakhtennaya"
3. HM "Ladozhskaya"
4. HM "Bolshevikov"
5. HM "Pulkovskoye"
6. HM "Tallinskoe shosse"

12 pick points in Moscow and St. Petersburg

MOBILE APP AND WEBSITE

The popularity of the O'KEY mobile app is increasing among our customers: in 2019, over 30% of orders were made through the application. In 2019, we continued to develop the mobile app and launched a voice assistant in the Android version which can search for products and add them to the cart as well as showing detailed product information.

Customers tend to prefer smartphones over laptops and computers. To meet this trend, in 2019 we adapted the okeydostavka web-site for mobile devices which increased conversion for mobile users. We also launched push notifications which proved successful with customers.

Furthermore, our website page loading speed was more than doubled, allowing us to reduce the bounce rate.

We actively developed the personal accounts of users and improved overall usability. In particular, in their personal accounts customers can now view available coupons (valid both online and in offline stores), check their purchase statistics (with categorisation), and add their loyalty cards to Apple Wallet. We also prepared to launch a new bonus system which will cover all O'KEY stores. Customers can accumulate bonus points with online and offline purchases, and check statistics, active balance and promotion goods in their personal accounts.

Plans

In 2020 the development of e-commerce and expansion of both online and offline will remain our priority. We plan to further improve the usability of the website including the optimisation of product search. For the convenience of online store customers, we plan to launch an English version of the okeydostavka site.

We will update the mobile app and expand the range of services in personal accounts. We will test an express delivery service and launch sales of additional assortments from our distribution centres.

O'KEY mobile app allows customers to:

- purchase goods
- use search and filters
- share basket between users
- view promotions
- pay online
- view order history
- view offline catalogues
- locate the nearest store;
- create an electronic loyalty card;
- access the shopping history;
- check accumulated loyalty;
- **NEW! use the voice assistant**

1/ In 2019, the Rostokino pick point was temporary closed for reconstruction until 2020.

DA! Discounter Format

DA! discounters profit from synergies with O'KEY hypermarkets in procurement, imports, and relations with suppliers and producers. This creates economies of scale, increasing our purchasing power and supporting a high level of quality in the goods we source.

O'KEY Group's discounter business continued its rapid growth

STRATEGIC PRIORITIES OF DA!:

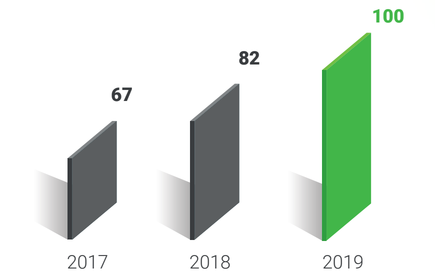
1 Growth and expansion

2 Strong private labels

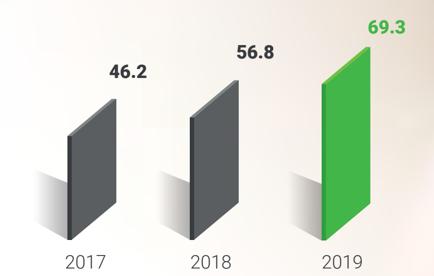
3 The best value proposition

KEY FIGURES OF 2019

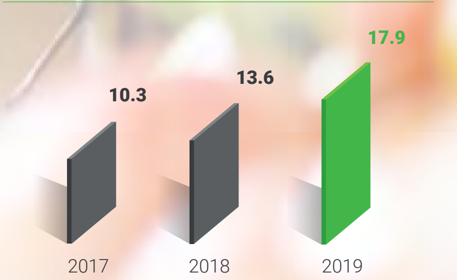
NUMBER OF STORES, 2019



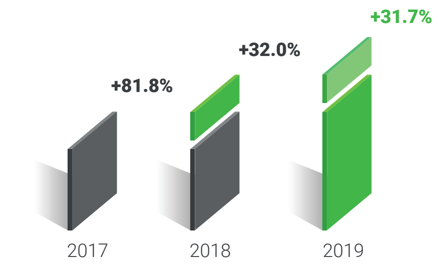
SELLING SPACE, K M²



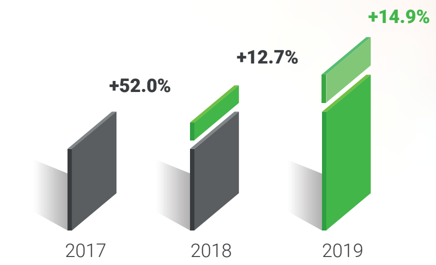
NET RETAIL REVENUE, RUB BN



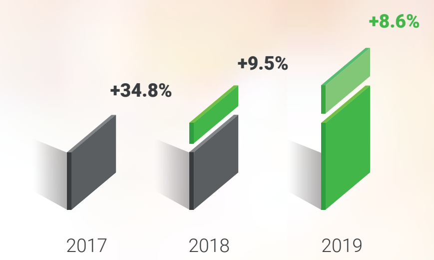
NET RETAIL REVENUE, %



LFL NET RETAIL REVENUE, %



LFL TRAFFIC, %



In 2019, O'KEY Group's discounter business continued its expansion, with a significant 31.7% increase in net retail revenue and continuous growth in average ticket and traffic. We are delighted to see the great appreciation customers have for our DA! stores, which underpins our motivation to further expand the discounter chain. In 2019, we opened 19 new DA! stores across the Central Federal district, bringing the total number of discounters to 100.

Our discounters adhere to the "every day low price" principle, maintaining a high quality of goods and ensuring an excellent level of service.

The affordability of goods in stores is guaranteed by our well-developed private label offering and regular promotions with leading brands. The convenient locations of DA! Stores helps to facilitate the shopping experience.

Our commitment is to maintain the high efficiency of our internal operations and logistics and provide customers with the best assortment and supply solutions.

DISCOUNTERS BUSINESS AT A GLANCE

NET RETAIL REVENUE IN 2019

RUB **17.9** bn

AVERAGE STORE SELLING SPACE

693 m²

PRODUCT RANGE, SKUS

2,520

PRIVATE LABEL SKUS

1,019

PERCENTAGE OF OWNED SPACE

27 %

DISCOUNTER SHARE IN GROUP SALES 2019

11 %

DA! Discounter Format

PERFORMANCE

In 2019, net retail revenue generated by DA! grew by 31.7% YoY to RUB 17,856 mln, supported by a steady growth in traffic (up 24.5% YoY) and the average ticket (up 5.8%) which reached 17.856 RUB by the end of the reporting year. This significant growth was achieved in all major segments.

To ensure robust growth, we continued to effectively manage our assortment and maintain a competitive pricing policy, including our private labels. We focused on optimisation and extention of ultra-fresh and fresh products, such as dairy, fresh meat and poultry, fruits and vegetables. A total of 182 SKUs were added to our portfolio throughout the year, including 86 private label SKUs.

WIDE RANGE OF GOODS OF THE HIGHEST QUALITY AT THE MOST ATTRACTIVE PRICES

Every day low price

DA! NET RETAIL REVENUE GROWTH YOY

+31.7 %

DA! keeps up with the latest trends to make our stores the best value for money for our customers. In 2019, we:

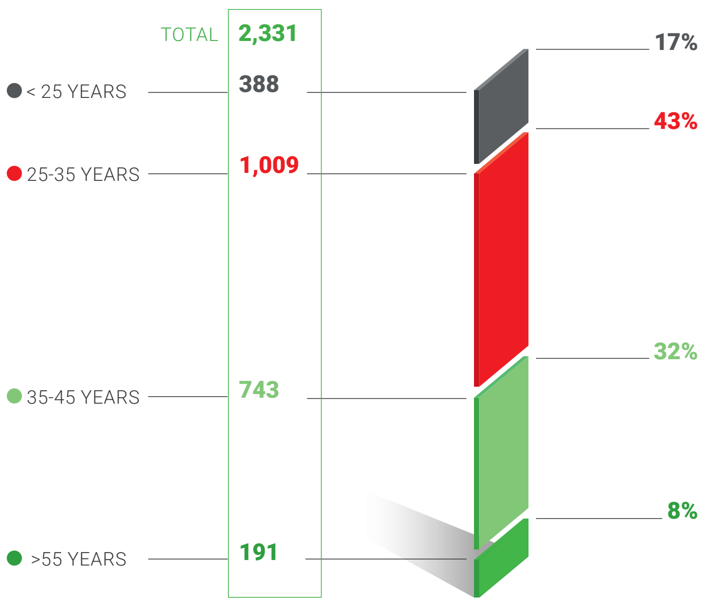
- introduced local pricing for fresh fruits and vegetables;
- improved logistics to provide customers with the freshest goods;
- expanded our assortment in the fresh and ultra-fresh categories;
- improved our standard planograms to provide more consumer friendly layouts and to profit from better stock rotation;
- intensified our direct import efforts regarding goods that need to be obtained from abroad;
- equipped our stores with chillers for cold drinks;
- optimised the bulk food facilities in our confectionery and frozen sections, introduced nuts and dried fruits in the bulk food section;
- remodelled our merchandising equipment at the check-out tills.

OUR PEOPLE

At DA!, we aim to hire the best professionals in the field, creating a team consisting of loyal employees who are passionate about their work. Due to our continued expansion, in 2019 we grew the total number of our employees by more than 19.8% compared to the previous year. As of 31 December 2019, DA! discounters employed 2,331 people.

We adhere to the principles of gender diversity and provide equal opportunities to both men and women: 58% of our employees are female. We treat our employees equally regardless of their age, gender or nationality and make hiring decisions based on candidates education, qualifications and readiness to develop their professional skills.

DA! EMPLOYEES BY AGE



PRIVATE LABELS AND OWN PRODUCTION

According to our research, retail customers tend to appreciate products at attractive prices and of high quality, which are a close equivalent to branded products. Therefore, one of our strategic priorities is strengthening our private label products. While developing the PL assortment, we follow the latest trends in the retail industry and seek to meet customers' changing preferences.

Private label products significantly contribute to our turnover: they comprise 40% of our total number of SKUs. In 2019, PL sales grew slightly better than branded products. In the reporting year we introduced 86 new private label SKUs, some of them under the "farm label" which represents regional and traditional high quality production. Meanwhile, we also revised 125 existing private label SKUs with regard to their layout and design. Our total number of private label SKUs reached 1,019 SKUs. For our private label, we use 84 registered brands which are used as umbrella brands for different categories and quality levels.

The quality of our private label goods is ensured by strictly following legal requirements and imposing additional quality checks at the supplier and product levels. Producers of our private label products have to undergo external audits which are based on GFSI (Global Food Safety Initiative) requirements.

The frequency of such audits depends on previous audit results and the potential risk factors of the particular goods. In addition, we initiate checks in independent accredited laboratories to evaluate and ensure the quality of the product. The frequency of laboratory checks depends on the risk parameters for different product categories and may vary from one to twelve checks per year.

Our goal is to keep the private label assortment modern and trendy, and in the future we will continue to introduce new private label SKUs and improve the packaging layout.

Plans

In 2020, we will continue the expansion of the discounter chain and plan to open up to 30 new DA! stores. We will do our upmost to progress the development of private label products in terms of quality, packaging layout and number of SKUs.

We strive to be a fast-mover in a competitive environment, identifying trends and reacting quickly to meet customer needs. We strive to develop relationships with regional producers and in 2020 we will test local supplies of traditional dairy products in the Ryazan, Kaluga and Tula regions. We will focus on the productivity improvement of our stores, developing the product layout schemes, merchandising and logistics.

PRIVATE LABEL, SKUs

1,019

OF TOTAL NUMBER OF SKUs, %

40 %

TWO-LEVEL QUALITY CHECK:

Supply level – GFSI certification

Product level – laboratory checks

FINANCIAL REVIEW

Financial Review

REVENUE

In 2019, total Group revenue increased by 2.3% YoY to RUB 165,086 mln. The revenue increase was primarily triggered by the continuing expansion of DA! and higher shelf inflation. At the same time, organic Group total revenue, excluding the effect of the supermarket business sale, increased by 3.0% YoY, on the back of continuing double-digit growth in the discounter business.

The value-for-money concept continued to show its efficiency: LFL revenue of DA! grew by 14.9% YoY, supported by a steady increase in LFL traffic and average ticket (up 8.6% YoY and 5.8% YoY respectively).

IFRS 16 IMPLEMENTATION

The Group has applied IFRS 16 since 1 January 2019. Upon adopting IFRS 16, the Group recognised its lease liabilities in relation to leases which had previously been classified as "operating leases" under IAS 17. The associated right-of-use assets for leases were measured at their carrying amounts as if the standard had been applied since the commencement date, but discounted using the Group's incremental borrowing rate at the date of initial application.

Upon implementing the standard, the Group's management began to assess its performance based on the figures presented in accordance with IFRS 16.

KEY FINANCIAL RESULTS

RUB mln	12M 2019	12M 2018 (IFRS 16 unaudited)	Δ YoY 2019 / 18	12M 2018 (IAS 17)	Δ YoY 2019 / 18
Total Group revenue	**165,086**	**161,303**	**2.3%**	**161,303**	**2.3%**
O'KEY	147,175	147,688	-0.3%	147,688	-0.3%
DA!	17,911	13,616	31.5%	13,616	31.5%
Organic Group revenue	**165,086**	**160,322**	**3.0%**	**160,322**	**3.0%**
O'KEY	147,175	146,706	0.3%	146,706	0.3%
DA!	17,911	13,616	31.5%	13,616	31.5%
Gross profit	**39,100**	**37,904**	**3.2%**	**37,382**	**4.6%**
Gross profit margin	*23.7%*	*23.5%*	*19*	*23.2%*	*51*
Group EBITDA	**14,061**	**14,133**	**-0.5%**	**8,644**	**62.7%**
Group EBITDA margin	*8.5%*	*8.8%*	*(24)*	*5.4%*	*316*
EBITDA O'KEY	**14,277**	**14,926**	**-4.4%**	**10,416**	**37.1%**
EBITDA margin O'KEY	9.7%	10.1%	(41)	7.1%	265
EBITDA DA!	**(215)**	**(793)**	**-72.8%**	**(1,772)**	**-87.8%**
EBITDA margin DA!	-1.2%	-5.8%	462	-13%	1,181
Net profit (loss)	**747**	**(1,047)**	**-171.3%**	**(599)**	**-224.7%**
Net profit (loss) margin	0.5%	-0.6%	110	-0.4%	82

Cost of goods sold and gross profit

The table below provides a breakdown of the cost of goods sold in 2019 and 2018:

RUB mln	12M 2019	% of revenue	12M 2018 (IFRS 16 unaudited)	% of revenue	Δ YoY, bps	12M 2018 (IAS 17)	% of revenue	Δ YoY, bps
Total revenue	**165,086**	**100%**	**161,303**	**100.0%**	**–**	**161,303**	**100.0%**	**–**
Cost of goods sold	**(125,987)**	**76.3%**	**(123,400)**	**76.5%**	**(19)**	**(123,922)**	**76.8%**	**(51)**
Cost of trading stock (less supplier bonuses)	(118,330)	71.7%	(115,981)	71.9%	(22)	(115,981)	71.9%	(22)
Inventory shrinkage	(3,127)	1.9%	(2,875)	1.8%	11	(2,875)	1.8%	11
Logistics costs	(3,896)	2.4%	(3,902)	2.4%	(6)	(4,424)	2.7%	(38)
Labelling and packaging costs	(633)	0.4%	(642)	0.4%	(1)	(642)	0.4%	(1)
Gross profit	**39,100**	**23.7%**	**37,904**	**23.5%**	**19**	**37,382**	**23.2%**	**51**

The Group's gross profit margin increased by 19 bps YoY on a comparable basis while increasing in absolute terms by RUB 1,196 mln, driven by better sales and optimisation of assortment matrix and continuing improvement of purchasing conditions.

Increase of import of own brand assortment in different categories also positively affected gross margin.

Shrinkage costs increased by 8.8% YoY, mainly due to cancelling supplier returns of products with a shelf-life of less than 30 days.

Logistics costs remained flat at 2.4% of revenue in 2019, as two opposing factors offset one another: as quality standards were increased, processing costs also grew, however that was compensated for by a substantial decrease in delivery tariffs through a tender process.

GENERAL, SELLING, AND ADMINISTRATIVE COSTS

The table below provides the general, selling, and administrative expenses breakdown for 12M 2019 and 12M 2018:

RUB mln	12M 2019	% of revenue	12M 2018 (IFRS 16 unaudited)	% of revenue	Δ YoY, bps	12M 2018 (IAS 17)	% of revenue	Δ YoY, bps
Personnel costs	14,672	8.9%	14,068	8.7%	17	14,068	8.7%	17
Depreciation and amortisation	8,100	4.9%	7,782	4.8%	8	4,367	2.7%	220
Communication and utilities	3,656	2.2%	3,503	2.2%	4	3,503	2.2%	4
Advertising and marketing	2,268	1.4%	2,012	1.2%	13	2,012	1.2%	13
Repairs and maintenance	1 317	0.8%	1,228	0.8%	4	1,230	0.8%	4
Operating taxes	638	0.4%	803	0.5%	(11)	803	0.5%	(11)
Insurance and bank commissions	918	0.6%	817	0.5%	5	817	0.5%	5
Security expenses	713	0.4%	736	0.5%	(2)	736	0.5%	(2)
Legal and professional expenses	656	0.4%	630	0.4%	1	630	0.4%	1
Expense relating to variable lease payments / Operating lease expense	347	0.2%	461	0.3%	(8)	5,426	3.4%	(315)
Materials and supplies	321	0.2%	294	0.2%	1	294	0.2%	1
Other costs	24	0.0%	29	0.0%	(0)	29	0.0%	(0)
Total	**33,630**	**20.4%**	**32,362**	**20.1%**	**31**	**33,915**	**21.0%**	**(65)**

Financial Review

In 2019, personnel costs as a percentage of revenue increased by 17 bps to 8.9% or by RUB 604 mln YoY. This increase was largely attributable to necessary wage increases at the hypermarkets business in the second half of 2018 and to new discounter openings, partly offset by the sale of the supermarket business.

Communications, utilities, repairs, and maintenance expenses increased as a percentage of revenue by 8 bps YoY or by 5.1% in absolute amount. The increase was primarily caused by indexing utility tariffs in the second half of 2019, rising tariffs for cleaning services and planned equipment repairs in 2019. The Group continues to work towards optimising related costs and efficiency improvements.

Advertising and marketing expenses as a percentage of revenue increased by 13 bps driven mostly by higher expenses related to promotional campaigns and introduced regular issuance of leaflets for Fresh categories.

Insurance and banking expenses as a percentage of revenue increased by 5 bps due to the growing usage of cards for payment by our clients and increase in traffic.

Depreciation and amortisation increased by 85.5% YoY in comparison with 2018 figure under IFRS 17 due to the implementation of new IFRS 16 standard.

OTHER OPERATING INCOME AND EXPENSES

In June 2019, the Group signed an agreement with a third party for the sale of subsidiaries holding rights for lease of land plots and other related non-current assets in Moscow. According to the agreement, the total proceeds are RUB 1,553 mln.

Additionally, the Group recognised an impairment loss in the amount of RUB 821 mln (vs RUB 369 mln in 2018), primarily in respect of mature low-performing stores, including some stores in both the O'KEY and DA! segments.

FOREIGN EXCHANGE GAIN /(LOSS)

The foreign exchange gain was due to a substantial difference in exchange rates at both the end and the beginning of the reporting period, arising primarily from intragroup USD-denominated loans.

NET FINANCE COSTS

Finance costs on loans and borrowings decreased as a percentage of revenue by 0.3% YoY, driven by a decline in the weighted average interest rate from 8.8% in 12M 2018 to 8.5% in 12M 2019. At the same time, total finance costs increased by 58.3% YoY as a result of additional interest costs on lease liabilities in the amount of RUB 2,223 mln under the new IFRS 16 standard.

CASH FLOW AND WORKING CAPITAL

Net cash from operating activities during the reporting period improved from RUB 4,762 mln in 12M 2018 to RUB 11,078 mln in 12M 2019, due to, amongst other factors, the implementation of IFRS 16. Repayment of the principal amount of lease liabilities and interest paid on them in the amount of RUB 6,370 mln were presented in cash flows from financing activities, while in 2018 under IAS 17 all lease payments were presented in cash flows from operating activities.

Net cash used in investing activities amounted to negative RUB 1,352 mln in 2019. This was a result of the Group's 2019 capital expenditures (CAPEX) of RUB 2,919 mln (excluding VAT), which were partly offset by proceeds received from the sale of subsidiaries owning lease rights for two land plots and other non-current assets of the RUB 1,553 mln. During the reporting period, the Group paid RUB 1,004 mln (excluding VAT) for the development of its hypermarket business and RUB 1,915 mln (excluding VAT) for the development of its discounter business.

Net cash used in financing activities in 12M 2019 amounted to RUB 12,922 mln. Over the reporting period, the Group attracted RUB 13,253 mln in financing and made repayments of loans and borrowings totalling RUB 15,844 mln. As at 31 December 2019, the Group had RUB 15,947 mln of undrawn, committed borrowing facilities available in Russian roubles on a fixed and floating basis, in respect of which all conditions have been met. Proceeds from these facilities may be used to finance operating and investing activities as necessary.

RUB mln	12M 2019 (IFRS 16)	12M 2018 (IAS 17)
Net cash from operating activities	11,078	4,762
Net cash (used in) / from investing activities	(1,352)	3,479
Net cash used in financing activities	(12,922)	(7,248)
Net (decrease) / increase in cash and cash equivalents	(3,196)	993
Effect of exchange rate on cash and cash equivalents	(9)	(31)

FINANCIAL LIABILITIES

By 31 December 2019, net debt had increased by 1.9% YoY to RUB 26,212 mln.

With its major creditors, the Group negotiated a new covenant calculated as total interest-bearing liabilities (net debt and lease liabilities) divided by the EBITDA based on IFRS 16. The Group complies well with all bank covenants as of 31 December 2019.

