O'KEY
GROUP OF COMPANIES

DELIVERING GREAT CUSTOMER SERVICE

ANNUAL REPORT **2020**

ABOUT O'KEY GROUP

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. The Group operates in three complementary formats: O`KEY hypermarkets, discounters under the DA! brand and the e-commerce platform to deliver the best products right to the customers' doors. As of the end of 2020, the Group operated 195 stores across the country, and covered all regions of its presence with online delivery.

Further information regarding O'KEY Group's strategy, our businesses and performance, approach to governance and risk management can be found at our corporate website www.okmarket.ru/en/

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

About the Report

The Annual Report 2020 ("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 2020, presents the Group's operating and financial results, describes the Group's corporate governance framework and corporate social responsibility activities. The Report has been prepared based on consolidated IFRS financial statements for 2020.

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 or estimates 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.

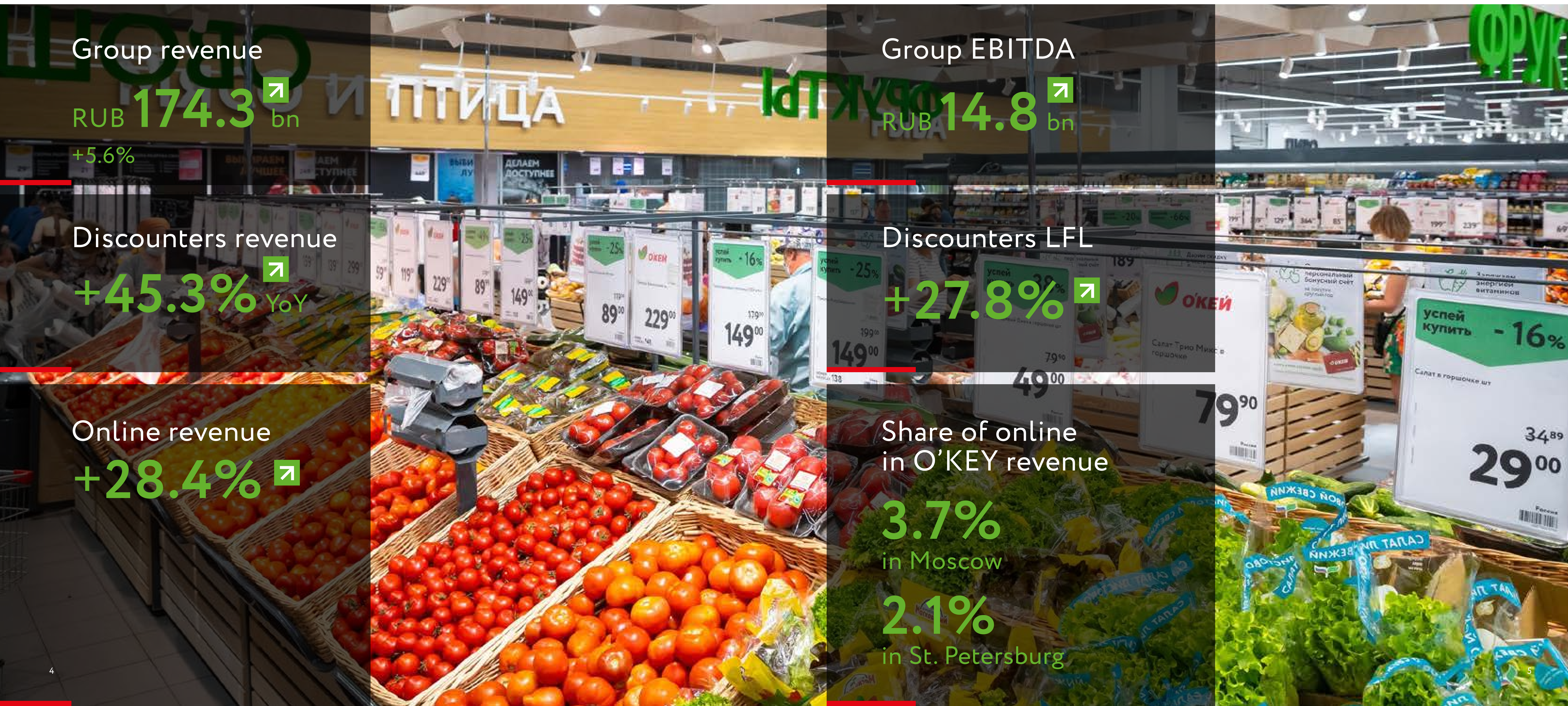
2020 at a glance

195
Total number of stores

#8
grocery retailer in Russia[1]

TOP-10
Online grocery retailer in Russia[1]

[1] Source: Market position provided by Infoline, 2020



Group revenue
RUB 174.3 bn
+5.6%

Discounters revenue
+45.3% YoY

Online revenue
+28.4%

Group EBITDA
RUB 14.8 bn

Discounters LFL
+27.8%

Share of online in O'KEY revenue
3.7%
in Moscow

2.1%
in St. Petersburg

O'KEY Group is one of the largest Russian grocery retailers. Today, our hypermarkets are represented in major cities of Russia, and our discounters – in Moscow and the region. We are pioneers in e-commerce covering all cities of our presence.

18
years of experience on the market

195
stores across Russia

RUB 174.3 bn
revenue

Our vision

A trendsetting hypermarket providing answers for the future

The best value for money discounter

An e-commerce platform which delivers value for all stakeholders

Our purpose/ mission

We strive for excellence in quality and service

We deliver fresh and high-quality products for each family

We provide a simple, easy and attractive shopping experience in all our formats

We aim to create an effective and desirable working environment

We take our social responsibility seriously and act accordingly

Our values

- INNOVATIVENESS
- OUTSTANDING RESULTS
- IMPECCABLE SERVICE
- ATMOSPHERE OF PROFESSIONALISM
- EFFECTIVE TEAM

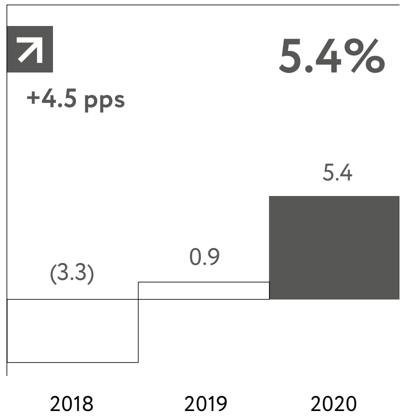
Financial and Operational Highlights

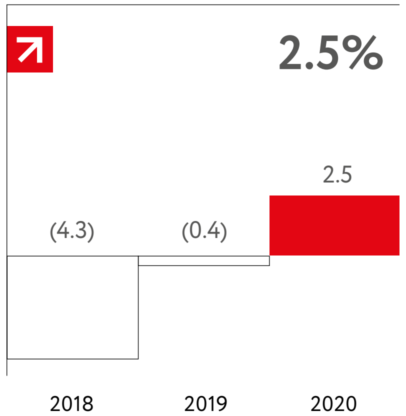
GROUP
O'KEY
DA!

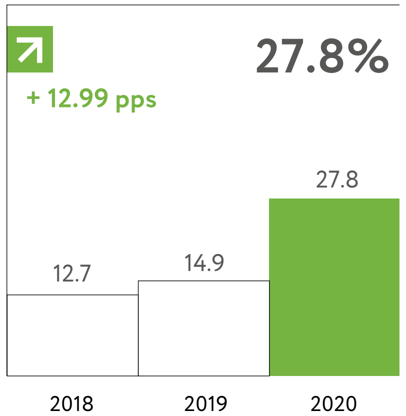
OPERATIONAL HIGHLIGHTS

NET RETAIL REVENUE, RUB BN

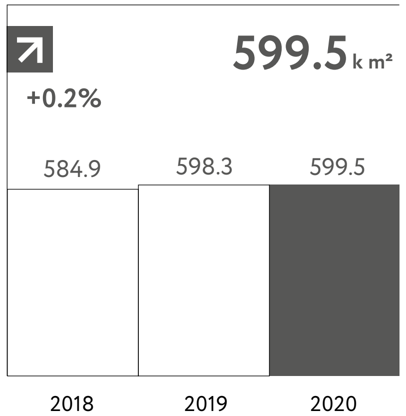
LFL NET RETAIL REVENUE, %

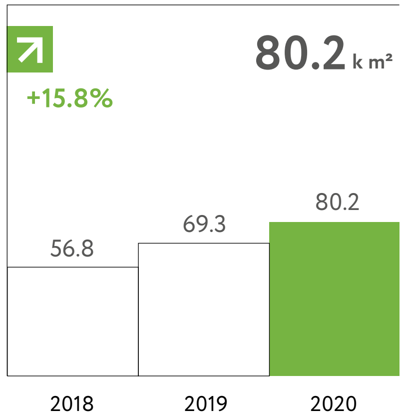






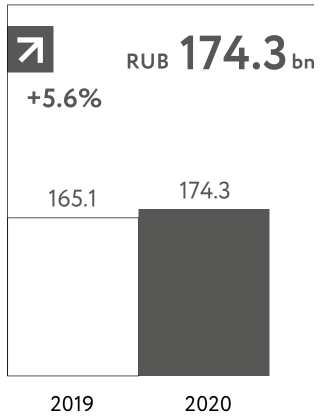
SELLING SPACE, K M²

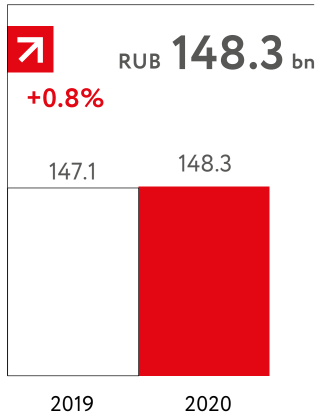


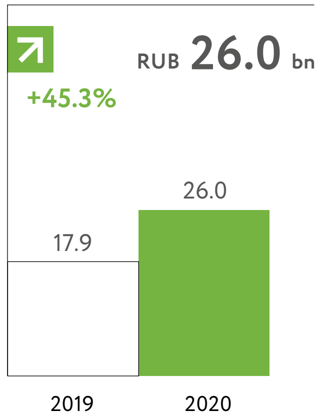


FINANCIAL HIGHLIGHTS

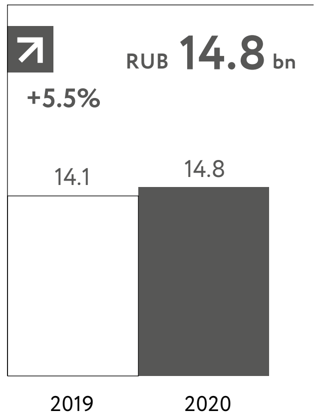
REVENUE, RUB BN

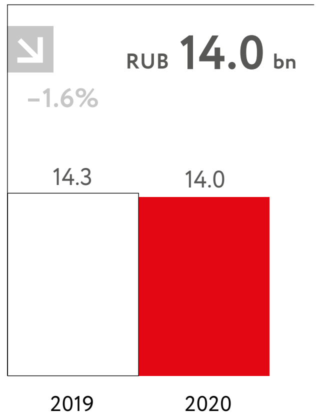


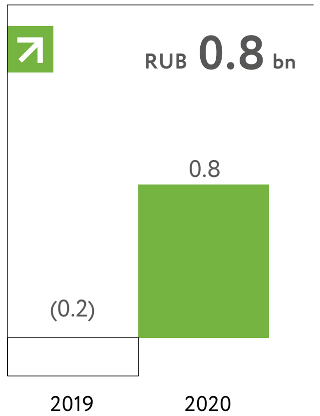




EBITDA, RUB BN







Group EBITDA margin

8.5%

GROUP
O'KEY
DA!

O'KEY hypermarkets:

strong brand and market positioning in major Russian cities

DA! discounters:

one of the fastest growing grocery chains in the market

Our key strengths

Flexible business model based on two competitive shopping formats and an e-commerce platform, covering all customer segments and needs

Focus on cutting-edge IT solutions and progressive infrastructure

Exceptional expertise in private labels and own production, enabling to build appealing customer value proposition

Highly centralised logistics: five distribution centres in Moscow and St. Petersburg

High standards of corporate governance: a transparent ownership structure, a London Stock Exchange and Moscow Exchange listing, international investors and a strong management team with extensive experience in Russian and international retail

A track record of steady dividends: the Group continues to pay dividends, confirming its commitment to growth of market capitalisation and bolstering its investment case

Business model

O'KEY Group has developed a unique business model based on three pillars: two clearly positioned and complementary retail formats (hypermarkets and discounters), and a fast-growing e-commerce platform based on a network of stores.

This combination of formats covers our customer segments and needs, and can effectively capitalise on the most relevant consumer trends. Inside the Group we consider each format as an integral part of our business model. This approach has proved its efficiency and helps us develop the business and profit from synergies.

SYNERGIES BETWEEN THREE PILLARS

DA! discounters leveraging O'KEY's advantages when purchasing branded assortments, and obtaining price advantages by purchasing additional volumes in private labels

O'KEY hypermarkets gaining access to DA!'s private label expertise and its system for procurement and direct imports of fresh products

O'KEY hypermarkets serving as pick-up points for online orders, which helps to maximise the efficiency of the delivery model and reduce logistics costs

DA! discounters

- Main growth driver of the business
- Fast-growing chain of stores in the most convenient locations providing food and non-food items at the most attractive prices
- Exceptional private label expertise (own brands account for approximately 50% of the assortment)
- Comfortable and reasonably spacious layouts and interiors

in **6** regions of Central Federal district

~2.8 k SKUs

O'KEY hypermarkets

- A competitive format supported by the innovative store concep
- Strong base for e-commerce growth
- One of the retail market leaders in St. Petersburg, and a strong presence in other major Russian cities
- A wider and deeper range of goods, with a focus on fresh and ultra-fresh
- Superior customer service
- Modern shopping environment

in **23** cities in six Federal districts

30 k SKUs

E-commerce platform

- High growth potential format adhering to a profitable strategy driven by changes in consumer behaviour
- A pioneer in e-grocery since 2015
- Among Russia's top-5 online grocery retailers
- Online orders are fulfilled by the closest hypermarkets, or in partnership with other operators
- Award-winning website and an updated mobile app
- Omnichannel bonus system

100% coverage in all regions of presence

>30 k available SKUs

KEY RESULTS AND PERSPECTIVES:

RUB **784** mln EBITDA showed positive in 2020

+45.3% YoY net retail revenue growth in 2020

New store concept based on best practices is expected to strengthen market position and bolster long-term LFL growth

+28.4% YoY sales growth in 2020

1.6% share of online in O'KEY revenue

Our geography

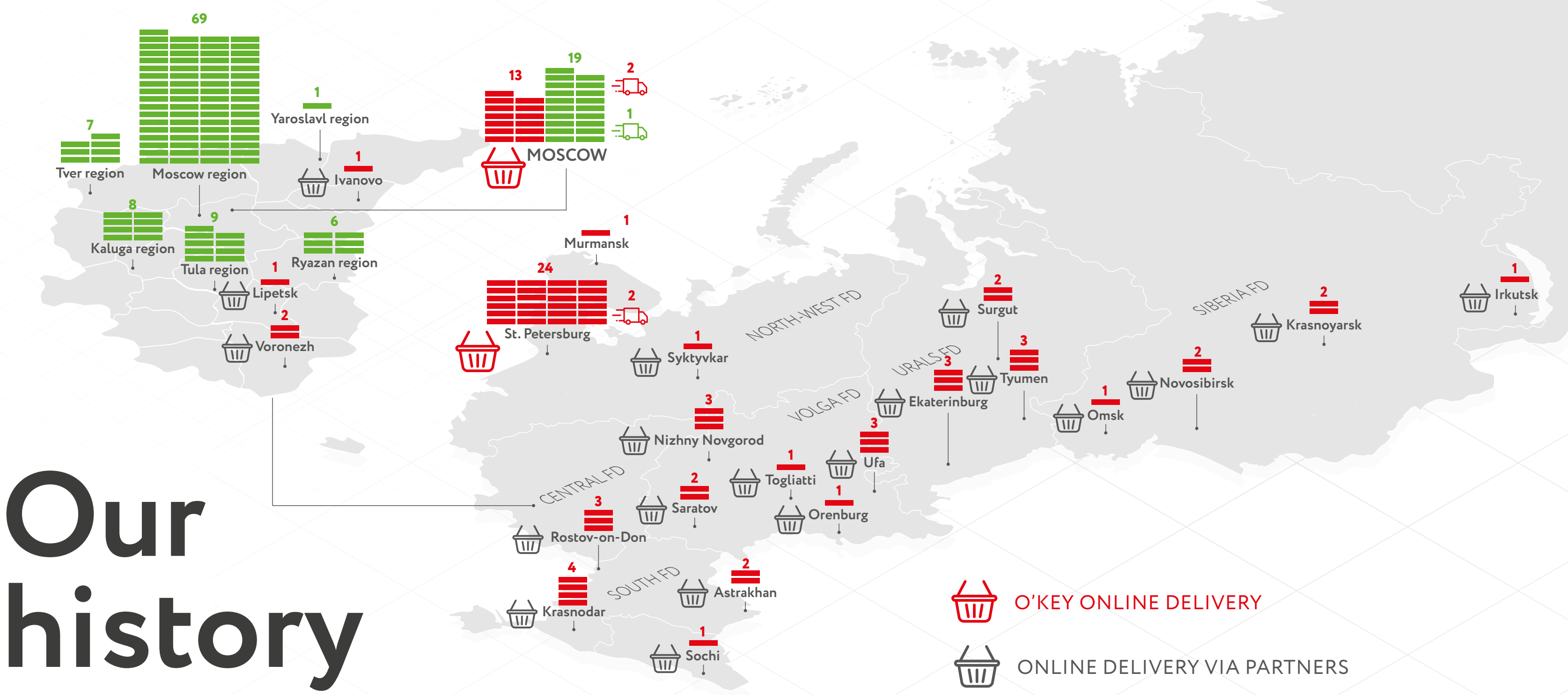
DISTRIBUTION CENTERS

- DA! DISCOUNTER
- O'KEY HYPERMARKET
- DA! DISTRIBUTION CENTER
- O'KEY DISTRIBUTION CENTER

195 Total stores

77 Hypermarkets

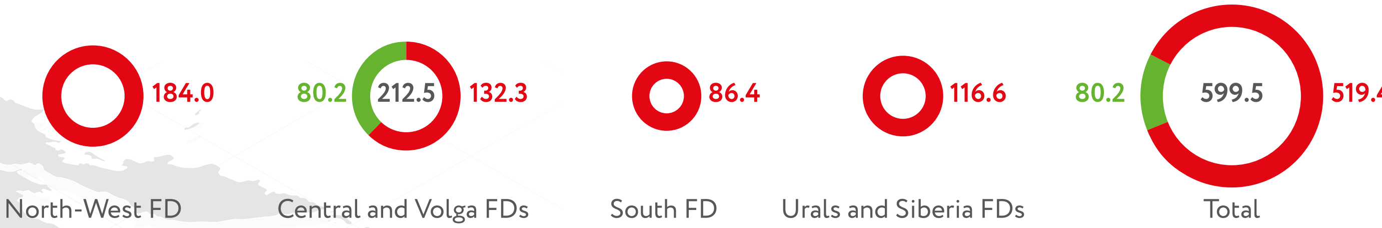
118 Discounter stores



O'KEY ONLINE DELIVERY

ONLINE DELIVERY VIA PARTNERS

O'KEY RETAIL SPACE IN 2020, KM²



Our history

2001-2007

O'KEY GROUP founded

FIRST O'KEY HYPERMARKET opened in St. Petersburg

Strategy to establish REGIONAL MARKET LEADERSHIP

2007-2009

Focus on EXPANSION in Russia's key regional markets

TOP-10 retailer by revenue

6 new regions

2009-2014

RAPID EXPANSION in Moscow and key regional markets

IPO on the London Stock Exchange

2015-2016

ONLINE SALES PLATFORM launched for market-leading hypermarket

NEW DISCOUNTER FORMAT under the DA! brand

MOBILE APP launched for iOS and Android launched

2017

O'KEY-AUTO AND 24 HOUR DELIVERY SERVICE launched for the hypermarket segment

SALE OF SUPERMARKET BUSINESS

2018-2019

OMNICHANNEL MOBILE APP launched providing a unified approach to communications with customers in stores and online

DISCOUNTER'S REVENUE under the DA! brand reached 8.5% of the Group revenue

100 DISCOUNTER STORES under the DA! brand operating across Russia

2020

Discounter DA! revenue reached 15% of the Group revenue

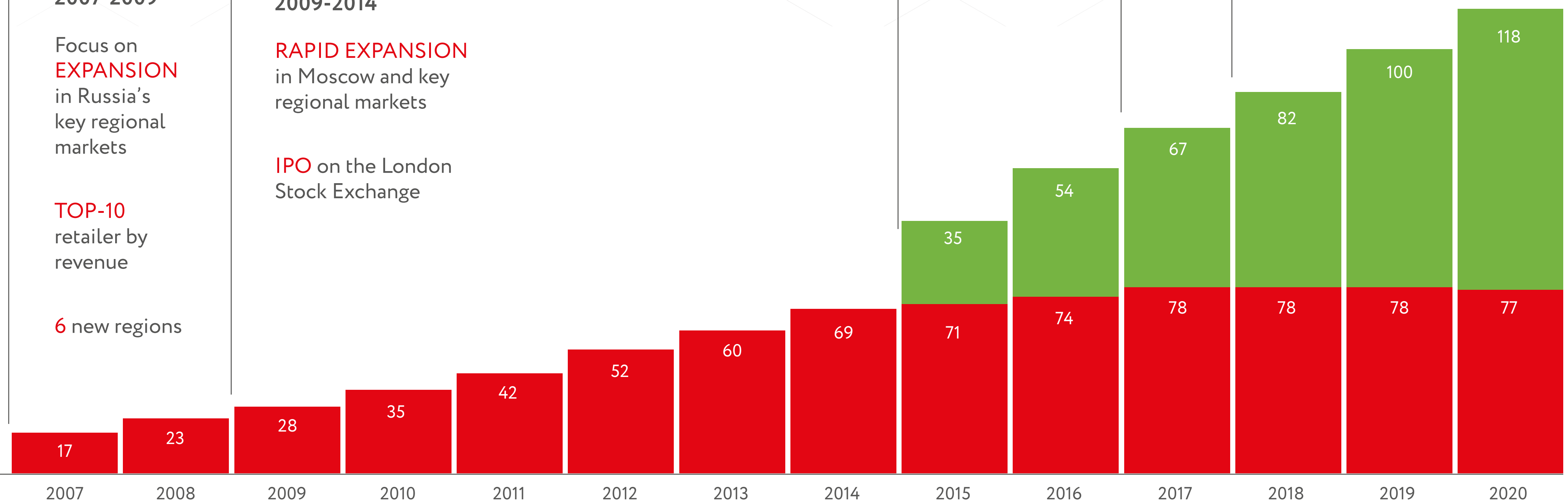
O'KEY new branding and new store concept presented

100% online coverage across cities of presence

GDR listing on the Moscow exchange

NUMBER OF STORES

DA! O'KEY



Key events 2020

JANUARY

O'KEY Group was the first Russian food retailer to fully stop selling primary oil plastic bags, in line with its Live Green corporate policy.

APRIL

O'KEY Group launched a nationwide social programme, "Stay healthy with us, we take care of the rest", which it placed zero margin on certain ultra-fresh category products.

The Company kick-started cooperation with the iGooods service, to deliver hypermarket items to customers in five cities where O`KEY has a presence.

MAY

The Group acquired a Karusel hypermarket in Saint Petersburg from X5 Retail Group, and rebranded and relaunched it under the O'KEY brand.

JULY

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

SEPTEMBER

The new O'KEY hypermarket concept was introduced to the public. The first hypermarket under the new concept was opened in Rostokino, Moscow.

O'KEY Private Label became the winner of the prestigious Private Label Awards 2020.

OCTOBER

The Group launched its milestone "Kind Purchase" charitable fundraising campaign aimed at helping seriously ill children, in partnership with Rusfond, one of the oldest charitable foundations in Russia.

O'KEY Group entered into agreement with Sbermarket, a nationwide food and essentials delivery service, to deliver online orders from O'KEY hypermarkets across 20 Russian cities, thus covering all regions of Group's operations.

NOVEMBER

O'KEY Group issued RUB 5 bn bonds with the purpose of refinancing the 001P-01 series of bonds traded on Moscow Exchange and due to mature in April 2021.

DECEMBER

O`KEY Group started trading of its global depositary receipts (GDRs) on Moscow Exchange, continuing to maintain its primary listing on the London Stock Exchange.

COVID-19 situation response

At the beginning of 2020, the Group promptly addressed the situation regarding the spread of COVID-19 and undertook the measures necessary to maintain the safe and smooth operation of its stores and supply chain. These measures allowed O'KEY Group to overcome the challenges the market faced and fully satisfy consumer demand by creating a safe, convenient, and pleasurable shopping experience across all formats and sales channels.

SAFETY OF CUSTOMERS AND EMPLOYEES

- Disinfection of store surfaces and store ventilation systems, hand sanitiser dispensers, masks and gloves
- Plastic screens at cash desks to protect customers and employees, and visual floor markers reminding them to practice social distancing
- Strict sanitary control in own production areas, including germicidal lamps for air disinfection in deli and bakery areas
- Strict monitoring of store, warehouse and office staff with mandatory temperature checks and COVID-19 testing, and free vaccination programme
- Remote working for most office employees, and taxi cost compensation for those involved into fieldwork

SUPPLY CHAIN AND STORE REPLENISHMENT

- Timely increase in stock levels to meet the anticipated rise in demand
- Ensuring sufficient safety stock of high-demand, entry-level products in distribution centres
- Optimising interactions with suppliers and increasing the efficiency of logistics operations
- Rearranging staff activity to provide the fastest replenishment of the most popular goods

E-COMMERCE AND ONLINE ORDERS

- Prompt multiplying of the number of assemblers, couriers and contact centre operators at the online okeydostavka store to address customers' increased demand for online orders
- Optimising our IT infrastructure: increasing server capacity
- Successfully managing the increase in orders, their processing and customer traffic without losing the quality of service, thanks to our advanced network of stores and logistics infrastructure

SOCIAL RESPONSIBILITY

- Our social initiative Stay healthy with us, we'll take care of the rest with zero mark-up for a wide range of ultra-fresh products
- Our social initiative Older People Hour, providing priority service in the morning hours for elderly customers
- Material support of employees: extra payments during the crisis months, and financial assistance to families of employees who suffered from COVID-19

CEO STATEMENT

DEAR STAKEHOLDERS,

2020 has undoubtfully brought unprecedented challenges to all sectors of the economy; nevertheless, we continued growing the business and achieving our strategic goals. I am happy to present to you the solid operational and financial results of the Group that were accomplished over the course of the year. O'KEY Group's net retail revenue showed positive dynamics of 5.9% YoY growth, primarily driven by a 5.4% YoY LFL increase in net retail revenue, and supported by outstanding growth of the DA! discounter business, where net retail revenue increased by 45.3% YoY. Our financial position and debt profile remain solid: Group EBITDA grew by 5.5% to RUB 14.8 bn with an EBITDA margin of 8.5%.