RUB mln	As of 31 December 2019 (IFRS16)	As of 31 December 2018 (IAS17)
EBITDA LTM	**14,061**	**8,644**
Total debt	**31,719**	**34,425**
Short-term debt	1,629	2,461
Long-term debt	30,090	31,964
Cash & cash equivalents	**5,507**	**8,712**
Net Debt	**26,212**	**25,713**
Total Lease Liabilities	**25,122**	–
Short-term lease liabilities	3,950	–
Long-term lease liabilities	21,173	–
Total Interest-Bearing Liabilities (Net of cash & cash equivalents)	**51,334**	**25,713**
Total Interest-Bearing Liabilities (Net of cash & cash equivalents) / EBITDA	**3.7**	**2.97**

Overview
Strategic Report
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Corporate Responsibility
Corporate Governance
Financial Statements

RISK MANAGEMENT

Risk **Management**

RISK MANAGEMENT SYSTEM

Our risk management system is aimed at providing a reasonable guarantee that the Company's strategic goals will be achieved in a timely manner and that the level of risks faced by the Group remains acceptable for management and shareholders. We operate a unified approach to risk management through the Group Risk Standard, which comprises a range of relevant tools and methodologies aimed at early risk detection and risk mitigation.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Group's Audit Committee in its oversight role.

Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Identified risk areas are monitored quarterly and followed by a coordinated improvement programme.

In 2019, Company ensured the effective functioning of its risk management system by identifying and assessing risks in a timely manner, developing and implementing measures to manage those risks. Senior management devoted significant attention to managing key risks that have a high impact and a high probability. The Board of Directors reviewed information on managing the Company's key risks on a quarterly basis.

In 2019, the Company continued to develop its risk management system:

- A declaration and provision on the Company's risk appetite were approved by the Board of Directors. Risk appetite establishes the level of risk that is acceptable in terms of achieving the Company's goals and facilitates effective decision-making while taking risks into account.
- The Company's bylaws establishing a unified methodology and procedure for cooperation and responsibility regarding risk management were updated. No significant changes were made to the Company's corporate governance system in 2019 overall as a result of changes to the risk management system.

The Board of Directors

- Overall responsibility for the establishment and oversight of the Group's risk management framework

The Audit Committee

- Oversees how management monitors compliance with the Group's risk management policies and procedures
- Reviews the adequacy of the risk management framework in relation to the risks faced by the Group

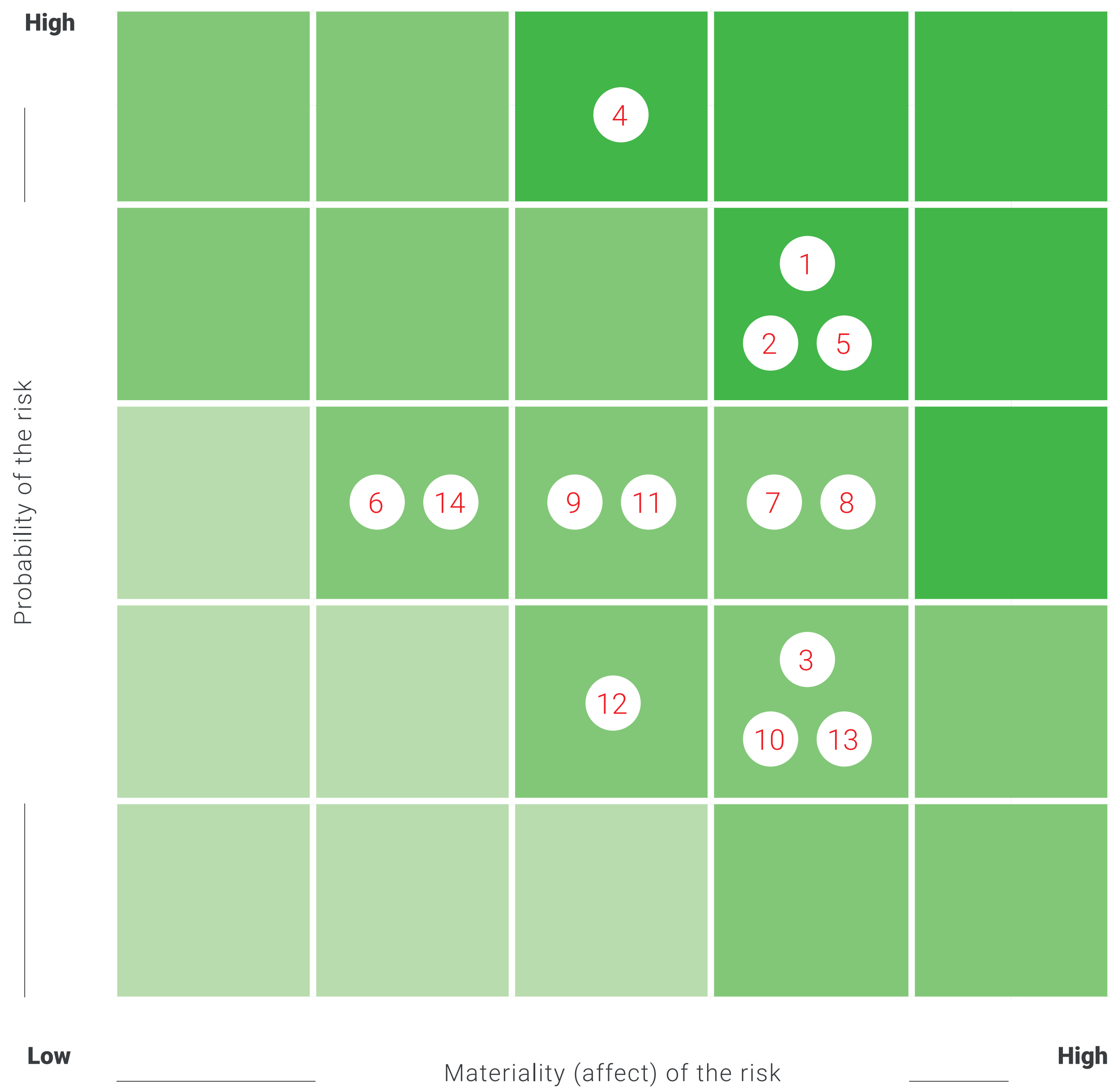
Executive management (CEO and Management Board)

- Oversees implementation of, and adherence to, risk management policies
- Monitors and manages risks relevant to job function
- Carries out risk identification and reporting
- Performs operational risk management

Internal Audit

- Assists the Group's Audit Committee in its oversight role
- Undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee

/MAP OF PRINCIPLE RISKS/



Strategic risks

1. Economic outlook
2. Competition risk
3. Political risk
4. Regulatory risk

Operational risks

5. Changing customer expectations
6. Employee recruitment and retention
7. Supply chain risk
8. IT platform developpment
9. IT security threats

Financial risks

10. Providing sufficient level of financing
11. Tax regulations
12. Changes in working capital
13. Risk of misstatements in financial statements
14. Risks of currency and interest rates volatility

– estimated likelihood /risk impact

Risk Management

Below we describe the key risks that could have a material adverse effect on our business, our financial and operational performance and, as a result, could affect our share price and our reputation. Additional risks not known to us or those risks that we currently consider immaterial, may also impair our business operations. We do not expect to incur any risks that may jeopardise the continuity of our business.

/PRINCIPLE RISKS/

Name of Risk	Definition & Potential Impact	Mitigating Actions
STRATEGIC RISKS		
1. Economic outlook	Our business is affected by uncertainties associated with changing economic conditions, particularly in the current environment of global economic instability. Therefore, we may face reduced customer demand as the income and purchasing power of our customers decreases under the impact of the weaker macroeconomic environment exacerbated by declining oil prices and sustained rouble volatility, as well as the coronavirus pandemic.	We closely monitor the changes in the macroeconomic environment, income levels, consumer confidence index and other indicators. Therefore, if significant unfavourable developments occur, we are ready to take corrective steps and adjust our business model. In order to avoid potential supply disruption due to the coronavirus pandemic, we strengthen the loading of our distribution centres. We also take various preventive measures against the virus spreading, such as regular disinfection and employees' daily temperature checks.
2. Competition risk	The retail sector in Russia is highly competitive. We face strong competition from other retailers (Russian and international), some of which are larger and have greater resources. Retail chains compete mainly over store locations, product ranges, price, service and store conditions. Some competitors might be more effective and faster in capturing certain market opportunities, which in turn may negatively impact our market share and our ability to achieve our performance and expansion targets.	We focus on enhancing our customer value proposition through the introduction of a competitive pricing policy, the implementation of effective marketing initiatives and assortment structure improvement. We put considerable effort into aligning our hypermarket price perceptions with the "best value for money" concept. In 2019 we also launched several projects such as the redesign of our private labels package ("That's what you need!", "O'KEY"), development & implementation of new brands in the "O'KEY Selection" private label line ("Farmers collection", "Organic").
3. Political risk	Although political stability in Russia has improved, Russia is still a state whose political, economic and financial systems are rapidly developing and changing.	Although these risks are outside the control of the Group, O'KEY monitors political developments closely and maintains strong relationships with various national industry bodies.
4. Regulatory risk	Our operations are subject to various government regulations and industry specific legislation with respect to quality, packaging, health and safety, labelling, distribution and other standards. Some regulations are still being developed in Russia. Current and future government regulations or changes thereto may require us to change the way we run our operations and could result in cost increases. Failure to comply with regulations can also lead to reputational damage.	We aim to ensure compliance with all applicable regulations by monitoring regulatory developments and changes, and following up and responding to changes in regulations and standards in a timely manner. The new requirements for the marking of products (tobacco products, shoes and clothing) and for digital veterinary certificates had a significant influence on all players on the market. For this reason, during 2019, we developed and implemented timely and essential changes in Company's main business processes (such as goods ordering/receiving/return, stocktaking), and updated relevant internal policies, procedures and information systems. Additionally, on its own initiative, O'KEY Group S.A. was the first Russian food retailer to fully stop selling primary oil plastic bags. This step was inspired by O'KEY's environmental concerns and the introduction of new Live Green corporate policy requirements.

Name of Risk	Definition & Potential Impact	Mitigating Actions
OPERATIONAL RISKS		
5. Changing customer expectations	We strive to provide our customers with a wide range of goods and services, at competitive prices. However, we recognise that our customers' shopping habits and expectations are influenced by the economic environment and will change over time.	To maximise the efficiency and relevance of such assessments, we monitor internal and external reports on retail market development and changes in O'KEY positioning. As the result of these activities, in 2019, product of our private label "O'KEY" received six gold and three silver medals on international competition "Quality guarantee 2019". Additionally, during the FY 2019, we enhanced the volume and quality of our promo campaign. In this context, we launched the new promo concept, "Fresh weekly offers", that will propose fresh goods that meet expectations of our clients in part of prices, volume and quality.
6. Employee recruitment and retention	Competition for highly qualified management and store personnel remains intense in Russia. To meet our expansion plans we need highly skilled employees. Our future success depends in part on our continued ability to hire, and retain new employees. We understand that any inability to attract and retain highly qualified employees and key personnel in the future could have a material adverse effect on our business.	To improve motivation we have developed coaching in our stores, the Performance Appraisal system that is conducted on a regular basis and rewards employees based on their individual results. We also promote internal opportunities for career development via regular trainings and special programmes.
7. Supply chain risk	Our financial performance depends in part on reliable and effective supply chain management. We rely on third parties to supply us with merchandise and services. The third parties that supply us with merchandise and services also have other customers and may not have sufficient capacity to meet all of their customers' needs, including ours, during periods of excess demand. Shortages and delays could materially harm our business. Unanticipated increases in prices could also adversely affect our performance. Furthermore, we may be exposed to risk of delays and interruptions to our supply chain because of natural disasters, in case we are unable to identify alternative sources of supply in a timely manner.	During 2019, we continued to increase the effectiveness of operations at distribution centres, stores and head office levels. We finished the implementation of the new system Axapta 12 (Microsoft Dynamics) in our distribution centres and optimised the number of transport carriers with introducing a new evaluation system for them. We also implemented Oracle RPAS for sales forecasting and replenishment optimisation (70% of core categories are covered).

– estimated likelihood /risk impact

Risk **Management**

/PRINCIPLE RISKS/

Name of Risk	Definition & Potential Impact	Mitigating Actions
8. IT Platform Development	Execution of our strategic targets requires adaptation of current IT infrastructure to the changing business needs. As the business grows the complexity of processes supporting it and diversity of tasks around such growth are increasing. Delayed or inappropriate decisions on development of the infrastructure can lead to failures in meeting Group goals and impede attainment of longer-term goals.	In 2019, we completed the implementation of several key applications and systems in accordance with our strategy: • Axapta 12 (Microsoft Dynamics) for distribution centres; • Boss HR solution with core HR functions, and extended its functionality to employee self-service; • Upgrade of the POS platform to the newest version of CSI solution (SET 10). Already by the end of 2019, we noticed positive improvements in our store and head office processes.
9. IT security threats	We are observing an increase in IT security threats and higher levels of professionalism in computer crime. Our systems and solutions, as well as those of our counterparties remain potentially vulnerable to attacks. Depending on their nature and scope, such attacks could potentially lead to the leakage of confidential information, improper use of our systems, manipulation and destruction of data, sales downtimes and supply shortages, which in turn could adversely affect our reputation, competitiveness, and business, financial and operational performance.	We employ a number of measures, including employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems (such as firewalls, virus scanners and others) in attempt to reduce the threats to our IT & business infrastructure.
FINANCIAL RISKS		
10. Providing sufficient level of financing	Recent changes in the macroeconomic situation might result in a liquidity squeeze and tightening of lending policies by Russian banks. Given the expansion programme in the coming periods, issues with availability of external financing or significant changes in its cost can negatively impact our Group's ability to execute its expansion programme.	We maintain available lines of credit to close potential liquidity gaps. We diversify and enlarge the list of partnering banks to increase our control over the availability and cost of financing. Our securities are listed on the London Stock Exchange, allowing us to utilise the secondary placement of shares as an alternative source of financing.
11. Tax regulations	Russian tax law has complex tax rules, which may be interpreted in different ways and tax rules are subject to frequent changes. Examinations by tax authorities and changes in tax regulations could adversely affect our business, and financial and operational performance. Changes in tax law could result in higher tax expense and payments. Furthermore, legislative changes could materially impact tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities.	Our tax and legal specialists review compliance with applicable tax regulations, current interpretations issued by the authorities and judicial precedents resulting from tax disputes. This work is conducted on a regular basis and in a consistent manner and ensures we are aware of any changes that we may need to enforce.
12. Changes in working capital	Inability to control and manage elements of the working capital can result in negative changes for the operating cash flow and lead to liquidity gaps and excessive reliance on external financing.	We exercise constant control over working capital, which is detailed in our monetary policy. The aim of this policy is to minimise prepayment balances and control of overdue receivables. We are also taking steps to improve stock management efficiency by establishing and monitoring KPIs and organising training sessions for store employees.
13. Risk of misstatements in financial statements	We face exposure to risks relating to failures in proper financial reporting and the classification of accounting entries, and risks of making inaccurate accounting estimates.	We regularly monitor internal controls over financial reporting to prevent misstatements in financial statements. We have a qualified team of finance professionals who prepare our financial statements, and our consolidated IFRS financial statements preparation process is largely automated. For a description of financial risks and exposure calculations, please refer to the **note 29** and **31** in the Group Consolidated Financial Statements
14. Risks of currency and interest rates volatility	We are exposed to fluctuations in exchange rates because of loans received in USD and contractual obligations in USD and EUR. Although measures are taken to minimise this risk, it is likely that exchange rate and interest rate fluctuations occurred in Q1 2020 will influence our results.	Certain currency risks are controlled through switching payments into roubles, setting caps or hedged using derivative financial instruments. On 31 December 2019 more than 80% of the portfolio are fixed interest rate loans and approximately 96% of the portfolio are RUB loans.

Internal control and risk management system

Regarding the internal controls in the area of accounting and financial reporting, the following should be noted:

- Staff involved in the company's accounting and financial reporting are appropriately qualified and are kept up-to-date with relevant changes in International Financial Reporting Standards ("IFRS"). Additionally, specific training and written guidance on particular matters is provided where needed. Written guidance, regularly updated for business developments and regulatory changes, is available to all relevant staff members and provides a summary of the company's accounting and financial reporting policies and procedures.
- Controls have been established in the processing of accounting transactions to ensure appropriate autorisations for transactions, effective segregation of duties and the complete and accurate recording of financial information.
- Completeness and timely recording of financial information is ensured through regular reviews, monitoring of specific key performance indicators, validation procedures by functional leaders and as an additional check, the process of internal and external audit.
- The company relies on a comprehensive system of financial information and oversight. Strategic plans, business plans, budgets and the interim and full-year consolidated accounts of the company are drawn up and brought to the Board for approval.

The Board also approves all significant investments. The Board receives monthly financial reports setting out the company's financial performance in comparison to the approved budget and prior year figures.

- Any weaknesses in the system of internal controls identified by either internal or external auditors are promptly and fully addressed.
- The external auditors perform a limited review of the company's half-year consolidated financial statements and a full audit of the annual consolidated financial statements.

In accordance with the requirements of IFRS, we disclose detailed information on the market, credit and foreign exchange risk to which it is exposed, as well as strategy for managing the risks.

– estimated likelihood /risk impact

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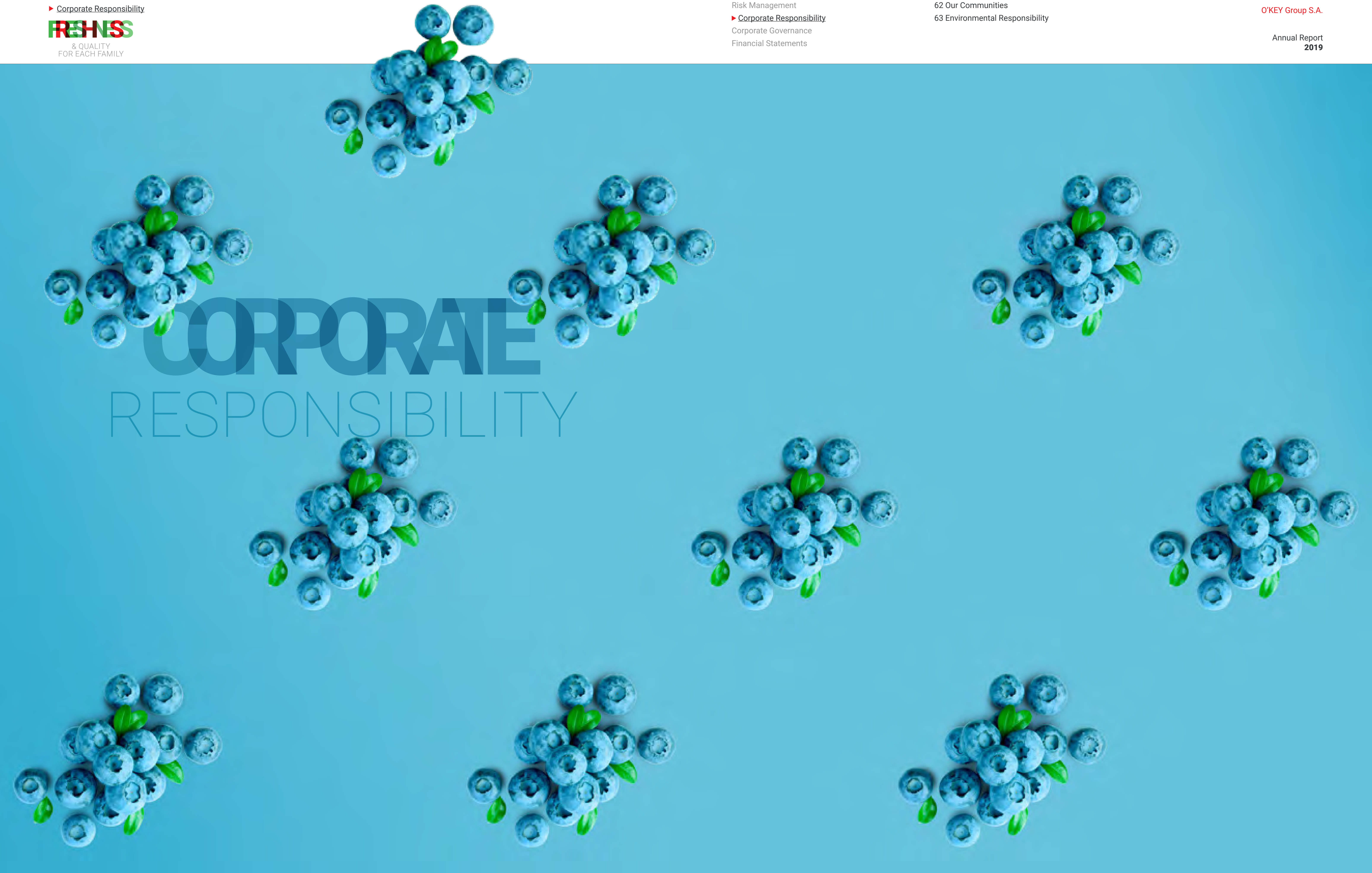

CORPORATE RESPONSIBILITY

Corporate Social **Responsibility**

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O'KEY SOCIAL RESPONSIBILITY

O'KEY believes that social responsibility is an essential factor of long-term development for any business. Instead of considering only financial and operational results, we develop a responsible approach towards society.

O'KEY Group operates in different geographical areas of Russia, from large cities to small towns and affects various stakeholders, such as business partners, local communities, governmental bodies, media and NGOs. We continuously develop different communication tools with our stakeholders, which helps us to create and sustain mutually beneficial partnerships, ensures continuous progress and promotes general business development.

Our key stakeholders are:

- customers and partners;
- shareholders and financial community;
- employees;
- government and local authorities;
- local communities;
- media.

OUR EMPLOYEES

O'KEY's HR policy is focused on the continuous improvement its HR processes and services, including onboarding, training and development, and professional recognition of the Company's specialists. We strive to create a productive working environment and open up new opportunities for employees to realise their professional and personal potential. We are aware of the impact that our corporate climate has on in-store service quality. Therefore, in 2019 we took the first steps in implementing the "HAPPY WORK" culture across the Company and will continue to do so in the following years.

Key focus areas of the HR strategy:

- introducing modern technologies and automating HR services;
- building an effective organisational structure and management team;
- creating a positive image of the O'KEY brand in the Russian labour market;
- creating a culture of engagement and effectiveness;
- systematic staff turnover management;
- implementing the best HR practices.

In 2019, we focused on quality and service ownership, reshaping our leadership role and building a mentoring culture in our stores. To achieve these goals the Company launched or expanded **two major projects:**

- "You are the face of the Company", a project aimed at raising awareness of the significance of each employee for the Company's successful performance, competitive edge, and attractiveness to its staff and customer base;
- The "100% Professional" competition, aimed at recognising professional excellence and increasing the social capital of linear careers, was first held in 2018 but was further expand in 2019, increasing its scale and impact and ensuring our culture recognises employee performance and professional skills.

O'KEY seeks to improve labour productivity and effectiveness and to automate all processes, including HR. Therefore, in 2018–2019 the Company completed an ambitious transition to a new advanced "BOSS-Kadrovik" system. The new system automates all key HR processes, from HR activities and payroll calculations to managing compensation and benefits and employees' online accounts. In 2020, we will add modules for managing personnel costs and budgeting, and health and safety, and will integrate the HR system with recruitment and business trip management.

Within the new HR system we implemented a tool designed especially for O'KEY which allows store management teams to easily and efficiently arrange the flexible planning of schedules. The need for such a tool arose as the Company uses various forms of employment and changes working hours depending on business needs.

In 2020, we will concentrate on programmes supporting the further enhancement of our service culture and our employer brand. Our focus will be on:

- the quality of training and onboarding processes;
- developing non-directive management skills and a coaching leadership style for retail management;
- ensuring service excellence at stores for internal and external customers;
- employee health;
- managing skills development;
- occupational safety;
- committees for continuous improvement of processes.

THE NUMBER OF EMPLOYEES

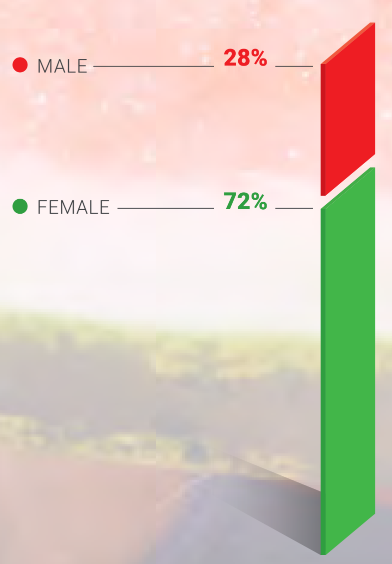
18,344

REDUCE OUR STAFF TURNOVER

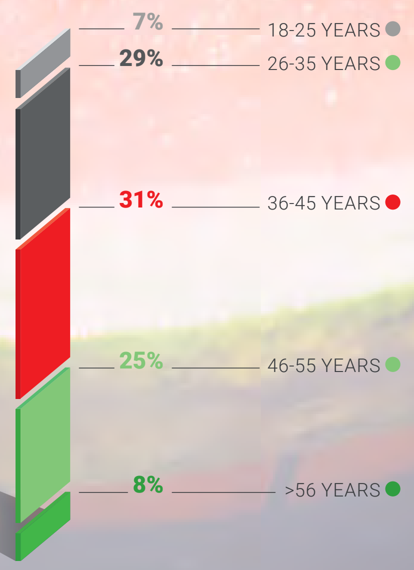
37 %

BREAKDOWN OF STAFF

Breakdown of staff by gender, %



Breakdown of staff by age, %



Our team in numbers

In 2019, average headcount of our hypermarkets reached 18,344, which was comparable to 2018. In 2019, we managed to reduce our staff turnover for the retail division of the Company by 37%.

/O'KEY VALUES/

Effective team

Outstanding results

Professional environment

Excellent service

Innovation

Corporate culture

In 2019, the key tasks of the Company included enhancing customer-focused service and building a mentoring culture in our stores.

The "You are the face of the Company" project is aimed at creating the right environment for developing our mentoring culture and improving conscious working quality management. The main goal of the project is to ensure high quality onboarding and employee training.

To achieve this goal, each store has set up and operates Mentoring Councils to work on the continuous improvement of service for internal and external customers. As of now, these Mentoring Councils cover 5% of retail staff across the Company (80% – line personnel, 20% – management). Our Mentoring Councils have already promoted 123 ideas on board, with 53 of them developed and introduced in our stores, 70 ideas being in the pilot and development stage.

Due to higher personnel engagement in pursuing the goals and objectives of the Company, the project contributed to a reduction of turnover.

In 2019 we also expanded the "100% Professional" professional skills contest.

The second wave of the project included four main retail professions – chef, baker, sales assistant, cashier, and focused on three pillars of a successful retail business – service, technology, and skill. In 2019, the "100% Professional" contest engaged with the wider retail industry: the Company invited external experts from the V. M. Gorbatov Federal Research Centre for Food Systems of RAS and the World Association of Chefs' Societies (WACS) to sit on the jury of the final round. The number of contestants almost tripled in 2019 and amounted to 1,700 vs 755 in 2018.

Staff training and development

O'KEY puts a lot of effort into the personal and professional growth of its employees which ensures high efficiency in our business activity.

In 2019, we continued to develop an efficient system of training and development, focusing on its economic feasibility, flexibility and availability in every city.

The key areas of personnel development were:

- functional training;
- retail talent bench.

We continued to reinforce the blended learning system, which allows every employee to receive a high quality education. The Company operates the "O'KEY Academy" training portal with 80 courses available. The content is constantly updated through collaboration with the business.

In order to develop the managerial staff for each level of management, face-to-face training pools have been created, where managers can practice managing their teams' performance .

The Company maintained momentum with its Leadership School where potential store directors are detected and educated. The Leadership School comprises three faculties: Store Director, Deputy Store Director, Head of Division. Our talent bench currently has seven directors, 25 deputy directors and 53 heads of divisions.

In 2019, the Company's head office conducted assessment processes in the following divisions: Commercial Department, Supply Chain Management Department, Economic Security Service. In total, the assessment measures encompassed 180 employees.

98 %

OF PERSONNEL WERE TRAINED

"O'KEY ACADEMY":

80

COURSES AVAILABLE ON THE PORTAL

68,549

TRAININGS WERE UNDERTAKEN

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In particular, O'KEY provides the following employee benefits:

- voluntary health insurance policies cofinanced at 80%-90%;
- free meals for some employee categories;
- gift vouchers for the O'KEY retail chain and holiday gifts for children;
- financial assistance to employees in a difficult life situations;
- the opportunity to pay for gym memberships in instalments.

Reporting violations

In order to promote an environment of transparency and trust, O'KEY developed a whistleblowing policy which regulates violations of ethics, labour laws, and interactions between employees and managers. The Company has several channels for reporting violations: a call centre, dedicated manager–employee meeting hours, and morning kick-offs.

Plans

In 2020, our main focus will be on aligning all regions to unified HR process standards for staff training and assessment, developing high quality guidelines and processes. We plan to place a special focus on developing line managers and heads of HR divisions as well as onboarding programmes, both in the head office and retail. The head office will also prioritise improvements in the recruitment process by using different hiring tools.

In 2020, we will continue rolling out our Freshness Experts project: an experienced dedicated mentor will be appointed in each region to educate and help the newly appointed heads of divisions and heads of low-performing divisions. We also plan to launch an all-in e-platform where our best managers will share their experience and knowledge of the business.

Staff retention and motivation

O'KEY effectively uses advanced well-balanced financial and non-financial incentives, providing its employees with competitive wages which allow the Company to attract and retain the best talents.

The Company has a KPI system that takes into account both individual and corporate goals. The bonus amount depends on the results achieved against those KPIs.

Compensation and benefits

O'KEY provides necessary social support to its employees in full compliance with the requirements of applicable laws and regulations, and also implements additional programmes aimed at creating the most comfortable environment for our staff.

WERE RECEIVED IN 2019

202

REPORTS

WERE PROCESSED AND GIVEN FEEDBACK

100 %

REPORTS

These results were made possible through effectively raising staff awareness of HR administration processes and the Company's standards.

Corporate Social **Responsibility**

HEALTH AND SAFETY

O'KEY strives to constantly reduce work-related hazards, providing safe working conditions for every employee and a comfortable experience for each customer.

/KEY 2019 RESULTS/

What we do:

- monitoring workplace conditions;
- monitoring employee health;
- training employees in safe working practices;
- investigate injury incidents;
- take measures to prevent similar incidents in the future;
- accompany labour protection inspections conducted by governmental supervisory authorities.

all workplaces
working conditions were specially assessed

25 occupational injuries
-29% compared to 2018

0 fatalities

The Group has an efficient occupational health and safety management system, which fully complies with Russian legislative norms. The main regulating document is the Labour Protection and Occupational Health, Environmental, Industrial and Fire Safety Policy, valid until 2023.

We conduct regular occupational health audits in our stores and distribution centres. In 2019, 305 comprehensive inspections of our premises were conducted to assess labour protection.

All occupational injuries involving our employees and customers are tracked and systematically investigated. The total number of accidents amounted 25 in 2019 (vs 35 in 2018), two of them severe (head injuries in a fall).

In 2020, O'KEY Group plans to implement a professional occupational risk management system and conduct the professional risks assessments throughout the Company.

TRAINED IN OCCUPATIONAL SAFETY

1,976

PEOPLE TRAINED

TRAINED IN FIRE SAFETY

1,020

PEOPLE TRAINED

HUMAN RIGHTS AND DIVERSITY

O'KEY Group commitments include adhering to the fundamental principles of human rights, supporting diversity, and maintaining the highest standards of business ethics and integrity. We strictly comply with relevant internal regulations as well as with Russian legislation and international best practices.

Ethics and compliance

We treat our employees equally and with respect, regardless of their gender, background, ethnicity or nationality. We understand the positive impact of a multi-cultural working environment on business productivity and aim to increase ethnic diversity throughout our business. The Company does not tolerate discrimination, human trafficking and slavery in any form and constantly monitors its business operations to ensure that no risks in these areas arise.

In building its team, O'KEY follows the principles of partnership, mutual respect and common goals. Our employees are expected to abide by a set of clearly communicated formal policies, which include:

- Supplier selection Policy;
- Policy of choosing a counterparty;
- Policy of interaction with state bodies;
- Anti-corruption policy.

In all situations and under any circumstances, the actions of employees must comply with our high professional and ethical standards and generally accepted moral values.

Our employees regularly undergo special training programmes on compliance with legislation on consumer protection, interaction with government agencies and others. These programmes are regularly updated to comply in a timely manner with changes in Russian legislation and global best practices.

Preventing Corruption

O'KEY Group has a zero-tolerance policy towards any kind of corruption at all levels. The Company strives to ensure a high level of transparency in all operations and procedures, continuously improves its anti-corruption processes and promotes training on the topic for the employees.

The Company's corruption prevention activities are regulated by its Anti-corruption policy, which is imposed both internally and externally. Any suspicious behaviour, including information reported inside the Company or from our partners via a hotline, is thoroughly investigated in line with our rules and policies, and appropriate measures are taken.

In 2019 we also improved our commercial secrets policy and deployed new methodologies and tools to ensure the security of the Company's confidential commercial information. This included further development of control measures in the IT network and infrastructure to secure our commercial information from unauthorised external and internal access attempts and misuse. We also implemented "Red flag" reports which enable instant action on information security incidents and are contributing to the rapid discovery of any anomalies and violations to the Company's policies. We also renewed our information posters about correct behavior in our offices and reminded employees of contact details to report any suspicious behavior.

All potential conflicts of interests are immediately reported to our internal audit and security departments.

/ANTI-CORRUPTION MEASURES/

Internal anti-corruption measures

- all employees voluntarily sign a commitment to follow the Anti-Corruption policy;
- prior to hiring, potential employees are screened for risks of corruption;
- the activity of employees in our procurement and real estate departments is constantly monitored;
- contract development is monitored and analysed every six months;
- control procedures for critical business processes (such as receiving, write-offs/scraping and returns) are implemented and conducted via IT monitoring software;
- thematic briefings and trainings are held for employees in the procurement and real estate departments and in our stores.

External anti-corruption measures

- all potential suppliers and service providers are thoroughly checked before obtaining any contracts, by verifying their:
  - records and documentation,
  - financial health (balance sheets, assets, turnover, debts, credits, and court proceedings,
  - absence of affiliation to our other suppliers or our employees,
  - customer base, turnover matching with the declared taxes history;
- local suppliers are placed under additional monitoring;
- our suppliers sign an obligatory agreement where they accept all the clauses related to anti-corruption policy;
- in the event that suppliers and contractors do not comply with the Policy, O'KEY is entitled to terminate their contracts immediately.

Anonymous hotline numbers are displayed openly for all employees and service providers in all our stores as well on our **website.**

For this purpose, we maintain a confidential whistleblower e-mail address and hotline to which anyone can report a complaint. In 2019, we received several messages. The messages related to violation of Company's rules and standards were promptly investigated by the Risk Department's anti-corruption team. Confirmed corruption cases were handed over to the police for further proceedings.

In 2019, we investigated nine cases related to the violation of our anti-corruption policy in accordance with our standard process.

Three cases involving employees or subcontractors were handed over to the police; in the remaining cases we took internal measures and appropriate actions. Furthermore, we updated related procedures to receive earlier warnings and to eliminate further occurrences of similar incidents.In 2020 we plan to continue transferring the commercial buying process for several categories onto an automated trading platform to provide more transparency and prevent hazardous behaviour or attempts. This will also simplify and speed up investigations related to anonymous warnings, disputes or legal requests, related to commercial purchasing.

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OUR COMMUNITIES

O'KEY strives to provide a better quality of life to local communities in the areas in which we operate, including the most vulnerable groups in society. For this purpose, we support several charity and social investment initiatives in partnership with different stakeholders, such as local authorities, businesses, non-governmental organisations, the media and our customers.

Our social initiatives include supporting sporting and cultural events, developing social infrastructure and supporting vulnerable groups in society, such as orphans, children lacking parental care, people in difficult situations in life, veterans of the Great Patriotic war and seriously ill children. These programmes enable the O'KEY to support the population and ensure the Company meets its commitments as a responsible industry leader.

Priorities of O'KEY charity programmes	Major charity partners in 2019:	Outcomes of our assistance:
help children with serious illnesses;	Rusfond;	targeted assistance;
help people in difficult situations in life;	Advita;	heightened consumer awareness about issues and increased participation in solutions;
help veterans of the Great Patriotic war.	service for Consumer Market and Licensing of the Irkutsk region.	the attraction of other benefactors.

Treatment Support

In 2019, O'KEY Group continued its cooperation with Rusfond to help children with serious health conditions and held the fourth national Kind Purchase charitable campaign.

All of our customers could participate in the charity campaign which ran from 24 October to 20 November 2019, simply by purchasing any products under O'KEY private labels (over 1,700 SKUs) at any O'KEY hypermarket and on the www.okeydostavka.ru online store. The Company donated a proportion of the revenue generated through sales of these products to the charity.

The total amount of funds raised through Kind Purchase in 2019 reached RUB 7 mln.

RUB 7 mln
RAISED THROUGH JOINT CHARITY CAMPAIGNS WITH RUSFOND IN 2019

RUB 26 mln
RAISED SINCE 2017

The money will be used for the treatment and rehabilitation of seriously ill children in Rusfond's wards.

Another of O'KEY Group's committed charity partners is AdVita, a St. Petersburg-based charity fund specialising in help for children and adults suffering from cancer. Throughout 2019 we organised a variety of campaigns in our St. Petersburg stores to raise funds for AdVita, including the placement of donation boxes next to counters so that our customers could donate to help people in need.

Humanitarian aid

In July 2019, O'KEY Group dispatched humanitarian aid to residents impacted by flooding in the Irkutsk Region. The relief effort included a 16-pallet container holding more than 8,000 items, including household items, clothing and textiles. The cargo worth RUB 2.35 mln was delivered to the disaster zone in Tulun and distributed among flood victims in the affected area.

RUB 1.87 mln
RAISED THROUGH DONATION BOXES

Supporting Vulnerable Groups

We have an ongoing programme aimed at helping vulnerable groups. O'KEY hypermarkets offer holders of state social cards an additional 3% discount at our stores in Moscow and the Moscow region, and various discounts for retired people in Krasnoyarsk, Murmansk, Syktyvkar, Tyumen and two stores in St. Petersburg. The discount does not apply to alcohol and tobacco products. In St. Petersburg, we also offer holders of a special social card for new mothers additional discounts on children's goods.

In order to support families in difficult situations and children from dysfunctional families, before the New Year we held a social campaign called "Blizzard of Wonders" in the cities of Moscow, Rostov-on-Don and Ekaterinburg. Our customers could bring gifts for vulnerable population groups, which were later sent to foundations providing targeted assistance. Overall, we gathered more than 500 gifts.

RUB 9 mln
RAISED SINCE 2016

ENVIRONMENTAL RESPONSIBILITY

We believe that environmental responsibility of business is a necessity for keeping market positions in the long-term perspective. This is proved by growing eco-awareness of customers and changes in environmental legislation. We promote the responsible approach and try to minimise our environmental footprint by implementing different measures.

We ensure the strict compliance with Russian environmental legislation through regular internal audits. We also perform quarterly monitoring of atmosphere and noise pollution in the buffer zone to make sure that our stores have no negative impact on the living conditions of local communities.

In 2019, the Company implemented a new Live Green corporate policy and plans to follow its principles in 2020. In line with the policy, O'KEY hypermarkets will fully stop selling primary oil plastic bags in Q1 2020. Instead, our customers will be offered various packaging options such as biodegradable corn starch and 100%-recycled plastic bags, reusable shopping bags of different materials and capacities, from heavy-duty paper bags to jute, cotton, nylon and PVC durable items.

Energy efficiency

We care about energy efficiency of our business and make efforts to gradually reduce our total energy consumption. O'KEY controls the energy use in its supermarkets. We equip our stores with modern recuperators and energy-efficient led-lights and led-signboards, replace outdated refrigeration elements and conditional systems with leading edge energy-saving devices. As a result of these measures, in 2019 the total energy consumption YoY decreased by 3%.

Waste management

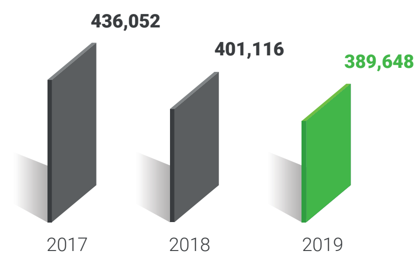
Waste management processes in O'KEY Group are regulated by the Waste management policy, which is implemented in all our stores.

The amount of waste buried on the landfills is reduced by separate waste collection implemented in all our stores.

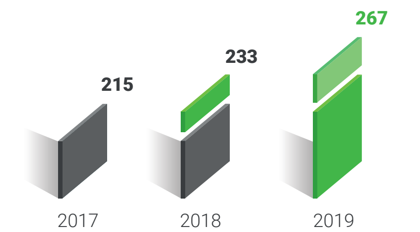
Furthermore, biological waste and lamps are transported to special factories, recyclable waste such as polythene film, plastic boxes and wastepaper is pressed and sold for further recycling. We collect and sell for recycling banana boxes, waste oil, pallets and metal scrap.

Our key operational locations have water-treatment facilities, including petrol and sand catchers, filtering stormwater from parking zones and grease catchers filtering waste from our own-production facilities before it is disposed into the public sewers.

ENERGY CONSUMPTION (NET), K KWT/H



PROCEEDS FROM SALES OF RECYCLABLE MATERIALS, RUB MLN



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We recognise our obligation to our shareholders to adopt highest standards of governance and control, both at the Board level and within our management teams, and aim to establish and support a corporate governance framework that is suitable for the development of our business and meets the requirements of our shareholders.

Heigo Kera
Group Chairman

O'KEY Group S.A. is a company incorporated under the Laws of the Grand Duchy of Luxembourg with Global Depositary Receipts (GDRs) listed on the London Stock Exchange, and as such is not required to comply with the UK Corporate Governance Code.

O'KEY Group is committed to managing and conducting its operations in accordance with applicable regulations of Luxembourg and the London Stock Exchange.

The most significant decisions affecting the life of the Company and the rights of shareholders, including the approval of financial statements and the Annual Report, appointment of the Directors, amendments of the Articles, approval of the final dividend for the financial year, are subject to review and approval at the Shareholders meeting.

The Board of Directors and its committees provide overall guidance for the business and strategic planning for the Group.

It sets strategic goals and oversees their implementation by the CEO and senior Management of the Group.

The Management Board and the Chief Executive Officer are responsible for the day-to-day operations of the companies of the Group and implement the strategy approved by the Board of Directors.

OUR CORPORATE GOVERNANCE PRINCIPLES

PROFESSIONALISM

We strive to appoint individuals with relevant skills and experience to the Board of Directors and its committees in order to enable them to discharge their respective duties and responsibilities effectively. The Board is supplied, in a timely manner, with information in a form and of a quality appropriate to allow it to discharge its duties.

ACCOUNTABILITY

The Board of Directors is accountable to O'KEY Group's General Meeting of Shareholders and is responsible for:

- formulating the Group's strategy;
- establishing and maintaining systems, which ensure due consideration of key decisions by experienced individuals, including in the areas of remuneration and incentives, internal control and risk management;
- holding management accountable for the successful implementation of the Group's strategy.

TRANSPARENCY

We strive to ensure the appropriate disclosure of reliable information on all significant issues related to our operations including financial status, social performance, operating results and ownership.

EQUALITY

O'KEY Group's corporate governance system is designed to protect shareholders' rights and ensure equal treatment of all shareholders.

THE GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is O'KEY Group S.A.'s supreme governing body. The General Meetings of Shareholders are convened and held in accordance with Luxembourg legislative requirements and the Articles of O'KEY Group S.A. According to the Articles of O'KEY Group S.A., the annual General Meeting shall be held within six (6) months of the end of each financial year in the Grand Duchy of Luxembourg at the registered office of the Company, or at any such other place in the Grand Duchy of Luxembourg as may be specified in the convening notice of the meeting.

The next annual General Meeting will be held before 30 June 2020. A convening notice specifying the date, time, address of the meeting and the agenda will be sent and published no later than fourteen days before the meeting.

Transfer Restrictions

As of 31 December 2019, and the date hereof, to the knowledge of the Company all shares in issue in the Company are freely transferable, provided that the transfer formalities set out under Article 6 of the Articles are fulfilled.

The Company has no information about any agreements between the shareholders which may result in restrictions on the transfer of securities or voting rights, as mentioned under Article 11 (1) (g) of the Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids.