The Group's strategy is built around our customers' needs and we maintain a keen focus on delivering to them goods of the highest quality at reasonable prices, along with impeccable service. Our business model embraces three well-balanced pillars: O'KEY hypermarkets, DA! discounters, and a fast-growing e-commerce platform.

Our hypermarkets provide a well-chosen, deep assortment range, based on freshness and own production, along with superior customer service, while our discounter stores offer goods for everyday shopping with a good value-for-money proposition and a focus on our private label products. Our online business benefits from the scale of O'KEY's store chain, and we continue to invest in providing a seamless shopping environment and customer experience across our hypermarkets, mobile app and web site.

Such a combination of clearly positioned and complementary formats enables us to cover all customer segments, and profit from synergies such as economies of scale, joint product development, a shared procurement system with access to private label expertise, the identification of the best suppliers, and the use of direct imports.

A milestone in 2020 was the start of a large transformation of our hypermarket business aimed at improving its competitiveness. We introduced a new hypermarket concept, which is based on both O'KEY's own innovations and the best international practices. Hypermarkets using the new format stand out for an even greater focus on fresh and ultra-fresh goods and more efficient use of selling space. The first one was opened in October 2020, in the Europolis shopping mall in Rostokino, Moscow.

In 2020, our DA! discounters again showed excellent results, with 27.8% LFL revenue growth. As expected, DA! broke even and delivered positive EBITDA in 2020.

The Group has a long-established practice of making regular returns of cash to shareholders, and in 2020 we as usual declared a dividend, maintaining our commitment to creating shareholder value. We successfully initiated a listing on Moscow Exchange to provide access to O`KEY's GDRs to a wider range of investors. The new listing will be complementary to our listing on the London Stock Exchange, where our GDRs have traded since 2010, and is expected to diversify the Group's shareholder base and boost the liquidity of our shares.

O'KEY Group is commited to sustainability and takes into account the opinions and requests of all involved parties. We engage with all major stakeholders, from employees and customers to shareholders and local communities. We take responsibility for reducing our environmental impact, including work on more sustainable packaging options and on optimising the use of our delivery fleet. We also develop long-term partnership with NGOs and charities to contribute to the well-being of some of the most vulnerable groups in society.

5.9%
O'KEY Group's net retail revenue growth

8.5%
Group EBITDA margin

Continue

O'KEY HYPERMARKETS

O`KEY hypermarkets remain in demand among consumers thanks to their ability to meet customers' needs, offering them a well-chosen and wide product range, competitive prices and delivering great customer service.

Despite the economic instability and epidemiological situation, in 2020 O'KEY hypermarkets showed sustainable operational and financial results. The net retail revenue of O'KEY hypermarkets grew by 1.0% YoY to RUB 146,788 mln, whereas the LFL average ticket increased by 2.5% YoY. O'KEY hypermarkets' EBITDA stood at RUB 14.0 bn with an EBITDA margin of 9.5% in 2020.

During the year, we continued to develop our fresh and ultra-fresh categories and further strengthened our quality and safety standards. We also enhanced customer experience by modernising stores, improving layouts and re-launching our loyalty programme offering additional benefits. We also continued to develop our e-commerce business as a tool to maintain customer loyalty and satisfaction.

We steadily minimised our environmental footprint by refusing to use primary oil plastic bags and by introducing new eco-friendly packaging options.

Our newly implemented hypermarket concept will significantly strengthen O'KEY's market positioning , bolster long-term LFL growth trends, and improve the economics of trading space utilisation. We plan to renovate our stores in the next few years. In the future, we will also continue to ensure that customer service quality and store presentation are above industry standards. In addition, we plan to continue implementing new initiatives that will contribute to further growth, continue to develop our loyalty programme as a supporting tool to maintain customer loyalty, and look for opportunities to expand our business, picking the best possible locations.

> Our newly implemented hypermarket concept will significantly strengthen O'KEY's market positioning, bolster long-term LFL growth trends, and improve the economics of trading space utilisation.

DA! DISCOUNTERS

Our DA! discounter business remains the main growth driver of the Group. It has been delivering strong and stable growth of over 30% YoY in the past few years.

Our every day low price and best value-for-money proposition again proved its effectiveness, even during the challenges of 2020.

In this year, our discounters showed impressive net retail revenue growth of 45.3% YoY, reaching a 15% share of overall business revenue. The growth was led by a remarkable 27.8% LFL revenue dynamic supported by both LFL ticket and traffic growth, of 2.2% YoY and 25.1% YoY, respectively.

During the year, we opened 18 discounters net of closures in Moscow and the Moscow region which brought the total number of stores to 118 and increased selling space by 16% YoY.

During the year, DA! continued to enhance its fresh and ultra-fresh offer: by the end of the year, the share of these categories amounted to 40% of sales. We also remained focused on our private label assortment and quality. The DA! own brands reached 1,105 SKUs, generating approximately 50% of DA! revenue.

In line with our expectations, the DA! business broke even and delivered EBITDA of RUB 784 mln in 2020.

Being focused on our strategic goals, we will continue expansion of the discounter business, and expect to open up to 40 new DA! stores in the Central Federal District of Russia in 2021, carefully selecting locations for every store. It is anticipated that the share of discounters in the Group's revenue will continue to grow, thus supporting the Group's growth and increasing operational profitability. At the same time, we will maintain the quality of supply based on our own brands, with careful selection of suppliers and strict quality control.

E-COMMERCE REVIEW

O'KEY is one of the top-10 online grocery retailers in Russia. We profit from the Group's strong chain of hypermarkets that helps us to streamline our delivery model and reduce logistics costs: seven O'KEY stores in Moscow and seven in St. Petersburg serve as pick-up points for online orders.

In 2020, net revenue of this segment increased by 25% and reached 1.6% of the Group's revenue.

During the year, the Group developed its own delivery service while increasing its presence in regions through partnerships with specialised delivery services. We signed an agreement with SberMarket under which our partner began to accept, pick and deliver orders from O'KEY stores. We also started to work with iGooods.

Such collaborations enable O'KEY to gain additional sales channels and attract more customers.

We see great potential for further development of our e-commerce business and will continue to invest in and develop our online channel, focusing, first of all, on Moscow and St. Petersburg as key cities within our presence. We will continue to deploy hypermarkets as pick-up points for online orders and as a platform for express delivery. At the same time, we plan to develop further cooperation with partners to supply our products to more locations.

OUTLOOK

As the economic environment is becoming more difficult, customers are more becoming cost-conscious and rational in their shopping habits. Our response is to deliver the best quality-price ratio in the market in all our formats. We are also committed to supporting customer demand for a healthy lifestyle, in particular, through our high-quality fresh and ultra-fresh products offerings.

We see a strong potential in developing our current business model. Through our format mix based on modern hypermarkets, discounters and a strong e-commerce platform we expect to not just meet the needs of all customer segments, but also to maximise synergies between the three formats. We believe that the right strategy in action, along with our deep management expertise, will enable us to fully capitalise on the opportunities in a changing market landscape.

To achieve our strategic goals we need continual improvements to succeed in this competitive market environment. We will enhance our market positioning and improve the economics of trading space utilisation. First, building a well-chosen deep product range based on freshness and own brands, as a main competitive advantage. Second, ensuring customer service quality and store presentation are well above industry standards. And third, further developing our loyalty programme and e-commerce as supporting tools to maintain customer loyalty. In the future, we will continue to expand our business, optimise internal processes and enhance our product assortment with a clear focus on quality. We also remain committed to our obligations to key stakeholders, and will continue to develop mutually beneficial relationships with them.

We see our hypermarkets as a competitive format that will always be in demand due to a significantly wider and deeper range of goods, and superior customer experience. Within the next few years, we plan to expand our new hypermarket concept in our key regions, starting with five to seven stores in 2021. At the same time, we will further expand the DA! discounter chain in Moscow and neighbouring regions. We will also continue to grow our e-commerce business with a strategic focus on meeting the real needs of our customers and delivering the same quality of customer experience that we offer at O'KEY stores.

Finally, I would like to commend the Group's employees, whose relentless work has allowed O'KEY to provide customers with superior service, without interruption, even during the most acute months of the COVID-19 crisis. I would also like to express gratitude to the management team, whose expertise and strategic thinking helped the Group to maintain its market positions and achieve its goals.

ARMIN BURGER
Chief Executive Officer

The Group's strategy is built around developing a modern food retailer in Russia, operating in hypermarket and discounter formats and developing its competitive e-commerce platform. As a Group, we are always focused on creating value for our customers, partners and shareholders.

85%
O'KEY share in revenue

15%
DA! share in revenue

Top 8
food retailer in Russia

Top 10
food retailer in online

Strategic review

Delivering on our strategy

O’KEY Group’s operational activity is based on two shopping formats, hypermarkets and discounters, and a strong e-commerce platform. The strategic priorities depend on the format, however in each business we do our best to provide customers with high-quality goods, an outstanding value proposition and impeccable service.

O’KEY HYPERMARKETS

BUSINESS DEVELOPMENT

- Expand the new hypermarkets concept with better operational efficiency and sustainability
- Identify the best opportunities to grow business

DELIVER THE BEST VALUE PROPOSITION

- Maintain an excellent shopping experience with the help of our modern design and well-trained personnel
- Focus on providing excellent value for money to our customers
- Introduce new products and expand our product assortment with a focus on fresh and ultra-fresh products
- Increase the share of private label products and own products in total sales

BENEFIT FROM SYNERGIES BETWEEN THE FORMATS

- Develop synergies with the discounter business in joint procurement and direct import of fresh products, as well as profiting from our private label expertise

DA! DISCOUNTERS

BUSINESS DEVELOPMENT

- Growth and expansion: open up to 40 discounters in Moscow and the surrounding regions annually

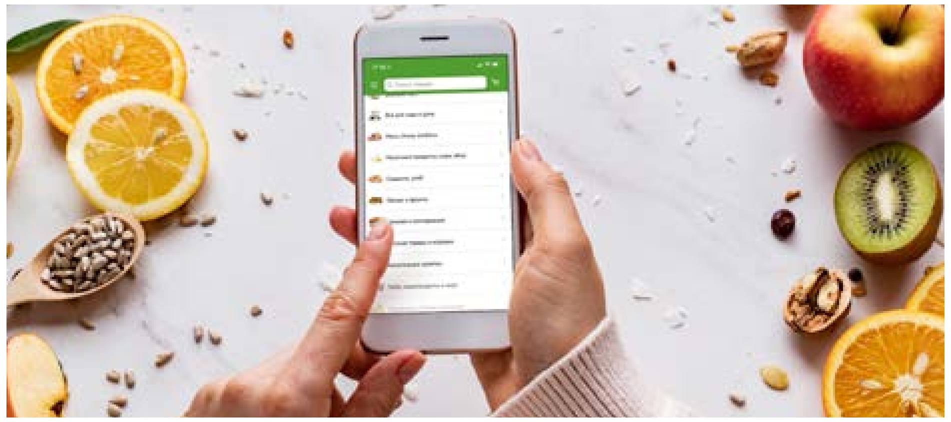
DELIVER THE BEST VALUE PROPOSITION

- Focus on the “every day low price” concept
- Offer the most competitive pricing on the market without compromising quality
- Expand the product assortment in the fresh and ultra-fresh categories
- Develop the wide portfolio of private label goods: improve the recipes and packaging, increase the share of private labels in the total SKU range and sales, and ensure the best possible quality by carefully selecting our private label producers

BENEFIT FROM SYNERGIES BETWEEN THE FORMATS

- Benefit from synergies with O’KEY hypermarkets when purchasing branded assortments

E-COMMERCE



BUSINESS DEVELOPMENT

- Expand the delivery zone, which includes opening up new pick up points
- Maintain partnerships with specialised services to reach all our customers

DELIVER THE BEST VALUE PROPOSITION

- Release our updated mobile app
- Expand our express delivery service which has proved to be in demand from customers

BENEFIT FROM SYNERGIES BETWEEN THE FORMATS

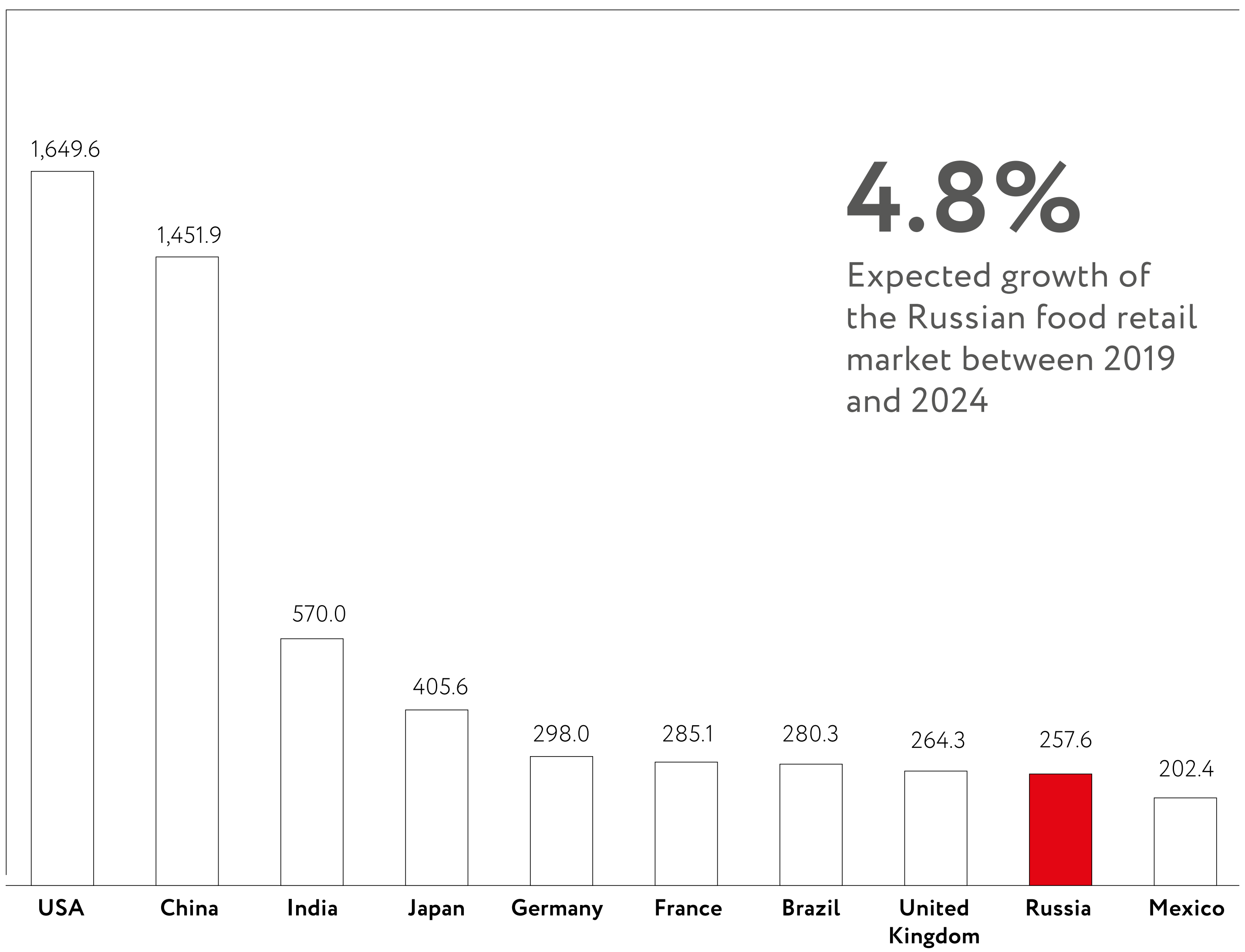
- A more efficient business organisation and logistics with O’KEY hypermarkets serving as pick up points and a delivery platform for online orders

Market overview

RUSSIA'S FOOD RETAIL MARKET

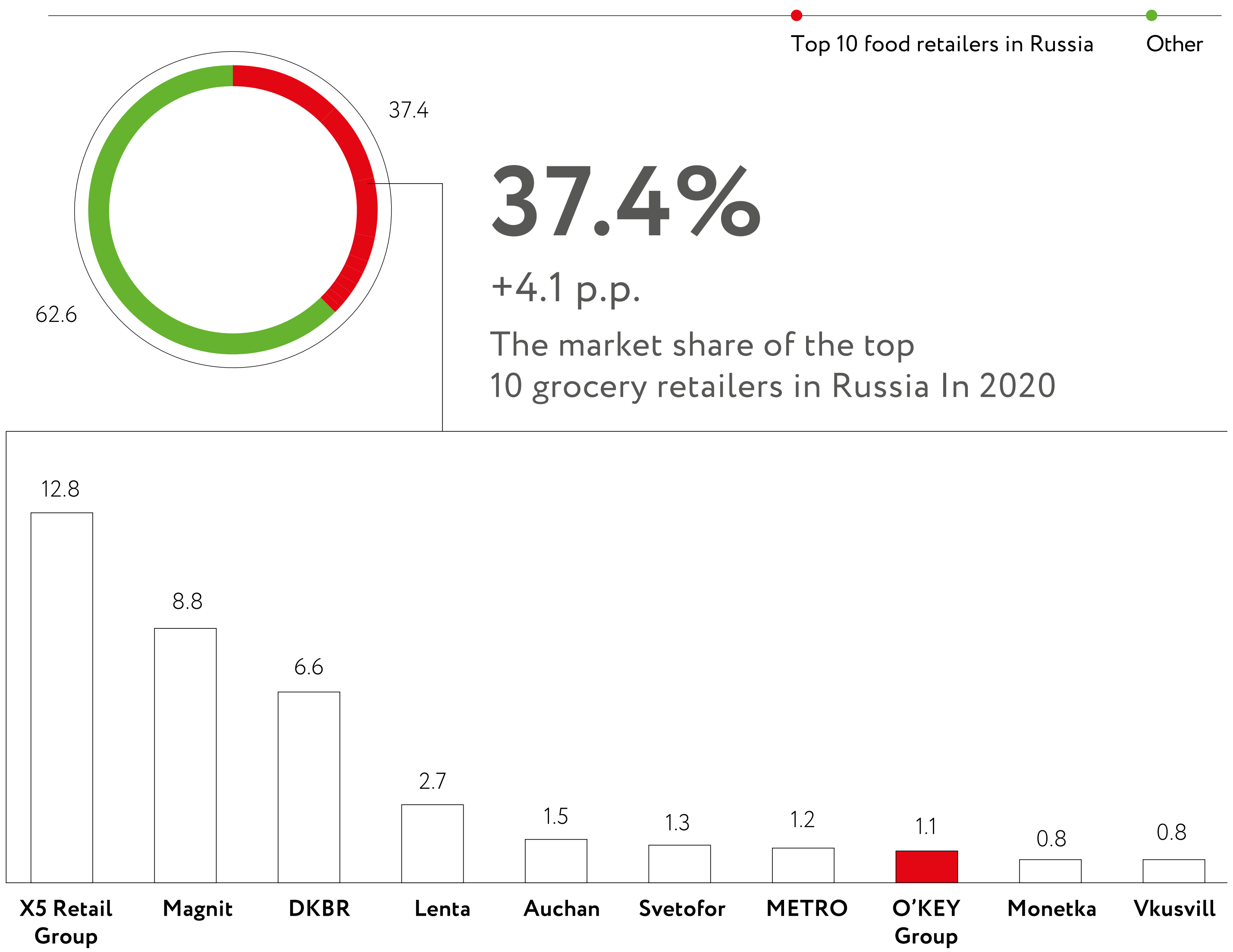
The Russian food retail market is the world's 9th largest in monetary terms, and is expected to grow on average by 4.8% annually between 2020 and 2024. It is anticipated that within this period, the share of discounters and e-commerce in the Russian grocery retail market will increase.

GROCERY RETAIL MARKET SIZE IN 2020, USD BN



Source: IDG research

TOP FOOD RETAILERS IN RUSSIA (BY NET RETAIL REVENUE)



Source: Infoline research 2020, excluding grocery aggregators and food delivery operators.

RUB
144 bn
total online market volume

According to Infoline, in 2020 the food retail market grew to 16.4 tn RUB. Meanwhile, the speed of expansion of the top 200 Russian FMCG retailers continued to decelerate: their total selling space increased by 4% YoY to 28.54 mln m^2 (in 2019, it increased by 7.9%), with their total number of stores growing by approximately 4.2 k and exceeding 74.8 k.

O'KEY Group seeks to fully meet the needs of different customers. Our strategy includes the well-balanced development of two main offline formats, hypermarkets and discounters, and a strong e-commerce platform.

The market situation remained challenging for hypermarkets in Russia, with their total number in Russia decreasing by 5.7% to 1,079. However, customers remained attracted by a wide assortment and superior shopping experience. Therefore, we see it as a necessity to continuously improve our hypermarkets' efficiency, and to be highly competitive and attractive to customers, which includes having an outstanding product assortment. To achieve these goals, we introduced and are rolling out a new hypermarket concept aimed at increasing our competitiveness.

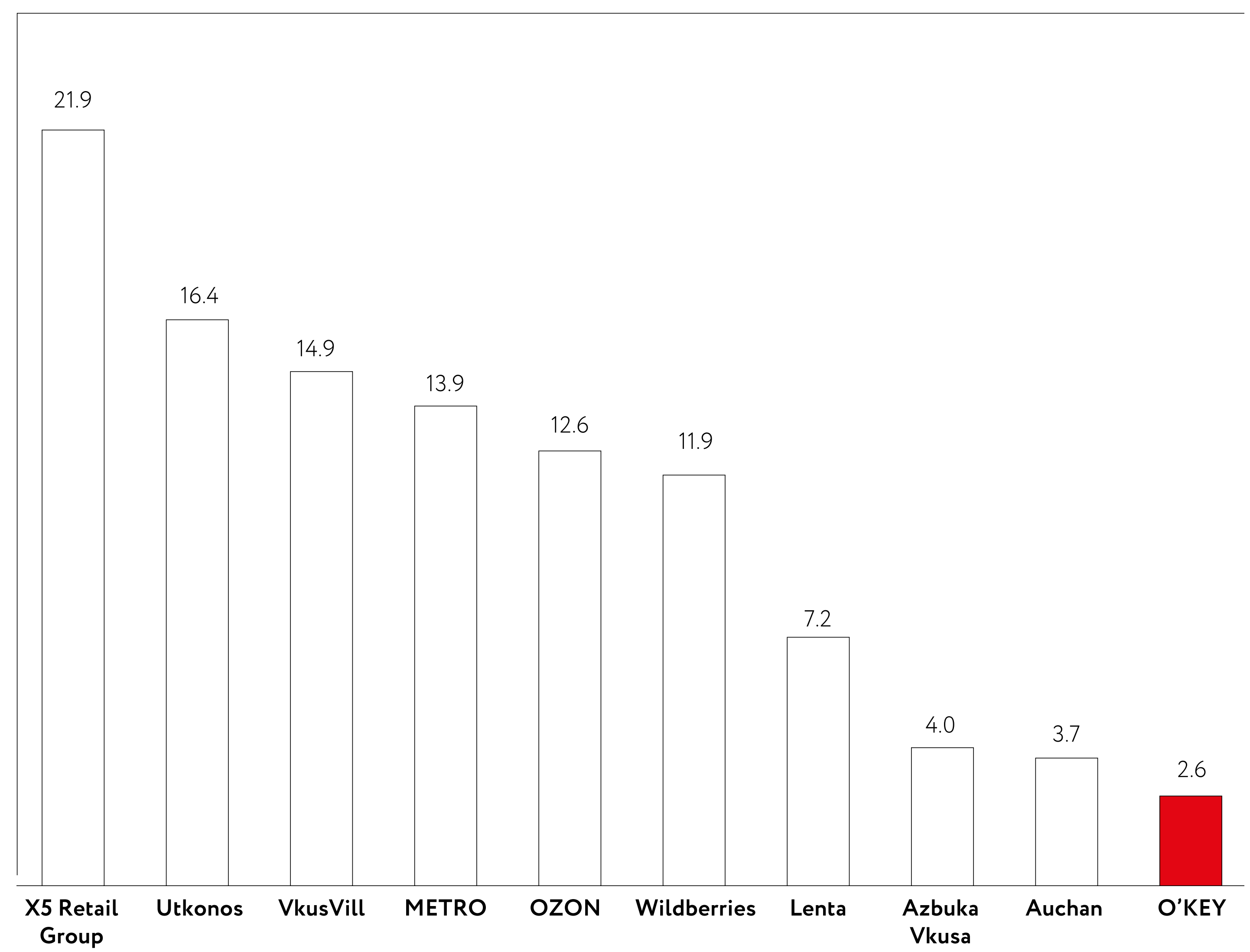
The popularity of discounters among the top-200 FMCG retailers continued to grow: in 2020, their total selling space increased by 7%, and their share of the selling space among top-200 FMCG retailers increased by 1.6 p.p. (to 57%). The total number of discounter stores of the top-200 FMCG chains as of December 31, 2020, was about 42.5 k, with a total retail space of over 16.2 mln m^2. In line with this trend, the Group continued to develop its DA! discounters, focusing on a unique value-for-money concept and a high share of own brands in the assortment. In 2020, we rolled out 21 discounter stores in the Central Federal district and aim to continue expansion at a comparable rate in 2021, with a focus on profitability.