Special Control Rights

All the issued and outstanding shares of the Company have equal voting rights and there are no special control rights attached to shares of the Company.

The Caraden Shareholder (as defined in the Articles) has, under the condition of holding a minimum amount of shares in the Company, a specific right with respect to the appointment and removal of Directors as at least one Director (designated as the Caraden Director) must be appointed from a list of candidates proposed by the Caraden Shareholder and may be removed at the initiative of the Caraden Shareholder (additional information may be found under Article 8 of the Articles).

The supporting vote of the Caraden Shareholder is required, under certain conditions, to amend the provisions of the Articles relating to: (i) the rights and prerogatives of the Caraden Shareholder; and (ii) the appointment, removal, replacement, rights, prerogatives and positive vote of the Caraden Director (additional information may be found under Article 16.4 of the Articles).

Control System in Employee Share Scheme

The Company does not have an employee share scheme allowing employees to acquire equity in the Company.

Voting Rights

Each share issued and outstanding in the Company bears one vote.

The Articles do not provide for any voting restrictions.

In accordance with the Articles, a record date for the admission to a general meeting may be set by the Board (Article 15 of the Articles). Only those Shareholders as shall be shareholders of record on any such record date shall be entitled to be notified of and to vote at any general meeting and any adjournment thereof, or to give any such consent as the case may be.

In accordance with the Articles, the Board may determine such other conditions that must be fulfilled by Shareholders for them to take part in any meeting of shareholders in person or by proxy (Article 15 of the Articles).

Shareholders' Agreements with Transfer Restrictions

The Company has no information about any agreements between shareholders, which may result in restrictions on the transfer of securities or voting rights.

Appointment of the Directors, Amendment of the Articles

The rules governing the appointment and replacement of the directors and the amendment of the Articles are set out under Luxembourg Company Law and the Articles (in particular Articles 8, 15 and 16).

The consolidated version of the Articles is published under the Shareholders section of the Company website and is available at: **http://okeygroup.lu/sharedocs**

Significant Agreements or Essential Business Contracts

The Board is not aware of any significant agreements to which O'KEY Group S.A. is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid. The Board has considered essential business contracts and concluded that there is none.

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BOARD OF DIRECTORS

The Company's Board of Directors plays the key role in organising an efficient corporate governance system. The Board is vested with the broadest powers to manage the business of the Company and to authorise and perform all acts of disposal and administration falling within the purposes of the Company.

The Board is responsible for taking strategic decisions in respect of the operation and development of the Group, as well as overseeing the risk management and internal audit functions of the Group. The decisions related to the day-to-day operations of the Group are delegated to the management.

The Board is also a management body of O'KEY Group S.A. and is authorised to take all decisions in respect of O'KEY Group S.A., unless they are reserved for the General Meeting. The Board is not authorised to issue or buy back shares without approval of the shareholders meeting.

The repurchase by the Company of its own shares is subject to the conditions set out in the Company Law and the Articles. By the resolution of the meeting of the shareholders held on April 27, 2018, the board is authorised to start a buyback programme with the parameters set out in aforementioned resolution. The authorisation is valid until April 27, 2020. As of March 27, 2020, the Company has not started the buyback programme.

Our current Board of Directors was elected at the General Meeting of Shareholders held on 13 October 2015.

There are five members of our Board, including one independent director. The General Meeting of Shareholders appoints the Board members by a simple majority of votes cast, for a period not exceeding six years or until their successors are elected[1/].

Meetings of the Board of Directors

Meetings of Board of Directors are held regularly in compliance with the approved work schedule for the year. The Board's work schedule is determined on the basis of strategic planning and the reporting cycle. Whenever an urgent matter needs to be considered, Extraordinary Board meetings are organised, or, if a personal meeting cannot be organised due to short notice, the Board can adopt a circular resolution by a unanimous vote. It is the Board Chairman's responsibility to determine the Board's work plan and to include additional items in the plan.

In 2019, the Board of Directors worked on the following key tasks:

- preparation of the financial statements and annual report, and review of the results for the year 2018;
- approval of the budget and business strategy for the year 2019;
- review of the quarterly financial results, approval of financial statements for six months of 2019 and monitoring of compliance with risk management strategy;
- determination of the Group's strategic and operational priorities;

Remuneration

Members of the Board of Directors of O'KEY Group S.A. receive remuneration of the amount approved by the General Meeting of Shareholders. Members of the Board and its Committees may be compensated for the expenses they incurred in the course of their duties, in accordance with the business and travel expenses policy of O'KEY Group S.A.

Diversity

O'KEY Group is working on adoption of a diversity policy. However, as can be seen from the information on the senior management team, O'KEY Group aims to employ the members of the team most suitable and qualified for their post and function, irrespective of their age, gender or origin. The requirements of educational and professional backgrounds are such as to ensure that the members of the team possess the skills and experience necessary to perform their functions effectively.

/MEETINGS OF THE BOARD OF DIRECTORS/

Member	Board of Directors (3 meetings)	Audit Committee (4 meetings)	Remuneration Committee (1 meeting)
Heigo Kera	attended 3	attended 4	attended
Dmitrii Troitskii	3 by proxy	not a member	by proxy
Dmitry Korzhev	attended 3	attended 4	not a member
Boris Volchek	3 by proxy	attended 1, 3 by proxy	by proxy
Mykola Buinyckyi	attended 3	attended 4	not a member

/CHANGES MADE TO THE SENIOR MANAGEMENT TEAM IN 2019/

Name	Date	Change
Pavel Lokshin	19/02/2019	Operating Director
Sergey Shadrin	20/05/2019	Supply Chain Director
Olga Surnina	15/09/2019	Marketing Director
Tatiana Bukanova	02/10/2019	Real Estate Director

1/ The rules governing the appointment and replacement of the Directors are set out under the Law of 10 August 1915 on Commercial Companies, as amended, and the Articles (in particular Articles 8, 15 and 16). The consolidated version of the Articles is published under the Shareholders section of the Company website, available at: http://okeygroup.lu/sharedocs

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/MEMBERS OF THE BOARD OF DIRECTORS OF O'KEY GROUP S.A. AS AT 31 DECEMBER 2019/

Member	Election	Education	Skills and Experience	Shares in O'KEY
HEIGO KERA **Group Chairman** Member of the Audit Committee Chairman of the Remuneration Committee	First elected to the Board of Directors in **June 2010** and repeatedly re-elected since then.	**University degree**, Tallinn Technical University (Estonia)	**2015-2017:** CEO of O'KEY effective 1 May 2015 **2008-present:** owner and a Member of the Board of Directors of Silverko Consult OU **2002-2008:** consultancy services, including research on retail markets in Belarus, Kazakhstan and China	**Mr. Kera** does not hold shares of O'KEY Group S.A.
DMITRII TROITSKII **Director** Member of the Remuneration committee	First elected to the Board of Directors in **June 2010** and repeatedly re-elected since then.	**University degree**, State Marine Technical University of St. Petersburg	**2005-2007:** Member of the Board of Directors of the Ochakovo Dairy Plant **2005-2012:** Member of the Supervisory Board of Bank St. Petersburg **2005-present:** Development Director of Capital Group JSC (formerly Neva-Rus CJSC)	**Mr. Troitskii** indirectly owns ca. **29.046%** of the shares of O'KEY Group S.A.
BORIS VOLCHEK **Caraden Director** Member of the Audit and Remuneration Committee	First elected to the Board of Directors in **June 2010** and repeatedly re-elected since then.	**University degree**, Leningrad Institute of Railway Engineers (now St. Petersburg State University of Communications)	**1995-present:** President of the Union Group of companies **2000-present:** General Director of St. Petersburg Automobile Museum	**Mr. Volchek** indirectly owns ca. **29.52%** of the shares of O'KEY Group S.A.
DMITRY KORZHEV **Director** Member of the Audit Committee	First elected to the Board of Directors in **June 2010** and repeatedly re-elected since then.	**University degree**, State Marine Technical University of St. Petersburg	**2005-2009:** Member of the Supervisory Board of Bank Saint Petersburg **2005-present:** General Director of Sovmestniy Capital CJSC **2015-2019:** Director of Capital Group JSC **2019-present:** Commercial Director of Capital Group JSC	**Mr. Korzhev** indirectly owns ca. **10.31%** of the shares of O'KEY Group S.A.
MYKOLA BUINYCKYI **Independent Director** Chairman of the Audit Committee	First elected to the Board of Directors in **June 2010** and repeatedly re-elected since then.	**University degree,** The University of Edinburgh, UK A fellow of the Chartered Institute of Management Accountants A **Member** of the Institute of British Management **Joint diploma** in management accounting	**Over 35 years** in international financial management and over **20 years'** experience in Russia. **Seven years** as a management consultant with Coopers & Lybrand.	**Mr. Buinyckyi** does not hold shares of O'KEY Group S.A.

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COMMITTEES OF THE BOARD OF DIRECTORS

The primary role of the Committees is to provide assistance to the Board in preparing and adopting decisions in its respective functional areas, as well as to ensure that matters brought for consideration by the Board of Directors are scrutinised prior to the Board meetings.

There are two committees on the Board of Directors: the Audit Committee and the Remuneration Committee.

REMUNERATION COMMITTEE

Committee members

As of 31 December 2019, the Remuneration Committee comprised:

- **Heigo Kera**, Committee Chairman, Chairman of the Board of Directors;
- **Boris Volchek**, Committee Member, Non-executive Director of the Board of Directors;
- **Dmitrii Troitskii,** Committee Member, Non-executive Director of the Board of Directors;
- **Ilya Ilin**, Committee Member, Non-director, external consultant;
- **Irina Nikiforova**, Committee Member, Non-director, external consultant.

The Committee's remit includes:

- reviewing the compensation policy;
- advising on any benefit or incentive schemes;
- making proposals to the full Board of Directors regarding the remuneration of Executive Directors and management (including Chief Executive Officer).

Activities in 2019

- during the reporting period, the Remuneration Committee held one meeting;
- reviewed the report on the remuneration, bonuses and expenses of the Board and its Committees;
- reviewed the amount of remuneration to be allocated to the management of the Group in 2018;
- approved the Remuneration Committee Report;
- suggested the total maximum amount of remuneration of Directors for 2019 to be submitted for the approval of the shareholders of the Company.

Plans for 2020

In 2020 the Group plans to keep the remuneration and bonus policy in line with 2019.

AUDIT COMMITTEE

Committee members

As of 31 December 2019, the Audit Committee comprised:

- **Mykola Buinyckyi**, Committee Chairman, Independent Director of the Board of Directors;
- **Boris Volchek**, Committee Member, Non-executive Director of the Board of Directors;
- **Dmitry Korzhev**, Committee Member, Non-executive Director of the Board of Directors;
- **Heigo Kera**, Committee Member, Chairman of the Board of Directors;
- **Ilya Ilin**, Committee Member, Non-director, external consultant;
- **Irina Nikiforova**, Committee Member, Non-director, external consultant.

Key areas

The Audit Committee oversees the internal audit function, the effectiveness of risk management and the internal controls of the Company and the Group. It also approves and monitors the performance of the internal audit plan for the year. The Audit Committee assists the Boards of Directors in fulfilling its oversights responsibilities relating to the financial statements, including periodically reporting to the Board of Directors on its activities and the adequacy of internal control systems over financial reporting.

According to the Statute of O'KEY Audit Committee, the Audit Committee shall consist of not fewer than three current members of the Board of Directors and shall be chaired by an independent director.

The Committee's remit includes:

- reviewing the IFRS financial statements for integrity and transparency;
- analysing financial reporting processes, including carrying out regular reviews and making recommendations;
- recommending appointment and remuneration of the Company's external auditor to the Board of Directors and maintaining an ongoing relationship with the external auditor;
- analysing and supporting the internal audit system and risk management procedures, including drafting of recommendations for their improvement.

Activities in 2019

- during the reporting period, the Audit Committee held four meetings;
- fulfilled oversight responsibilities relating to integrity of the Company's annual financial statements;
- fulfilled oversight responsibilities relating to integrity of the Company's half yearly financial statements;
- reviewed reports prepared by Internal Audit department;
- reviewed effectiveness of the Company's risk management and internal control systems;
- reviewed policies and procedures published in the Company;
- monitored reports per the Company's Whistleblowing Policy;
- planned and agreed the scope of the audit of financial statements for year ended 2019 with the external auditor of O'KEY Group;
- reviewed and approved provisions of non-audit services for the Company by the external auditor;
- approved the Internal Audit plan for the year 2020.

Plans for 2020

The Audit Committee and the Company continue to focus on following areas in 2020:

- how the Company's management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group;
- optimising of internal business processes involved in preparation of financial reporting.

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EXECUTIVE MANAGEMENT

O'KEY Management Board brings together the best professionals with broad expertise and deep understanding of the Russian retail market. Within the country and worldwide, we recruit the most enthusiastic managers whose vision and perspective contribute to the development of our business. In 2019, we further strengthened our team with professionals with solid retail backgrounds.

ARMIN BURGER

Chief Executive Officer

Member of the Management Board since 2013

University of Freiburg, Department of Economics .

2012-2013: CEO and a Member of the Supervisory Board of Praktiker AG

2008-2011: Member of the Supervisory Board Aldi Süd

1999-2008: CEO of Hofer KG, Sattledt, Austria

1990-1998: Various positions in Aldi GmbH

KONSTANTIN ARABIDIS

Chief Financial Officer

Member of the Management Board since 2016

Peter the Great St.Petersburg Polytechnic University, Department of Technical Cybernetics;

St. Petersburg University Department of Economics;

Member of ACCA.

2012-2016: Various positions in O'KEY Group

Before 2012: Various positions in PwC

PAVEL LOKSHIN

Operating Director

Member of the Management Board since 2019

Moscow Aviation Technological University, Department of Economics;

London Business School, Senior Executive Programme.

2016-2018: CEO of Perekrestok Express

2013-2016: CEO of K-Rauta Russia

2001-2012: Various positions in METRO Cash & Carry

IVAN DROPULJIC

Commercial Director

Member of the Management Board since 2017

The University of Zagreb, Department of Economics.

2012-2017: Purchasing and Marketing Director, Member of the Board of Kaufland Croatia

2007-2012: Fresh Food Director at Kaufland Croatia

Before 2007: Various positions at Pik Vrbovec and Jamnica

SERGEY SHADRIN

Supply Chain Director

Member of the Management Board since 2019

Plekhanov Russian University of Economics, PhD degree in Economics;

Vlerick Business School, Belgium, MBA.

2017-2018: Supply Chain Director of Auchan Moscow

2004-2018: various positions at Danone Russia, Ukraine, Saudi Arabia

ELENA POLOZOVA

Human Resources Director

Member of the Management Board since 2015

Moscow International Higher School of Business (MIRBIS), MBA;

Lipetsk State Technical University, Department of Psychology.

2013-2015: Senior HR, O'KEY

2003-2013: HR Business partner in Magnit

OLGA SURNINA

Marketing Director

Member of the Management Board since 2019

Almaty Technological University, Department of Economics;

KIMEP, MA, Department of Economics;

Chartered Institute of Marketing, Post Graduate Professional Diploma, UK.

2018-2019: Marketing Director Russia & CIS at JSC Arnest

2016-2018: Head of Own Production at Magnit

2013-2016: Marketing and PR Director at Nautica

2010-2013: Marketing Director at Nokia International South CIS Branch

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SHARE CAPITAL

O'KEY Group S.A. share capital amounts to EUR 2,690,740 divided into 269,074,000 ordinary shares of a nominal value of EUR 0.01 each. As at the date of this report, the Company's share capital has remained unchanged since 30 November 2010.

All shares issued by the Company have equal rights as provided for by the law of 10 August 1915 on commercial companies, as amended (the "Company Law") and as set forth in the Articles, save for the special rights granted to the Caraden Shareholder.

The Company does not hold any of its own shares and has not acquired it during the 2019 financial year.

Significant Shareholdings

The three major indirect shareholders of the Group are its founders:

- **Mr. Dmitrii Troitskii** (who indirectly owns approximately 29.046% of the outstanding share capital of O'KEY Group S.A. and together with Mr. Korzhev controls 44.79% in the share capital of the Company);
- **Mr. Dmitry Korzhev** (who indirectly owns approximately 10.31% of the outstanding share capital of O'KEY Group S.A. and together with Mr. Troitskiy controls 44.79% in the share capital of the Company);
- **Mr. Boris Volchek** (who indirectly owns approximately 29.52% of the outstanding share capital of O'KEY Group S.A.).

Share Capital Structure – Direct Holdings

NISE MAX Co Ltd	44.79%
GSU Ltd	29.52%
Freefloat	25.69%

Global Depositary Receipts (GDRs)

Global Depositary Receipts (GDRs) are issued in respect of ordinary shares at a ratio of one ordinary share per one GDR. The GDRs are traded on the London Stock Exchange. The Company's depositary bank is The Bank of New York Mellon.

As of 31 December 2019, GDRs represented 38.172% of O'KEY Group S.A. share capital.

No other securities have been issued by the Company.

O'KEY Group S.A. GDRs Trading Information (market transactions, Bloomberg)

	2019	2018
Annual maximum price, USD	2.7	2.7
Annual minimum price, USD	1.4	1.8
Year-end price, USD	1.4	2.5
Trading volume (mln units)	11.5	24.5

Stock Exchange

As of 31 December 2019, O'KEY Group S.A. GDRs were traded on the London Stock Exchange.

/TRADING FLOOR OF O'KEY GROUP S.A. GDRS/

Trading floor	Ticker code
London Stock Exchange	OKEY

/O'KEY GROUP S.A. SECURITIES IDENTIFICATION NUMBERS/

CUSIP[1/]	Code
Regulation S GDRs	670866201
Rule 144A GDRs	670866102

ISIN[2/]	Code
Regulation S GDRs	US6708662019
Rule 144A GDRs	US6708661029

Credit Ratings

In July 2019 RAEX (Expert RA) affirmed the Company's credit rating of 'ruA-' with a stable outlook. The rating reflects the Group's stable position within the Russian food retail market, its strong liquidity and debt repayment capacity as well as high standards of corporate governance and risk management.

	RAEX
Credit rating	ruA-
Outlook	Stable
Last rating date	08 July 2019

Source: Bloomberg – applicable to all the tables above

Analyst Coverage

9 equity research analysts from leading banks, including Goldman Sachs, JP Morgan, VTB Capital and Sberbank CIB, follow the Company on a regular basis. O'KEY's IR team routinely monitors and communicates analyst consensus to the Company's top management.

Company	Analyst	Phone number
Aton	Victor Dima	+7 (495) 213-03-44
BCS	Maria Boyko	+7 (495) 213-15-94
Gazprombank	Marat Ibragimov	+7 (495) 980-41-87
Goldman Sachs	Maxim Nekrasov	+7 (495) 645-42-97
J. P. Morgan	Elena Jouronova	+7 (495) 967-38-88
Raiffeisen Bank	Egor Makeev	+7 (495) 221-98-51
Sberbank CIB	Mikhail Krasnoperov	+7 (495) 933-98-38
Sova Capital	Mikhail Terentiev	+7 (495) 213-18-34
VTB Capital	Maria Kolbina	+7 (495) 663-46-48

DIVIDENDS

Dividend Policy

To determine the recommended amount of dividends that will be payable, the Group's Board of Directors abides by the dividend policy. The general meeting of shareholders, upon recommendation of the Board of Directors, determines how the remainder of the annual net profits of the Company should be disposed of, including by way of stock dividend, it being understood that the remaining net profits of the Company left after payment of dividends shall be used for business development of the Company and its subsidiaries and the development of the retail business of the Group in Russia. Interim dividends may be declared and paid (including by way of staggered payments) by the Board of Directors, subject to observing the terms and conditions provided by law either by way of a cash dividend or by way of an in kind dividend.

Taxation

As a general rule, the Company withholds 15% WHT from the dividend paid from Luxembourg for distribution to the holders of GDRs.

This information is provided for information purposes only. Potential and current investors should seek the advice of professional consultants on tax matters related to investments in the shares and GDRs of the Company.

Period	Record date	Amount of dividend per GDR (USD cents, gross)	Amount of accrued dividend (USD, gross)
Interim dividends 2011	12.09.2011	9.9481	26,767,750.594
Interim dividends 2012	23.02.2012	10.254	27,590,847.96
Interim dividends 2013	15.02.2013	18.953	50,997,595.22
Interim dividends 2014	18.02.2014	22.670	60,999,075.80
Interim dividends 2014	17.10.2014	7.433	20,000,270.42
Interim dividends 2015	11.09.2015	8.920	24,001,400.80
Interim dividends 2016	08.07.2016	8.548	23,000,445.52
Interim dividends 2017	20.01.2017	9.167	24,666,013.58
Interim dividends 2018	25.01.2018	12.367	33,276,381.58
Interim dividends 2019	03.10.2019	0.05635	15,162,319.90

1/ CUSIP (Committee on Uniform Security Identification Procedures) – identification number given to the issue of shares for the purposes of facilitating clearing.
2/ ISIN (International Securities Identification Number) – international identification number of the share.

*/ Information provided from page 4 to 77 of the Annual report fully corresponds to Consolidated Directors' report.

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Management and Directors **Responsibility Statement**

MANAGEMENT & DIRECTORS RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the consolidated financial statements which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of O'KEY Group S.A., and the undertakings included in the consolidation taken as a whole, and that the consolidated Directors' report includes a fair review of the development and performance of the business and the position of O'KEY Group S.A. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Luxembourg,
27 March 2020

DMITRY KORZHEV	**MYKOLA BUINYCKIY**	**HEIGO KERA**	**ARMIN BURGER**	**KONSTANTIN ARABIDIS**
Member of the Board of Directors	Member of the Board of Directors	Chairman	CEO of O'KEY	CFO

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To the Shareholders of
O'KEY GROUP S.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of O'KEY GROUP S.A. (the "Company") and its subsidiaries (the "Group") as at 31 December 2019, 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.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the EU Regulation No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of the EU Regulation No 537/2014.

The non-audit services that we have provided to the Company and its controlled undertakings, if applicable, for the year then ended, are disclosed in Note 8 to the consolidated financial statements.

Key audit matters

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

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Adoption of IFRS 16 'Leases' Refer to Notes 4, 5, 16, 26 and 35 to the consolidated financial statements of the Group. The Group has adopted IFRS 16 'Leases' from 1 January 2019 under the modified retrospective approach, as permitted by the standard's transitional provisions. As the result of the adoption on the transition date, the Group recognised right-of-use assets in the amount of RUB 25,226,179 thousand representing its rights to use the underlying leased assets and lease liabilities of RUB 29,227,792 thousand representing its obligations to make lease payments. Adoption of the new lease standard was considered by us to be one of the key audit matters because of the large number of the Group's lease arrangements, variety of underlying contractual terms and the fact that recognition of the leases required applying judgement by the Group, in particular, in determining the lease term for the leases that contain extension options, and the discount rate.	We have performed the following audit procedures to address the key audit matter: - We obtained an understanding of and evaluated the Group's processes and relevant control activities relating to identification of leases and their accounting under IFRS 16. - We gained understanding of the Group's accounting policy for leases and the selected transition approach and assessed their compliance with the requirements of the new lease standard. - We assessed completeness of the Group's listing of the lease contracts in place, including through reading minutes of meetings and review of expense accounts. - For a sample of leases, we performed detailed testing of key inputs used in the calculation of the right-of-use assets and lease liabilities recognised on the transition date by tracing them to supporting lease contracts and other relevant documentation, as well as independently recalculated the amounts selected. - We evaluated whether the Group's approach to determination of the lease terms for the leases that contain extension options is in line with the requirements of IFRS 16 and whether the judgements applied therein are reasonable. - With involvement of our internal valuation experts, we considered adequacy of the Group's methodology for the calculation of the discount rates applied in the lease calculations. - We evaluated reasonableness of application by the Group of IAS 36 'Impairment of assets' to the right-of-use-assets recognised at 1 January 2019. - We considered adequacy of IFRS 16 adoption disclosures in the consolidated financial statements.

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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Recognition of bonuses from suppliers

Refer to Notes 4 and 21 to the consolidated financial statements of the Group.

The Group receives various types of bonuses from suppliers relating to purchase of goods for resale. The bonuses are provided in the form of volume discounts, slotting fees and other counter payments. Recognition of these bonuses leads to a significant reduction to the cost of goods sold and inventory value. While the major portion of the bonuses is recognised and settled within the year, a material amount remains outstanding within trade and other receivables as at the reporting date.

Recognition of bonuses from suppliers was one of the matters of most significance in our audit because their impact on the Group's cost of goods sold, inventory and trade and other receivable balances is material, the number of underlying contracts with suppliers is large and their terms can be complex. Further, recognition of amounts receivable from suppliers as at the reporting date and allocation of the bonuses to cost of goods sold and the inventory balance requires a certain level of judgement by the Group, including that in relation to timing of fulfilment of the performance conditions that entitle the Group to the bonuses and evidence thereof.

Our audit procedures to address the key audit matter included the following:

- Understanding, evaluation of design and testing of relevant control activities that the Group has established in relation to recognition of bonuses from suppliers.
- Understanding and evaluation of the accounting policy applied by the Group for accounting for bonuses from suppliers.
- Reading significant contracts with suppliers and understanding if the Group complies with the conditions that entitle the Group to bonuses from suppliers.
- Retrospective analysis of prior year bonuses receivable against subsequent settlements to assess accuracy of the Group's estimates in the current year.
- Analytical procedures over the accuracy and existence of the bonuses recognised in the current year based on historical data.
- Detailed testing, on a sample basis, of bonuses recognised and settled during the year by agreeing to respective supporting documentation.
- Agreeing bonuses receivable as at the reporting date to external confirmations obtained from suppliers on a sample basis, or alternative procedures through tracing the amounts recognised against underlying agreements and other relevant documentation.
- Performing analytical procedures to assess reasonableness of the allocation of bonuses to the goods that remain in stock at the reporting date.
- Confirming that accounting policy for offsetting of bonuses receivable from suppliers against trade payables is in line with IFRS and that the factual offsetting is in line with the accounting policy.
- Considering adequacy of disclosures of information about the bonuses from suppliers in the consolidated financial statements of the Group.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Non-current assets impairment assessment

Refer to Notes 4, 15, 16 and 17 to the consolidated financial statements of the Group.

As at 31 December 2019, the carrying value of the Group's non-current assets that are subject to impairment assessment under IAS 36 approximates 70% of total assets. These non-current assets are primarily attributable to the Group's stores.

As at the reporting date, the Group assessed whether there is any indication that the carrying value of the non-current assets may not be recoverable and carried out an impairment testing for those individual assets or cash-generating units (CGUs) represented by individual stores where such indication was noted. Impairment loss was identified in the impairment testing performed.

This is one of the key audit matters due to the magnitude of the carrying value of these non-current assets, judgement exercised by the Group in determining whether or not there are specific indicators of impairment and judgements applied in the calculation of the recoverable amount of these assets.

In addition, strong competition in the Russian retail market and moderate consumer behaviour underpin the uncertainty of accounting estimates and the risk of significant adjustments in future periods to the carrying value of the Group's non-current assets recognised in the consolidated financial statements.

Our audit procedures to address the key audit matter included the following:

- We obtained understanding and evaluated the design of the Group's relevant control activities around the impairment review.
- We also assessed whether the Group's approach to determination of CGUs and identification and use of the indicators that the Group's stores and other non-current assets may be impaired is reasonable.

  For those significant CGUs where impairment indicators were identified, we assessed whether the value in use or fair value less costs of disposal approach applied by the Group to determine recoverable amount in each particular case is appropriate in the circumstances. We further obtained and analysed underlying calculations prepared by the Group for impairment testing.

Our audit procedures were carried out with the involvement of internal valuation experts and included:

- Reviewing the adequacy and consistency of methods applied to calculations of value in use, and the calculations' mathematical accuracy.
- Evaluating the reasonableness of the Group's key assumptions and forecasts in the prior period, in order to assess the accuracy of the Group's forecasts for future periods.
- Verifying the appropriateness of budgets of the CGUs for projected periods used in the value in use calculations through inquiries of the Group, corroborating the Group's explanations, examining supporting documentation and comparing inputs against available external industry data.
- Analysing and assessing in detail the key assumptions that significantly affect future cash flows of the CGUs and the discount rate applied by the Group to calculate the recoverable amount, by comparing it to the weighted-average cost of capital determined for the Group with due regard to its inherent risks.
- Performing sensitivity analysis of the results of the Group's assessment to reasonably possible changes to key assumptions.
- Testing the presentation and disclosure of information about the impairment test as carried out by the Group in the consolidated financial statements for its consistency with requirements of IAS 36 and its adequacy in the context of the consolidated financial statements as a whole.

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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Recoverability of deferred tax assets recognised for the carryforward of unused tax losses Refer to Notes 4 and 13 to the consolidated financial statements of the Group. As at 31 December 2019, the carrying value of the Group's deferred tax assets amounts to RUB 4,175,871 thousand, including RUB 2,840,607 thousand arising on the accumulated tax losses carried forward by LLC Fresh Market that develops the Group's chain of discounter stores under the DA! brand starting from 2015. A deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The Group performed the assessment of and concluded on the recoverability of the deferred tax assets. This analysis was based on the long-term financial projections for LLC Fresh Market, which includes estimates of future profits. This area was significant to our audit because of the history of tax losses generated by LLC Fresh Market, the complexity and subjectivity of the assessment process, which is based on assumptions that are inherently uncertain and affected by the expected pace of new openings of the discounters. In addition, we considered continued uncertainty in the Russian retail market and other relevant factors.	The audit procedures we have performed to address the key audit matter consisted of the following: - Understanding and evaluation of design of relevant control activities that the Group has in place in relation to recognition of current and deferred income taxes and long-term budget preparation. - Comparing the Group's forecasts in the long-term budget prepared in prior year to actual performance to assess adequacy of the Group's estimates in the current year. - Assessing accuracy of the deferred tax calculations. - Considering any limitations to the amount and timing of utilisation of the unused tax loss as established by the Russian tax legislation. - Obtaining the long-term budget prepared by the Group for LLC Fresh Market and challenging the expected future profits and assumptions regarding future earnings as reflected therein, including by comparing to actual results to date and industry trends. - Analysing the treatment of differences between accounting and tax books in the planning of future taxable profit. - Considering adequacy of disclosures on the deferred tax positions and assumptions used in assessing recoverability of the deferred tax assets from tax losses carry forward in the consolidated financial statements.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the consolidated directors' report and the Corporate Governance Statement but does not include the consolidated financial statements and our audit 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 identified above 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.

Responsibilities of the Board of Directorsand those charged with governance for the consolidated financial statements

The Board of Directorsis responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directorsdetermines 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 Directorsis 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.

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

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit 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 audit 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 the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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- 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 audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated directors' report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the consolidated directors' report. The information required by Article 68ter Paragraph (1) Letters c) and d) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" of the Group by the General Meeting of the Shareholders on 26 April 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 2 years.

PricewaterhouseCoopers, Société coopérative
Represented by

Andrei Chizhov

Luxembourg, 27 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

/AS AT 31 DECEMBER 2019/

'000 RUB	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Investment property	14	1,249,969	1,047,000
Property, plant and equipment	15	41,962,175	43,770,640
Construction in progress	15	2,976,838	3,754,546
Right-of-use assets	16	21,512,397	-
Lease rights	5	-	4,312,159
Intangible assets	17	1,292,185	1,294,214
Deferred tax assets	13	4,175,871	2,438,928
Other non-current assets	19	831,632	1,405,610
Total non-current assets		**74,001,067**	**58,023,097**
Current assets			
Inventories		15,219,769	13,684,473
Trade and other receivables	20	4,322,950	3,402,946
Prepayments	21	895,033	1,389,038
Other current assets	18	42,662	25,466
Cash and cash equivalents	22	5,507,079	8,712,253
Total current assets		**25,987,493**	**27,214,176**
Total assets		**99,988,560**	**85,237,273**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 95 to 141

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

/AS AT 31 DECEMBER 2019/

'000 RUB	Note	31 December 2019	31 December 2018
EQUITY AND LIABILITIES			
Equity	23		
Share capital		119,440	119,440
Legal reserve		10,597	10,597
Additional paid-in capital		8,555,657	8,555,657
Hedging reserve		(155,518)	-
Retained earnings		5,233,827	12,200,119
Translation reserve		1,204,897	1,595,368
Total equity		**14,968,900**	**22,481,181**
Non-current liabilities			
Loans and borrowings	25	30,089,758	31,964,302
Lease liabilities	26	21,172,587	-
Deferred tax liabilities	13	527,796	679,921
Other non-current liabilities		-	112,047
Total non-current liabilities		**51,790,141**	**32,756,270**
Current liabilities			
Loans and borrowings	25	1,629,220	2,461,437
Interest accrued on loans and borrowings	25	211,181	97,364
Lease liabilities	26	3,949,756	-
Trade and other payables	27	27,182,739	26,861,848
Current income tax payable		256,623	579,173
Total current liabilities		**33,229,519**	**29,999,822**
Total liabilities		**85,019,660**	**62,756,092**
Total equity and liabilities		**99,988,560**	**85,237,273**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

/FOR THE YEAR ENDED 31 DECEMBER 2019/

'000 RUB	Note	2019	2018
Revenue	6	165,086,202	161,303,411
Cost of goods sold		(125,986,668)	(123,921,850)
Gross profit		**39,099,534**	**37,381,561**
General, selling and administrative expenses	8	(33,629,825)	(33,914,624)
Other operating income and expenses, net	9	(568,606)	95,045
Operating profit		**4,901,103**	**3,561,982**
Finance income	11	89,803	76,286
Finance costs	11	(5,054,947)	(3,192,959)
Foreign exchange gain/(loss)	12	937,678	(1,141,353)
Profit/(loss) before income tax		873,637	(696,044)
Income tax (expense)/ benefit	13	(126,679)	96,289
Profit/(loss) for the year		**746,958**	**(599,755)**
Other comprehensive (loss)/ income			
Items that will never be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		(390,471)	609,117
Items that are or may be reclassified subsequently to profit or loss:			
Change in fair value of hedges and reclassification from hedging reserve		(194,398)	124,826
Income tax on items within other comprehensive income	13	38,880	(24,965)
Other comprehensive (loss)/ income for the year, net of income tax		**(545,989)**	**708,978**
Total comprehensive income for the year		**200,969**	**109,223**
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share (in RUB per share)	24	2.8	(2.2)

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

/FOR THE YEAR ENDED 31 DECEMBER 2019/

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2018		119,440	10,597	8,555,657	(99,861)	15,025,513	639,633	24,250,979
Comprehensive income for the year								
Loss for the year		-	-	-	-	(599,755)	-	(599,755)
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	609,117	609,117
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	124,826	-	-	124,826
Income tax on items within other comprehensive income		-	-	-	(24,965)	-	-	(24,965)
Reclassification within equity		-	-	-	-	(346,618)	346,618	-
Total other comprehensive income		-	-	-	99,861	(346,618)	955,735	708,978
Total comprehensive income for the year		-	-	-	99,861	(946,373)	955,735	109,223
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Dividends declared	23	-	-	-	-	(1,879,021)	-	(1,879,021)
Total transactions with owners recorded directly in equity		-	-	-	-	(1,879,021)	-	(1,879,021)
Balance at 31 December 2018		119,440	10,597	8,555,657	-	12,200,119	1,595,368	22,481,181

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

/FOR THE YEAR ENDED 31 DECEMBER 2019/

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 31 December 2018		119,440	10,597	8,555,657	-	12,200,119	1,595,368	22,481,181
Change in accounting policy	5	-	-	-	-	(6,725,738)	-	(6,725,738)
Balance at 1 January 2019		119,440	10,597	8,555,657	-	5,474,381	1,595,368	15,755,443
Comprehensive income for the year								
Profit for the year		-	-	-	-	746,958	-	746,958
Other comprehensive loss								
Foreign currency translation differences		-	-	-	-	-	(390,471)	(390,471)
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	(194,398)	-	-	(194,398)
Income tax on items within other comprehensive income		-	-	-	38,880	-	-	38,880
Total other comprehensive loss		-	-	-	(155,518)	-	(390,471)	(545,989)
Total comprehensive income for the year		-	-	-	(155,518)	746,958	(390,471)	200,969
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Dividends declared	23	-	-	-	-	(987,512)	-	(987,512)
Total transactions with owners recorded directly in equity		-	-	-	-	(987,512)	-	(987,512)
Balance at 31 December 2019		119,440	10,597	8,555,657	(155,518)	5,233,827	1,204,897	14,968,900

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CONSOLIDATED STATEMENT OF CASH FLOWS

/FOR THE YEAR ENDED 31 DECEMBER 2019/

'000 RUB	Note	2019	2018
Cash flows from operating activities			
Cash receipts from customers		191,108,706	185,385,687
Other cash receipts		698,981	1,021,735
Interest received		49,475	54,545
Cash paid to suppliers and employees		(175,781,669)	(177,167,778)
Taxes other than on income		(668,837)	(859,009)
Other cash payments		(43,199)	(80,216)
VAT paid		(3,494,010)	(2,513,869)
Income tax paid		(791,615)	(1,079,307)
Net cash from operating activities		**11,077,832**	**4,761,788**
Cash flows from investing activities			
Purchase of property, plant and equipment (excluding VAT)		(2,508,942)	(3,150,785)
Purchase of intangible assets (excluding VAT)		(410,157)	(470,989)
Proceeds from sale of supermarkets (excluding VAT)		-	7,069,951
Proceeds from sale of subsidiaries	9	1,552,785	-
Proceeds from sale of property, plant and equipment and intangible assets (excluding VAT)		14,612	31,084
Net cash (used in)/ from investing activities		**(1,351,702)**	**3,479,261**
Cash flows from financing activities			
Proceeds from loans and borrowings		13,252,720	15,006,000
Repayment of loans and borrowings		(15,843,795)	(16,896,776)
Interest paid on loans and borrowings		(2,885,956)	(3,337,810)
Repayment of principal amount of lease liabilities		(4,083,535)	-
Interest paid on lease liabilities		(2,286,559)	-
Dividends paid	23	(987,512)	(1,879,021)
Other financial payments		(87,453)	(140,850)
Net cash used in financing activities		**(12,922,090)**	**(7,248,457)**
Net (decrease)/increase in cash and cash equivalents		**(3,195,960)**	**992,592**
Cash and cash equivalents at the beginning of the year	22	8,712,253	7,750,177
Effect of exchange rate fluctuations on cash and cash equivalents		(9,214)	(30,516)
Cash and cash equivalents at the end of the year	22	**5,507,079**	**8,712,253**

1 BACKGROUND

(a) The Group and its operations

These consolidated financial statements for the year ended 31 December 2019 have been prepared for O'KEY GROUP S.A. (the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated and is domiciled in Luxembourg. The Company is a public limited company (société anonyme) and was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

The Company does not have an immediate parent or an ultimate controlling party.

As at 31 December 2019 and 2018, the Company's major indirect shareholders are Mr. Troitskii, Mr. Volchek and Mr. Korzhev.

As at 31 December 2019 and 2018, as well as throughout the years then ended, 38.172% of the Company's shares were admitted to trading on the London Stock Exchange in the form of global depositary receipts ("GDRs").

The Company's registered address is Luxembourg 6 rue Jean Monnet, L-2180.

The Group's principal business activity is operation of retail chains in Russia under the brand names "O'KEY" (hypermarkets) and "DA!" (discounter stores). At 31 December 2019 the Group operated 178 stores including 100 discounter stores (31 December 2018: 160 stores including 82 discounter stores) in major Russian cities, including but not limited to Moscow and towns in Moscow region, St. Petersburg, Murmansk, Nizhniy Novgorod, Rostov-on-Don, Krasnodar, Lipetsk, Volgograd, Ekaterinburg, Novosibirsk, Krasnoyarsk, Ufa, Astrakhan and Surgut.

(b) Business environment

The Group's operations are primarily located in the Russian Federation which displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The economy continued to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of investment properties and financial instruments categorised at fair value through other comprehensive income ("FVOCI").

These consolidated financial statements were authorised for issue by the Board of Directors on 27 March 2020.

Any changes to these consolidated financial statements after issue require approval of the Board of Directors.

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3 FUNCTIONAL AND PRESENTATION CURRENCY

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the US Dollar ("USD") and the functional currency of the Group's Russian subsidiaries in the Russian Rouble ("RUB"). The consolidated financial statements are presented in RUB, which is the Group's presentation currency. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

The results and financial position of the Group entities, which functional currencies are different from RUB, are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at the date of transaction;
- components of equity are translated at the historic rate; and
- all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2019 the principal rates of exchange used for translating foreign currency balances were USD 1 = RUB 61.9057; EUR 1 = RUB 69.3406 (31 December 2018: USD 1 = RUB 69.4706; EUR 1 = RUB 79.4605).

4 USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Management also exercises certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. The Group is subject to taxation in several jurisdictions. The major part of the tax burden refers to the Russian tax legislation, which is subject to varying interpretations when being applied to the transactions and activities of the Group. Significant judgement is required in determining whether the tax positions and interpretations the Group has taken can be sustained. Refer to Note 31.

Bonuses from suppliers. The Group receives various bonuses from suppliers which represent a significant reduction in cost of goods sold and inventory cost. The calculation of these amounts is in part dependent on an estimation of whether the amounts due under agreements with suppliers have been earned at the reporting date based on inventory purchased and other conditions.

The calculation and allocation of the bonuses to inventory cost has some element of judgement.

Determination of recoverable amount of non-current assets. For those non-current assets where impairment indicators exist as at reporting date, the Group estimates the recoverable amount being the higher of their value in use and fair value less costs of disposal. For details of impairment assessment performed as at 31 December 2019 refer to Notes 15-17.

Recoverability of deferred tax asset. Significant judgment is required in assessment of recoverability of deferred tax asset on tax losses of LLC Fresh Market, the Group's entity that develops a discounter chain and does not yet generate profit. The Group performs analysis of future taxable profit to cover the accumulated tax losses on the basis of the long-term budget for the entity. Recognition of the deferred tax asset is contingent on the ability of the Group management to adhere to the long-term budget. Refer to Note 13.

Lease term. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

If the contractual lease term does not align with the economics of the transaction, management considers whether there are any non-contractual enforceable rights beyond the written agreement to determine the lease term with reference to mutual understanding between the parties, respective laws and regulations and other relevant factors. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The Group leases land and trade and other premises based on the lease agreements with various termination and extension options. To determine the lease term the management has applied judgement in performing its "reasonably certain" assessment and determined that it is reasonably certain that the extension options will be exercised or termination options will not be exercised during the lease period which is based on the Group's business plan with the respective planning horizon.

Most extension options in leases of trade premises have been included in the lease liability, because the Group is unlikely to replace the assets within the Group's planning horizon.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. 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.

An increase in the lease term by 1 year at the reporting date would have increased the balances of right-of-use assets and lease liabilities by RUB 1,891,481 thous. and RUB 2,089,398 thous., respectively.

A decrease of the lease term by 1 year at the reporting date would have decreased the balances of right-of-use assets and lease liabilities by RUB 2,028,915 thous. and RUB 2,252,736 thous., respectively.

This analysis assumes that all other variables, in particular incremental borrowing rate, remain constant.

Discount rates used for determination of lease liabilities. The Group uses its incremental borrowing rate as a base for calculation of the discount rate because the interest rate implicit in the lease cannot be readily determined.
The Group's incremental borrowing rate applied to lease liabilities in 2019 ranged from 4 to 10%.

An increase in the discount rate by 1% at the reporting date would have decreased the balances of right-of-use assets and lease liabilities by RUB 911,480 thous. and RUB 847,748 thous., respectively.

A decrease of the discount rate by 1% at the reporting date would have increased the balances of right-of-use assets and lease liabilities by RUB 988,408 thous. and RUB 914,723 thous., respectively.

This analysis assumes that all other variables, in particular lease term, remain constant.

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5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP

A number of new standards and amendments to standards became effective from 1 January 2019, including the following:

IFRS 16, "Leases". The Group has adopted IFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. The Group as the lessee is now required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of right-of-use assets separately from interest on lease liabilities in the consolidated statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, while the Group as the lessor had only operating leases, it continued to account for such operating leases upon adoption of IFRS 16 with no changes.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The Group's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranged from 4 to 10%.