ONLINE GROCERY MARKET IN RUSSIA

In 2020, the online grocery retail market in Russia grew rapidly, largely due to the COVID-19 pandemic and changes in consumer behaviour. Food delivery had already been part of daily life in large cities, but in the circumstances of lockdown, many more customers switched to online shopping for the first time and formed a habit that remained after the main restrictions were lifted. For instance, in Q4 2020, online food sales reached RUB 50 bn, which exceeded the volume for the full year of 2019.

According to Infoline, the online grocery market (excluding food baskets and ready meals) grew by 375% in the reporting year and approached RUB 144 bn. In the reporting year, the online grocery retail market in Russia accounted for 0.9% of the total grocery market, compared with 0.2% in 2019. According to Infoline, the Russian market for online food sales still has a huge growth potential and may exceed RUB 1 tn by 2025.

TOP ONLINE GROCERY RETAILERS IN RUSSIA, 2020, TURNOVER, RUB BN



Source: Infoline research 2020, excluding grocery aggregators and food delivery operators.

ECONOMIC ENVIRONMENT

In 2020, the Russian economy showed signs of downturn caused by the pandemic, lockdown measures and unstable oil prices. According to Rosstat, the real GDP of Russia fell by 3.1% in 2020, though this was less than forecast by the government (forecast decline of 4.2%). The population of Russia decreased by more than 0.5 mln to 146.2 mln people, which was the largest decline in 15 years. The total number of unemployed increased by 24.7%, and amounted to 4.3 mln (5.8% of the working-age population) by the end of 2020. Real disposable income declined by 3.5% YoY, however it is expected to gradually recover within the next few years: growing by 3% in 2021, by 2.4% in 2022 and by 2.5% in 2023.

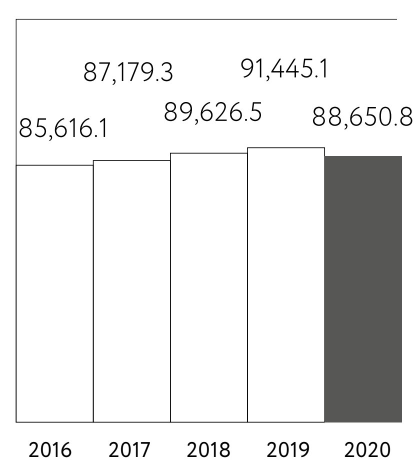
Consumer markets also showed negative dynamics due to the coronavirus pandemic, the economic crisis, lockdown and other restrictions. In 2020, food retail trade turnover in monetary terms increased by 1.8% YoY (in 2019 it showed an increase of 7.1% YoY). In real terms, food retail trade turnover declined by 2.6% YoY (while in 2019 it showed growth of 1.8% YoY).

During 2020, the retail industry was indirectly stimulated by large-scale measures to support various demographics, including families with children, pensioners and the unemployed. This included, in particular, monthly payments to low-income families with children aged 3-7 years introduced in the middle of the year (average size of the payment was RUB 5.5 k per child, per month). Also, the minimum wage in 2020 increased by 7.5% to RUB 12,130 per month, and in 2021 it further increased by 5.5% to RUB 12,792 per month.

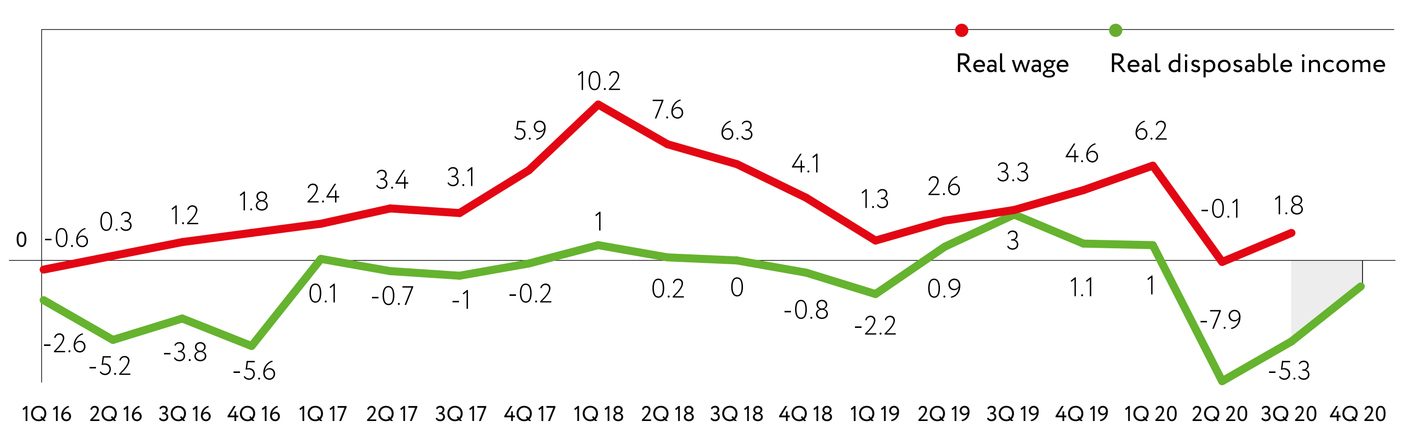
According to the Sberbank "Ivanov Consumer Confidence Index", price sensitivity remained high among customers: in Q4 2020, it was 68% which was just below the 69% registered a year earlier. In line with the high price sensitivity, trading-down on food intensified: 66% of respondents were trying to save on food purchases. At the same time, product quality was mentioned among the most important factors and cited by 65-66% of Sberbank respondents.

It was noted that product assortment became a factor of a greater importance to customers: it was cited as significant by 54% of Sberbank respondents compared with 49% in 2019. Meanwhile, O'KEY hypermarkets continuously improved their assortment, providing customers with all they need in a single location, including the freshest food and a wide variety of high-quality products, while DA! discounters concentrate on offering a wide choice of high-quality private labels.

REAL GDP IN 2016–2020, RUB BN

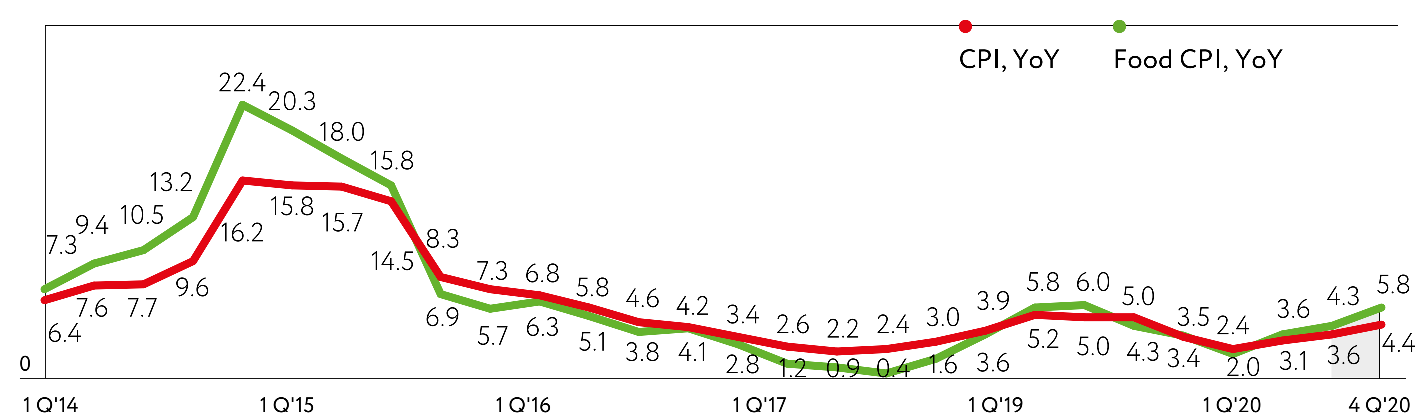


REAL DISPOSABLE INCOME AND REAL WAGES IN 2016-2020, %



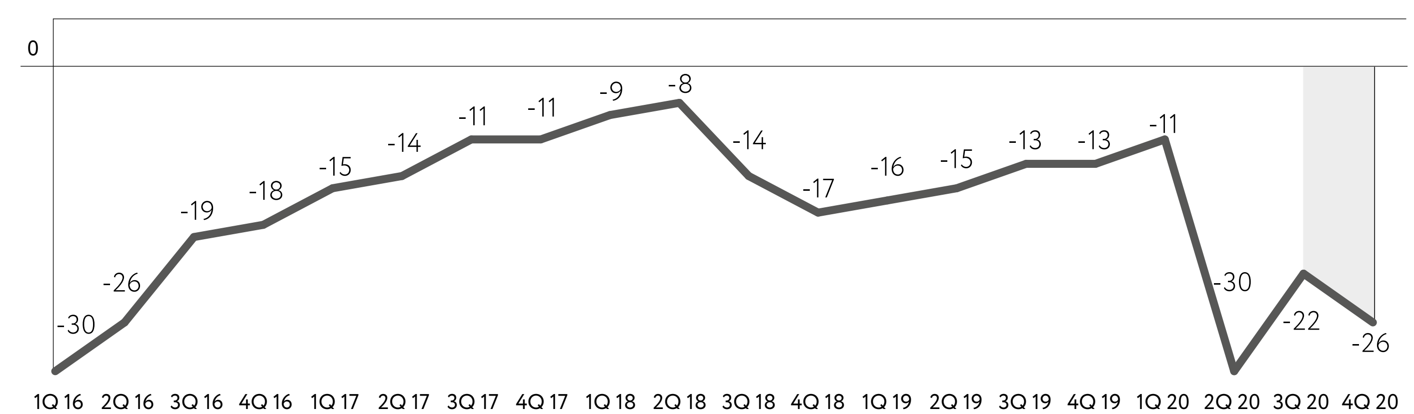
Source: Rosstat

RUSSIA'S CONSUMER PRICE INDEX, %



Source: Rosstat

RUSSIA'S CONSUMER CONFIDENCE INDEX IN 2016-2020, %



Source: Rosstat

OUTLOOK

It is anticipated that in 2021, the Russian economy will show signs of growth, which will be possible thanks to oil price recovery, the mass vaccination programme and the gradual lifting of restrictions in most sectors of the economy. According to the forecast of the Ministry of Economic Development, real GDP will grow by 3.3% in 2021. Real wages are expected to grow by 2.2% starting from beginning of 2021.

At the same time, the Russian government will continue to provide assistance to the most affected sectors of the economy, as well as invest in a number of projects, stimulating growth.

We believe that the future will bring us new opportunities and we aim to constantly develop our business in order to profit from them and remain among the leading retailers. In the current market environment, we intend to remain cautious on the outlook for the Russian retail market and its growth opportunities. We plan to continue to grow our business in all three segments with a focus on operational efficiency and quality, ensuring that a wide assortment of goods is available to our customers at competitive prices.

Our three complementary formats, O`KEY hypermarkets, DA! discounters and the e-commerce platform, ensure fulfillment of all customers' needs. We aspire to deliver the highest quality at the best price and a unique customer experience.

+5.4%
Group LFL revenue growth

+45.3%
DA! retail revenue growth

1.6%
e-commerce revenue share

Operational results

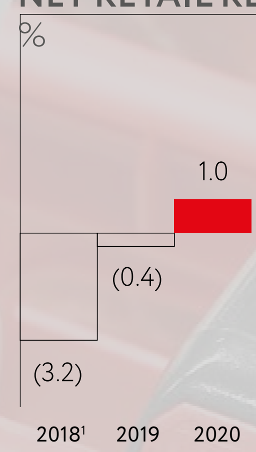
O'KEY hypermarket format

The O'KEY hypermarkets business, as a core pillar of our Group's business model, remains a competitive and high growth potential format. Due to our well-balanced value proposition and competitive advantages, we remain among biggest players in the Russian food retail market.

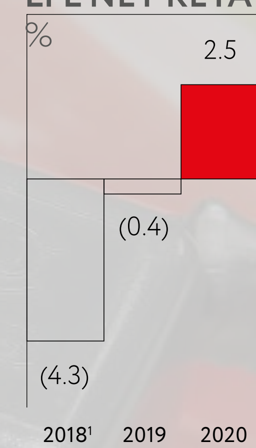
Our hypermarkets offer customers a well-chosen and wide product range, which is designed to meet all their needs at competitive prices. In the recent years, we have made significant progress in transforming the chain. In 2020, we introduced our new hypermarket concept that looks to the future of food retail and meets latest market trends, combining best international practices and O'KEY's own experience. The new concept is aimed to enhance the hypermarkets' competitiveness, and further improve customer service and the efficiency of trading space.

KEY PERFORMANCE INDICATORS

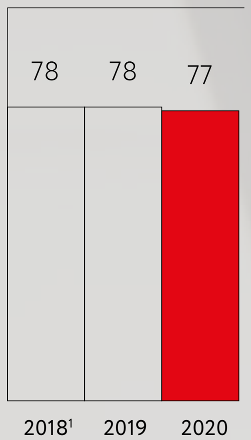
NET RETAIL REVENUE, %



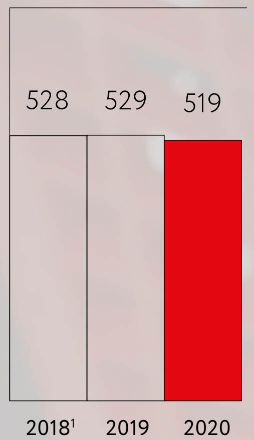
LFL NET RETAIL REVENUE, %



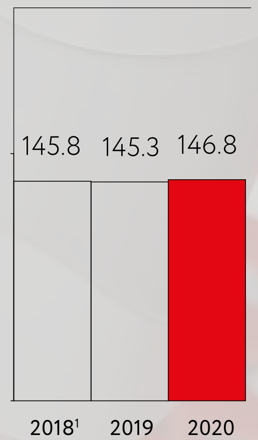
NUMBER OF STORES



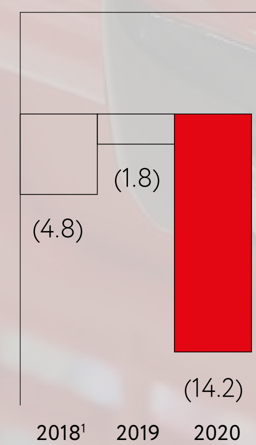
SELLING SPACE, K M²



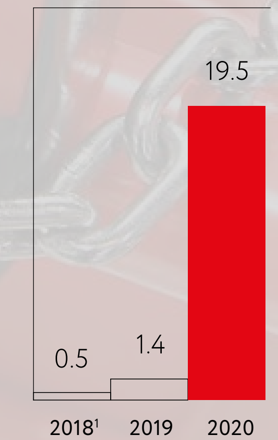
NET RETAIL REVENUE, RUB BN



LFL TRAFFIC, %



LFL AVERAGE TICKET, %



[1] Note: O'KEY operational performance indicators are presented excluding the effect of supermarkets sold in 2018.

HYPERMARKETS BUSINESS 2020 AT A GLANCE

6.8 k m²
Average store selling space

135 mln
Clients shopped with us

30 k SKUs
Average product range

85%
Hypermarkets share in O'KEY Group revenue

PERFORMANCE OVERVIEW

In 2020, we continued to focus on delivering enhanced customer experience, maintaining high operational efficiency, impeccable quality of assortment and best service in every store of our chain. Our new hypermarket concept was designed to leverage our expertise and implement the latest solutions in modern food retail, with focus on fresh and ultra-fresh categories as the main traffic drivers for all O'KEY stores. At the same time, we were enhancing our own production and private label products, and offering digital solutions for a more enjoyable customer experience across our chain.

We continued to evolve our unique value proposition, which includes:

- a wide range of competitively priced, high quality products, including fresh food, own bakery, delicatessen and non-food items;
- locations near key traffic intersections, with easy access via public transportation and/or within highly populated residential districts;
- modern shopping environment with an appealing ambiance;
- omnichannel bonus system to accumulate and spend loyalty points;
- large number of cash registers, including self-scanning and self-checkout.

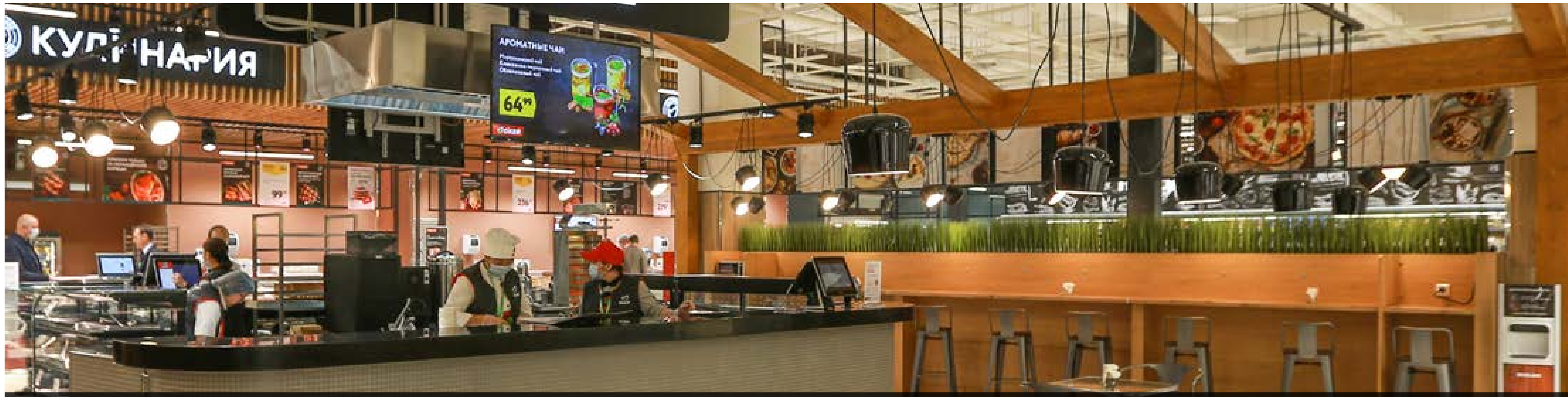
The right focus and developed customer value proposition (CVP) enabled us to show decent operational and financial results in 2020 despite the challenges caused by economic instability and the epidemiological situation: O`KEY net retail revenue rose by 1.0% YoY to RUB 146,788 mln, on the back of a 2.5% increase in LFL net retail revenue. Starting from Q2 2020 and until the year end, we observed changes in consumer behaviour caused by the pandemic: customers visited stores less frequently, but tended to stockpile while shopping in order to minimise visits. As a result, O`KEY LFL traffic was down by 14.2% YoY, while the average LFL ticket rose by 19.5%, driven mainly by more items per basket. As expected, December saw strong customer demand, with accelerated net retail revenue growth of 5.3% YoY.

As at 31 December 2020, the total number of hypermarkets was 77, with total selling space of 519 k m^2. In 2020, we introduced to customers a new store in St. Petersburg and a redesigned store in Moscow that uses our new design concept. We also doubled the size of the store in Sestroretsk in the St. Petersburg region.

During the reporting year, we developed our fresh and ultra-fresh categories, which included further implementation of new standards and operational improvements in the fresh departments. We continued to enhance customers' shopping experience by rezoning and modernising stores, and improving the quality of own production, deli, bakery, private labels, and fruit and vegetable range. To further improve shopping experience and customer service, we continued implementation of digital solutions in our hypermarkets, such as self-checkout scanners integrated with our loyalty system, electronic price tags for some product categories, and self-checkout cash desks. Another important milestone was the introduction of an updated loyalty programme for our customers, which offers additional benefits and an enhanced shopping experience. We were able to maintain a high standard of service and product availability, which helped to maintain a high frequency of visits despite the pandemic.

Watch a movie about the new O'KEY hypermarket concept.

NEW HYPERMARKET CONCEPT



>500 SKUs

of ready-to-eat products

400 SKUs

of fresh fruits, vegetables, berries and greens, from seasonal to exotic

500 SKUs

of ultra-fresh products (fresh fish, poultry, seafood, meat, etc.)

In October 2020, we opened the first new concept hypermarket in the Europolis shopping mall in Moscow. Within the new concept, layout is improved and the approach to the product range is reimagined. The innovations are aimed at further improving product offerings and the shopping experience, as well as making sure selling space is used as effectively as possible.

The new concept focuses even more strongly on fresh and ultra-fresh categories as main traffic drivers, providing them in a new upgraded design and layout. In the renewed store, the space allocated to fresh and ultra-fresh categories was expanded by 50%. The store features even more impressive bakery, deli, cheese, sausages, meat and seafood counters. We reimagined the non-food category and re-designed the display, focusing on high-quality and most popular items. Our non-food range includes items for home and garden and children's goods, as well as skincare products, make up, and seasonal goods, with the focus on the durable quality of the assortment. We reduced selling space allocated for non-food products by 80%, while improving the look and feel of this section. The non-food area got a new attractive design, modern displays and promo stalls.

In the updated hypermarkets, we continue to pay special attention to customer experience. We significantly improved layouts, reimagined our approach to the product range, widened the aisles and updated our zoning and display standards, helping customers get their shopping done faster. Similar items are displayed together, as well as complementary items and ready-made solutions.

Next to the ready-to-eat section, we launched a comfortable café area where customers can have a meal or enjoy a cup of coffee, warm up food and charge their devices. The new store also features innovative IT solutions that have already been implemented across the chain, such as self-checkout scanners and cash desks, as well as a newly implemented digital sommelier service, and electronic screens for more efficient in-store navigation and communication with customers.

The hypermarket segment will continue to be the core pillar of the Group's business model in 2021 and in the medium term.

In 2021, we will continue to gradually upgrade O`KEY hypermarkets in line with the new concept. We expect that this fresh start will strengthen O'KEY's market position and create a foundation for long-term. At the same time, we plan to make improvements across the whole chain, by enhancing our own production and private label ranges, increasing operational efficiency, maintaining a high quality of goods and introducing new digital solutions.

LOYALTY PROGRAMME

Our loyalty programme acts in line with our strategic priorities and helps to provide our customers with multiple options for purchasing goods of the highest quality on the most attractive terms. The loyalty programme integrates innovative IT solutions, such as machine learning and personalisation analytics software, and provides customers with individual offers based on their own spending patterns and purchase history.

In 2020, we introduced an updated cumulative loyalty programme that is designed to reward customer loyalty and enable them to engage with us as their preferred hypermarket. It enables customers to accumulate and use bonuses both online and offline. Customers can also choose between a digital and plastic format loyalty card.

Throughout the year, O'KEY was working on the digital customer experience. We fully updated the okmarket.ru website and created a new mobile app for offline customers, which will be launched in 2021. In a personal account, on the website, or in the mobile app customers can now access information regarding their card, bonuses, history of purchases, and promo offers for online and offline stores.

We also enhanced our presence on social media, and fully relaunched O'KEY digital promo activities. We launched direct personal accounts on the main digital advertising platforms, significantly optimised the cost of digital advertising and increased the coverage of digital advertising messages.

Throughout 2020, we collaborated with other non-food retailers and other partners to attract traffic amidst the COVID-19 pandemic, by making co-promotions in particular. This included a cross-promo with a non-food retailer Hoff, and a cross-promo with taxi services to motivate customers restraining from using public transport. We also collaborated with shopping malls to attract customers, creating joint regional promotions with the use of social networks.

In 2020, we maintained a high level of customer loyalty. Trade turnover of loyalty clients was 5% higher than 2019. The share of loyal customers grew to 89% in total turnover.

LOYALTY PROGRAMME IN 2020

12 mln
loyalty cards

102.7 mln
loyalty transactions
76% of all transactions

RUB **145.5** bn
loyalty revenue
89% of O'KEY revenue

PLANS

- develop theme clubs, such as a kids' club and a wine connousseurs' club, using more specific data on family composition and eating habits;
- promote and develop the new mobile app to be launched in March 2021 that would develop convenient customer services and customer feedback tools and internal tools for gathering information;
- re-launch and develop co-branded loyalty card in cooperation with banks;
- optimisation of omnichannel communication with customers to optimise costs;
- improve the analytical tools for optimising the selection of personal offers, working with attraction, retention and outflow risks.

PRIVATE LABEL

The wide selection of O'KEY private label (PL) items is a competitive advantage of our hypermarkets. Our principle is to offer customers goods of superior quality at better price (15–25% cheaper than branded alternatives).

In 2020 we continued to actively develop the private label product lines. We actively worked to expand assortment in 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.

OUR VARIETY OF PRIVATE LABEL PRODUCTS HAS THREE MAJOR BRANDS COVERING THE ENTRY, MEDIUM AND PREMIUM PRICE SEGMENTS.

That's what you need!	O'KEY	O'KEY Selection
entry segment	medium segment	premium segment
914 SKUs	**1,484** SKUs	**84** SKUs

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

With the ultimate goal of offering premium goods in all categories, we continued to develop "O'KEY Selection", a brand that is distinguished by better affordability of premium products with quality comparable to other brands.

In 2020, the share of private label products under the brands "That's what you need!", "O'KEY" and "O'KEY Selection" in O'KEY net retail revenue increased to 8% (vs 7.2% in 2019).

Throughout 2020 we renewed our packaging for all three major PL brands in order to increase sales and brand awareness, especially in the entry and medium segments where we renewed the logos. As at the end of 2020, new design was developed for 958 "That's what you need!" SKUs, 899 "O'KEY" SKUs and 59 "O'KEY Selection" SKUs.

We created a new unit specialised in niche and rare articles to better satisfy customers' needs.

In 2020, O'KEY continued to strengthen its private label quality and maintain high quality standards. The Company conducts regular checkups at the production facilities and conducts test samples in independent and accredited laboratories under the "Trademark O'KEY – Customers' guarantee" programme.

Our efforts in this area are regularly recognised with various quality awards. In 2020, ten "O'KEY" and "O'KEY Selection" private label products won golden medals at the prestigious international Quality Guarantee 2020 competition, four products received silver medals, and four products received diplomas.

In 2020, O'KEY's own brand became the winner of the prestigious Private Label Awards 2020 held within the International Private Label Show (IPLS). It was recognised as the Best Private Label in "Online", having received the highest award in this category. Experts assessed brands not only by quality, formulation and available product range, but also by their presence in various online channels, brand recognition among internet users, brand credibility, as well as the demand for respective private label products.