'000 RUB	
Operating lease commitments disclosed as at 31 December 2018	**36,968,672**
Add: adjustments as a result of a different treatment of extension and termination options	7,870,300
Less: future minimum lease payments under non-cancellable land leases depending on the cadastral value as at 31 December 2018	(4,531,763)
Add: future minimum in-substance fixed lease payments as at 31 December 2018	5,788,580
Less: effect of discounting	(16,867,997)
Lease liability recognised as at 1 January 2019	**29,227,792**
Of which are:	
Current lease liabilities	3,543,705
Non-current lease liabilities	25,684,087

The associated right-of-use assets for leases were measured at their carrying amounts as if the standard had been applied since the commencement date, but discounted using the Group's incremental borrowing rate at the date of initial application.
Lease rights previously presented as a separate item in the consolidated statement of financial position are in substance payments made to take over the Group's leases, and as such meet the definition of initial direct costs.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease and in determining the lease consideration where the contract contains options to increase of consideration in uncertain amount.

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

'000 RUB	31 December 2018	Change in accounting policy	1 January 2019
ASSETS			
Non-current assets			
Property, plant and equipment	43,770,640	29,522	43,800,162
Construction in progress	3,754,546	(132,628)	3,621,918
Right-of-use assets	-	25,226,179	25,226,179
Lease rights	4,312,159	(4,312,159)	-
Deferred tax assets	2,438,928	1,681,434	4,120,362
Other non-current assets	1,405,610	(784,456)	621,154
Total non-current assets	**58,023,097**	**21,707,892**	**79,730,989**
Current assets			
Other current assets	25,466	(16,000)	9,466
Total current assets	**27,214,176**	**(16,000)**	**27,198,176**
Total assets	**85,237,273**	**21,691,892**	**106,929,165**
EQUITY AND LIABILITIES			
Equity			
Retained earnings	12,200,119	(6,725,738)	5,474,381
Total equity	**22,481,181**	**(6,725,738)**	**15,755,443**
Non-current liabilities			
Lease liabilities	-	25,684,087	25,684,087
Total non-current liabilities	**32,756,270**	**25,684,087**	58,440,357
Current liabilities			
Lease liabilities	-	3,543,705	3,543,705
Trade and other payables	26,861,848	(810,162)	26,051,686
Total current liabilities	**29,999,822**	**2,733,543**	32,733,365
Total liabilities	**62,756,092**	**28,417,630**	91,173,722
Total equity and liabilities	**85,237,273**	**21,691,892**	**106,929,165**

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The amounts presented in the table above were restated as compared to the amounts disclosed in the Group's condensed consolidated interim financial statements for the six-month period ended 30 June 2019. As part of the preparation of the annual financial statements, management identified circumstances pointing to the presence of impairment indicators of right-of-use assets as at 1 January 2019. As a result of the detailed analysis and testing of relevant assets for impairment, the adjustments were made to carrying values of respective assets against the Group's retained earnings on 1 January 2019.

'000 RUB	Change in accounting policy as originally presented	Impairment adjustments	Change in accounting policy – as restated
Construction in progress	81,720	(214,348)	(132,628)
Right-of-use assets	26,473,332	(1,247,153)	25,226,179
Deferred tax assets	1,389,134	292,300	1,681,434
Retained earnings	(5,556,537)	(1,169,201)	(6,725,738)

The following amended standards also became effective from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 "Uncertainty over Income Tax Treatments";
- Prepayment Features with Negative Compensation – Amendments to IFRS 9;
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures";
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23;
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement".

6 SEGMENT INFORMATION

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocate resources and assess the performance for the entity.

The CODM has been determined as the CEO of the Group and the Board of Directors of the Company.

The Group is engaged in management of retail stores located in the Russian Federation. Although the Group is not exposed to concentration of sales to individual customers, all of the Group's sales are made in the Russian Federation. As such, the Group is exposed to the economic development in Russia, including the development of the Russian retail industry. The Group has no significant non-current assets outside the Russian Federation.

The Group identified its operating segments in accordance with the criteria set in IFRS 8 Operating Segments and based on the way the operations of the Group are regularly reviewed by the CODM to analyse performance and allocate resources within the Group.

The Group has two operating segments that also represent reportable segments: "O'Key" and "DA!". Each segment has similar format of their stores which is described below:

- O'Key – chain of modern style hypermarkets under the "O'KEY" brand;
- DA! – chain of discounter stores in Moscow and Central region.

The assortment of goods in the stores of each segment is different, and the segments are managed separately. For each of the segments, the CODM of the Group reviews internal management reports at least on a monthly basis.

All business components within each reportable segment demonstrate similar characteristics:

- the products and customers;
- the business processes are integrated and uniform: the components manage their operations centrally. Purchasing, logistics, finance, HR and IT functions are centralised;
- the components' activities are mainly limited to Russia which has a uniform regulatory environment.

The CODM assesses the performance of the operating segments based on revenue and earnings before interest, tax, depreciation and amortisation adjusted for certain one-off items outlined below ("EBITDA"). The "EBITDA" term is not defined in IFRS. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements.

The accounting policies used for the segment reporting are the same as the accounting policies applied for the consolidated financial statements (Note 35).

Basis of segmentation used in these consolidated financial statements is consistent with that used in the prior year.

The segment information for the years ended 31 December 2019 and 31 December 2018 is as follows:

	O'Key		Da!		Total	
'000 RUB	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
External revenue						
- Sales of trading stock	139,237,309	139,793,834	17,856.390	13,558,958	157,093,699	153,352,792
- Sales of self-produced catering products	6,060,468	6,027,584	-	-	6,060,468	6,027,584
Revenue from contracts with customers	**145,297,777**	**145,821,418**	**17,856,390**	**13,558,958**	**163,154,167**	**159,380,376**
Rental income	1,876,935	1,866,148	55,100	56,887	1,932,035	1,923,035
Total revenue	**147,174,712**	**147,687,566**	**17,911,490**	**13,615,845**	**165,086,202**	**161,303,411**
Inter-segment revenue	-	-	457,651	-	457,651	-
EBITDA	**14,276,746**	**10,415,634**	**(215,315)**	**(1,771,626)**	**14,061,431**	**8,644,008**

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A reconciliation of EBITDA to profit/(loss) for the year is as follows:

'000 RUB	Note	2019	2018
EBITDA		**14,061,431**	**8,644,008**
Revaluation of investment property	9, 14	(75,454)	(50,142)
Gain from disposal of non-current assets	9	46,885	127,209
Impairment of non-current assets	9	(821,009)	(368,585)
Loss from write-off of receivables	9	(191,353)	(22,883)
Impairment of receivables	9	(19,382)	(28,048)
Depreciation and amortisation	8	(8,100,015)	(4,367,254)
Finance income	11	89,803	76,286
Finance costs	11	(5,054,947)	(3,192,959)
Foreign exchange gain/(loss)	12	937,678	(1,141,353)
Net loss generated by sold supermarkets until cessation of their operations		-	(159,298)
Other expenses		-	(213,025)
Profit/(loss) before income tax		873,637	(696,044)
Income tax (expense)/benefit	13	(126,679)	96,289
Profit/(loss) for the year		**746,958**	**(599,755)**

Adoption of IFRS 16 "Leases" from 1 January 2019 impacted the Group's EBITDA for the year ended 31 December 2019, as major part of operating lease expense is now replaced with finance costs and depreciation that are not included in EBITDA.

Since the Group adopted the new standard under the modified retrospective approach, comparative EBITDA information has not been restated. As a consequence, the EBITDA for the year ended 31 December 2019 is not entirely comparable to the EBITDA for the prior year.

If the Group had adopted IFRS 16 from 1 January 2018 on the same principles as it has adopted as of 1 January 2019, EBITDA for the year ended 31 December 2018 would have been RUB 14,133,168 thous. which would comprise of the positive result of "O`KEY" segment in the amount of RUB 14,926,078 thous. and the negative result of "DA!" segment in the amount of RUB 792,910 thous. respectively.

7 PRINCIPAL SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2019 and 31 December 2018, all wholly owned and registered in the Russian Federation, are as follows:

Subsidiary	Nature of operations
LLC O'KEY	Retail
LLC Fresh Market	Retail and real estate
JSC Dorinda	Real estate
LLC O'KEY Management (formerly, LLC O'KEY group)	Managing company
LLC O'KEY Logistics	Import operations

8 GENERAL, SELLING AND ADMINISTRATIVE EXPENSES

'000 RUB	Note	2019	2018
Personnel costs	10	14,671,629	14,067,602
Depreciation and amortisation	15, 16, 17	8,100,015	4,367,254
Communication and utilities		3,656,196	3,503,234
Advertising and marketing		2,268,126	2,011,700
Repairs and maintenance costs		1,316,665	1,230,022
Insurance and bank commissions		918,128	816,606
Security expenses		713,069	736,473
Legal and professional expenses		655,733	629,781
Operating taxes		638,068	802,929
Variable lease expenses and expenses relating to short-term and low value leases / Operating lease expense		347,317	5,425,712
Materials and supplies		321,077	294,030
Other costs		23,802	29,281
Total general, selling and administrative expenses		**33,629,825**	**33,914,624**

Fees billed to the Group by PricewaterhouseCoopers, Société coopérative, the Company's independent auditors, and affiliated companies thereof are as follows:

'000 RUB	2019	2018
Fees for statutory audit of annual and consolidated accounts	14,406	14,517
Fees charged for tax advisory services	5,505	9,090
Fees charged for other assurance services	4,561	4,027
Fees charged for other non-audit services	-	3,700
Total auditors' remuneration	**24,472**	**31,334**

9 OTHER OPERATING INCOME AND EXPENSES, NET

'000 RUB	Note	2019	2018
Gain from modification of leases		376,864	-
Net gain from disposal of non-current assets		46,885	127,209
Impairment of non-current assets	15	(821,009)	(368,585)
Impairment of receivables		(19,382)	(28,048)
Loss from write-off of receivables		(191,353)	(22,883)
Loss from revaluation of investment property	14	(75,454)	(50,142)
Sundry income and expense, net		114,843	437,494
Total other operating income and expenses, net		**(568,606)**	**95,045**

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Net gain from disposal of non-current assets for the year ended 31 December 2018 includes gain on sale of the remaining 4 supermarkets business in the amount of RUB 336,015 thous. and loss on disposal of other non-current assets in the amount of RUB 208,806 thous.

In June 2019 the Group signed agreements with a third party for sale of the Group's two subsidiaries holding rights for lease of land plots and other related non-current assets in Moscow. Total proceeds according to the agreement comprised RUB 1,552,785 thous. with the gain recognised in the net gain from disposal on non-current assets. As of 31 December 2019, the deal was closed and the amounts due from the buyer under the agreements were received in cash in full.

10 PERSONNEL COSTS

'000 RUB	2019	2018
Wages and salaries	9,189,989	8,959,215
Social security contributions	3,020,233	2,872,502
Bonuses to personnel	1,465,547	1,259,695
Other employee benefits	995,860	976,190
Total personnel costs	**14,671,629**	**14,067,602**

11 FINANCE INCOME AND FINANCE COSTS

'000 RUB	2019	2018
Recognised in profit or loss		
Interest income on bank deposits	70,193	69,313
Other finance income	19,610	6,973
Total finance income	**89,803**	**76,286**
Interest expense on loans and borrowings	(2,832,305)	(3,166,730)
Interest expense on lease liabilities	(2,222,642)	-
Finance costs on interest rate swap contracts	-	(26,229)
Total finance costs	**(5,054,947)**	**(3,192,959)**
Net finance costs recognised in profit or loss	**(4,965,144)**	**(3,116,673)**

During 2019 the Group has capitalised borrowing costs in the amount of RUB 222,356 thous. (2018: RUB 208,013 thous.) arising on financing directly attributable to the construction of the Group's new stores. The capitalisation rate was 8.83% (2018: 9.97%).

12 FOREIGN EXCHANGE GAIN / (LOSS)

The Group's risk management policy is to receive loans and borrowings in the same currency in which revenues are generated (RUB). As at 31 December 2019, the share of the Group's USD-denominated loans and borrowings did not exceed 3% of total loans and borrowings (31 December 2018: 5%). Major amount of foreign exchange differences is caused by intragroup USD-denominated loans. The Group's exposure to currency risk is disclosed in Note 29.

13 INCOME TAX

Income tax recognised in profit or loss

'000 RUB	2019	2018
Current tax expense	(295,433)	(659,108)
Deferred tax benefit	168,754	755,397
Total income tax (expense)/benefit	**(126,679)**	**96,289**

Reconciliation between the tax (expense)/benefit and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2019 and 2018 income is 20%, the income tax rate established by the Russian tax legislation. A reconciliation between the expected and the actual taxation charge/ benefit is provided below.

'000 RUB	2019	2018
Profit/(loss) before income tax	**873,637**	**(696,044)**
Theoretical income tax at applicable tax rate of 20%	(174,727)	139,209
Effect of income taxed at different rates	(14,697)	82,337
Tax effect of items which are not deductible for taxation purposes:		
- Inventory shrinkage expenses	(81,931)	(85,927)
- Other non-deductible expenses	(40,223)	(12,421)
Adjustments to current income tax for previous periods	184,899	(19,428)
Other items	-	(7,481)
Income tax (expense)/benefit for the year	**(126,679)**	**96,289**

Deferred tax assets and liabilities

(a) Deferred taxes in respect of subsidiaries

The Group has not recorded a deferred tax liability in respect of temporary differences of RUB 26,827,800 thous. (31 December 2018: RUB 25,453,488 thous.) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. If the temporary difference reversed in form of distributions remitted to the Company, then an enacted tax rate of 5-15% would apply.

(b) Recognised deferred tax asset on tax loss carried forward

Deferred tax asset recognised in respect of tax loss carried forward relates to the losses accumulated by the Group's subsidiary LLC Fresh Market that develops a discounter chain and does not yet generate profit.

Starting from 1 January 2017 the amendments to the Russian tax legislation became effective in respect of tax loss carry forwards. The amendments affect tax losses incurred and accumulated since 2007 that have not been utilised. The 10-year expiry period for tax loss carry-forwards that was in effect prior to 2017 no longer applies, and the accumulated tax losses can now be carried forward for utilisation in future periods without any time limitation, with exception of limitation on utilisation of tax loss carry forwards that applies during the period from 2017 to 2021. The amount of losses that can be utilised each year during this period is limited to 50% of annual taxable profit.

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The Group determined that future taxable profits will be available at LLC Fresh Market in the foreseeable future against which its accumulated losses can be utilised. In making this assessment the Group considered that according to the discounter chain's long-term budget the deferred tax asset of RUB 2,840,607 thous. on accumulated losses generated by LLC Fresh Market as at 31 December 2019 will be utilised in full by 2028. In 2019 the Group corrected its long-term plan for opening of new stores by adjusting the pace of new openings and increasing the total number of openings. This revision was made based on the more selective approach to choosing suitable locations for new stores with reference to the Group's accumulated experience.

Recognition of the deferred tax asset is contingent on the ability of the Group management to adhere to the key assumptions made in the long-term budget. These key assumptions in the discounter chain's long-term budget covering 2020-2028 include annual expansion by approximately 20-50 new discounter stores per year; annual growth in revenue generally in line with the most recent trends of the discounter chain; and gradual decrease of share of semi-fixed costs due to economies of scale.

(c) Movement in temporary differences during the year

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

'000 RUB	1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2019
Tax effect of deductible/ (taxable) temporary differences and tax loss carry forwards				
Investment property	80,003	15,091	-	95,094
Property, plant and equipment	(917,436)	(439,154)	-	(1,356,590)
Construction in progress	(234,732)	(46,909)	-	(281,641)
Right-of-use assets	(4,182,804)	905,642		(3,277,162)
Intangible assets	(115,105)	5,138	-	(109,967)
Other non-current assets	84,760	156,023	-	240,783
Inventories	397,994	(71,031)	-	326,963
Trade and other receivables and payables	118,059	(17,205)	38,880	139,734
Long-term investments	6,613	(828)	-	5,785
Lease liabilities	5,845,558	(821,089)		5,024,469
Tax loss carry-forwards	2,357,531	483,076	-	2,840,607
Net deferred tax assets	**3,440,441**	**168,754**	**38,880**	**3,648,075**
Recognised deferred tax assets	4,120,362			4,175,871
Recognised deferred tax liabilities	(679,921)			(527,796)

'000 RUB	1 January 2018	Recognised in profit or loss	Recycled from other comprehensive income	31 December 2018
Tax effect of deductible/ (taxable) temporary differences and tax loss carry forwards				
Investment property	69,975	10,028	-	80,003
Property, plant and equipment	(624,512)	(287,020)	-	(911,532)
Construction in progress	(261,521)	263	-	(261,258)
Intangible assets	(94,649)	(20,456)	-	(115,105)
Other non-current assets	(102,825)	27,494	-	(75,331)
Inventories	500,080	(102,086)	-	397,994
Trade and other receivables and payables	(280,970)	586,027	(24,965)	280,092
Long-term investments	6,613	-	-	6,613
Tax loss carry-forwards	1,816,384	541,147	-	2,357,531
Net deferred tax assets	**1,028,575**	**755,397**	**(24,965)**	**1,759,007**
Recognised deferred tax assets	1,917,572			2,438,928
Recognised deferred tax liabilities	(888,997)			(679,921)

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

14 INVESTMENT PROPERTY

(a) Reconciliation of carrying amount

'000 RUB	Note	
Investment properties at fair value as at 1 January 2018		**1,075,010**
Expenditure on subsequent improvements		22,132
Fair value gains less losses	9	(50,142)
Investment properties at fair value as at 31 December 2018		**1,047,000**
Investment properties at fair value as at 1 January 2019		**1,047,000**
Transfer from property, plant and equipment and construction in progress		274,302
Expenditure on subsequent improvements		4,121
Fair value gains less losses	9	(75,454)
Investment properties at fair value as at 31 December 2019		**1,249,969**

The trade premises of the Group included in investment property are subject to operating leases. As at 31 December 2019 the Group's investment property comprises three buildings and two land plots (31 December 2018: three buildings).

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(b) Measurement of fair value

The investment properties are valued annually on 31 December at fair value, by an independent, professionally qualified valuator who has recent experience in valuing similar properties in the Russian Federation.

The carrying values of investment properties at 31 December 2019 and 31 December 2018 agree to the valuations reported by the external valuators with the use of a combination of the market approach with reference to comparable prices for orderly transactions with similar properties and the income approach with reference to estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions underlying the estimation of the fair value with reference to the income approach are those relating to: the annual net rent rate of RUB 917 –14,793 per sq. m. (31 December 2018: RUB 2,511 – 16,281 per sq. m.); expected occupancy of 67% – 92.9% during the first year (31 December 2018: 15% – 95%) and 92.9 – 100% in the subsequent years (31 December 2018: 92.9 – 95%); and appropriate discount rate of 10.6% – 14.0% (31 December 2018: 11.4% – 14.5%).

These valuations are regularly compared to actual market yield data and actual transactions by the Group, and those reported by the market.

The fair value measurement of investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

15 PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Total property, plant and equipment	Construction in progress	Total property, plant and equipment and construction in progress
Cost							
Balance at 1 January 2018	**4,934,476**	**38,006,385**	**7,309,159**	**14,928,340**	**65,178,360**	**3,313,175**	**68,491,535**
Additions	15,487	18,131	-	1,148,013	1,181,631	2,686,878	3,868,509
Transfers	39,568	940,242	719,511	372,890	2,072,211	(2,072,211)	-
Disposals	(14,472)	(81,720)	(117,748)	(791,250)	(1,005,190)	(173,296)	(1,178,486)
Balance at 31 December 2018	**4,975,059**	**38,883,038**	**7,910,922**	**15,657,993**	**67,427,012**	**3,754,546**	**71,181,558**

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Total property, plant and equipment	Construction in progress	Total property, plant and equipment and construction in progress
Balance at 1 January 2019	4,975,059	38,907,212	7,916,794	15,657,993	67,457,058	3,621,918	71,078,976
Additions	92,816	8,807	-	907,009	1,008,632	2,247,373	3,256,005
Transfers	-	1,135,840	660,259	221,441	2,017,540	(2,017,540)	-
Transfer to investment property	(166,348)	-	-	-	(166,348)	(107,954)	(274,302)
Disposals	(338)	(9,183)	(37,398)	(776,591)	(823,510)	(766,959)	(1,590,469)
Balance at 31 December 2019	**4,901,189**	**40,042,676**	**8,539,655**	**16,009,852**	**69,493,372**	**2,976,838**	**72,470,210**

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Total property, plant and equipment	Construction in progress	Total property, plant and equipment and construction in progress
Depreciation and impairment losses							
Balance at 1 January 2018	**-**	**(7,021,978)**	**(2,565,688)**	**(10,626,559)**	**(20,214,225)**	**-**	**(20,214,225)**
Depreciation for the year	-	(1,282,196)	(609,582)	(1,970,791)	(3,862,569)	-	(3,862,569)
Impairment losses	-	(351,195)	(17,390)	-	(368,585)	-	(368,585)
Disposals	-	63,423	57,321	668,263	789,007	-	789,007
Balance at 31 December 2018	**-**	**(8,591,946)**	**(3,135,339)**	**(11,929,087)**	**(23,656,372)**	**-**	**(23,656,372)**

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Total property, plant and equipment	Construction in progress	Total property, plant and equipment and construction in progress
Balance at 1 January 2019	-	(8,592,043)	(3,135,766)	(11,929,087)	(23,656,896)	-	(23,656,896)
Depreciation for the year	-	(1,307,099)	(673,037)	(1,796,354)	(3,776,490)	-	(3,776,490)
Impairment losses	-	(821,009)	-	-	(821,009)	-	(821,009)
Disposals	-	2,874	2,240	718,084	723,198	-	723,198
Balance at 31 December 2019	**-**	**(10,717,277)**	**(3,806,563)**	**(13,007,357)**	**(27,531,197)**	**-**	**(27,531,197)**
Net book value							
At 1 January 2018	**4,934,476**	**30,984,407**	**4,743,471**	**4,301,781**	**44,964,135**	**3,313,175**	**48,277,310**
At 31 December 2018	**4,975,059**	**30,291,092**	**4,775,583**	**3,728,906**	**43,770,640**	**3,754,546**	**47,525,186**
At 1 January 2019 (Note 5)	**4,975,059**	**30,315,169**	**4,781,028**	**3,728,906**	**43,800,162**	**3,621,918**	**47,422,080**
At 31 December 2019	**4,901,189**	**29,325,399**	**4,733,092**	**3,002,495**	**41,962,175**	**2,976,838**	**44,939,013**

Depreciation expense of RUB 3,776,490 thous. has been charged to selling, general and administrative expenses (2018: RUB 3,862,569 thous.).

Impairment assessment

At the end of each reporting period, the Group assesses whether there is any indication that its non-current assets including property, plant and equipment, right-of-use assets / lease rights and other non-current assets may be impaired. Where the non-current assets relate to the Group's stores, these stores are treated as separate CGUs, and impairment assessment is performed in respect of the aggregate carrying value of the non-current assets attributable to these CGUs with reference to their actual and anticipated performance and other relevant factors.

For the CGUs subject to impairment testing, recoverable amount was determined based on value-in-use calculations using cash flow projections based on financial budgets and forecasts approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using an expected growth rate for each particular CGU which depends on its maturity and other relevant factors. The discount rates are pre-tax and reflect management's estimate of the risks specific to the Group.

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As the result of the impairment test performed as at 31 December 2019, the Group recognised an impairment loss in the amount of RUB 821,009 thous. (2018: RUB 368,585 thous.), primarily in respect of mature low-performing CGUs, including RUB 784,009 thous. (2018: RUB 314,000 thous.) in O'Key segment and RUB 37,000 thous. (2018: RUB 54,585 thous.) in DA! segment. The impairment losses in 2019 and 2018 were entirely attributable to property, plant and equipment. The total recoverable amount of the impaired CGUs determined based on value in use as of 31 December 2019 amounted to RUB 874,010 thous. (31 December 2018: RUB 1,722,306 thous.).

The post-tax discount rate used in the assessment as at 31 December 2019 was 11.8% (31 December 2018: 14.1%). If the revised estimated pre-tax discount rate applied to the discounted cash flows of the CGUs had been 1% higher than management's estimates, the Group would need to recognise additional impairment of property, plant and equipment of RUB 70,909 thous. (2018: RUB 120,375 thous.).

Pledged assets

At 31 December 2019, 4 stores with carrying value of RUB 2,386,084 thous. have been pledged to third parties as collateral for bank borrowings (31 December 2018: 4 stores were pledged with carrying value of RUB 2,338,054 thous.).

16 RIGHT-OF-USE ASSETS

The Group leases various trade premises, land and other assets. Rental contracts are typically made for fixed periods of 3 to 49 years but may have extension and early termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until 31 December 2018 all of the Group's leases were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The table below presents the right-of-use assets by class of underlying assets:

'000 RUB	Trade premises	Land	Other	Total
Balance at 1 January 2019	**17,448,977**	**5,281,087**	**2,496,115**	**25,226,179**
Additions	596,249	101,915	12,899	711,063
Modifications and reassessments	30,932	62,627	48,826	142,385
Depreciation for the year	(3,006,754)	(271,509)	(602,794)	(3,881,057)
Disposals	-	(686,173)	-	(686,173)
Balance at 31 December 2019	**15,069,404**	**4,487,947**	**1,955,046**	**21,512,397**

The group "Other" is mostly represented by office premises and warehouses.

Depreciation expense of RUB 3,748,850 thous. has been charged to general, selling and administrative expenses.

Net book value of the right-of-use assets attributable to the subsidiaries sold to a third party in the reporting period amounted to RUB 531,760 thous. (Note 9).

Right-of-use assets are assessed for indication of potential impairment as at each reporting date. For those assets where impairment indicators exist, the Group estimates recoverable amount being the higher of their value in use and fair value less costs of disposal, on either individual asset or CGU level. No indicators of impairment were identified for the Group's right-of-use assets that are attributable to individual leased assets and do not relate to stores in operation as at 31 December 2019. For those right-of-use assets that relate to the Group's stores and are therefore assessed for impairment on the store level together with the other non-current assets attributable to the stores, impairment assessment has been performed as disclosed in Note 15. No impairment attributable to the right-of-use assets was identified as at 31 December 2019.

17 INTANGIBLE ASSETS

'000 RUB	Software	Other intangible assets	Total
Cost			
Balance at 1 January 2018	**1,739,629**	**190,726**	**1,930,355**
Additions	729,922	13,948	743,870
Disposals	(723,886)	(23,427)	(747,313)
Balance at 31 December 2018	**1,745,665**	**181,247**	**1,926,912**
Balance at 1 January 2019	**1,745,665**	**181,247**	**1,926,912**
Additions	556,076	18,253	574,329
Disposals	(290,016)	(6,491)	(296,507)
Balance at 31 December 2019	**2,011,725**	**193,009**	**2,204,734**
Amortisation and impairment losses			
Balance at 1 January 2018	**(901,112)**	**(68,135)**	**(969,247)**
Amortisation for the year	(367,045)	(31,237)	(398,282)
Disposals	711,643	23,188	734,831
Balance at 31 December 2018	**(556,514)**	**(76,184)**	**(632,698)**
Balance at 1 January 2019	**(556,514)**	**(76,184)**	**(632,698)**
Amortisation for the year	(543,522)	(31,153)	(574,675)
Disposals	288,551	6,273	294,824
Balance at 31 December 2019	**(811,485)**	**(101,064)**	**(912,549)**
Carrying amounts			
At 1 January 2018	**838,517**	**122,591**	**961,108**
At 31 December 2018	**1,189,151**	**105,063**	**1,294,214**
At 31 December 2019	**1,200,240**	**91,945**	**1,292,185**

Amortisation of RUB 574,675 thous. has been charged to selling, general and administrative expenses (2018: RUB 398,282 thous.).

No indicators of impairment were identified for the Group's intangible assets as at 31 December 2019 and 2018.

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18 PREPAYMENTS

'000 RUB	Note	31 December 2019	31 December 2018
Prepayments for services		306,152	312,440
Prepayments for variable lease payments – third parties		126,066	249,496
Prepayments for goods		265,207	369,365
VAT on prepayments/prepayments for lease to entities under control of shareholder group	32	89,902	353,232
Other prepayments		107,706	104,505
Total prepayments		**895,033**	**1,389,038**

Short-term prepayments for lease to entities under control of the shareholder group in the amount of RUB 353,232 thous. as at 31 December 2018 were renegotiated with the lessors into long-term interest-bearing loans which principal amounts to RUB 346,025 thous. as at 31 December 2019 (Note 19, 32).

19 OTHER NON-CURRENT ASSETS

'000 RUB	Note	31 December 2019	31 December 2018
Long-term loans to entities under control of shareholder group	18,31	346,025	-
Prepayments for non-current assets		252,806	280,711
Long-term refundable deposits to lessors		232,801	391,645
Prepayments for lease to entities under control of shareholder group	31	-	733,254
Total other non-current assets		**831,632**	**1,405,610**

The long-term prepayments for lease to entities under control of the shareholder group in the amount of RUB 733,254 thous. as at 31 December 2018 represented prepayments for rent of hypermarkets for the period until 2034. Upon adoption of IFRS 16 on 1 January 2019, the prepayments net of VAT were reclassified to right-of-use assets (Note 5).

20 INVENTORIES

'000 RUB	31 December 2019	31 December 2018
Goods for resale	14,967,315	13,415,173
Raw materials and consumables	762,248	777,487
Write-down to net realisable value	(509,794)	(508,187)
Total inventories	**15,219,769**	**13,684,473**

The Group tested the inventories for obsolescence and wrote down the inventories to their net realisable value, which resulted in a decrease of the carrying value of inventories by RUB 509,794 thous. as at 31 December 2019 (31 December 2018: RUB 508,187 thous.). The write down to net realisable value was determined applying the percentages of discount on sales and write-offs of slow-moving goods to the appropriate ageing of the goods.

The percentages of discount were based on the management's best estimate following the experience of the discount sales.

21 TRADE AND OTHER RECEIVABLES

'000 RUB	31 December 2019	31 December 2018
Financial assets within trade and other receivables		
Trade receivables	486,626	416,038
Bonuses receivable from suppliers	2,027,894	1,818,948
Receivables from sale of supermarkets	120,686	120,686
Other financial receivables	371,395	348,931
Total financial assets within trade and other receivables	**3,006,601**	**2,704,603**
Other receivables		
VAT receivable	1,088,358	528,326
Prepaid income tax	180,966	44,475
Prepaid taxes other than income tax	47,025	125,542
Total trade and other receivables	**4,322,950**	**3,402,946**

The Group's exposure to credit and currency risks and credit loss allowance as at 31 December 2019 and 31 December 2018 related to trade and other receivables are disclosed in Note 29.

22 CASH AND CASH EQUIVALENTS

'000 RUB	31 December 2019	31 December 2018
Cash on hand	229,328	236,175
Bank current accounts	1,703,444	4,172,848
Term deposits	2,512,259	2,570,420
Cash in transit	1,062,048	1,732,810
Total cash and cash equivalents	**5,507,079**	**8,712,253**

Term deposits had original maturities of less than three months.

The Group's exposure to currency risk related to cash and cash equivalents is disclosed in Note 29.

23 EQUITY

As at 31 December 2019 and 31 December 2018, the Group's authorised, issued and fully paid share capital of RUB 119,440 thous., the RUB equivalent of EUR 2,691 thous., is represented by 269,074,000 ordinary shares with a par value of 0.01 EUR each. Each share is entitled to one vote, except as may be otherwise provided by the Articles of incorporation or by applicable law.

In accordance with Luxembourg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital.

The legal reserve is not available for distribution to the shareholders. As at 31 December 2019 and 2018, the legal reserve was formed in full.

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Additional paid-in capital represents the excess of contributions received over par value of shares issued. There were no movements in additional paid-in capital during the years ended 31 December 2019 and 31 December 2018.

In October 2019 the Company declared and paid interim dividends to shareholders in the amount of RUB 987,512 thous. (USD 15,162 thous.) (2018: RUB 1,879,021 thous. (USD 33,276 thous.). Dividends declared were recognised as distribution to owners in the consolidated statement of changes in equity. Dividends per share for the year ended 31 December 2019 amounted to RUB 3.7 (USD 0.05635) (2018: RUB 7.0 (USD 0.1)).

24 EARNINGS / (LOSS) PER SHARE

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. The Company has no dilutive potential ordinary shares; therefore, the diluted earnings/(loss) per share equals the basic earnings/(loss) per share.

Earnings/(loss) per share is calculated as follows:

'000 RUB	2019	2018
Profit/(loss) for the year	746,958	(599,755)
Weighted average number of ordinary shares in issue (thousands)	269,074	269,074
Basic and diluted earnings/(loss) per ordinary share (in RUB per share)	**2.8**	**(2.2)**

25 LOANS AND BORROWINGS

		31 December 2019		31 December 2018	
'000 RUB	**Currency**	**Maturity**	**Carrying value**	**Maturity**	**Carrying value**
Non-current loans and borrowings					
Secured bank loans	RUB	2025	4,500,000	2025	4,500,000
Unsecured bank facilities	RUB	2021-2023	10,538,462	2020-2023	22,200,000
Unsecured bonds	RUB	2021-2024	15,051,296	2020-2021	5,264,302
Total non-current loans and borrowings			**30,089,758**		**31,964,302**
Current loans and borrowings					
Unsecured bank facilities	RUB	2020	464,258	2019	1,393,500
Unsecured bonds	RUB	2020	213,006		-
Unsecured loans from related parties (Note 32)	USD	On demand	949,106	On demand	1,065,087
Unsecured loans from third parties	RUB	2020	2,850	2019	2,850
Total current loans and borrowings			**1,629,220**		**2,461,437**
Unsecured bonds interest	RUB		210,112		83,844
Interest accrued on loans	RUB		1,069		13,520
Interest accrued on loans and borrowings			**211,181**		**97,364**
Total current loans and borrowings, including interest accrued			**1,840,401**		**2,558,801**
Total loans and borrowings			**31,930,159**		**34,523,103**

Information about property, plant and equipment pledged as collateral for the Group's loans and borrowings is disclosed in Note 15.

As at 31 December 2019 the Group had RUB 15,947,280 thous. (31 December 2018: RUB 12,206,500 thous.) of undrawn committed borrowing facilities available in RUB on fixed and floating rate basis until March 2020-December 2023 in respect of which all conditions have been met. Proceeds from these facilities may be used to finance operating and investing activities, if necessary.

During 2013 – 2017 the Group placed unsecured bonds on Moscow exchange bearing coupon rates of 8.9% – 11.7% p.a. Further, in April 2019, the Group placed another issue of unsecured bonds in the amount of RUB 5,000,000 thous. on Moscow exchange bearing coupon rate of 9.35% p.a. and maturing in April 2029 with an option for the bondholders to claim early repayment in April 2022.

In December 2019, the Group placed another issue of unsecured bonds in the amount of RUB 5,000,000 thous. on Moscow exchange bearing coupon rate of 7.85% p.a. and maturing in November 2024.

Compliance with loan covenants

The Group monitors compliance with loan covenants on an ongoing basis. Where noncompliance is unavoidable in management's view, the Group requests waiver letters from the banks before the year-end, confirming that the banks waive their rights to demand early redemption.

At 31 December 2019 and 31 December 2018 and during the years then ended the Group complied with all its loan covenants.

26 LEASE LIABILITIES

'000 RUB	2019
Balance at 1 January	**29,227,792**
Additions	689,806
Modifications and reassessments	(234,479)
Repayment	(6,370,094)
Interest expense	2,286,559
Foreign exchange gains	(477,241)
Balance at 31 December	**25,122,343**
Non-current lease liabilities	**21,172,587**
Current lease liabilities	**3,949,756**

Interest expense in the amount of RUB 2,222,642 thous. has been charged to finance costs.
Total cash outflow for leases in 2019 amounted to RUB 6,677,365 thous.

Some property leases contain variable payment terms that are linked to sales generated by a store. For individual stores, up to 100 per cent of lease payments are on the basis of variable payment terms and there is a wide range of sales percentages applied. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Expense relating to variable lease payments not included in lease liabilities included in selling, general and administrative expenses for 2019 was RUB 333,751 thous.

Expenses relating to short-term leases and to leases of low-value assets that are not included in lease liabilities, both included in selling, general and administrative expenses, amounted to RUB 1,083 thous. and RUB 12,483 thous., respectively.

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27 TRADE AND OTHER PAYABLES

'000 RUB	31 December 2019	31 December 2018
Financial liabilities at amortised cost		
Trade payables	24,147,521	24,238,896
Other financial payables	302,402	271,175
Total financial liabilities at amortised cost	**24,449,923**	**24,510,071**
Financial liabilities at fair value		
Interest rate swap liability	194,398	26,229
Total financial liabilities at fair value	**194,398**	**26,229**
Payables to staff	1,250,477	1,171,213
Taxes payable other than income tax	791,610	690,035
Advances received from lessees	396,220	373,395
Contract liability related to gift cards	100,111	90,905
Total trade and other payables	**27,182,739**	**26,861,848**

All of the Group's contract liabilities relate to contracts with customers for periods of less than one year. RUB 90,905 thous. of revenue was recognised in the current reporting period related to the contract liabilities as at 31 December 2018, all of which related to gift cards.

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 29.

28 RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

The table below sets out an analysis of liabilities from financing activities and the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the consolidated statement of cash flows:

'000 RUB	Note	Loans and borrowings	Lease liabilities	Interest rate swap liability	Dividends payable	Total
Balance at 1 January 2019		**34,523,103**	**29,227,792**	**26,229**	**-**	**63,777,124**
Cash flows from financing activities						
Proceeds from loans and borrowings		13,252,720	-	-	-	13,252,720
Repayment of loans and borrowings		(15,843,795)	-	-	-	(15,843,795)
Interest paid on loans and borrowings		(2,885,956)	-	-	-	(2,885,956)
Repayment of principal amount of lease liabilities		-	(4,083,535)	-	-	(4,083,535)
Interest paid on lease liabilities		-	(2,286,559)			(2,286,559)
Dividends paid	23	-	-	-	(987,512)	(987,512)
Other financial payments		(87,453)	-	-	-	(87,453)
Total cash flows from financing activities		**(5,564,484)**	**(6,370,094)**	**-**	**(987,512)**	**(12,922,090)**
Non-cash changes						
Additions to lease liabilities		-	689,806	-	-	689,806
Modifications and reassessments of lease liabilities		-	(234,479)	-	-	(234,479)
Accrued interest		3,054,661	2,286,559	-	-	5,341,220
Dividends declared	23	-	-	-	987,512	987,512
Changes in fair value of interest rate swap	27	-	-	168,169	-	168,169
Effect of changes in foreign exchange rates		(83,121)	(477,241)	-	-	(560,362)
Total non-cash changes		**2,971,540**	**2,264,645**	**168,169**	**987,512**	**6,391,866**
Balance at 31 December 2019		**31,930,159**	**25,122,343**	**194,398**	**-**	**57,246,900**

'000 RUB	Note	Loans and borrowings	Interest rate swap liability	Dividends payable	Total
Balance at 1 January 2018		**36,341,130**	**124,827**	**-**	**36,465,957**
Cash flows from financing activities					
Proceeds from loans and borrowings		15,006,000	-	-	15,006,000
Repayment of loans and borrowings		(16,896,776)	-	-	(16,896,776)
Interest paid		(3,337,810)	-	-	(3,337,810)
Dividends paid	23	-	-	(1,879,021)	(1,879,021)
Other financial payments		(140,850)	-	-	(140,850)
Total cash flows from financing activities		**(5,369,436)**	**-**	**(1,879,021)**	**(7,248,457)**
Non-cash changes					
Accrued interest		3,374,743	-	-	3,374,743
Dividends declared	23	-	-	1,879,021	1,879,021
Changes in fair value of interest rate swap		-	(98,598)	-	(98,598)
Effect of changes in foreign exchange rates		176,666	-	-	176,666
Total non-cash changes		**3,551,409**	**(98,598)**	**1,879,021**	**5,331,832**
Balance at 31 December 2018		**34,523,103**	**26,229**	**-**	**34,549,332**

29 FINANCIAL RISK MANAGEMENT

(a) Overview

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, loans issued, trade receivables, bonuses receivable and other financial receivables.

(i) Exposure to credit risk

The carrying amounts of financial assets in the consolidated statement of financial position represent the Group's maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
'000 RUB	Note	31 December 2019	31 December 2018
Loans issued	19	388,688	25,467
Trade and other receivables	21	3,006,601	2,704,603
Cash and cash equivalents	22	5,277,751	8,476,078
Total		**8,673,040**	**11,206,148**

Due to the fact that the Group's principal activities are located in the Russian Federation the credit risk is mainly associated with its domestic market. The credit risks associated with foreign counterparties are considered to be remote, as there are only few foreign counterparties and they were properly assessed for creditworthiness.

(ii) Trade and other receivables

The Group has no considerable balance of trade receivables because the majority of its customers are retail consumers, who are not provided with any credit. The Group's trade receivables primarily include receivables from tenants and receivables connected to provision of services. Other receivables are primarily represented by bonuses receivable from suppliers. The Group manages credit risk in respect of those bonuses receivable by maintaining a stable suppliers base and monitoring collectability of amounts due on an ongoing basis.

To measure the ECL for trade and other receivables, those have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 and 31 December 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The ECL for bonuses receivable from suppliers is determined on portfolio level based on historical default percentages applied to the total amount of bonuses receivable from suppliers, adjusted to reflect relevant current and forward-looking information.

The credit loss allowance as at 31 December 2019 determined with the use of provision matrix is summarised in the table below.

'000 RUB	Gross amount	ECL	Carrying amount
Trade receivables	492,657	(6,031)	486,626
Bonuses receivable from suppliers	2,087,713	(59,819)	2,027,894
Other financial receivables	388,185	(16,790)	371,395
Total	**2,968,555**	**(82,640)**	**2,885,915**

The credit loss allowance as at 31 December 2018 determined with the use of provision matrix is summarised in the table below.

'000 RUB	Gross amount	ECL	Carrying amount
Trade receivables	431,619	(15,581)	416,038
Bonuses receivable from suppliers	1,873,767	(54,819)	1,818,948
Other financial receivables	355,191	(6,260)	348,931
Total	**2,660,577**	**(76,660)**	**2,583,917**

(iii) Cash and cash equivalents

The Group assesses credit risk for cash and cash equivalents based on external ratings that are available publicly. Cash and cash equivalents are mainly held with banks which are rated from Ba2 to Ba3 based on Moody's rating.

(iv) Loans issued

Loans issued are represented by loans given to related parties. To determine whether or not there has been a significant increase in credit risk, loans issued are assessed on a portfolio basis or an individual basis by monitoring relevant triggers. The criteria used to identify significant increase in credit risk are monitored and reviewed periodically.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. The Group's liquidity risk management objectives are as follows:

- maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
- maintaining financial stability: the Net Debt / EBITDA ratio should not exceed 5.5, where Net Debt is the total of long-term and short-term loans and borrowings and lease liabilities less cash and cash equivalents as presented in the consolidated financial statements;
- monitoring of compliance with debt covenants;
- planning: timely preparation of operating, investing and financing cash flow forecasts on rolling basis.

(i) Exposure to liquidity risk

The table below shows liabilities at 31 December 2019 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments. Such undiscounted cash flows may differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amounts are based on discounted cash flows. Where the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

31 December 2019 '000 RUB	Carrying amount	Contractual cash flows	Demand and less than 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years
Financial liabilities at amortised cost						
Secured bank loans	4,500,000	5,819,674	163,800	165,600	4,668,813	821,461
Unsecured bonds	15,474,414	19,082,129	1,064,508	674,893	17,342,728	-
Unsecured bank facilities	11,003,754	12,833,879	411,143	872,318	11,550,418	-
Unsecured loans from related parties	949,106	1,107,620	1,107,620		-	-
Unsecured loans from third parties	2,885	2,885	35	2,850	-	-
Lease liabilities	25,122,343	37,163,992	3,167,963	3,418,869	16,477,389	14,099,771
Trade and other payables	24,449,923	24,449,923	24,449,923	-	-	-
Financial liabilities at fair value through OCI						
Interest rate swap	194,398	194,398	47,644	49,337	97,417	-
Total	**81,696,823**	**100,654,500**	**30,412,636**	**5,183,867**	**50,136,765**	**14,921,232**

As at 31 December 2019, the Group's current liabilities exceeded its current assets by RUB 7,242,026 thous. (31 December 2018: RUB 2,785,646 thous.). An excess of current liabilities over current assets is usual for the retail industry. The Group uses excess of trade and other payables over inventory to finance its operating and investing activities. The Group has reviewed its cash flow forecasts in the context of current and projected market conditions, as well as available undrawn credit facilities disclosed in Note 25, and is confident that it will be able to meet its obligations as they fall due.