Golden medals

- O'KEY Camembert Cheese
- Cream Cheese Light (Litere)
- O'KEY lightly salted fillet-pieces of herring in oil
- O'KEY Oat Flakes
- O'KEY Canned Green Peas
- O'KEY Lemon Slice Marmalade
- O'KEY White-pink Marshmallow
- O'KEY Sunflower Halva
- O'KEY Selection Caramel Cashew with Crispy Cinnamon
- O'KEY Selection Salted Fried Pistachios

Silver medals

- O'KEY Mango
- O'KEY Brie Cheese
- O'KEY Kupecheskaya Baked Ham

Diplomas

- O'KEY Mackerel
- O'KEY Cottage Cheese 9%
- O'KEY White Salted Pork Lard
- That's What You Need! Pork Knuckle

PLANS

We will continue to focus on developing our private label brands. In particular, we intend to review our private label assortment from the perspective of "More Quality, Less Quantity", and further develop the assortment, with the intention of growing sales and profitability in each category.

We will further develop "O'KEY" and "O'KEY Selection" brands with new designs and packaging.

O'KEY and DA! discounters collaborate to develop common own brands, starting with the non-food category (cosmetics, health care, etc.). The goal is to introduce high-quality products under own brands for each product category and, at the Group level, benefit from the economies of scale.

OWN PRODUCTION

The "time is a luxury" lifestyle trend creates demand for high-quality, ready-to-eat food of impeccable freshness. Reflecting this trend, O'KEY hypermarkets offer a wide assortment of our own production, which includes a range of freshly prepared salads, hot meals, pastries and confectionery. The Company constantly enhances its own production range and the quality of goods on offer, striving to meet customer needs and maintain the highest level of customer satisfaction.

We provide the best customer experience for the consumers of products of our own production. In our stores, planograms are used for a better store layout and customer convenience. Inside our stores, there are "sit and eat" facilities where customers can enjoy a hot drink or a meal. Moreover, every day our clients can benefit from evening promotions and discounts.

Our own production unit 2020 at a glance:

- we significantly upgraded our own production assortment by introducing over 150 new SKUs and expanding our range of convenience foods, sandwiches, hot meals, and a healthy assortment of bakery products;
- we continued to educate our chefs and technologists to improve their culinary and baking skills;
- we launched the "Tandoor" project within the O'KEY Bakery segment;
- at the renovated hypermarket of the new concept, we implemented a unique café concept where products of our own production are served. The new concept is distinguished by superior service and a better assortment range.

In 2020, the Company participated in the "Quality guarantee"[1] contest with its own produce. Five of our products (Smoked Mackerel Salad of our own production, Fyodorovsky bread, Monastyrsky bread, Berries Cheesecake, and Buckwheat Noodles with Vegetables) were awarded silver medals and diplomas.

OUR OWN PRODUCTION HIGHLIGHTS

Special supplier system, separate from general suppliers

> 2,000 total unique SKUs

up to 500 SKUs in each store

150 new products introduced

[1] The contest is held by the The Gorbatov's All-Russian Meat Research Institute (VNIIMP) 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 the Russian Federation.

FRESHNESS APPROACH

To ensure compliance with our "Ultra Freshness" approach, we adhere strictly to our internal production standards. We control our production at all stages, from storage at distribution centres to it being served in hypermarkets. Quality control includes daily optical and hygiene checks; teams of trained experts selectively check the quality and correctness of our own produce.

PLANS

In 2021, we intend to:
- create six centres of own production centralisation based on existing store infrastructures;
- further improve the excellence of products of our own production and develop the assortment;
- continue to increase the proportion of raw materials and ingredients requiring little preparation;
- conduct quality audits of suppliers of materials used for our own production;
- implement the café concept where our own produce will be served;
- standardise the quality and technology processes for our own production in our stores, from raw materials to customer feedback;
- continue our employee training programme;
- develop new formats of trade and e-commerce, such as "ready to eat", "ready to cook", and "grab&go".

QUALITY AND SAFETY

O'KEY Group focuses on maintaining the highest quality goods in its stores. Our quality management system encompasses all stages of operations and is improved on an ongoing basis, with customers' needs and current market trends taken into consideration. We strictly comply with Russian quality and food safety legislation and the HACCP system. Our quality management system is complemented by internal quality standards which often go beyond the necessary requirements.

Quality and safety in O'KEY are supported by a dedicated quality control department. The standard measures include preliminary quality control procedures, assortment monitoring both in stores and warehouses, and internal and external auditing of stores and the supply chain. The high quality and safety of our own production and private labels is confirmed by laboratory control.

In case of any incidents regarding quality and safety, O'KEY reacts with an immediate and thorough audit and comprehensive measures aimed at preventing similar cases in the future. The actions may include withdrawing products from the stores, returning them to the producer, and ceasing a contract with a supplier.

In 2020, due to the COVID-19 pandemic, O'KEY quickly adapted its operational processes to the new reality, which included adopting new hygienic standards for a safe customer experience and complying with new government requirements.

O'KEY Group participates in regional and national quality initiatives, such as "Made in Don Land" and North-Western and Central regional voluntary certification initiatives. This demonstrates the high quality of goods and the Company's compliance with leading standards. O'KEY takes part in ACORT quality committee initiatives, such as communication with authorities on legislative issues, quality product testing and benchmarking, and round tables regarding quality standards.

In 2020 the Company undertook the following actions related to quality development:
- O'KEY continued the transition to electronic veterinary control under the State information system Mercury (all related processes were documented and implemented into the system; we collaborated with suppliers to minimise discrepancies in veterinary documents);
- O'KEY launched the Tandoor and Shaverma projects, with the HACCP system implemented;
- 6.2 k SKUs were audited for compliance with legal regulations (labeling and necessary documents) via the e-portal for suppliers;
- O'KEY stores successfully underwent 57 surveillance audits conducted by the authorities;
- the Company optimised its business processes in accordance with the legislative changes in the certification and declaration of directly imported goods;
- the Company developed close cooperation with suppliers to fully comply with new laws adopted in 2020 ("About organic product", "Wine production and viticulture");
- O'KEY successfully underwent annual audits under the "Made in Don Land" programme, and confirmed the validity of the certificates.

PLANS

The Company plans to continue improving its quality management system and food safety control procedures going forward. In order to have freshness and quality as our distinctive features, we will revise and further improve quality standards for fresh and ultra-fresh categories. We will also improve our suppliers' auditing system by using a risk-oriented approach, concentrating on ultra-fresh categories, our own production, and private labels.

O'KEY Group plans to review regulatory documents with service contractors, and to implement a quality benchmarking procedure to become the market leader from quality perspective.

We will concentrate on employees' development by implementing an updated quality training programme for those involved in the quality support processes and by educating internal auditors within the Company's quality management system.

SUPPLY CHAIN

The O'KEY has a well-balanced supply chain which serves as our competitive advantage and allows us to meet customers' needs in all regions of operation. In 2020, we continued to improve the productivity and effectiveness of our supply chain, focusing on cutting-edge digital solutions and transparency of communications with suppliers.

The O'KEY logistics system includes four distribution centres: two are located in Moscow, and two in St. Petersburg. The federal distribution centres based in Moscow distribute fresh products, fruits and vegetables, FMCG, non-food and alcohol products to all stores across the country. One regional distribution centre in St. Petersburg specialises in FMCG and non-food, and the other one – in fruits and vegetables, and fresh products. This supply chain organisation enables O'KEY Group to balance logistical costs, stock management and a high level of service.

In 2020, we:
- finished the rollout of the ORACLE RPAS (Retail Predictive Application Server) solution for all categories;
- increased the centralisation rate of the fresh category by 5.3% and of the non-food category by 4.4%;
- launched the Yard Management system which ensures the timely arrival and departure of vehicles and increases on-time deliveries;
- launched the Suppliers' portal to increase transparency;
- tested the new forecast system to improve the accuracy of forecasting;
- launched a new distribution center for non-food products with a total area of over 18,000 sq.m. in Litvinovo, the Moscow region, and increased O`Key's storage capacity in the region by a third.

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

4

Overall number of O'KEY DCs

61%

+2.5% YoY

Centralisation rate

O'KEY DISTRIBUTION CENTER

2

Moscow

53.8 k m² and 18.1 k m²

2

St. Petersburg

21.8 k m² and 7.6 k m²

PLANS

In 2021, we plan to develop the warehouse infrastructure and supply models. In particular, we will launch a digital supply chain model that allows us to simulate the supply routes of goods based on the demand forecast. We will also increase the performance of the complete set at the distribution centres, and implement the voice picking system at our distribution centres.

We also intend to complete the analysis of our new warehouse management and new forecasting systems in the market, and to decide whether to update or to replace the existing systems.

In addition, we plan to implement a new transport operations management system (TMS), which will help reduce transport logistics costs due to more efficient routing of flights.

IT SOLUTIONS

O'KEY draws on the latest developments in the retail industry as it continues its transformation. The Group believes that new digital technologies and mobile applications are a necessary element for those who want to be at the forefront of the industry. Modern IT solutions help O'KEY to develop new ways to reach customers, analyse their needs and preferences, and provide other beneficial opportunities.

The Group's operational activity is supported by a multi-faceted IT infrastructure embracing all major aspects of the business. It uses widely recognised software that allows us to increase productivity, gain customer loyalty and achieve our strategic goals.

In 2020, we continued the implementation and extension of cutting-edge IT solutions. We expect that innovative IT technologies will further contribute to our business efficiency and enhance general business processes in the future.

ERP
- Microsoft Dynamics AXAPTA 2012

Supply chain
- Manhattan WMS
- Oracle RPAS
- Yard Management

Category management
- JDA Software
- Oracle RPAS

Cash register
- Crystal Service Integration
- POS platform CSI solution (SET 10)

Online store
- IBM Web-Sphere Commerce (CMS, Promo)

HR System
- Boss HR application

Customer relations
- CRM Manzana

In 2020, we:
- completed rollout of Oracle RPAS auto-ordering system and covered ultra fresh and non-food categories;
- launched a new bonus loyalty programme, with the use of modern data analysis solutions and CRM Manzana, providing customers with targeted, personalised offers;
- finished rollout of JDA software used for category management, which is specialised in planograms optimisation, taking into account shelf size, packaging, display standards, presentation stocks, and real sales – the correct presentation of products along with systematic approach to assortment planning contributes to increased sales;
- improved supply chain efficiency by implementing a Yard Management solution for our federal distribution center in Litvinovo, with the software is used to control and optimise traffic flows in the warehouse complex, correctly check distribution in the loading/unloading windows and reduce transport downtime;
- continued to upgrade store servers to SET 10;
- implemented several modules of the new ERP platform, finalising the master data in Axapta 12 except for finance functionality;
- implemented a vendor portal and with master data information management;
- modernised IT infrastructure in the data centre and in stores, improving IT operations' stability and performance.

PLANS

In 2021, we intend to continue the implementation and extension of innovative IT technologies, which will contribute to maintaining our market position and our competitiveness. In particular, we will improve customer engagement through implementing campaign management and customer personal offers. In store operations, we will implement advanced task management combined with automated task generation based on real time analytics. We will also implement voice picking technology in DCs to improve supply chain productivity.

E-commerce

O'KEY Group is one of the leaders in the Russian e-commerce food market, offering its customers a wide assortment of high-quality products at affordable prices. Our priorities remain meeting customers' needs and maintaining transparent communication with them, and we are continuously improving our service. O'KEY Group was the first Russian retailer to launch its own delivery service back in 2015, and has been actively growing it ever since, with e-commerce becoming one of the pillars of the Company's business model.

18.7 k
tonnes delivered in 2020
+25% on 2019 (15 k tonnes)

760 k
orders
+26% on 2019 (602 k orders)

275 k
active customers
+49% on 2019
(184 k active customers)

100%
online coverage
in the cities of presence

In 2020, e-commerce in Russia and worldwide faced a surge in consumer demand, caused by the COVID-19 pandemic and related restrictions. As part of its adaptation to the new business environment, O'KEY Group rapidly increased its throughput capacities and demonstrated a flexible approach to business, which was supported by our offline infrastructure. Taking into consideration customers' requests, we improved the quality of the delivery service and optimised existing business processes to enable the possibility of future rapid scaling.

O'KEY Group remains among the top eight market players by revenue in the online food retail industry. Over the year, it has strengthened its positions in the grocery e-commerce market, especially in St. Petersburg where the Group was founded. Our online net revenue increased by 28.4% YoY and reached RUB 2.3 bn, with 760 k online orders fulfilled.

3.7%
E-commerce share of revenue in Moscow

2.1%
E-commerce share of revenue in St. Petersburg

O'KEY e-commerce business benefits from synergies with the existing offline format. The combination with hypermarkets gives access to a wide range of high-quality goods and to a professional team of employees. Orders are assembled directly in the hypermarkets; this allows us to scale the process quickly and efficiently.

Grocery e-commerce has huge growth potential: thousands of customers, especially in big cities, switched to online delivery during the lockdown, and it is expected that many will continue to use this service in the future.

An important trend in the e-commerce market is the unification of the online and offline customer bases. In response to this development, O'KEY continues to develop its "one retail" concept to give customers a seamless purchase experience.

Another leading trend is speed of delivery: customers often demand items within one to two hours, and are willing to pay more to get their orders quickly. This requires market players to improve their logistics systems and deploy cutting-edge IT solutions.

Reflecting this trend, in 2020 O'KEY successfully piloted a new express delivery service, delivering orders within 90 minutes, which we plan to expand in the future.

O'KEY continues to develop its e-commerce system in order to provide superior service and facilitate the purchase process for our customers. Every initiative is thoroughly reviewed before implementation. In 2020, we:
- optimised the operation of all online store systems (website, mobile app, back office) to ensure stable functioning during the sharp rise in demand;
- implemented automatic scanning of the Internet to detect illegal use of the O'KEY brand;
- launched a new cash register software in Putilkovo hypermarket which allows to put through orders and sell labelled products more rapidly;
- transitioned to a new version of portable data terminal;
- implemented an accounting system for employees' working shifts;
- activated data security solutions (WAF and DDOS security);
- improved the application used for assembling orders;
- optimised the data exchange between online and offline channels in order to reduce the share of non-available products.

In 2020, we significantly increased the coverage of our online delivery services.

O'KEY Group is also a member of the Association of Internet Trade Companies, which promotes fair competition, innovation and the positive development of the industry in Russia.

COLLABORATION WITH PARTNERS

One of key priorities of the Company was to expand omnichannel capabilities by tapping into synergies with partners. In 2020, O'KEY leveraged integrations with specialised services to secure additional sales channels, increase product delivery footprint, and reach out to new audiences.

We signed a cooperation agreement with SberMarket that now accepts, assembles and delivers orders from O'KEY hypermarkets. Initially, the SberMarket service covered O'KEY hypermarkets in four cities (Omsk, Ufa, Rostov-on-Don, and Nizhny Novgorod), and by the end of the year the coverage area was expanded to a further 20 cities where the chain operates hypermarkets.

We also kick-started cooperation with the iGooods service, which now delivers O'KEY hypermarket items to customers in five cities (Yekaterinburg, Tyumen, Surgut, Rostov-on-Don and Krasnodar).

E-COMMERCE LOGISTICS AND INFRASTRUCTURE

The Company has 12 pick points in Moscow and St. Petersburg, spread equally between the two cities. In September 2020, the Rostokino pick point in Moscow was reopened after reconstruction, which allowed us to increase the volume of processed orders in the pick point by 35%, reducing logistics costs and shorten the delivery time.

Our delivery fleet comprises around 140 transport vehicles that go on routes each day in the two cities.

In 2020, we extended the Moscow and St. Petersburg delivery zones, which enabled us to increase the volume of incoming orders, and to better meet customers' needs. The delivery service vehicles in Moscow and St. Petersburg were rebranded, which promoted brand awareness of O'KEY.

In the logistics function, in 2020 O'KEY optimised the operational accounting approach to transport services, which enabled the Company to reduce the document flow, improve transparency and cut delivery expenses while maintaining the high quality of our service.

We continued to actively implement technology: the Company purchased a pilot batch of portable data terminals, for assembling and completing orders, with pre-installed own-developed software. The user-friendly and simple software interface allows us to facilitate the training of new employees and to increase the general efficiency of operations.

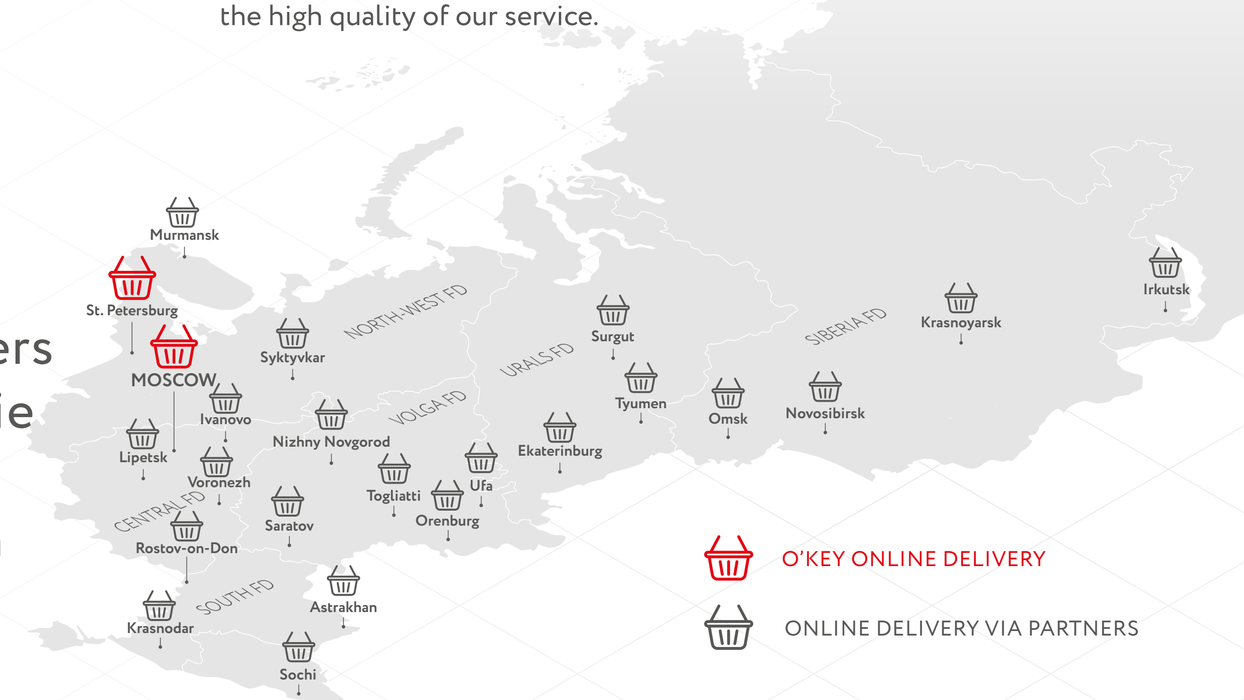
MOBILE APP AND WEBSITE

The popularity of the O'KEY mobile app continues to grow among our customers: in 2020, over 47% of online orders were made through it. The application successfully handled the sharp rise of customer orders due to the COVID-19 pandemic, as the level of app productivity and resilience was rapidly increased.

Our mobile app offers customers a vast range of features, from the option to share a basket between users, to a voice assistant service. In 2020, we continued to expand the app's functionality and implemented the new loyalty programme and information about personalised offers.

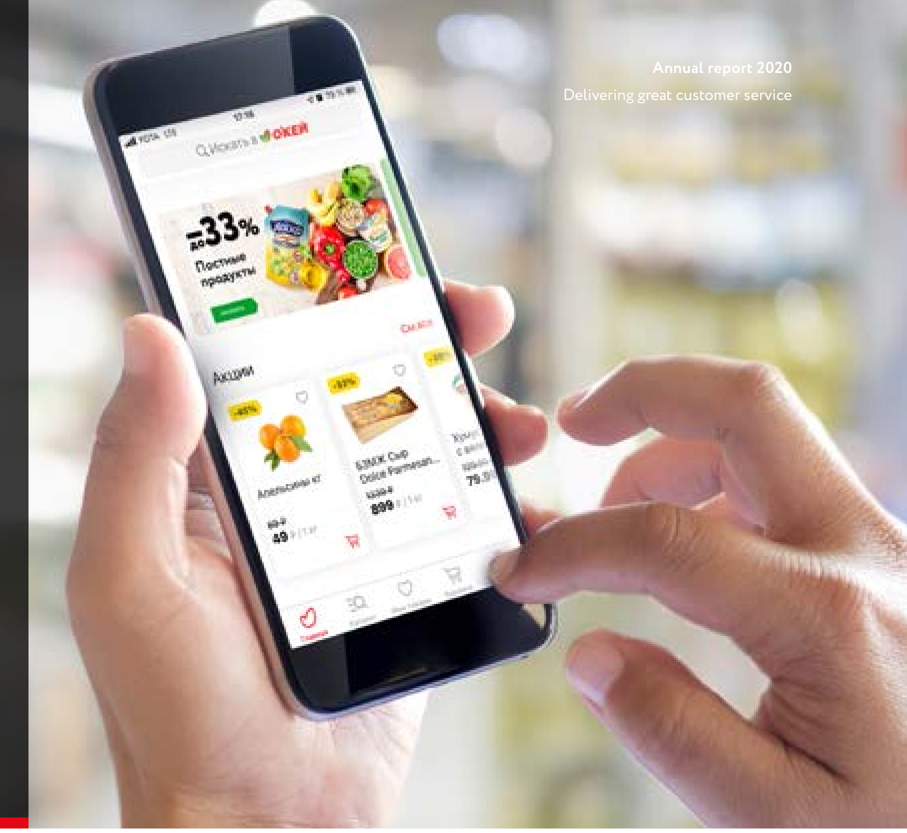
47%

online orders are made vie the mobile application



THE O'KEY MOBILE APP ALLOWS CUSTOMERS TO:

- purchase goods;
- use search and filters;
- use easy templates;
- view promotions;
- pay online;
- view order history;
- view offline catalogues;
- locate the nearest store and see the available product assortment;
- create an electronic loyalty card;
- access shopping history, both in the form of a detailed receipt and overall monthly expenses;
- check accumulated loyalty points and personalised offers;
- use the voice assistant;
- view personalised offers – a new service.



Our e-commerce platform offers various payment options:

- online, on placing the order on the web-site (the money is first reserved, and is then debited at the moment when the order is delivered to the customer);
- cash payment at the moment of order delivery;
- card / Apple Pay / Google Pay payment at the moment of order delivery.

We intend to update our mobile app and in 2020 developed its MVP[1], both for iOS and Android platforms.

A large proportion of orders are made via the okeydostavka website, which offers various features. In their personal accounts, customers can view available promotions and coupons (valid both online and in offline stores), check their active balance and purchase statistics, and accumulate bonus points from online and offline purchases. The website is adapted for mobile devices to increase conversion rates.

In 2020, we continued to improve the website usability including the optimisation of product search. For the convenience of online store customers, we launched an English version of the okeydostavka site and O'KEY mobile app.

PLANS

In 2021, we will continue to expand the coverage of our online delivery zone and the digital presence of the brand, elaborate the "one retail" concept, and develop cross-partner relationships with other market players.

We have already expanded the availability of online delivery to the radius of 100 km from the Moscow Ring Road and the Saint Petersburg Ring Road. We will also launch an e-commerce pick point in the hypermarket in Noginsk, which will be accessible by 600 k potential customers and decrease logistics costs in the region.

Among other plans of O'KEY Group:

- further purchase of new portable data terminals with pre-installed special software;
- release of the updated mobile app;
- expansion of the 90-minutes express delivery service;
- continued transition to the microservice architecture to ensure a high level of speed and fault tolerance of the systems;
- creation of the new-concept online store website.

[1] MVP (minimum viable product) – a basic version of a mobile application with core functionalities

DA! Discounter Format

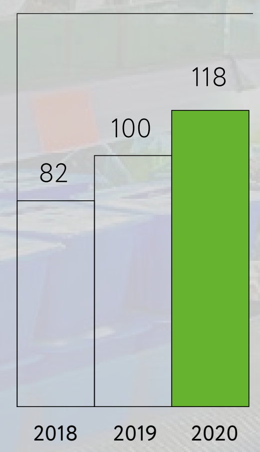
Our DA! discounter business remains one of the fastest growing grocery chains in the market, and the main growth driver for the Group. During the year, its net retail revenue showed solid growth of 45.3% YoY, to a large extent driven by impressive LFL growth of 27.8% YoY, supported by positive average ticket and traffic dynamics.

STRATEGIC PRIORITIES OF DA!:

- Own brands development
- Growth and expansion
- Achieving superior financial results

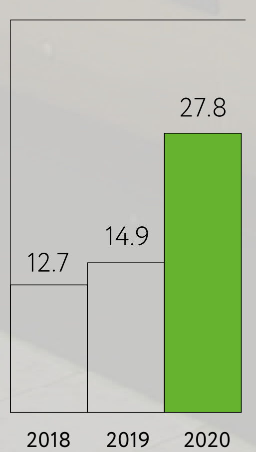
DA! stores offer a well-balanced assortment of high-quality goods, including those in the fresh category, at competitive prices. Our discounters adhere to an "every day low price" policy, largely supported by our own brand products. The private label range offers clear cost advantages of 20-30% against branded goods of comparable quality, which creates a very strong appeal for price-sensitive customers. A positive shopping experience is facilitated by the convenient location of our stores, high customer service standards, modern equipment and spacious interiors. Taking into consideration quality specifics and packaging content of equivalent products, we see ourselves as a main player in terms of price leadership.

NUMBER OF STORES

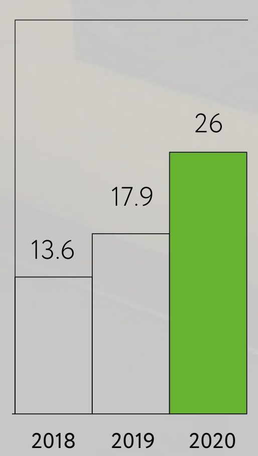


KEY FIGURES OF 2020

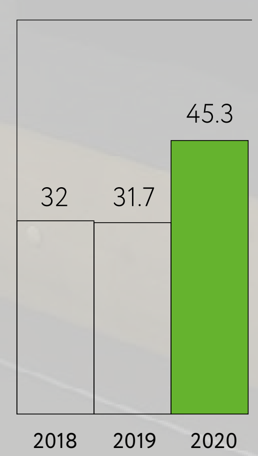
LFL NET RETAIL REVENUE, %



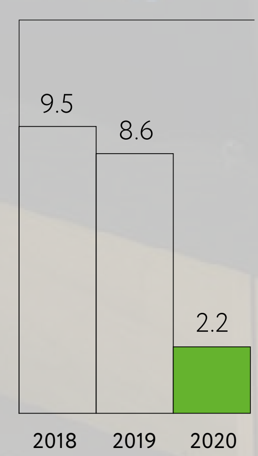
NET RETAIL REVENUE, RUB BN



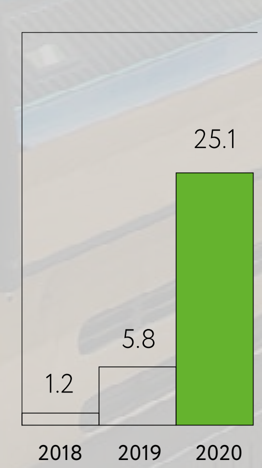
NET RETAIL REVENUE, %



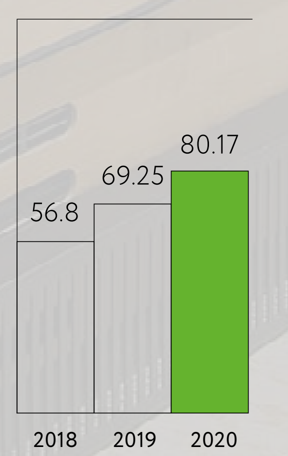
LFL TRAFFIC, %



LFL AVERAGE TICKET, %



SELLING SPACE, K M^2



DISCOUNTER BUSINESS AT A GLANCE

700 m^2
Average store selling space

15%
Discounter share in Group revenue 2020

20%
Share of owned space

RUB 26 bn
Net retail revenue in 2020

18
Net store opening in 2020

118 discounters
Total number of stores

2,800 SKUs
Average product range

1,105
Private label SKUs

PERFORMANCE

In 2020, DA! showed record top-line growth for the past three years: net retail revenue grew by 45.3% YoY to RUB 25,950 mln as a result of a 27.8% LFL net retail revenue growth and a 15.8% increase in selling space. In the reporting year, DA! discounters reached a 15% share of the Group's revenue, and continued to lead the Group's performance. In 2020, the Group opened 18 discounters, net of closures, across the Central Federal district, bringing the total number of DA! stores to 118.

In 2020, DA! became profitable at the EBITDA level RUB 784 mln, which proved the success of the Group's approach to the discounter business.

To ensure robust growth, DA! discounters continued to effectively manage their balanced assortment and own brand portfolio, and maintain their fair value for money proposition, including a competitive pricing policy, throughout the year. 86 private label SKUs were added to our portfolio during 2020.

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

DA! strives to be a fast-mover in a competitive environment, identifying trends and reacting quickly to meet customer needs.

Our commitment is to maintain the high productivity of our internal operations and logistics, and provide customers with the best assortment and supply solutions. In 2020, we:

- enhanced logistics system to provide customers with the freshest goods;
- optimised our standard planograms to have more sales-related and consumer-friendly merchandising;
- tested local supplies of traditional dairy products and continued to work with some of them;
- opened an additional warehouse for frozen products to respond to fluctuating demand and high season;
- optimised the bulk food facilities in our confectionery and frozen sections, and introduced nuts and dried fruits in the bulk food section.

To ensure a high level of productivity, DA! also introduces IT solutions into its operational activity. In 2020, we:

- implemented modern data storage, providing higher speed, availability and recovery, based on MetroCluster technology;
- modernised the L3 network, connecting all distributed company sites (including all stores and DCs);
- made numerous changes to our ERP, BI and POS systems to increase efficiency;
- added a new cloud provider to expand computer power for new projects and to provide geographical redundancy.

FRESH OFFER

DA! discounters keep up with the general trend towards fresh and ultra-fresh products, offering a wide range of dairy, fresh meat and poultry, fruits and vegetables. In 2020, the share of fresh and ultra-fresh products in DA! sales amounted to approximately 40%. Our range of fresh products includes own-brand SKUs, some of them under the "farm label", which represents regional and traditional production of outstanding quality. Another feature of our discounters is a wide (over 40 SKUs) range of freshly baked pastries.

In order to ensure freshness of goods, we practice direct import and deliver fruits and vegetables to all our stores on daily basis.

PRIVATE LABELS AND OWN PRODUCTION

According to our research, customers tend to turn towards cost-conscious consumption, which is driven by fundamental macroeconomic factors: they seek high-quality products at attractive prices, comparable to branded goods. Therefore, one of our strategic priorities is strengthening our own-brand offer while following the latest trends in the retail industry and seeking to meet customers' changing preferences.

We carefully select manufacturers and develop long-term mutually beneficial collaborations with them to provide the best quality of goods and ensure packaging design is close or similar to the branded assortment.

DEVELOPING OWN BRAND

1 Thorough selection of manufacturers – innovative young companies ready to offer a special quality product at the best price, and to meet our requirements

2 Joint development of product and packaging, close or similar to branded assortment in terms of quality

3 Strict quality control

Private label products continue to significantly contribute to our turnover and grow better in sales than branded products. In 2020, PLs comprised around 40% of our total number of SKUs and accounted for around 50% of DA! revenue. In the reporting year, we introduced 86 new private label SKUs and revisited 155 existing private label SKUs regarding their layout and design. Our assortment of private label SKUs reached 1,105 SKUs. For our private label, we use 91 registered brands that are applied as umbrella brands for different categories and quality levels.

Our priority is to guarantee the consistent high quality of our private label goods on daily basis. We strictly comply with legal requirements and organise additional quality checks at the supplier and product levels. Producers of our private label products undergo external audits based on GFSI (Global Food Safety Initiative) requirements, with frequency of such audits depending on previous audit results and the potential risk factors of the goods. In addition, we initiate checks in external independent accredited laboratories to evaluate and ensure the quality of the product. The frequency of laboratory checks varies from one to twelve per year, and is based on the potential risk of the product category and may depend on the product.

In 2020, the number of checks was increased to improve the quality and high safety level.

Our goal is to further optimise and extend the private label assortment, raising the share of own brands in the total number of SKUs. In the future, we will continue to introduce new PL products and improve the packaging layout.

PLANS

The success of our discounter business underpins our motivation to further expand the chain of DA! stores: in 2021, we intend to open up to 40 new discounters. We will do our upmost to maintain the high efficiency of our internal operations, and further improve our assortment and supply solutions to strengthen our positioning.

We will also continue to develop our packaging layout schemes and expand the private label portfolio, focusing on quality, packaging layout and number of SKUs. In particular, we see potential in developing and introducing private label products with higher added value characteristics, such as special origin, production method or ingredients.

We will also implement and start using a modern, highly customisable WMS, which will enable us to respond promptly to rapid changes in the business environment.

In 2020, O'KEY Group delivered strong financial results thanks to the resilience of its business model and the success of the three-format strategy. The Group’s financial position and debt profile remained solid despite unprecedented challenges the whole economy faced over the year.

+5.6%
revenue growth

RUB 14.8 bn
EBITDA

8.5%
EBITDA margin

Financial review

FY 2020 financial highlights

Group revenue increased by 5.6% YoY to

RUB 174,341 mln

O`KEY revenue rose by 0.8% YoY to

RUB 148,341 mln,

driven by 2.5% LFL retail revenue growth

Group EBITDA grew by 5.5% YoY to

RUB 14,832 mln,

and EBITDA margin stood at 8.5%

DA! discounters EBITDA improved to positive

RUB 784 mln

in FY 2020 from negative RUB 215 mln in FY 2019, driven by the strong revenue performance and efficiency growth

DA! revenue soared by 45.3% YoY to

RUB 26,000 mln,

led by 27.8% LFL revenue growth and selling-space expansion

Group gross profit increased by 5.4% to

RUB 39,288 mln,

and gross margin amounted to 22.5% in FY 2020

Group SG&A expenses, % declined by 0.5 pps YoY to

18.8%

in FY 2020

Group net debt position improved slightly YoY to a

3.6x

total interest bearing liabilities (net of cash) to EBITDA ratio, as of December 31, 2020

GROUP NET RETAIL REVENUE AND LFL REVENUE IN 12M 2020

RUB mln	12M 2020	12M 2019	YoY, %	LFL revenue,%
O`KEY Group	**172,738**	**163,154**	**5.9%**	**5.4%**
O`KEY hypermarkets	**146,788**	145,298	1.0%	2.5%
DA! discounters	**25,950**	17,856	45.3%	27.8%

For more details, please refer to the Group's Q4 2020 Trading Update.

GROUP PROFIT AND LOSSES HIGHLIGHTS IN FY 2020[1]

RUB mln	FY 2020	FY 2019	YoY, %
Total Group revenue	**174,341**	**165,086**	**5.6%**
O`KEY	**148,341**	147,175	0.8%
DA!	**26,000**	17,911	45.3%
Gross profit	**39,288**	**37,260**	**5.4%**
Gross profit margin, %[1]	**22.5%**	*22.6%*	*(0.1pp)*
Selling, general and administrative expenses	**(32,792)**	(31,790)	3.2%
SG&A, as % of revenue	**18.8%**	*19.3%*	*(0.5pp)*
Other operating (expenses)/income, net	**(1,457)**	(569)	2.6x
Operating profit	**5,039**	**4,901**	**2.8%**
Finance costs, net	**(4,884)**	(4,965)	(1.6%)
Foreign exchange (loss)/gain	**(1,787)**	938	n/a
Net profit (loss)[2]	**(1,444)**	**747**	**n/a**
Group EBITDA	**14,832**	**14,061**	**5.5%**
Group EBITDA margin, %	*8.5%*	*8.5%*	-
O'KEY EBITDA	**14,048**	**14,277**	**(1.6%)**
O'KEY EBITDA margin, %	*9.5%*	*9.7%*	*(0.2pp)*
DA! EBITDA	**784**	**(215)**	**n/a**
DA! EBITDA margin, %	*3.0%*	*(1.2%)*	*4.2pp*

1 In the reporting period, the Group has reclassified certain expenses relating to self-produced catering from selling, general and administrative expenses to cost of goods sold. For comparison purposes, the respective changes in the presentation have been applied to FY 2019 profit and loss statement. The changes do not have any effect on EBITDA and Net Income.

2 In FY 2020, shrinkage costs grew, as a percentage of revenue, by 0.2 pp YoY, primarily due to the cancellation of returns to suppliers of products with a shelf-life of less than 30 days. As the new regulation was enacted in June 2019, it resulted in a lower comparable base of 2019 vs 2020. Besides, the total share of 'fresh', 'ultra-fresh' products, and fruit and vegetables, as the key categories of the company's customer proposition, was up by 0.7 pp YoY to 46.4% of O`KEY's net retail revenue in FY 2020.

GROUP REVENUE

RUB mln	FY 2020	FY 2019	YoY, %
Total Group revenue	**174,341**	**165,086**	**5.6%**
Retail revenue	**172,738**	163,154	5.9%
Rental income	**1,603**	1,932	(17.0%)

Group retail revenue rose by 5.9% YoY to RUB 172,738 mln in FY 2020. This growth was driven by strong LFL performance of DA! and thier selling space expansion, supported by O`Key's positive LFL performance.

Rental income decreased by 17% (or by RUB 329 mln) YoY to RUB 1,603 mln in FY 2020, mainly due to leaseholders' businesses shutting down during the pandemic.

In FY 2020, total Group revenue increased by 5.6% YoY to RUB 174,341 mln.

GROUP GROSS PROFIT

In FY 2020, the Group's gross profit rose by 5.4% YoY to RUB 39,288 mln, driven primarily by retail revenue growth.

The Group's gross margin decreased by 0.1 pps YoY to 22.5%, on the back of a decline in rental income and higher shrinkage costs, as a percentage of revenue. However, this was largely offset by more efficient procurement and lower logistics costs, as a percentage of revenue.

Rental income, as a percentage of total revenue, declined by 0.2 pps YoY, as explained above.

In FY 2020, shrinkage costs grew, as a percentage of revenue, by 0.2 pp YoY, primarily due to the cancellation of returns to suppliers of products with a shelf-life of less than 30 days. As the new regulation was enacted in June 2019, it resulted in a lower comparable base of 2019 vs 2020. Besides, the total share of 'fresh', 'ultra-fresh' products, and fruit and vegetables, as the key categories of the company's customer proposition, was up by 0.7 pp YoY to 46.4% of O`KEY's net retail revenue in FY 2020.

Commercial margin improved by 0.2 pps YoY in FY 2020, driven by constant assortment optimisation and customer proposition enhancement, as well as operational and commercial synergies between the two formats.

Logistics costs, as a percentage of revenue, decreased by 0.1 pps YoY, due to ongoing logistics processes optimisation.

GROUP SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

RUB mln	FY 2020	% of revenue	FY 2019	% of revenue	YoY, pps
Personnel costs	**13,607**	**7.8%**	13,006	7.9%	(0.1pp)
Depreciation and amortisation	**8,204**	**4.7%**	8,100	4.9%	(0.2pp)
Communication and utilities	**3,720**	**2.1%**	3,612	2.2%	(0.1pp)
Advertising and marketing	**2,124**	**1.2%**	2,267	1.4%	(0.2pp)
Repairs and maintenance costs	**1,345**	**0.8%**	1,284	0.8%	-
Insurance and bank commissions	**1,026**	**0.6%**	916	0.6%	-
Operating taxes	**735**	**0.42%**	579	0.35%	0.07pp
Security expenses	**712**	**0.4%**	705	0.4%	-
Legal and professional expenses	**685**	**0.4%**	637	0.4%	-
Materials and supplies	**435**	**0.25%**	312	0.19%	0.06pp
Variable lease expenses and expenses relating to short-term and low-value leases	**161**	**0.1%**	347	0.2%	(0.1pp)
Other costs	**38**	**0.0%**	23	0.0%	-
Total Group SG&A	**32,792**	**18.8%**	**31,790**	**19.3%**	**(0.5pp)**

Group SG&A expenses increased by 3.2% YoY to RUB 32,792 mln in FY 2020. However, SG&A expenses, as a percentage of revenue, decreased by 0.5 pps YoY to 18.8% in FY 2020.

Personnel costs, as a percentage of revenue, dropped by 0.1 pps YoY to 7.8% in FY 2020, due mainly to the increased efficiency of store operations and a ramp-up in the DA! business, partially offset by extra bonuses to store staff during the pandemic.

Communication and utilities expenses increased by 3.0% YoY to RUB 3,720 mln, but reduced, as a percentage of revenue, by 0.1 pps YoY in FY 2020, resulted from the revenue growth.

Advertising and marketing expenses declined, as a percentage of revenue, by 0.2 pps YoY to 1.2%, as the Group revised its advertising activities in response to the consumer behaviour change. The mix was optimised from traditional media towards a higher share of digital and personal communication, reflecting customers' consumption shifts during the pandemic.

Operating tax expenses increased by 26.9% YoY to RUB 735 mln, and by 0.07 pps YoY, mainly as a result of an increase in cadastral value of property owned, as well as the store expansion programme.

Materials and supplies expenses increased by 39.4% YoY to RUB 435 mln, and by 0.06 pps YoY, due mainly to RUB 141 mln pandemic related expenses for sanitary measures and protective materials acquired for our stores and offices in FY 2020.

The Group brought variable lease expenses, as a percentage of revenue, down by 0.1 pps YoY in FY 2020, thanks to the rent rate re-negotiations, as well as temporary rental deductions received during lockdown.

Depreciation and amortisation (D&A) expenses remained almost flat YoY, and decreased, as a percentage of revenue, by 0.2 pps YoY in FY 2020.

GROUP EBITDA AND EBITDA MARGIN

Group EBITDA grew by 5.5% YoY to RUB 14,832 mln in FY 2020, led by revenue growth and cost savings. The Group's EBITDA margin remained flat YoY at 8.5% in FY 2020.

DA! EBITDA turned to positive RUB 784 mln in FY 2020, compared with negative RUB 215 mln in FY 2019.

O'KEY EBITDA reduced by 1.6% YoY and amounted to RUB 14,048 mln in FY 2020. The decline was driven mainly by the abovementioned drop in rental income and less of non-cash gains from lease agreement modification (according to IFRS 16) recognised in FY 2020 as compared to FY 2019.

OTHER OPERATING EXPENSES AND OPERATING PROFIT

Group other operating expenses amounted to RUB 1,457 mln in FY 2020 compared RUB 569 mln in FY 2019. The increase was attributable primarily to the disposal of non-current assets related to store and land plots portfolio revision and optimisation in the reporting period. This amounted to a net loss of RUB 485 mln in FY 2020, compared to a RUB 47 mln gain in FY 2019.

Additionally, a one-off gain of RUB 377 mln from lease agreements modification was received in FY 2019. In FY 2020, the gain amounted to only RUB 56 mln, as the main effect from IFRS 16 standard implementation was recognised in FY 2019. Both items have a non-cash nature.

The Group's operating profit rose by 2.8% YoY to RUB 5,039 mln in FY 2020, on the back of EBITDA growth partially offset by the increase in other operating expenses.

GROUP FINANCE COSTS, FOREIGN EXCHANGE AND NET PROFIT

A substantial part of interest costs were attributable to lease liabilities (accounted under IFRS 16). Net finance costs decreased by 1.6% YoY to RUB 4,884 mln in FY 2020, led mainly by lower interest expense on lease liabilities due to a decline in lease liabilities amount, and a decrease in the weighted average interest rate in FY 2020.

In FY 2020, net foreign exchange loss amounted to RUB 1,787 mln, compared with a RUB 938 mln gain in FY 2019. The loss mainly related to intragroup US-dollar-denominated loans, and to lease contracts nominated in foreign currencies, while losses from import operations had a relatively small impact on the Group's results.

The Group recorded a net loss of RUB 1,444 mln in FY 2020, compared with a RUB 747 mln net profit in FY 2019. The loss is mostly attributable to the aforementioned foreign currency loss in FY 2020.

GROUP CASH FLOW

RUB mln	FY 2020	FY 2019
Net cash from/ (used in) operating activities	**11,946**	11,078
Net cash used in/ (from) investing activities	**(3,755)**	(1,352)
Net cash used in financing activities	**(5,988)**	(12,922)
Net increase (decrease) in cash and cash equivalents	**2,202**	(3,196)
Effect of exchange rate on cash and cash equivalents	**4**	(9)

Net cash from operating activities amounted to RUB 11,946 mln in FY 2020, compared with RUB 11,078 mln in FY 2019. The increase was largely a result of retail revenue growth and efficient working capital management.

Net cash used in investing activities amounted to RUB 3,755 mln in FY 2020, compared with RUB 1,352 mln cash used in FY 2019. In 2020, the Group invested over RUB 1,800 mln (excluding VAT) into the development of its hypermarket business and over RUB 1,900 mln (excluding VAT) into the expansion of its discount store operation. In 2019, the Group sold two land plots and received cash proceeds totalling RUB 1,553 mln partially offsetting its capital expenditures in that year, which led to the high comparison base for FY 2020.

Net cash used in financing activities amounted to RUB 5,988 mln in FY 2020 compared with RUB 12,922 mln in FY 2019. The decline was mainly attributable to the advanced repayment of long-term loans in FY 2019.

Net increase in cash amounted to RUB 2,202 mln in FY 2020, versus a RUB 3,196 mln cash decrease in FY 2019.

As of December 31, 2020, the Group had RUB 12,400 mln of undrawn, committed borrowing facilities available in Russian roubles on a fixed and floating rate basis until March 2021-November 2024 in respect of which all conditions have been met. Proceeds from these facilities may be used to finance operating and investing activities if necessary.

GROUP NET DEBT POSITION

RUB mln	As of 31 December 2020	As of 31 December 2019
EBITDA	**14,832**	14,061
Total debt	**36,227**	**31,719**
Short-term debt[1]	**4,419**	1,629
Long-term debt	**31,808**	30,090
Cash & cash equivalents	**7,714**	**5,507**
Net Debt	**28,513**	**26,212**
Total Lease Liabilities	**24,639**	**25,123**
Short-term lease liabilities	**4,472**	3,950
Long-term lease liabilities	**20,167**	21,173
Total Interest-Bearing Liabilities (Net of cash & cash equivalents)	**53,152**	**51,335**
Total Interest-Bearing Liabilities (Net of cash & cash equivalents) / EBITDA	**3.6x**	**3.7x**

[1] Short-term debt does not include interest accrued on loans and borrowings.

Group financial position remained stable during the reporting period. As of December 31, 2020, our net debt to EBITDA ratio reduced to 3.6x from 3.7x as of December 31, 2019.

As of December 31, 2020 and during the 12-month period then ended, the Group complied with all of its loan covenants.

Risk management

In 2020, the 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.

14

key risks monitored and managed

RAEX **'ruA-'**

credit rating with Stable outlook

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.

The Audit Committee

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

The Board of Directors

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

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

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

In 2020, the 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 2020, 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 2020 overall as a result of changes to the risk management system.

MAP OF PRINCIPLE RISKS

Probability of the risk	Immaterial	Minimum	Medium	Material	Irretrievable
Expected			4		
Likely (perceived)				1, 2, 5	
Hazard (possible)		6, 14	9, 11	7, 8	
Low-probability			12	3, 10, 13	
Remote					

Materiality (affect) of the risk

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 Development
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

PRINCIPLE RISKS

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.

STRATEGIC RISKS

	Name of Risk	Definition & Potential Impact	Mitigating Actions
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 ruble 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 unfavorable developments occur, we are ready to take corrective steps and adjust our business model.
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 are focused on enhancing our customer value proposition through the introduction of a competitive pricing policy, the implementation of effective marketing initiatives and assortment structure improvement. In the reporting year we launched the new hypermarket concept and opened a renewed O'KEY store in Rostokino, Moscow. We are constantly developing delivery service, which includes cooperation with partners. In 2020, we expanded the O'KEY delivery service to further 20 cities where the chain operates hypermarkets. We rapidly expand our DA! discounters chain, opening each year 20+ stores in Central FD. We keep looking for the best possible opportunities to expand the hypermarkets business, and in 2020 we opened a new hypermarket in St. Petersburg which boosted O`KEY's position in the strategically important region.
3	**Political risk**	Political developments may adversely impact the macroeconomic environment and the market in which our company operates. 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 (photo products, perfumes, shoes and car tyres) significantly influenced all market players. To keep up with the new regulations, during 2020 we timely developed and implemented essential changes in the Company' main business processes (such as goods ordering/receiving/return, stocktaking), updated relevant internal policies, procedures and information systems.

OPERATIONAL RISKS

	Name of Risk	Definition & Potential Impact	Mitigating Actions
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. Following the changes in customer behaviour caused by the pandemic, in 2020 we rapidly ramped up our e-commerce throughput capacities. We also tapped into synergies with specialised delivery services to reach out to new audiences. We also continued to develop our fresh and ultra-fresh categories and introduced a new hypermarket concept with focus on them.
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.	We constantly work to enhance the effectiveness of our supply chain operations at distribution centers, stores and head office levels. Thus, the effectiveness of our supply chain management and sustainable long-term relationships with suppliers helped us timely secure the loading of our distribution centers. That allowed us to avoid any potential shortages that might be caused by the pandemic and increased demand for certain goods in the beginning of 2020. We also started to implement the Transportation Management System in order to improve planning and management of goods' delivery to hypermarkets. We expanded our DC Litvinovo in Moscow by adding extra space of 11 k m^2.
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.	We implement cutting-edge IT solutions (applications and systems) that cover major business processes and positively improve the work of 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

	Name of Risk	Definition & Potential Impact	Mitigating Actions
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 collaborating banks to increase our control over the availability and cost of financing. Our securities are listed on the London Stock Exchange and Moscow Exchange, that allows us to utilise the secondary placement of shares as an alternative way of financing. In 2020, RAEX (Expert RA) has affirmed O`KEY LLC, the main operating subsidiary of O`KEY Group S.A., a credit rating of 'ruA-'. The outlook of the rating is Stable. The rating reflects the Group's stable position in Russian food retail and strong liquidity metrics, as well as high quality of corporate governance and risk management. Additionally, we closed order book on rub 5 bn bonds with purpose to refinance 001P-01 series bonds traded at the Moscow Exchange with maturity in April 2021.
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 the 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 28 and 30 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, there can be no assurance that exchange rate and interest rate fluctuations will not negatively influence our results.	Certain currency and interest rate risks are controlled through switching payments into roubles, setting caps or hedged using derivative financial instruments. On 31 December 2020, 100% of the portfolio are fixed interest rate loans and approximately 97% 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 authorisations 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 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.

We engage with all major stakeholders, from employees and customers to shareholders and local communities. We take responsibility for reducing our environmental impact, including work on more sustainable packaging options and on optimising the use of our delivery fleet.

20.3 k
total number of employees

71.5 k
online trainings for staff

78.4 mln
of eco-friendly bags sold

Corporate 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 create a productive working environment and open up new opportunities for employees to realise their professional and personal potential. We pay particular attention to teamwork, and strengthening and developing interaction within teams, because we recognise the influence of the working atmosphere on customer service and the efficiency of our operating processes.

We adhere to the principle of gender diversity and offer equal opportunities for men and women. When hiring employees, we base our choices on education, relevant experience and willingness to develop professional skills. We treat our employees equally, regardless of their age, gender or nationality.

Key focus areas of the HR strategy:

- creating a culture of engagement and effectiveness;
- 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;
- systematic staff turnover management;
- implementing the best HR practices.

The Company continues to focus on intentional management of quality of work and service, positively transforming the role of the leader and forming a culture of mentoring in our stores. At the same time, we seek to improve labour productivity and effectiveness, and to automate all processes, including HR.

In 2020, we completed the transition to the "BOSS-Kadrovik" HR system. This new system automates all key HR processes, from HR activities and payroll calculations, to managing compensation and benefits, as well as managers' and employees' online accounts. In the reporting year, we added modules for managing personnel costs and budgeting, health and safety, and HR reporting. Additional services in employees' personal accounts were added, such as vacation management and requesting documents.