31 December 2018 '000 RUB	Carrying amount	Contractual cash flows	Demand and less than 6 months	From 6 to 12 months	From 1 to 5 years
Financial liabilities at amortised cost					
Secured bank loans	4,502,160	6,338,722	197,640	198,720	5,942,362
Unsecured bonds	5,348,146	6,485,121	331,926	254,482	5,898,713
Unsecured bank facilities	23,604,828	28,377,991	2,390,294	975,150	25,012,547
Unsecured loans from related parties	1,065,087	1,107,340	1,107,340	-	-
Unsecured loans from third parties	2,882	2,882	32	2,850	-
Trade and other payables	24,510,071	24,510,071	24,510,071	-	-
Financial liabilities at FVTPL					
Interest rate swap	26,229	26,229	26,229	-	-
Total	**59,059,403**	**66,848,356**	**28,563,532**	**1,431,202**	**36,853,622**

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(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Management sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(i) Currency risk

The Group holds its business in the Russian Federation and mainly collects receivables nominated in Russian Roubles. However, financial assets and liabilities of the Group are also denominated in other currencies, primarily US Dollar.

Thus, the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial assets and liabilities and amounts on foreign exchange rate gains or losses. The Group ensures that its exposure is kept to an acceptable level by keeping the proportion of financial assets and liabilities in foreign currencies to total financial liabilities at an acceptable level. From time to time the Group converts assets and liabilities from one currency to another.

Exposure to currency risk

The Group's exposure to currency risk in relation to the USD, the major foreign currency for the Group's Russian subsidiaries, was as follows based on notional amounts:

'000 RUB	31 December 2019	31 December 2018
Trade and other receivables	122,503	11,064
Cash and cash equivalents	22,575	26,108
Unsecured loans from related parties	(949,106)	(1,065,087)
Lease liabilities	(2,777,094)	-
Trade and other payables	(454,412)	(387,766)
Total	**(4,035,534)**	**(1,415,681)**

Sensitivity analysis

A 11% weakening/strengthening of the RUB against the USD at 31 December 2019 would have decreased/increased equity and profit or loss by RUB 443,909 thous. (31 December 2018: 20% weakening/strengthening of the RUB against the USD would have decreased/increased equity and profit or loss by RUB 283,136 thous.). This analysis was performed only for USD denominated monetary balances of the Group's entities whose functional currency is the RUB and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2018.

(ii) Interest rate risk

The Group has material exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments at their carrying amounts was:

'000 RUB	31 December 2019	31 December 2018
Fixed rate instruments		
Cash and cash equivalents	4,215,703	6,743,268
Loans issued	388,688	25,467
Loans and borrowings	(26,929,124)	(29,519,373)
Lease liabilities	(25,122,343)	-
Variable rate instruments		
Loans and borrowings	(5,001,035)	(5,003,730)

Cash flow sensitivity analysis for variable rate instruments

A change of 500 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for 2018.

	Profit or loss		Equity	
'000 RUB	500 bp increase	500 bp decrease	500 bp increase	500 bp decrease
31 December 2019				
Variable rate instruments	(250,052)	250,052	-	-
Interest rate swap	375,000	(375,000)	690,010	(704,532)
Cash flow sensitivity (net)	**124,948**	**(124,948)**	**690,010**	**(704,532)**
31 December 2018				
Variable rate instruments	(250,186)	250,186	-	-
Cash flow sensitivity (net)	**(250,186)**	**250,186**	**-**	**-**

(e) Offsetting of financial assets and financial liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amounts receivable and payable do not always meet the criteria for offsetting in the consolidated statement of financial position. This is because, while generally there is an intention to settle on net basis, the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand, unless otherwise stated in the agreement.

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The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2019		
Gross amounts before offsetting	6,245,621	27,688,943
Amounts offset	(3,239,020)	(3,239,020)
Net amounts presented in the consolidated statement of financial position	**3,006,601**	**24,449,923**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,688,369)	(1,688,369)
Net amount	**1,318,232**	**22,761,554**

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2018		
Gross amounts before offsetting	5,755,557	27,561,025
Amounts offset	(3,050,954)	(3,050,954)
Net amounts presented in the consolidated statement of financial position	**2,704,603**	**24,510,071**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,597,344)	(1,597,344)
Net amount	**1,107,259**	**22,912,727**

The net amounts presented in the consolidated statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

Amounts offset comprise mainly trade payables for goods and bonuses receivable from suppliers.

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements, except for statutory requirement in relation to minimum level of share capital; the Group follows this requirement.

30 CAPITAL COMMITMENTS

The Group has capital commitments to acquire property, plant and equipment, mostly relating to construction of stores, and intangible assets amounting to RUB 653,698 thous. as at 31 December 2019 (31 December 2018: RUB 659,616 thous.). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

31 CONTINGENCIES

(a) Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, the management is of the opinion that no material losses will be incurred in respect of claims outstanding.

(b) Tax contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The management has implemented internal controls to comply with current TP legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of the TP rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group applies its judgement in interpretations of such uncertain areas. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities.

The impact of any of the challenges mentioned above cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

In addition to the above matters, management estimates that as at 31 December 2019, the Group has other possible obligations of approximately RUB 1,900,000 thous. (31 December 2018: RUB 1,900,000 thous.) from exposure to other than remote tax risks arising from certain transactions. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the Group's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

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32 RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties of the Group fall into the following categories:

1. The Company's major indirect shareholders (see Note 1).

2. Other related parties under control of the major indirect shareholders.

3. Members of the Board of Directors of the Company and other key management personnel.

(a) Transactions with key management personnel

Key management received the following remuneration during the year, which is included in personnel costs (see Note 10):

'000 RUB	2019	2018
Short-term employee benefits:		
Salaries and short-term bonuses	343,763	396,575
Social security contributions	13,855	13,767
Other short-term payments	17,234	3,600
Long-term employee benefits:		
Long-term service bonus	38,000	38,000
Total	**412,852**	**451,942**

In addition, members of the Company's Board of Directors received remuneration in the amount of RUB 59,442 thous. for the year ended 31 December 2019 (2018: RUB 59,341 thous.) which is included in legal and professional expenses.

(b) Transactions with other related parties

(i) Revenue

	Income		Receivables	
'000 RUB	2019	2018	31 December 2019	31 December 2018
Sale of services	2,335	2,910	122	579
Total	**2,335**	**2,910**	**122**	**579**

All outstanding balances with other related parties are to be settled in cash within six months of the reporting date. None of the balances are secured or impaired.

(ii) Expenses

	Expense		Prepayments	
'000 RUB	2019	2018	31 December 2019	31 December 2018
Lease of premises, including:	90,515	833,368	-	1,094,483
Rental fee	20,269	713,458		
Reimbursement of utilities	35,114	62,464		
Reimbursement of other expenses	35,132	57,446		
Other services received	10,424	40,273	-	7,484
Interest expenses on lease liability	122,124	-		-
Other finance costs	79,058	77,287	-	-
Total	**302,121**	**950,928**	**-**	**1,101,967**

Upon transition to IFRS 16 disclosed in Note 5, long-term prepayments for leases to other related parties were reclassified to right-of-use assets. Related VAT in the amount of RUB 89,902 thous. as at 31 December 2019 is included in prepayments.

Short-term prepayments for lease to entities under control of the shareholder group in the amount of RUB 353,232 thous. as at 31 December 2018 were renegotiated with the lessors into long-term interest-bearing loans which principal amounts to RUB 346,025 thous. as at 31 December 2019 (Note 18, 19).

'000 RUB	31 December 2019
Lease liabilities due to other related parties, including:	1,272,328
Current lease liabilities	382,636
Non-current lease liabilities	889,692

Terms of the leases with other related parties are such that the Group pays rentals which include the reimbursement of all operating expenses related to the hypermarkets leased and nearby leased areas and a certain percentage of the Group's retail revenue from the operation of these hypermarkets.

(iii) Loans and borrowings

'000 RUB	31 December 2019	31 December 2018
Loans and borrowings	949,106	1,065,087

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The loans from other related parties are denominated in USD, bear interest at 8% per annum and are payable on demand but not later than 2021. There were no movements in the loans received from related parties, except for the foreign exchange gain in the amount of RUB 115,981 thous. in 2019 (2018: foreign exchange loss in the amount of RUB 181,991 thous.).

(iv) Loans given

'000 RUB	31 December 2019	31 December 2018
Loans given (Note 18, 19)	346,025	-
Interest receivable	33,196	-
Total	**379,221**	**-**

The loans given to other related parties bear interest at 9% per annum, are not secured, due for repayment by not later than 2021 and represent reclassified amounts for lease to entities under control of the shareholder group previously presented as short-term prepayments for lease to entities under control of shareholder group.

33 EVENTS SUBSEQUENT TO THE REPORTING DATE

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally, and its negative impact has gained momentum. While this is still an evolving situation at the time of issuing these consolidated financial statements and to date there has been no discernible impact on the Group's sales or supply chain, the future effects cannot be predicted. Underpinned by the Coronavirus turmoil and oil price plunge in the first quarter 2020, Russian rouble has weakened 30% relative to the US dollar compared to the 2019 year-end. Management considers this outbreak to be a non-adjusting post balance sheet event and will continue to monitor its potential impact as well as will take all steps possible to mitigate any operational and financial risk exposures faced by the Group.

34 FAIR VALUE DISCLOSURES

Fair value measurements are analysed and categorised by level in the fair value hierarchy as follows:

(i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

(iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement.

The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

Financial instruments carried at fair value. Interest swaps are carried in the consolidated statement of financial position at their fair value. Fair value of the swaps was determined based on observable market data (Level 2 fair value), including forward interest rates. The Group has no financial assets and liabilities measured at fair value based on unobservable inputs (Level 3 fair value).

Investment property. Fair value of the investment property is updated by the Group annually on 31 December applying the income approach and market approach. Refer to Note 14.

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair value was determined by the Group for initial recognition of financial assets and liabilities which are subsequently measured at amortised cost.

Fair value of the Group's financial assets and liabilities measured at amortised cost approximates their carrying amounts. Fair value of the Group's bonds listed on Moscow exchange was determined based on active market quotations (Level 1 fair value). Fair value of the Group's other financial assets and liabilities at amortised cost belongs to level 2 measurements in the fair value hierarchy.

35 SIGNIFICANT ACCOUNTING POLICIES

Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, the principal accounting policies set out below have been consistently applied to all the periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the cost cannot be recovered.

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation.

However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognised in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognised in other comprehensive income.

(b) Foreign currency

(i) Foreign currency transactions and balances

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as a separate line item.

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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(ii) Foreign operations

The assets and liabilities of foreign operations are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2005 the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

(c) Financial instruments

(i) Non-derivative financial assets and financial liabilities – initial recognition

Non-derivative financial instruments represented by cash and cash equivalents, loans given and trade and other receivables and lease receivables are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost (AC), resulting in an immediate accounting loss.

(ii) Non-derivative financial assets – classification and subsequent measurement

All of the Group's non-derivative financial assets belong to the AC measurement category. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes.

The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

(iii) Financial assets impairment – credit loss allowance for ECL

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Group measures ECL and recognises net impairment losses on financial assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade and lease receivables. For other financial assets the Group applies a three stage model for impairment, based on changes in credit quality since initial recognition.

(iv) Financial assets – write-off

Non-derivative financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(v) Financial assets – derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(vi) Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments, if any (iii) financial liabilities at FVOCI: this classification is applied to financial instruments carried at fair value (swaps).

(vii) Financial liabilities – derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

(viii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

(ix) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

(x) Trade and other receivables

Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

(xi) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

(xii) Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at AC using the effective interest method.

(xiii) Capitalisation of borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

(d) Transactions with owners

(i) Ordinary shares/share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid-in capital in equity.

(ii) Distributions to owners/contributions from owners

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

(e) Property, plant and equipment and construction in progress

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other operating income and expense" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Land and construction in progress are not depreciated. Other items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

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Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

- Buildings 30 years;
- Machinery and equipment, auxiliary facilities 2-20 years;
- Leasehold improvementsover the term of underlying lease;
- Other fixed assets 2-10 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation or both, including land held for a currently undetermined future use, and which is not occupied by the Group. Properties that are mainly occupied by the Group and insignificant portion of which is leased out to third parties mainly for offering additional customer service are presented within property, plant and equipment.

Investment property, including assets under construction for future use as investment property, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss within other operating income and expenses. If fair value of investment property under construction is not reliably determinable, the Group measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Fair value of the Group's investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Market value of the Group's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same location and category.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

Earned rental income is recorded in profit or loss for the year within revenue.

(g) Intangible assets

(i) Intangible assets

Intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets primarily include capitalised computer software, patents and licenses. Acquired computer software, licenses and patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- software 1-7 years;
- other intangible assets 1-5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Lease rights – accounting policies before 1 January 2019

Where the Group incurs initial direct costs to negotiate and enter into new leases, such as key money payments to incumbent tenants, or where rights for favourable operating leases are acquired in business combinations, such costs are capitalised as lease rights and amortised using straight-line method over the lease term being up to 49 years for lease of land and up to 8-19 years for lease of premises. If the Group subsequently acquires the asset previously leased, the carrying amount of the related lease rights is reclassified into property, plant and equipment and included in the cost of the asset acquired.

(i) Leases – accounting policies since 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purposes the asset is used is predetermined, the Group has the right to direct the use of the asset if either:

- the Group has the right to operate the asset; or
- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over

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the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The estimated useful lives of right-of-use asset are as follows:

- trade premises 3-17 years;
- land 2-47 years;
- other 1-5 years.

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The following variable payments are not included in the calculation of lease liability:

- payments under land lease agreements, the calculation of which depends on the cadastral value of the land plot and other coefficients established by government decrees;
- payments for utilities and other services, determined upon the fact of consumption;
- variable lease payments that depend on turnover.

Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

The right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs.

The lease liability is measured at amortised cost using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments. It is remeasured when there is (i) a change in future lease payments arising from a change in an index or a rate;(ii) a change in the lease term depending on the reassessment of whether the Group will exercise extension or termination options; and (iii) lease modifications, when the modification is not accounted for as a separate lease. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and refrigeration equipment.

Some property leases contain variable payment terms that are linked to sales generated by a store. Such variable lease payments are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

The Group presents right-of-use assets and lease liabilities in the separate lines in the consolidated statement of financial position.

The operating lease payments were presented in 2018 within cash used in operating activities in the consolidated statement of cash flows, whereas in 2019 all lease payments are presented by the Group as the lessee within cash flows used in financing activities.

Lease payments including repayment of principal lease liability and accrued interest are classified consistently with payments of other financial liabilities in the consolidated statement of cash flows.

Lease payments which were not included in the measurement of the lease liabilities (including certain variable payments, short-term leases and leases of low-value assets) continue to be presented as operating cash flows.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the moving weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

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

In testing a cash-generating unit for impairment, the Group identifies all the corporate assets that relate to the cash-generating unit under review. If a portion of the carrying amount of a corporate asset can be allocated on a reasonable and consistent basis to that unit, the Group compares the carrying amount of the unit, including the portion of the carrying amount of the corporate asset allocated to the unit, with its recoverable amount. If a corporate asset cannot be allocated on a reasonable and consistent basis to the cash-generating unit, the Group assesses the impairment of this corporate asset on an individual basis.

(l) Employee benefits

(i) Short-term employee benefits

Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are measured on an undiscounted basis and accrued in the year in which the associated services are rendered by the employees of the Group.

The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

A liability is recognised for the amount expected to be paid under short-term bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Long-term employee benefits

Long-term employee benefits represent long-term service bonuses. Long-term employee benefits are expensed evenly during the periods in which they are earned by employees.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(n) Revenue

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of VAT, returns and discounts.

(i) Revenue from contracts with customers

Revenue from contracts with customers is represented by retail sales of goods for resale and self-produced catering products.

Revenue from sale of goods and self-catering products is recognised when control of the goods and products has transferred to the customer, normally for the retail customers it is occurred in the store at the point of sale. No element of financing is deemed present, as payment of the transaction price is due immediately.

In accordance with the Russian consumer protection legislation, the customers have the right of return of goods in a range of categories within 14 days after the purchase. Such estimated returns are assessed at each reporting date. Based on historical data about returns, it is probable that a significant reversal in the cumulative revenue recognised will not occur.

Gift cards issued by the Group are recorded as a contract liability within trade and other payables upon sale when prepaid by customers until they are redeemed or expire.

The Group did not operate any loyalty program in the reporting period where customers accumulate award points for purchases made which entitle them to discount on future purchases.

From time to time, the Group holds promotional campaigns where the Group provides discount coupons to the customers that purchase goods with total value above a pre-determined amount. The discount coupons entitle the customers to a free purchase or a discount on selected goods immediately after the campaign ends. Such coupons represent a material right to the customers and give rise to a separate performance obligation to deliver the customers additional goods. The total transaction price is allocated on the portfolio basis to the initial and the additional performance obligations on a relative stand-alone selling price basis. Revenue attributable to the performance obligation not yet satisfied at the reporting date is recognised as a contract liability within trade and other payables until the right of the customers to obtain additional goods is realised or expires.

(ii) Rental income

The Group leases out trade premises under operating lease. Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

(o) Cost of goods sold

Cost of goods sold include the purchase price of the goods sold and other costs incurred in bringing the inventories to the location and condition ready for sale. These costs include costs of purchasing, packaging and transporting of goods to the extent that it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of bonuses from suppliers of inventories, primarily in the form of volume discounts, slotting fees and counter services to suppliers directly related to the purchases made. These bonuses decrease the cost of inventory and are recorded as reduction of cost of sales as the related inventory is sold.

Losses from inventory shortages are recognised in cost of goods sold.

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(p) Finance income and costs

Finance income comprises interest income on issued loans and bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and lease liabilities and unwinding of the discount on provisions, if any. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(q) Income tax

Income taxes have been provided in the consolidated financial statements in accordance with the respective legislation enacted or substantively enacted by the end of the reporting period. Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they are recognised in other comprehensive income or directly in equity because they relate to transactions that are also recognised, in the same accounting period, in other comprehensive income or directly in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Taxes other than on income are recorded within general, selling and administrative expenses.

Deferred tax is recognised in respect of tax loss carried forward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies, therefore deferred tax assets and liabilities are offset only within the individual companies of the Group.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(r) Earnings per share

Earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of participating shares outstanding during the year.

(s) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Operating segments whose revenue, results or assets are ten percent or more of all the segments are reported separately.

(t) Value added tax

Input VAT is generally reclaimable against sales VAT when the right of ownership on purchased goods is transferred to the Group or when the services are rendered to the Group. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which has not been settled at the balance sheet date (VAT deferred) is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

(u) Presentation of the consolidated statement of cash flows

The Group reports cash flows from operating activities using direct method. Cash flows from investing activities are presented net of VAT. VAT paid to suppliers of non-current assets and VAT in proceeds from sale of non-current assets are presented in line "VAT paid" within cash flows from operating activities.

(v) New accounting pronouncements

The new standards, amendments to standards and interpretations that have been issued by the International Accounting Standards Board (IASB), adopted by the European Union and are mandatory for the annual periods beginning on or after 1 January 2020, none of which the Group has early adopted, are not expected to affect significantly the Group's consolidated financial statements.

GLOSSARY

Average ticket – The figure calculated by dividing total sales, net of VAT, at all stores during the relevant year by the number of tickets in that year

Blended learning – A style of education in which students learn via electronic and online media as well as traditional face-to-face teaching

Corporate Social Responsibility – Responsible attitude in managing our impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment

ERP (Enterprise Resource Planning) – A modular software system designed to integrate the main functional areas of an organisation's business processes into a unified system

Global Food Safety Initiative (GFSI) – A private organisation, established and managed by the international trade association the Consumer Goods Forum under Belgian law in May 2000, the GFSI maintains a scheme to benchmark food safety standards for manufacturers as well as farm assurance standards

HACCP (Hazard Analysis and Critical Control Points) – A systematic preventive approach to food safety from biological, chemical, and physical hazards in production processes that can cause the finished product to be unsafe, and designs measurements to reduce these risks to a safe level

LFL (like–for–like) The method of comparing current year sales figures to prior year's sales figures excluding the expansion effect

Net revenue – The amount of a company's gross revenue plus all negative revenue items

On-shelf availability – Availability of product for sale to a shopper, in the place he expects it and at the time he wants to buy it, impacted by a host of different factors, all along the supply chain

Planogram – A diagram that shows how and where specific retail products should be placed on retail shelves or displays in order to increase customer purchases

Private label (PL) – Brand owned not by a manufacturer or producer, but by a retailer or supplier, who gets its goods made by a contract manufacturer under its own label

Real disposable income – The post-tax and benefit income available to households after an adjustment has been made for price changes

Selling space – The area inside stores used to sell products, excluding areas rented out to third parties, own–production areas, storage areas and the space between store entry and the cash desk line

SKU (stock keeping unit) – A number assigned to a particular product to identify the price, product options and manufacturer of the merchandise

Stakeholder – Any individual, group, or party with an interest in an organisation and the outcomes of its actions

Traffic – The number of tickets issued for the period under review

ABBREVIATIONS

ACORT – Association of retail trade companies

bps – Basis point

CEO – Chief Executive Officer

CJSC – Closed joint stock company

CRM – Client Relationship Management

DC – Distribution centre

EBITDA – Earnings before interest, taxes, depreciation and amortisation

EDI – Electronic data interchange

FD – Federal district

FMCG – Fast-moving consumer goods

GDR – Global depositary receipt

HR – Human resources

IFRS – International Financial Reporting Standards

IPO – Initial Public Offering

IT – Information Technology

JSC – Joint Stock Company

k m² – A thousand square metres

KPI – Key Performance Indicators

m² – Square metre

NGO – Non-governmental organisation

p.p. – Percentage point

Q – Quarter of the year

RUB – Russian rouble

VAT – value-added tax

WHT – withholding tax

WMS – warehouse management system

YoY – Year Over Year

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