To improve store productivity, O`KEY Group employees are given various tasks, and staff schedules vary according to business needs. The introduction of the "BOSS-Kadrovik" system has allowed store managers to plan work hours more flexibly, and to predict the sizes of wage bills, which has proved especially important for the effective, active operation of stores during the COVID-19 period.

The Company is working to continuously improve processes affecting operational efficiency. In order to increase efficiency in 2020, a number of changes took place in the management structure of our hypermarkets. About 300 internal candidates grew their careers within the new structure; and new training programmes have been developed for each position level. This has allowed us to ensure a qualitative transition and successful work throughout the winter holiday season 2020–2021.

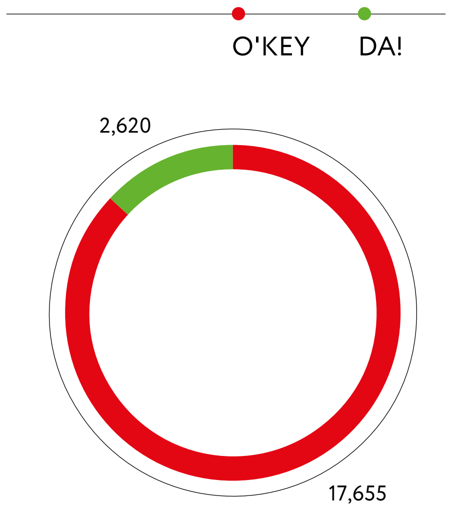
In 2021, we will focus on programmes that will contribute to the further development of our service culture and the leadership potential of our team. We are dedicated to continually improving workflows, protecting the health of our employees, and strengthening the O`KEY and DA! employer brands. The focuses of our attention will be:

- quality of employee adaptation and training;
- development of distance learning at the O`KEY Academy;
- providing a high level of service in stores for internal and external customers;
- development of internal information about the objectives, activities and results of the Company's work;
- employee health support;
- management of professional development through regular feedback work;
- committees for continuous improvement of processes.

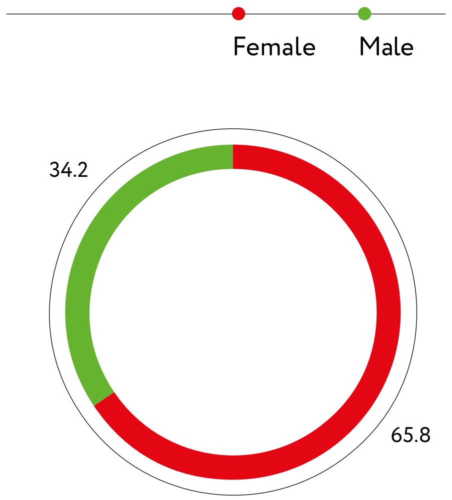
KEY INDICATORS

In 2020, the average number of Group employees amounted to 20,285 people. 17,655 of these were employees of O`KEY, and 2,620 were employees of DA! discounter business. We managed to reduce staff turnover ratio by 3.5 pps YoY in our hypermarkets.

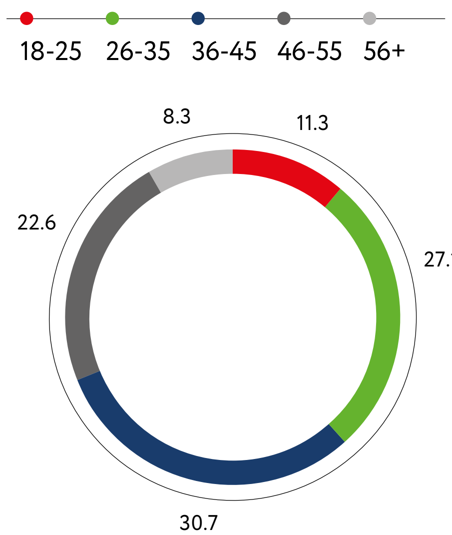
AVERAGE NUMBER OF GROUP EMPLOYEES, PEOPLE



BREAKDOWN OF STAFF BY GENDER, %



BREAKDOWN OF STAFF BY AGE, %



In 2020, we faced challenges from the COVID-2019 pandemic. Our priority has been to protect the health of our employees and to safely serve customers with our traditionally high level of service. See *COVID-19 Situation Response*.

We sought to save jobs as much as possible. Moreover, in order to support citizens during the period of self-isolation, we provided temporary employment opportunities in our stores for employees in the non-food retail and service sectors. In the periods of the first and second waves of the pandemic, we cooperated with 25 partner companies, whose staff had the opportunity to temporarily work in our stores.

CORPORATE CULTURE

O`KEY values

Effective team · **Outstanding results** · **Professional environment** · **Excellent service** · **Innovation**

In 2020, the key focuses in developing corporate culture were constantly informing employees about the necessary measures of protection and prevention of COVID-19, the rules of work and movement in cities where the Company operates, supporting O`KEY's corporate atmosphere and traditions, and service for our customers.

Moreover, we developed social media accounts: we developed a corporate channel on the VK social network dedicated to our employees and their work, and launched an account with similar content on Instagram. It is expected that the development of the Company's presence on social networks will allow us to translate most of the work with the brand and recruitment into a digital format in the coming years.

We continued to develop the "100% Professional" skills competition, which was launched in 2018. In the reporting year, most of the activities were transferred online; we also removed certain stages and added additional competitions for children and fan teams. We significantly increased the prize pool, at the same time increasing the number of competitive professions from four to seven supporting almost all key professions in retail.

In 2020, the "100% Professional" contest was awarded the "Audience Award" in the category "Play Hard" in the All-Russian WOW HR award.

2018

3 professions
- cashier
- baker
- cook

12 winners

2019

4 professions
- cashier
- salesperson
- baker
- cook

16 winners

2020

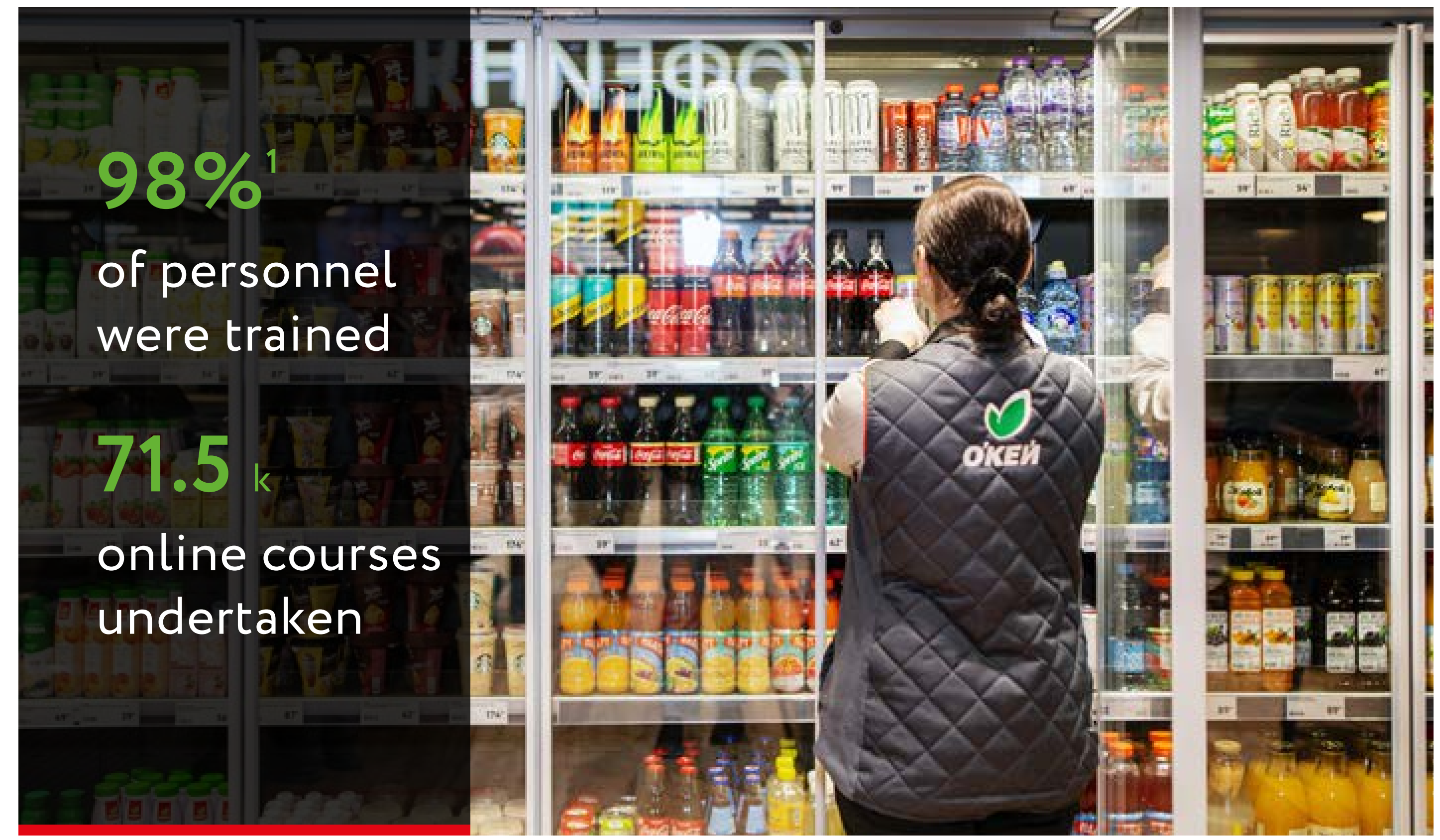
7 professions
- cashier
- salesperson
- baker
- cook
- meat scaler
- seafood department employee
- baker-confectioner

401 winners

STAFF TRAINING AND DEVELOPMENT

In 2020, O`KEY continued to pay great attention to the personal and professional growth of its employees and engage in training and development of personnel as a key factor of success.

In the reporting year, due to long-term quarantine, we were forced to quickly change the training system, and introduce new approaches and formats: for a few months, training was fully transferred to an online format.



Key projects in 2020:
- launching, and the full functioning of, the "Experts of directions" project to increase the professionalism of the management of the Fresh departments and own production;
- development and implementation of training and development programmes for the e-commerce division;
- training employees in the new position of "Deputy Head of Department" to support business efficiency and continuity during the period of COVID-19.

In 2020, for the first time, employees of the commercial department of federal offices were evaluated in an online format.

In 2021, the main priorities in terms of personnel development will be:
- implementing a results-oriented culture;
- further development of management in the Company's retail division, and training programmes in the e-commerce department;
- transition of the entire evaluation system into an online format;
- development of training for office employees;
- improvement of adaptation programmes;
- federalisation of all training programmes.

[1] The indicator is the same as it was in 2019, but this result was achieved in conditions of quarantine and restrictions regarding the organisation of in-person events.

STAFF RETENTION AND MOTIVATION

O`KEY effectively uses modern tools of material and intangible motivation and provides employees with competitive wages, which allows us to attract and retain the best specialists. In 2020 and 2021, in order to maintain a competitive level of employee salaries, the Company is conducting a phased review.

The Company has a KPI system that takes into account both individual and corporate goals. Bonuses, which are a certain percentage of salary, are determined by the results.

In 2020, the Company updated the premium system in stores and made changes to the KPIs. Moreover, changes have been made to the cashier employee award system. The employee premium now increases with productivity growth, resulting in cashiers' premiums increasing by 15–20%.

COMPENSATION AND BENEFITS

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

O'KEY provides the following employee benefits:

- voluntary health insurance policies co-financed at 80–90%;
- discounts in Group stores;
- free meals for employees of distribution centres;
- holiday gifts for children;
- financial assistance to employees in a difficult life situation;
- instalments on payment for membership of fitness clubs.

In 2020, a main Company priority was supporting employees during the pandemic, taking care of their health and material well-being:

- additional payments have been arranged (a sick leave supplement has, where appropriate, been added to the salaries of store and distribution centre employees);
- material support: supplements to the salaries of employees of stores and distribution centres during the most difficult spring period; financial assistance to the families of employees affected by COVID-19;
- moral support: maximum possible transfer of employees from in-store to remote work, payment for taxi travel during the pandemic to reduce the risks of infection, and organisation of testing and vaccination.

REPORTING VIOLATIONS

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

333
calls were received in 2020

100%
of reports were worked out and processed for Company feedback

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

Health and Safety

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

In 2021, O'KEY Group plans to implement a new occupational safety management system, complete the professional risks assessments throughout the Company, conduct a special assessment of working conditions in newly created workplaces and train employees in safe working methods and first aid.

WHAT WE DO

- monitor workplace conditions
- monitor employee health
- train 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

KEY 2020 RESULTS

All workplaces working conditions were specially assessed

44 occupational injuries

0 fatalities

The Group has an efficient and effective 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 2020, 103 comprehensive inspections of our premises were conducted to assess labour protection. The number of such inspections decreased as the auditors were working remotely during the peak of the pandemic. 3,625 workplaces (61%) were assessed for occupational risks.

All occupational injuries involving our employees and customers are tracked and systematically investigated. The total number of accidents amounted 44 in 2020 (compared with 25 in 2019), with one of them severe (a head injury in a fall). The increase in the number of accidents was mainly due to a large number of temporary workers that were hired to replace employees sick with COVID-19 or in quarantine and who did not complete their training in occupational safety.

1,004 people trained in occupational safety

917 people trained in fire safety

728 people trained in first aid in case of occupational injuries

Preventing Corruption

O'KEY Group has a zero-tolerance attitude to any kind of corruption. We aim to provide a high level of transparency in all operations and procedures at all levels, continue to improve anti-corruption tools and promote training on the topic for employees.

The Company's corruption prevention activities are regulated by its anti-corruption policy and comply with Federal Law N 273-FZ "On Combating Corruption". Any suspicious behaviour, including information reported inside the Company or from our partners via a hotline, is thoroughly investigated according to our rules and policies, and appropriate measures are taken.

We use various tools to secure our confidential commercial information, e.g. "Red Flag" reports that enable instant action on information security incidents and contribute to the rapid discovery of any anomalies and violations of the Company's policies. To ensure transparency, employees of the Economic Security department regularly participate in the tender committees for non-commercial procurement.

In the reporting year, we implemented several new methodologies and tools to ensure transparency of procurement procedures. Since 2020, selective monitoring of commercial purchases has been regularly performed on the CisLinc trading e-platform. On the online-platform, we posted an announcement for counterparties and contractors that involves contact information to address and report misconduct or suspicious behaviour during electronic auctions. We also reinforced control over the warehouse and logistics operations.

The above-mentioned measures increased transparency of operations and facilitated a more comprehensive review of decisions.

We also renewed our information posters about correct behaviour in our offices, shopping facilities and warehouses, and reminded employees of contact details to report any suspicious behaviour or facts related to corruption.

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/scrapping 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.

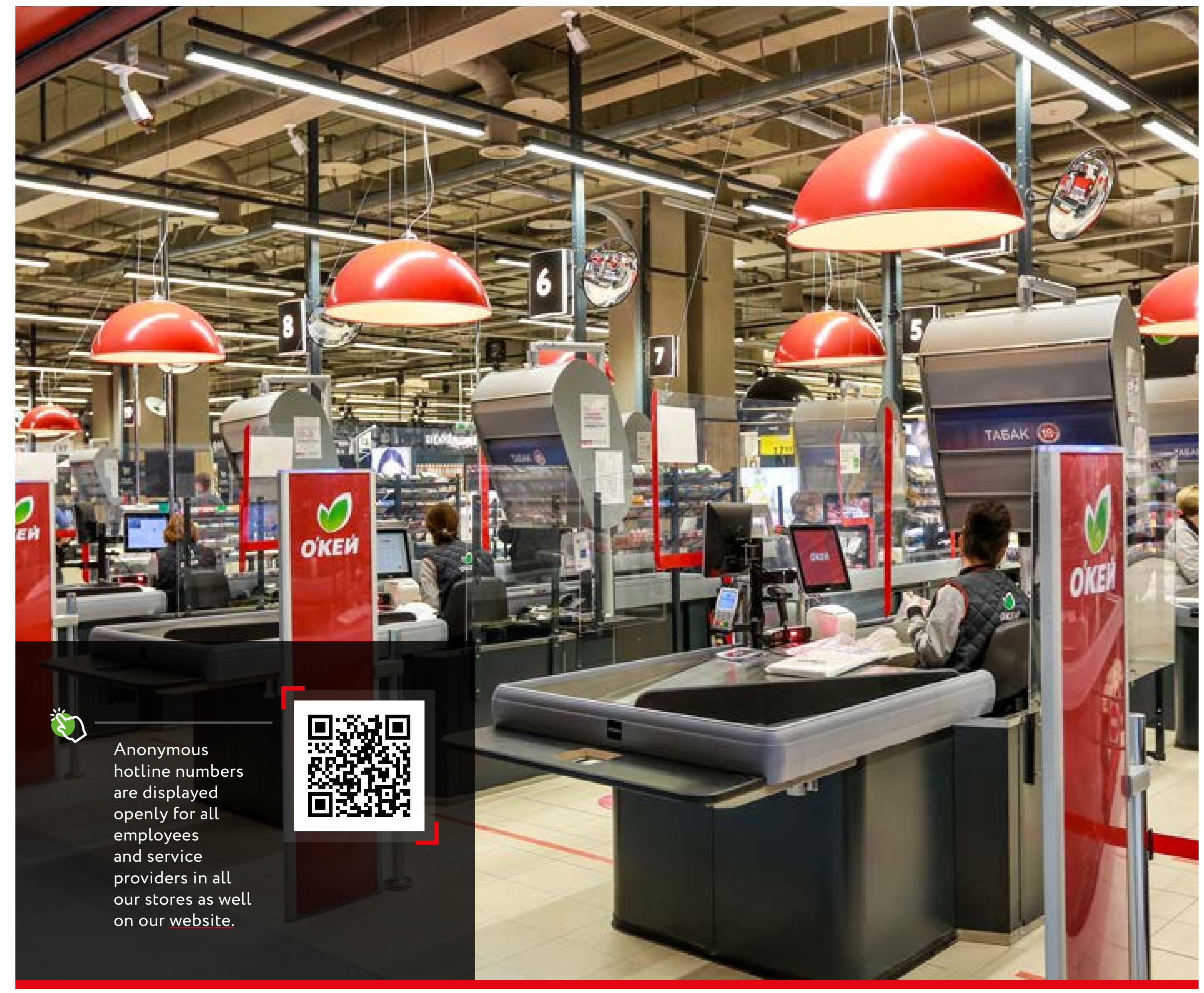
External anti-corruption measures

- 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 tax 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.

All potential conflicts of interest are immediately reported to our internal audit and security departments. For this purpose, we maintain a confidential whistleblower e-mail address and hotline to which anyone can report a complaint.

In 2020, we received several messages related to violation of the Company's rules and standards. All messages were promptly investigated by the risk department's anti-corruption team.

In 2020, we investigated four cases related to the violation of our anti-corruption policy in accordance with our standardised process. One case involving an employee was handed over to the police; in two cases involving breach of the anti-corruption policy by the contractors, contracts were terminated; in one remaining case, internal measures were undertaken. Furthermore, we updated related procedures to receive earlier warnings and to eliminate further occurrences of similar incidents.



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

In 2021, we plan to continue transferring the commercial buying process for several categories onto an automated trading platform. We also intend to implement measures to increase trust of employees and contractors, and to involve more employees in the culture of zero-tolerance towards all forms of corruption. This will also simplify and speed up investigations related to anonymous warnings, disputes or legal requests.

Our communities

O'KEY aims to improve the quality of life in local communities in its areas of operation. In 2020, due to the challenging epidemiological and macroeconomic situation, we launched new initiatives to help people in a difficult life situation. At the same time, we continued to unfold several social investment initiatives in line with our key charity priorities, helping children with serious illnesses, people in difficult life situation and veterans of the Great Patriotic War. For this purpose, we continued to develop partnerships with different stakeholders, such as local authorities, non-governmental organisations, the media and our customers.

Priorities of O'KEY charity programmes

- help people in difficult life situations
- help children with serious illnesses
- help veterans of the Great Patriotic war

Major charity partners in 2020

- Rusfond
- AdVita
- participation in the #WeAreTogether initiative

Directions of help

- targeted assistance
- notification of consumers about the problem and their involvement in participation
- attraction of benefactors

SUPPORTING VULNERABLE GROUPS

In 2020, O'KEY hypermarkets in several regions, including Krasnodar, Tyumen, Ivanovo, and Voronezh, took part in the federal charity initiative #WeAreTogether, which was organised by the All-Russia People's Front and aimed at helping people in need (the poor, senior citizens, disabled people, and large families who found themselves in a difficult life situation due to the COVID-19 pandemic and the economic crisis).

The initiative at O'KEY hypermarkets was called "The Cart of Good". Customers could purchase goods with a long shelf life and transfer them to special carts located at the store entrance. This food was then taken and transferred to the people in need by the volunteers of the All-Russia People's Front.

For a selfless contribution to the organisation of the #WeAreTogether campaign, O'KEY Group was awarded a medal, signed by the President of the Russian Federation.

We have an ongoing programme for 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 additional discounts on children's goods to holders of a special social card for new mothers.

TREATMENT SUPPORT

Since 2017, O'KEY Group has actively cooperated with Rusfond, one of the oldest Russian charitable foundations providing targeted assistance to children in need of treatment and rehabilitation. Over these years, thanks to our customers we have raised over RUB 34 mln, with all funds being used to provide treatment for a total of 76 children from across Russia and to facilitate the development of the national bone marrow donor register programme.

In the reporting year, O'KEY held the milestone fifth national Kind Purchase charitable campaign which ran from 22 October to 19 November 2020. Customers could participate by purchasing products under O'KEY or Selection of O'KEY private labels (over 1,500 SKUs counted) or Kind Purchase themed bags featuring a drawing by the winner of the children's drawing competition held by O`KEY in 2019. A part of the proceeds from the sale of the private labels and bags was allocated to treatment and rehabilitation of the little patients.

Another committed charity partner of O'KEY Group is AdVita, a St. Petersburg-based charity fund specialised in helping children and adults suffering from cancer. In our hypermarkets in St. Petersburg, donation boxes are placed next to counters so that our customers can help these people in need. The funds raised through the donation boxes were mainly used for diagnostic and treatment programmes. These included the purchase of various reagents and consumables for the laboratories of the Raisa Gorbacheva Memorial Research Institute of Children Oncology, Hematology and Transplantation.

RUB 7.7 mln raised through joint charity campaigns with Rusfond in 2020

RUB 34 mln raised since 2017

76 children received treatment since 2017

40 donation boxes placed in hypermarkets

RUB 1.8 mln raised through donation boxes in 2020

RUB 12.5 mln raised since 2016

VETERANS SUPPORT

O'KEY has been supporting veterans of the Great Patriotic War since 2002, holding an annual campaign to support those who helped to achieve freedom and peace of the country. In 2020, we held a campaign devoted to the 75th anniversary of the Great Victory: over 5,000 veterans across Russia received O'KEY gift cards.

In the reporting year, O'KEY also participated in the all-Russia "Red Carnation" campaign, organised by the Memory of Generations charity foundation. The campaign was organised to provide veterans of the Great Patriotic War and other military operations with high-tech medical care, medicaments and rehabilitation equipment. Our customers could contribute to the support of veterans by purchasing commemorative badges with the red carnation symbol at the counters.

Environmental Responsibility

Growing environmental awareness of customers, amendments to environmental legislation and changes in investors' approaches to ESG mean that the environmental responsibility of business is a necessity for keeping long-term market positions. O'KEY Group promotes a responsible approach and tries to minimise its environmental footprint by implementing a range of measures: the Company has had its Live Green corporate policy in action since 2019.

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

Within the framework of the policy, we implement initiatives to reduce our environmental impact, and conduct campaigns together with environmental and social NGOs, such as the All-Russian Society for Nature Conservation.

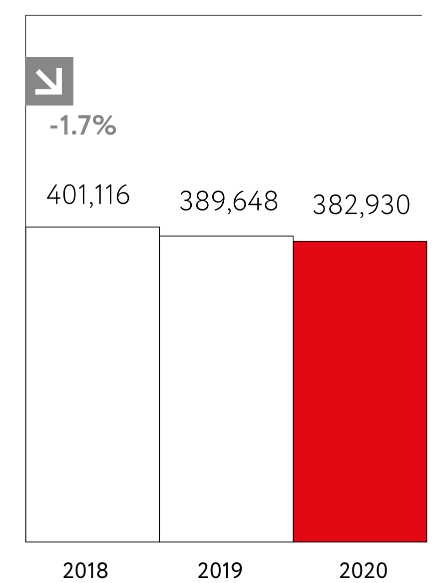
In 2020, O'KEY was the first Russian retailer to fully stop selling primary oil plastic bags. Instead, our customers are offered two major packaging options: biodegradable corn starch, and 100%-recycled plastic bags. We also offer reusable shopping bags of different materials and capacities, from heavy-duty paper bags to jute, cotton, nylon and PVC durable items.

In December 2020, we launched a campaign aimed at supporting maintenance and the protection of wild animals in the care of the All-Russian Society for Nature Conservation: arctic foxes, elks from the Ilmen Reserve, and snow leopards on the verge of extinction. During the campaign, soft toys representing these animals were sold in O'KEY hypermarkets, with part of revenue allocated to the society. At the same time, for a purchase worth over 1.2 k RUB, customers received an eco-Christmas tree decoration. Both the decoration and the packaging were made of FSC -certified materials, confirming their sustainability.

ENERGY EFFICIENCY

We care about the 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, and implement energy efficient BMSs (building management systems). As a result of these measures, in 2020 our total energy consumption YoY decreased by 2%.

ENERGY CONSUMPTION (NET), K KWT/H



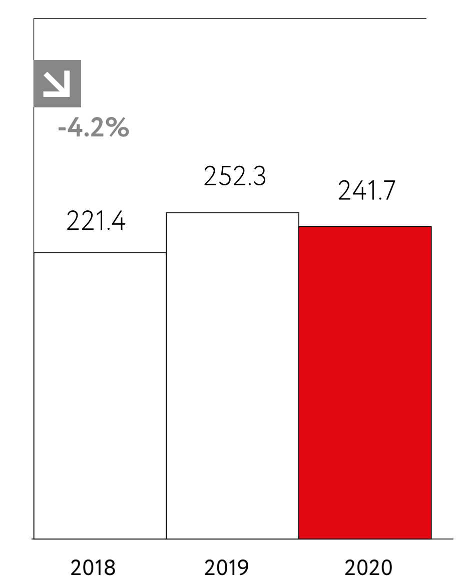
WASTE MANAGEMENT

Waste management processes in O'KEY Group are regulated by our waste management policy, which is implemented across the Company.

In all our stores, we implement separate waste collection processes to reduce the amount of waste buried in landfills. 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 scrap metal.

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

PROCEEDS FROM SALES OF RECYCLABLE MATERIALS, RUB MLN



1 FSC (Forest Stewardship Council ®) – an international non-profit organisation that promotes responsible, socially oriented and sustainable management of the world's forests.

O’KEY Group maintains its commitment to creating shareholder value. We successfully initiated a listing on Moscow Exchange to provide access to O`KEY’s GDRs to a wider range of investors. In 2020 we as usually declared a dividend, along with our long-established practice of regularly returning cash to shareholders.

Since **2010**
on LSE

Since **2020**
on MOEX

10 years
of dividend payments

Corporate Governance

Corporate governance system

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 Moscow 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. In December 2020 the Depositary receipts of O'KEY Group S.A. were admitted to trading at the Moscow Exchange and from then on O'KEY Group S.A. will ensure compliance with corporate governance requirements of Russian legislation or MOEX rules which may become applicable to O'KEY Group S.A. As of the date of this annual report Russian corporate governance rules do not apply to O'KEY Group S.A.

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.

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.

EQUALITY

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

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.

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 2021. 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 2020, 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: 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.

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. 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 .

Our current Board of Directors was elected at the General Meeting of Shareholders held on 13 October 2015 and re-appointed on June 24, 2020.

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 2020, 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 2019;
- approval of the budget and business strategy for the year 2020;
- review of the quarterly financial results, approval of financial statements for six months of 2020 and monitoring of compliance with risk management strategy;
- determination of the Group's strategic and operational priorities.

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 3, 1 by proxy	not a member
Boris Volchek	3 by proxy	attended 1, 3 by proxy	by proxy
Mykola Buinyckyi	attended 3	attended 4	not a member

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

MEMBERS OF THE BOARD OF DIRECTORS OF O'KEY GROUP S.A. AS AT 31 DECEMBER 2020

Heigo Kera

Group Chairman
Member of the Audit Committee
Head of the Remuneration Committee

Election

First elected to the Board of Directors in June 2010, and repeatedly re-elected since then

Education

University degree, Tallinn Technical University (Estonia)

Skills and Experience

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

Committee Membership

Head of the Remuneration Committee

Member of the Audit Committee

Shares in O'KEY

Mr. Kera does not hold shares of O'KEY Group S.A.

Dmitrii Troitskii

Director
Member of the Remuneration committee

Election

First elected to the Board of Directors in June 2010 and repeatedly re-elected since then

Education

University degree, State Marine Technical University of St. Petersburg

Skills and Experience

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)

Committee Membership

Member of the Remuneration Committee

Shares in O'KEY

Mr. Troitskii indirectly owns ca. 29.044% of the shares of O'KEY Group S.A.

Boris Volchek

Caraden Director
Member of the Audit and Remuneration Committes

Election

First elected to the Board of Directors in June 2010 and repeatedly re-elected since then

Education

University degree, Leningrad Institute of Railway Engineers (now St. Petersburg State University of Communications)

Skills and Experience

1995-present: President of the Union Group of companies

2000-present: General Director of St. Petersburg Automobile Museum

Committee Membership

Member of the Remuneration Committee

Member of the Audit Committee

Shares in O'KEY

Mr. Volchek indirectly owns ca. 29.53% of the shares of O'KEY Group S.A.

Dmitry Korzhev

Director
Member of the Audit Committee

Election

First elected to the Board of Directors in June 2010 and repeatedly re-elected since then

Education

University degree, State Marine Technical University of St. Petersburg

Skills and Experience

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

Committee Membership

Member of the Audit Committee

Shares in O'KEY

Mr. Korzhev indirectly owns ca. 10.31% of the shares of O'KEY Group S.A.

Mykola Buinyckyi

Independent Director
Head of the Audit Committee

Election

Elected to the Board of Directors in October 2015. He previously served on the Board between 2010–2013

Education

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

Skills and Experience

Over 35 years in international financial management and over 20 years' experience in Russia

Seven years as a management consultant with Coopers & Lybrand

Committee Membership

Head of the Audit committee

Shares in O'KEY

Mr. Buinyckyi does not hold shares of O'KEY Group S.A.

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.

AUDIT COMMITTEE

AUDIT COMMITTEE MEMBERS

As of 31 December 2020, the Audit Committee comprised:
- Mykola Buinyckyi, Head of the Committee, 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 Board of Directors in fulfilling its oversight 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 2020

During the reporting period, the Audit Committee held four meetings where it:
- 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 2020 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 2021.

PLANS FOR 2021

The Audit Committee and the Company continue to focus on following areas in 2021:
- 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.

REMUNERATION COMMITTEE

COMMITTEE MEMBERS

- Heigo Kera, Head of the Committee, 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; and
- making proposals to the full Board of Directors regarding the remuneration of Executive Directors and management (including Chief Executive Officer).

ACTIVITIES IN 2020:

During the reporting period, the Remuneration Committee held one meeting, where it:

- 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 2019;
- approved the Remuneration Committee Report;
- suggested the total maximum amount of remuneration of Directors for 2020 to be submitted for the approval of the shareholders of the Company.

PLANS FOR 2021:

In 2021 the Group plans to keep the remuneration and bonus policy in line with 2020.

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.

CHANGES MADE TO THE SENIOR MANAGEMENT TEAM IN 2020

Name	Date	Change
Olga Kuzyakina	01/06/2020	Real Estate Director
Igor Shatsky	04/09/2020	Logistics Director

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 2020, we further strengthened our team with professionals with solid retail backgrounds.

Armin Burger
Chief Executive Officer

Election
a member of the Management Board since 2013

Education
University of Freiburg, department of Economics

Skills and experience
1990–1998: Various positions in Aldi GmbH

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

2008–2011: Member of the Supervisory Board Aldi Süd

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

Konstantin Arabidis
Chief Financial Officer

Election
a member of the Management Board since 2016

Education
Peter the Great St. Petersburg Polytechnic University, department of Technical Cybernetics

St. Petersburg University, department of Economics

Skills and experience
Before 2012: Various positions in PwC

2012–2016: Various positions in O'KEY Group

Member of ACCA

Pavel Lokshin
Chief Operating Officer

Election
a member of the Management Board since 2019

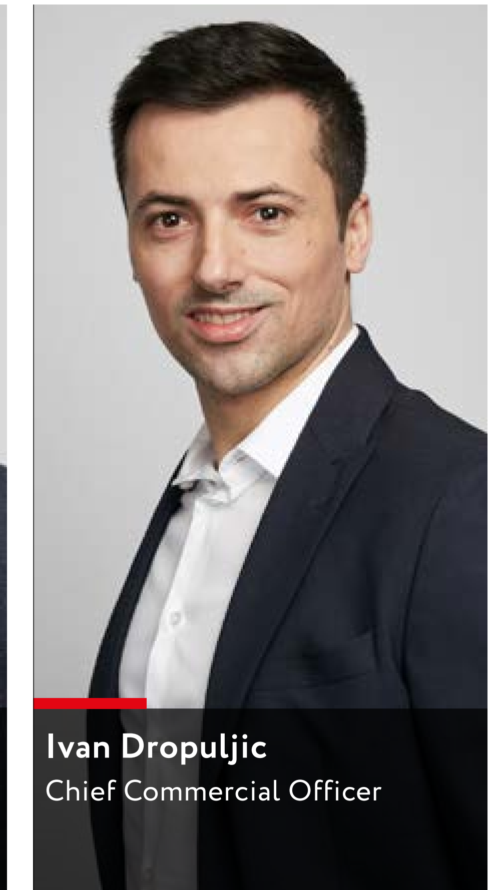
Education
Moscow Aviation Technological University, department of Economics

London Business School, Senior Executive Programme

Skills and experience
2001–2012: Various positions in METRO Cash & Carry

2013–2016: CEO of K-Rauta Russia

2016–2018: CEO of Perekrestok Express



Ivan Dropuljic
Chief Commercial Officer

Election
a member of the Management Board since 2017

Education
University of Zagreb, Department of Economics

Skills and experience
Before 2007: Various positions at Pik Vrbovec and Jamnica

2007–2012: Fresh Food Director at Kaufland Croatia

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

Elena Polozova
Human Resources Director

Election
a member of the Management Board since 2015

Education
Lipetsk State Technical University, Department of Psychology

Moscow International Higher School of Business (MIRBIS), MBA

Skills and experience
2003–2013: HR Business partner in Magnit

2013–2015: Senior HR, O'KEY

Olga Surnina
Marketing Director

Election
a member of the Management Board since 2019

Education
Almaty Technological University, department of Economics

KIMEP, MA, department of Economics

Chartered Institute of Marketing

Post Graduate Professional Diploma, UK

Skills and experience
2010–2013: Marketing Director at Nokia International South CIS Branch

2013–2016: Marketing and PR Director at Nautica

2016–2018: Head of Own Production in Magnit

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

Olga Kuzyakina
Real Estate Director

Election
a member of the Management Board since 2020

Education
PHD, Skolkovo Executive MBA

Heinrich Heine Universitat (Germany, Dusseldorf)

Samara State University

Skills and experience
2001–2007: Metro Cash&Carry, Project manager

2007–2010: Cushman &Wakefield, Associate partner

2010–2013: Real estate director in Castorama

2013–2020: Real estate director in Aton Investment Group

Elena Remennikova
E-Commerce Director

Election
a member of the Management Board since 2013

Education
Saint-Petersburg Trade and Economics University named by Friedrich Engels

Stockholm School of Economics Executive MBA

Skills and experience
2000–2009: Federal purchasing director, X5 Retail Group

2010–2011: Chief Commercial Director, Utkonos

2011–2012: CEO of AMF international delivery of flowers and presents

Igor Shatsky
Logistics Director

Election
a member of the Management Board since 2020

Education
National Research Nuclear University MEPhI, MBA in Logistics

Skills and experience
2011–2014: Various positions in SolPro and OZK Group

2014–2019: Director of development Logistics and Supply Chain processes

2019–2020: Logistics and Transport Director in Auchan

Svetlana Goncharuk
Supply Chain Director

Election
a member of the Management Board since 2015

Education
National University of Food Technologies, Kiev

Skills and experience
2005–2011: Various positions in Supply Chain, Orangina Schweppes (Rosinka, Kiev)

2011–2015: X5 Retail Group, Supply Chain, Replenishment

In O'KEY since 2015, since 2017 – Head of Supply Chain Department

Information for Shareholders and Investors

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.

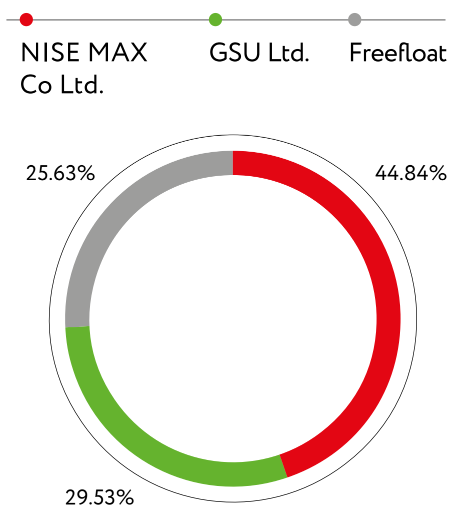
The Company does not hold any of its own shares and has not acquired it during the 2020 financial year.

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.);
- Mr. Dmitry Korzhev (who indirectly owns approximately 10.31% of the outstanding share capital of O'KEY Group S.A.);
- Mr. Boris Volchek (who indirectly owns approximately 29.53% of the outstanding share capital of O'KEY Group S.A.)

SHARE CAPITAL STRUCTURE – DIRECT HOLDINGS



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. On December 9, 2020, the GDRs were admitted to trading on the Moscow Exchange, the trading started on December 14, 2020.

The Company's depositary bank is The Bank of New York Mellon.

As of 31 December 2020, GDRs represented 38.171% of O'KEY Group S.A. share capital.

No other securities have been issued by the Company.

STOCK EXCHANGE

As of 31 December 2020, O'KEY Group S.A. GDRs were traded on the London Stock Exchange and on the Moscow Exchange.

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

Trading floor	Ticker code
London Stock Exchange	OKEY
Moscow Exchange	OKEY

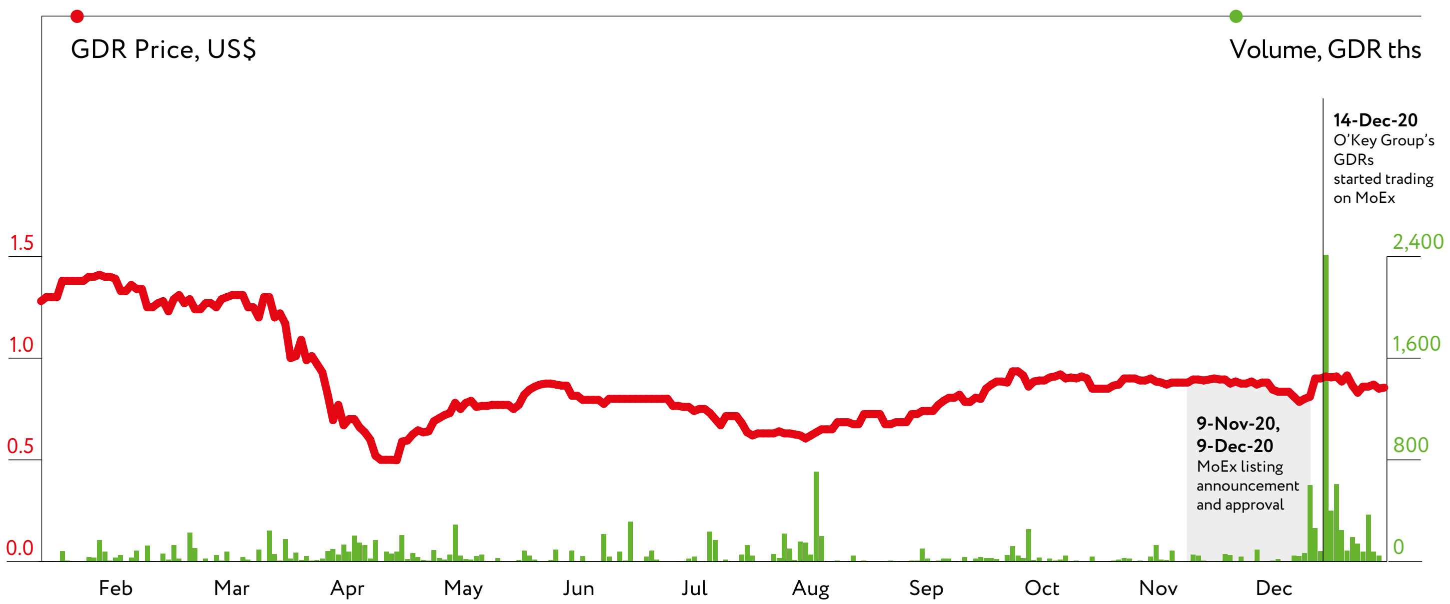
O'KEY GROUP S.A. SECURITIES IDENTIFICATION NUMBERS

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

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

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.

O'KEY GROUP S.A. SHARE PRICE PERFORMANCE AND TRADING VOLUMES IN 2020



O'KEY GROUP S.A. GDRS TRADING INFORMATION (MARKET TRANSACTIONS)

	2020	2019
Annual maximum price, USD	1.4	2.1
Annual minimum price, USD	0.5	1.2
Year-end price, USD	0.9	1,3
Trading volume (mln units)	15.6	9.2

Source: Bloomberg

CREDIT RATINGS

	RAEX
Credit rating	ruA-
Outlook	Stable
Last rating date	03 July 2020

In July 2020 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.

ANALYST COVERAGE

Six equity research analysts from leading international and Russian banks follow the Company on a regular basis. O'KEY's IR team monitors and communicates analyst consensus to the Company's top management.

Company	Analyst	Phone number
Aton	Victor Dima	+7 (495) 213-03-44
Gazprombank	Marat Ibragimov	+7 (495) 980-41-87
Goldman Sachs	Maxim Nekrasov	+7 (495) 645-40-13
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

Source: Bloomberg

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.

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
Interim dividends 2020	04.11.2020	0.028275	7,608,067.35

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.

O'KEY GROUPS S.A. Consolidated Financial Statements

for the year ended 31 December 2020 and Independent Auditor's Report

'000 RUB	Note	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Investment property	13	1,897,449	1,249,969
Property, plant and equipment	14	41,252,458	41,962,175
Construction in progress	14	2,784,595	2,976,838
Right-of-use assets	15	20,601,991	21,512,397
Intangible assets	16	1,269,804	1,292,185
Deferred tax assets	12	4,709,712	4,175,871
Other non-current assets	18	507,746	831,632
TOTAL NON-CURRENT ASSETS		**73,023,755**	**74,001,067**
Current assets			
Inventories	19	16,460,125	15,219,769
Trade and other receivables	20	3,042,208	4,141,984
Prepaid income tax		58,882	180,966
Prepayments	17	1,092,150	895,033
Other current assets		63,250	42,662
Cash and cash equivalents	21	7,713,568	5,507,079
Total current assets		28,430,183	25,987,493
TOTAL ASSETS		**101,453,938**	**99,988,560**
Equity and liabilities			
Equity	22		
Share capital		119,440	119,440
Legal reserve		10,597	10,597
Additional paid-in capital		8,555,657	8,555,657
Hedging reserve		(155,056)	(155,518)
Retained earnings		3,185,645	5,233,827
Translation reserve		1,761,152	1,204,897
TOTAL EQUITY		**13,477,435**	**14,968,900**

'000 RUB	Note	31 December 2020	31 December 2019
Non-current liabilities			
Loans and borrowings	24	31,808,417	30,089,758
Lease liabilities	25.28	20,166,661	21,172,587
Deferred tax liabilities	12	559,741	527,796
TOTAL NON-CURRENT LIABILITIES		**52,534,819**	**51,790,141**
Current liabilities			
Loans and borrowings	24	4,418,673	1,629,220
Interest accrued on loans and borrowings	24	204,467	211,181
Lease liabilities	25.28	4,472,445	3,949,756
Trade and other payables	26	25,928,027	27,182,739
Current income tax payable		418,072	256,623
TOTAL CURRENT LIABILITIES		**35,441,684**	**33,229,519**
TOTAL LIABILITIES		**87,976,503**	**85,019,660**
Total equity and liabilities		**101,453,938**	**99,988,560**
	34		Revised
Revenue	6	174,341,169	165,086,202
Cost of goods sold		(135,053,236)	(127,826,275)
Gross profit		39,287,933	37,259,927
General, selling and administrative expenses	8	(32,792,114)	(31,790,218)
Other operating income and expenses, net	9	(1,457,222)	(568,606)
Operating profit		5,038,597	4,901,103
Finance income	10	86,846	89,803
Finance costs	10	(4,971,224)	(5,054,947)
Foreign exchange (loss)/gain	11	(1,786,951)	937,678
(Loss)/profit before income tax		(1,632,732)	873,637
Income tax benefit/(expense)	12	188,668	(126,679)
(Loss)/profit for the year		(1,444,064)	746,958
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will never be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		556,255	(390,471)
Items that are or may be reclassified subsequently to profit or loss:			
Change in fair value of hedges and reclassification from hedging reserve		577	(194,398)
Income tax on items within other comprehensive income/(loss)	12	(115)	38,880
Other comprehensive income/(loss) for the year, net of income tax		556,717	(545,989)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(887,347)**	**200,969**
(LOSS)/EARNINGS PER SHARE			
Basic and diluted (loss)/earnings per share (in RUB per share)	23	(5.4)	2.8

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
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	22	-	-	-	-	(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**
Balance at 1 January 2020		119,440	10,597	8,555,657	(155,518)	5,233,827	1,204,897	14,968,900
COMPREHENSIVE LOSS FOR THE YEAR								
Loss for the year		-	-	-	-	(1,444,064)	-	(1,444,064)
OTHER COMPREHENSIVE INCOME								
Foreign currency translation differences		-	-	-	-	-	556,255	556,255
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	577	-	-	577
Income tax on items within other comprehensive income		-	-	-	(115)	-	-	(115)
Total other comprehensive income		-	-	-	462	-	556,255	556,717
Total comprehensive loss for the year		-	-	-	462	(1,444,064)	556,255	(887,347)
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS								
Dividends declared	22	-	-	-	-	(604,118)	-	(604,118)
Total transactions with owners recorded directly in equity		-	-	-	-	(604,118)	-	(604,118)
Balance at 31 December 2020		**119,440**	**10,597**	**8,555,657**	**(155,056)**	**3,185,645**	**1,761,152**	**13,477,435**

'000 RUB	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		201,037,196	191,108,706
Other cash receipts		462,954	698,981
Interest received		53,117	49,475
Cash paid to suppliers and employees		(185,135,037)	(175,781,669)
Taxes other than on income		(696,595)	(668,837)
Other cash payments		(91,602)	(43,199)
VAT paid		(3,507,733)	(3,494,010)
Income tax paid		(176,610)	(791,615)
Net cash from operating activities		**11,945,690**	**11,077,832**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and initial direct costs associated with right-of-use assets (excluding VAT)		(3,625,557)	(2,508,942)
Purchase of intangible assets (excluding VAT)		(481,331)	(410,157)
Repayment of loan granted to related party	31	346,025	-
Proceeds from sale of subsidiaries		-	1,552,785
Proceeds from sale of property, plant and equipment and intangible assets (excluding VAT)		5,773	14,612
Net cash used in investing activities		**(3,755,090)**	**(1,351,702)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		11,450,000	13,252,720
Repayment of loans and borrowings		(7,125,405)	(15,843,795)
Interest paid on loans and borrowings		(2,893,597)	(2,885,956)
Repayment of principal amount of lease liabilities		(4,455,487)	(4,083,535)
Interest paid on lease liabilities		(2,031,117)	(2,286,559)
Dividends paid	22	(604,118)	(987,512)
Other financial payments		(328,472)	(87,453)
Net cash used in financing activities		(5,988,196)	(12,922,090)
Net increase/(decrease) in cash and cash equivalents		**2,202,404**	**(3,195,960)**
Cash and cash equivalents at the beginning of the year	21	**5,507,079**	**8,712,253**
Effect of exchange rate fluctuations on cash and cash equivalents		4,085	(9,214)
Cash and cash equivalents at the end of the year	21	**7,713,568**	**5,507,079**

Background

(A) THE GROUP AND ITS OPERATIONS

These consolidated financial statements for the year ended 31 December 2020 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 2020 and 2019, the Company's major indirect shareholders are Mr. Troitskii, Mr. Volchek and Mr. Korzhev.

As at 31 December 2020 and 2019, 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"). Starting 14 December 2020, the Company's GDRs are also traded on Moscow Exchange.

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

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 2020, the Group operated 195 stores including 118 discounter stores (31 December 2019: 178 stores including 100 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, 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 Russian economy continued to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

Further, on 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Russian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. These measures have, among other things, severely restricted economic activity in Russia and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Group, as well as the Russian and global economy for an unknown period of time.

In response to the COVID-19 downturn, the Group promptly addressed the situation with the spread of COVID-19 and undertook necessary measures to maintain safe and smooth operations of its stores and supply chain, with focus on safety of customers and employees, supply chain and store replenishment, e-commerce and online orders, as well as social responsibility initiatives. These measures allowed the Group to overcome the challenges the market faced in 2020, and fully satisfy consumer demand by creating a safe, convenient, and pleasurable shopping experience across all its formats and sales channels.

As the Group primarily operates in the food retail market, overall customer demand did not encounter significant deterioration, and even on the contrary for certain types of goods. Further, entities supplying food and essential goods for individuals fell out of scope of the restrictions imposed by Russian government authorities to contain the virus. However in Q2 2020 due to local restrictions imposed in some of the Russian regions, a temporary drop of traffic in shopping malls was noted, which subsequently started to recover in the second half of the year with no considerable impact on the Group's overall performance. Also, starting from Q2 2020 and till the year end, changes in consumer behavior caused by the pandemic were observed. The customers shopped less frequently, but tended to stockpile in order to minimise visits.

As a result of the pandemic, the Group has incurred certain unforeseen expenses related to COVID-19 (purchase of sanitisers, masks and gloves, plastic screens at cash desks to protect customers and employees) that led to some increase in the several lines within Group's general, selling and administrative expenses detailed in Note 8.

Further, as presented in Note 6, rental income of the Group decreased due to pandemic restrictions and related impact on the tenants business. This was partially compensated by rent concessions received from some of the landlords in response to the decrease of traffic in shopping malls.

Overall, the Group's operating business model proved its flexibility and resilience in the turbulent macroeconomic environment caused by the pandemic, which is supported by sustainable growth of revenue in the hypermarkets segment and an impressive increase of sales in the discounters segment, as disclosed in Note 6.

The negative impact of the COVID-19 downturn on the overall economic environment has been considered by the Group in assessing impairment of its non-current assets, as detailed in Note 14, updating fair values of the investment properties held by the Group disclosed in Note 13, as well in the analysis of the financial risks including the credit and liquidity risks to which the Group is exposed, as disclosed in Note 28.

Underpinned by the COVID-19 turmoil and oil price plunge in the first quarter 2020 that did not fully recover later in the year, Russian Rouble has weakened relative to major foreign currencies compared to the 2019 year-end. This resulted in significant foreign exchange losses in the reporting period (Note 11).

While there is still a high degree of uncertainty regarding the further pandemic development and its duration, management of the Group continues to evaluate related risks and believes in further positive development of the Group's performance including its expansion plans. The Group successfully refinanced its maturing borrowings and ensured its stable liquidity position by increasing cash balances and retaining available undrawn credit facilities. In July 2020, the rating agency Expert RA affirmed the credit rating of 'ruA-' with a Stable outlook for LLC O'KEY, the Group's entity operating the hypermarkets business, based on the improvement in the Group's revenue and profitability indicators. Coupled with the continuous operational improvement, the above evidenced that the COVID-19 outbreak did not have any notable impact on the Group's activities.

Management of the Group continues to follow applicable government policies and recommendations and will do utmost to continue the Group's operations in the best and safest possible way. However, the future effects of the current situation are difficult to predict and management's current expectations and estimates could differ from actual results.

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 at fair value.

These consolidated financial statements were authorised for issue by the Board of Directors on 26 March 2021.

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

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 and the Group's subsidiaries outside of the Russian Federation 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 2020 the principal rates of exchange used for translating foreign currency balances were USD 1 = RUB 73.8757; EUR 1 = RUB 90.6824 (31 December 2019: USD 1 = RUB 61.9057; EUR 1 = RUB 69.3406).

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 30.

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. In particular, estimates and judgements are applied in determining the period-end accrual for the supplier bonuses that are conditional on the volume of promotional or marketing activities provided. The allocation of the bonuses to inventory cost also has some element of judgement in relation to the attribution of the bonuses earned to the cost of specific goods received from suppliers based on the proportion of goods purchased.

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 2020 refer to Notes 14–16.

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 12.

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.

During the financial year, the Group has performed a detailed review of performance of the Group's discounter stores being the Group's most dynamic business segment, with the focus on the mature stores that operate in leased premises under lease agreements with extension options, to assess whether any of the stores demonstrate such sustained growth that creates an economic incentive for the Group to continue to lease the underlying premises with reasonable certainty for longer periods as compared to the lease terms previously determined. As the result of this detailed review, the Group reassessed the available extension options for some of the lease agreements to extend the leases in accordance with the discounters segment's planning horizon. The financial effect of revising the lease terms to reflect the effect of exercising extension and termination options was included in the 'Modifications and reassessments' captions in Notes 15 and 25.

An increase in the lease term by 1 year for the leases assuming extension options at the reporting date would have increased the balances of right-of-use assets and lease liabilities by RUB 2,220,886 thousand and RUB 2,378,052 thousand, respectively (31 December 2019: by RUB 1,891,481 thousand and RUB 2,089,398 thousand, respectively).

A decrease of the lease term by 1 year for the leases assuming extension options at the reporting date would have decreased the balances of right-of-use assets and lease liabilities by RUB 2,225,313 thousand and RUB 2,447,850 thousand, respectively (31 December 2019: by RUB 2,028,915 thousand and RUB 2,252,736 thousand, 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. In 2020, the Group's incremental borrowing rate applied to lease liabilities denominated in Russian Roubles ranged from 8 to 10%, and for contracts denominated in other currencies from 4 to 6% (2019: from 8 to 10% and from 4 to 5%, respectively).

An increase in the discount rate by 100 basis points at the reporting date would have decreased the balances of right-of-use assets and lease liabilities by RUB 854,900 thousand and RUB 811,287 thousand, respectively (31 December 2019: by RUB 911,480 thousand and RUB 847,748 thousand, respectively).

A decrease of the discount rate by 100 basis points at the reporting date would have increased the balances of right-of-use assets and lease liabilities by RUB 793,945 thousand and RUB 729,732 thousand, respectively (31 December 2019: by RUB 988,408 thousand and RUB 914,723 thousand, respectively).

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

New and amended standards and interpretations adopted by the Group

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Group:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020);
- COVID-19-Related Rent Concessions – Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020, with earlier application permitted).

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 core 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 34).

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 2020 and 31 December 2019 is as follows:

'000 RUB		O'Key		Da!		Total
	2020	2019	2020	2019	2020	2019
External revenue						
Sales of trading stock	141,494,065	139,237,309	25,949,806	17,856,390	167,443,871	157,093,699
Sales of self-produced catering products	5,294,242	6,060,468	-	-	5,294,242	6,060,468
Revenue from contracts with customers	146,788,307	145,297,777	25,949,806	17,856,390	172,738,113	163,154,167
Rental income	1,553,026	1,876,935	50,030	55,100	1,603,056	1,932,035
Total revenue	**148,341,333**	**147,174,712**	**25,999,836**	**17,911,490**	**174,341,169**	**165,086,202**
Inter-segment revenue	186,055	226,517	1,975,627	684,158	2,161,682	910,675
EBITDA	**14,048,236**	**14,276,746**	**783,732**	**(215,315)**	**14,831,968**	**14,061,431**

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

'000 RUB	Note	2020	2019
EBITDA		**14,831,968**	**14,061,431**
Revaluation of investment property	9, 13	(191,500)	(75,454)
(Loss)/gain from disposal of non-current assets	9	(484,879)	46,885
Impairment of non-current assets	9	(265,544)	(821,009)
Loss from write-off of receivables	9	(236,635)	(191,353)
Impairment of receivables	9	(75,025)	(19,382)
Depreciation and amortisation	8	(8,203,742)	(8,100,015)
Finance income	10	86,846	89,803
Finance costs	10	(4,971,224)	(5,054,947)
Foreign exchange (loss)/gain	11	(1,786,951)	937,678
Other one-off items		(336,046)	-
(Loss)/profit before income tax		(1,632,732)	873,637
Income tax benefit/(expense)	12	188,668	(126,679)
(Loss)/profit for the year		**(1,444,064)**	**746,958**

Principal subsidiaries

Details of the Company's significant subsidiaries at 31 December 2020 and 31 December 2019, all wholly owned are as follows:

Subsidiary	Country	Nature of operations
LLC O'KEY	Russian Federation	Retail
LLC Fresh Market	Russian Federation	Retail and real estate
JSC Dorinda	Russian Federation	Real estate
LLC O'KEY management	Russian Federation	Managing company
LLC O'KEY Logistics	Russian Federation	Import operations

General, selling and administrative expenses

'000 RUB	Note	2020	2019
	34		Revised
Personnel costs		13,607,430	13,006,218
Depreciation and amortisation	14–16	8,203,742	8,100,015
Communication and utilities		3,719,594	3,612,468
Advertising and marketing		2,124,128	2,267,354
Repairs and maintenance costs		1,344,905	1,284,257
Insurance and bank commissions		1,026,333	916,097
Operating taxes		734,678	579,078
Security expenses		711,905	705,023
Legal and professional expenses		685,233	636,930
Materials and supplies		434,625	312,044
Variable lease expenses and expenses relating to short-term and low value leases		161,148	347,241
Other costs		38,393	23,493
Total general, selling and administrative expenses		**32,792,114**	**31,790,218**

Total employee benefits expense for the year ended 31 December 2020 included in the cost of goods sold and general, selling and administrative expenses is RUB 16,390,792 thousand (2019: 15,565,287 thousand).

During the year ended 31 December 2020 the Group employed ca. 20 thousand employees on average (2019: ca. 22 thousand employees on average). Approximately 95% of the employees (2019: 95% of the employees) are store and warehouse employees and the remaining part is office employees.

Due to the COVID-19 downturn, the Group renegotiated lease payments with some of the lessors, which resulted in the decrease of variable lease expenses.

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

'000 RUB	2020	2019
Fees for statutory audit of annual and consolidated accounts	18,586	14,406
Fees charged for other assurance services	5,677	4,561
Fees charged for tax advisory services	443	5,505
Total auditors' remuneration	**24,706**	**24,472**

Other operating income and expenses, net

'000 RUB	Note	2020	2019
	34		
Gain from modification of leases	15, 25	56,092	376,864
Net (loss)/gain from disposal of non-current assets		(484,879)	46,885
Impairment of non-current assets	14	(265,544)	(821,009)
Impairment of receivables		(75,025)	(19,382)
Loss from write-off of receivables		(236,635)	(191,353)
Loss from revaluation of investment property	13	(191,500)	(75,454)
Sundry income and expense, net		(259,731)	114,843
Total other operating income and expenses, net		**(1,457,222)**	**(568,606)**

Sundry income and expenses, net for 2020 include a loss of RUB 203,905 thousand which represents an adjustment to the deal price for the sale of the supermarket business to X5 Retail Group completed in 2018. This amount decreased the total consideration due by the Group and finalises settlements with the buyer in respect of the supermarket business sale.

Finance income and finance costs

'000 RUB	2020	2019
Recognised in profit or loss		
Interest income on bank deposits	68,314	70,193
Other finance income	18,532	19,610
Total finance income	86,846	89,803
Interest expense on loans and borrowings	(3,005,532)	(2,832,305)
Interest expense on lease liabilities (Note 25)	(1,965,692)	(2,222,642)
Total finance costs	(4,971,224)	(5,054,947)
Net finance costs recognised in profit or loss	**(4,884,378)**	**(4,965,144)**

During 2020 the Group has capitalised borrowing costs in the amount of RUB 201,029 thousand (2019: RUB 222,356 thousand) arising on financing directly attributable to the construction of the Group's new stores. The capitalisation rate was 8.1% (2019: 8.8%).

Foreign exchange (loss) / gain

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 2020, the share of the Group's USD-denominated loans and borrowings approximated 3% of total loans and borrowings (31 December 2019: 3%). The Group's exposure to currency risk is disclosed in Note 28.

'000 RUB	2020	2019
Foreign exchange loss on financial items	(2,490,019)	(275,625)
Foreign exchange gain on financial items	1,040,625	1,244,560
Net foreign exchange (loss)/gain on financial items	**(1,449,394)**	**968,935**
Foreign exchange loss on operating items	(337,557)	(31,257)
Total foreign exchange (loss)/gain	**(1,786,951)**	**937,678**

Substantial amount of the foreign exchange losses relates to USD-denominated intercompany loans between Group entities with different functional currencies which are eliminated on consolidation. Another major part of the foreign exchange loss arose on lease contracts in foreign currencies. The residual impact is attributable to import operations.

Income tax

INCOME TAX RECOGNISED IN PROFIT OR LOSS

'000 RUB	2020	2019
Current tax expense	(313,343)	(295,433)
Deferred tax benefit	502,011	168,754
Total income tax benefit/(expense)	**188,668**	**(126,679)**

RECONCILIATION BETWEEN THE TAX BENEFIT/(EXPENSE) AND PROFIT OR LOSS MULTIPLIED BY APPLICABLE TAX RATE

The income tax rate applicable to the majority of the Group's 2020 and 2019 income is 20%, the income tax rate established by the Russian tax legislation. A reconciliation between the expected and the actual taxation benefit/charge is provided below.

'000 RUB	2020	2019
(Loss)/profit before income tax	**(1,632,732)**	**873,637**
Theoretical income tax at applicable tax rate of 20%	326,546	(174,727)
Effect of income taxed at different rates	(102,701)	(14,697)
Tax effect of items which are not deductible for taxation purposes:		
Inventory shrinkage expenses	(82,077)	(81,931)
Other non-deductible expenses	(35,507)	(40,223)
Adjustments to current income tax for previous periods	82,407	184,899
Income tax benefit/(expense) for the year	**188,668**	**(126,679)**

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 27,357,614 thousand (31 December 2019: RUB 26,827,800 thousand) 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.

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 3,182,029 thousand on accumulated losses generated by LLC Fresh Market as at 31 December 2020 will be utilised in full by 2028. In 2020 the Group corrected its long-term plan for opening of new stores by adjusting the pace of new 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 as well as changes in customer behaviour.

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 2021–2028 include annual expansion by approximately 20–50 new discounter stores per year; annual growth in revenue comparable with past dynamics of the discounter chain; and gradual decrease of share of semi-fixed costs due to economies of scale.

In addressing the sensitivity of the timing of full utilisation of the deferred tax asset attributable to LLC Fresh Market, the Group estimated that if the pace of openings of new discounter stores in each of the years from 2021 to 2028 is lower by 20% as compared to the chain expansion rate reflected in the segment's long-term budget, with all other assumptions held constant, the timing of full utilisation of the deferred tax asset would shift from 2028 to 2029. The Group believes that any such shift does not affect the probability that the deferred tax asset would be fully utilised, since the tax losses can be carried forward indefinitely and have no expiry date under the Russian tax legislation.

(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 2020	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2020
Tax effect of deductible/ (taxable) temporary differences and tax loss carry forwards				
Investment property	95,094	38,300	-	133,394
Property, plant and equipment	(1,356,590)	(163,631)	-	(1,520,221)
Construction in progress	(281,641)	23,278	-	(258,363)
Right-of-use assets	(3,277,162)	315,203	-	(2,961,959)
Intangible assets	(109,967)	18,183	-	(91,784)
Other non-current assets	240,783	(23,207)	-	217,576
Inventories	326,963	(5,680)	-	321,283
Trade and other receivables and payables	139,734	54,790	(115)	194,409
Long-term investments	5,785	-	-	5,785
Lease liabilities	5,024,469	(96,647)	-	4,927,822
Tax loss carry-forwards	2,840,607	341,422	-	3,182,029
Net deferred tax assets	**3,648,075**	**502,011**	**(115)**	**4,149,971**
Recognised deferred tax assets	4,175,871			4,709,712
Recognised deferred tax liabilities	(527,796)			(559,741)
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)

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.

Investment property

(A) RECONCILIATION OF CARRYING AMOUNT

'000 RUB	Note	
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**
Investment properties at fair value as at 1 January 2020		**1,249,969**
Transfer from property, plant and equipment and construction in progress	14	836,801
Expenditure on subsequent improvements		2,179
Fair value gains less losses	9	(191,500)
Investment properties at fair value as at 31 December 2020		**1,897,449**

The trade premises of the Group included in investment property are subject to operating leases. As at 31 December 2020 the Group's investment property comprises three buildings and six land plots (31 December 2019: three buildings and two land plots). In 2020 the Group revised its plans for several land plots and considered them unattractive for future stores development. As a result, four land plots were transferred to the Investment property line.

(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 2020 and 31 December 2019 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 830–11,342 per sq. m. (31 December 2019: RUB 917–14,793 per sq. m.); expected occupancy of 89.9–100% in the subsequent years (31 December 2019: 92.9–100%); and appropriate discount rate of 14.8% – 15.0% (31 December 2019: 10.6% – 14.0%).

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.

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 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
Balance at 1 January 2020	**4,901,189**	**40,042,676**	**8,539,655**	**16,009,852**	**69,493,372**	**2,976,838**	**72,470,210**
Additions	60,679	443,312	-	1,527,408	2,031,399	2,272,857	4,304,256
Transfers	-	672,825	798,813	385,190	1,856,828	(1,856,828)	-
Transfer to investment property	(760,741)	-	-	-	(760,741)	(76,060)	(836,801)
Disposals	(65,732)	(10,741)	(181,439)	(801,906)	(1,059,818)	(282,539)	(1,342,357)
Balance at 31 December 2020	**4,135,395**	**41,148,072**	**9,157,029**	**17,120,544**	**71,561,040**	**3,034,268**	**74,595,308**
DEPRECIATION AND IMPAIRMENT LOSSES							
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)**
Balance at 1 January 2020	**-**	**(10,717,277)**	**(3,806,563)**	**(13,007,357)**	**(27,531,197)**	**-**	**(27,531,197)**
Depreciation for the year	-	(1,318,813)	(1,083,731)	(1,203,509)	(3,606,053)	-	(3,606,053)
Impairment losses	(15,871)	-	-	-	(15,871)	(249,673)	(265,544)
Disposals	-	881	72,497	771,161	844,539	-	844,539
Balance at 31 December 2020	**(15,871)**	**(12,035,209)**	**(4,817,797)**	**(13,439,705)**	**(30,308,582)**	**(249,673)**	**(30,558,255)**
NET BOOK VALUE							
At 1 January 2019	**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**
At 31 December 2020	**4,119,524**	**29,112,863**	**4,339,232**	**3,680,839**	**41,252,458**	**2,784,595**	**44,037,053**

Depreciation expense of RUB 3,606,053 thousand has been charged to selling, general and administrative expenses (2019: RUB 3,776,490 thousand).

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 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, including impact of COVID-19 on each particular CGU where noted, as outlined in Note 1.

For the CGUs subject to impairment testing, recoverable amount was determined based on either value-in-use or fair value less costs of disposal approach, depending on characteristics of particular CGUs.

Value in use calculations were prepared 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 post-tax and reflect management's estimate of the risks specific to the Group.

Fair value less costs of disposal calculations were based on available information about most recent prices in an active market for similar assets in the comparable location and condition, and other relevant information. For determination of market values, an independent appraiser who holds recognised and relevant professional qualifications and has recent experience in the valuation of assets in the same location and category was engaged by the Group.

As the result of the impairment test performed as at 31 December 2020, the Group recognised an impairment loss in the amount of RUB 265,544 thousand, in respect of certain land plots and associated construction in progress, all of which belonging to O'Key segment (2019: impairment loss of RUB 821,009 thousand was recognised, primarily in respect of mature low-performing CGUs, with the loss of RUB 784,009 thousand attributable to O'Key segment and RUB 37,000 thousand to Da! segment).

The total recoverable amount of the impaired assets determined based on the fair value less costs of disposal approach as of 31 December 2020 amounted to RUB 2,501,185 thousand. No impairment was identified for assets which recoverable amount was determined based on value in use approach as of 31 December 2020.

The total recoverable amount of the impaired CGUs determined based on value in use as of 31 December 2019 amounted to RUB 874,010 thousand. No impairment was identified for assets which recoverable amount was determined based on fair value less costs of disposal approach as of 31 December 2019.

The post-tax discount rate used in the assessment under the value in use approach as at 31 December 2020 was 10.9% (31 December 2019: 11.8%). If the revised estimated post-tax discount rate applied to the discounted cash flows of the CGUs had been 200 basis points higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment by RUB 312,000 thousand (2019: if the estimated post-tax discount rate had been 100 basis points higher than management's estimates, the Group would need to recognise additional impairment of RUB 70,909 thousand).

PLEDGED ASSETS

At 31 December 2020, 4 stores with carrying value of RUB 2,305,513 thousand have been pledged to third parties as collateral for bank borrowings (31 December 2019: 4 stores were pledged with carrying value of RUB 2,386,084 thousand).

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.

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**
Balance at 1 January 2020	**15,069,404**	**4,487,947**	**1,955,046**	**21,512,397**
Additions	776,708	158,862	467,585	1,403,155
Modifications and reassessments	1,713,826	64,312	98,043	1,876,181
Depreciation for the year	(3,211,079)	(239,137)	(642,735)	(4,092,951)
Disposals	(13,583)	(83,208)	-	(96,791)
Balance at 31 December 2020	**14,335,276**	**4,388,776**	**1,877,939**	**20,601,991**

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

Modifications and reassessments for the year ended 31 December 2020 were driven by the reassessment during the year of extension options for some of the Group's leases of trade premises under the mature discounter stores that demonstrate steady performance, as well as by the modification of a number of other leases, primarily attributable to the Group's trade premises, that changed either the consideration for the lease, contractual lease term, or both, with no change in scope of the leases.

Depreciation expense of RUB 3,986,627 thousand (2019: RUB 3,748,850 thousand) has been charged to general, selling and administrative expenses.

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 2020 and 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 14. No impairment attributable to the right-of-use assets was identified as at 31 December 2020 and 31 December 2019.

Intangible assets

'000 RUB	Software	Other intangible assets	Total
COST			
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**
Balance at 1 January 2020	**2,011,725**	**193,009**	**2,204,734**
Additions	507,457	90,108	597,565
Disposals	(552,515)	(16,012)	(568,527)
Balance at 31 December 2020	**1,966,667**	**267,105**	**2,233,772**
AMORTISATION AND IMPAIRMENT LOSSES			
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)**
Balance at 1 January 2020	**(811,485)**	**(101,064)**	**(912,549)**
Amortisation for the year	(577,860)	(33,202)	(611,062)
Disposals	551,964	7,679	559,643
Balance at 31 December 2020	**(837,381)**	**(126,587)**	**(963,968)**
CARRYING AMOUNTS			
At 1 January 2019	**1,189,151**	**105,063**	**1,294,214**
At 31 December 2019	**1,200,240**	**91,945**	**1,292,185**
At 31 December 2020	**1,129,286**	**140,518**	**1,269,804**

Amortisation of RUB 611,062 thousand has been charged to selling, general and administrative expenses (2019: RUB 574,675 thousand).

No indicators of impairment were identified for the Group's intangible assets as at 31 December 2020 and 31 December 2019.

Prepayments

'000 RUB	Note	31 December 2020	31 December 2019
Prepayments for goods		363,358	265,207
Prepayments for variable lease payments – third parties		65,320	126,066
Prepayments for services		245,045	306,152
VAT on prepayments		156,333	89,902
Other prepayments		262,094	107,706
Total prepayments		**1,092,150**	**895,033**

Other non-current assets

'000 RUB	Note	31 December 2020	31 December 2019
FINANCIAL ASSETS WITHIN OTHER NON-CURRENT ASSETS			
Long-term refundable deposits to lessors		201,269	232,801
TOTAL FINANCIAL ASSETS WITHIN OTHER NON-CURRENT ASSETS		**201,269**	**232,801**
OTHER NON-CURRENT ASSETS			
Prepayments for non-current assets		306,477	252,806
Long-term loans to entities under control of shareholder group	31	-	346,025
Total other non-current assets		**507,746**	**831,632**

Inventories

'000 RUB	31 December 2020	31 December 2019
Goods for resale	16,176,223	14,967,315
Raw materials and consumables	818,322	762,248
Write-down to net realisable value	(534,420)	(509,794)
Total inventories	**16,460,125**	**15,219,769**

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 534,420 thousand as at 31 December 2020 (31 December 2019: RUB 509,794 thousand). The write down to net realisable value was determined by applying percentages of discount on sales and write-offs of slow-moving goods to the appropriate aging of the goods. The percentages of discount were based on the management's best estimate following the experience of the discount sales.

Trade and other receivables

'000 RUB	31 December 2020	31 December 2019
FINANCIAL ASSETS WITHIN TRADE AND OTHER RECEIVABLES		
Trade receivables	256,780	486,626
Bonuses receivable from suppliers	1,953,121	2,027,894
Receivables from sale of supermarkets	-	120,686
Other financial receivables	311,961	371,395
TOTAL FINANCIAL ASSETS WITHIN TRADE AND OTHER RECEIVABLES	2,521,862	3,006,601
OTHER RECEIVABLES		
VAT receivable	465,439	1,088,358
Prepaid taxes other than income tax	54,907	47,025
Total trade and other receivables	**3,042,208**	**4,141,984**

The Group's exposure to credit and currency risks and credit loss allowance as at 31 December 2020 and 31 December 2019 related to trade and other receivables are disclosed in Note 28.

Cash and cash equivalents

'000 RUB	31 December 2020	31 December 2019
Cash on hand	234,215	229,328
Bank current accounts	2,694,611	1,703,444
Term deposits	4,607,909	2,512,259
Cash in transit	176,833	1,062,048
Total cash and cash equivalents	**7,713,568**	**5,507,079**

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 28.

Equity

As at 31 December 2020 and 31 December 2019, the Company's authorised, issued and fully paid share capital of RUB 119,440 thousand, the RUB equivalent of EUR 2,691 thousand, 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 2020 and 2019, the legal reserve was formed in full.

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 2020 and 31 December 2019.

In October 2020, the Company declared and paid interim dividends to shareholders in t he amount of RUB 604,118 th ousand (USD 7,608 thousand) (2019: RUB 987,512 thousand, the equivalent of USD 15,162 thousand). 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 2020 amounted to RUB 2.2 (USD 0.0282750) (2019: RUB 3.7 (USD 0.05635)).

(Loss)/earnings per share

Basic (loss)/earnings 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 (loss)/earnings per share equals the basic (loss)/earnings per share.

(Loss)/earnings per share is calculated as follows:

'000 RUB	2020	2019
(Loss)/profit for the year	(1,444,064)	746,958
Weighted average number of ordinary shares in issue (thousands)	269,074	269,074
Basic and diluted (loss)/earnings per ordinary share (in RUB per share)	**(5.4)**	**2.8**

Loans and borrowings

		31 December 2020		31 December 2019	
'000 RUB	Currency	Maturity	Carrying value	Maturity	Carrying value
NON-CURRENT LOANS AND BORROWINGS					
Secured bank loans	RUB	2022–2025	3,970,588	2025	4,500,000
Unsecured bank facilities	RUB	2022–2024	12,837,829	2021–2023	10,538,462
Unsecured bonds	RUB	2022–2024	15,000,000	2021–2024	15,051,296
TOTAL NON-CURRENT LOANS AND BORROWINGS			**31,808,417**		**30,089,758**
CURRENT LOANS AND BORROWINGS					
Secured bank loans	RUB	2021	529,412		-
Unsecured bank facilities	RUB	2021	1,578,594	2020	464,258
Unsecured bonds	RUB	2021	1,175,155	2020	213,006
Unsecured loans from related parties (Note 31)	USD	On demand	1,132,624	On demand	949,106
Unsecured loans from third parties	RUB	2021	2,888	2020	2,850
TOTAL CURRENT LOANS AND BORROWINGS			**4,418,673**		**1,629,220**
Unsecured bonds interest	RUB		203,426		210,112
Unsecured loans interest	RUB		1,041		1,069
INTEREST ACCRUED ON LOANS AND BORROWINGS			**204,467**		**211,181**
TOTAL CURRENT LOANS AND BORROWINGS, INCLUDING INTEREST ACCRUED			**4,623,140**		**1,840,401**
Total loans and borrowings			**36,431,557**		**31,930,159**

Information about property, plant and equipment pledged as collateral for the Group's loans and borrowings is disclosed in Note 14.

As at 31 December 2020 the Group had RUB 12,400,000 thousand (31 December 2019: RUB 15,947,280 thousand) of undrawn committed borrowing facilities available in RUB on fixed and floating rate basis until March 2021-November 2024 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 2016–2017 the Group placed unsecured bonds on Moscow exchange bearing coupon rates of 9.55% – 9.65% p.a.

The following issues of unsecured bonds were also placed by the Group on Moscow exchange in 2019–2020:

- an issue made in April 2019 in the amount of RUB 5,000,000 thousand 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;
- an issue made in December 2019 in the amount of RUB 5,000,000 thousand bearing coupon rate of 7.85% p.a. and maturing in November 2024;
- an issue made in November 2020 in the amount of RUB 5,000,000 thousand bearing coupon rate of 7.50% p.a. and maturing in October 2030 with an option for the bondholders to claim early repayment in November 2023.

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 2020 and 31 December 2019 and during the years then ended the Group complied with all its loan covenants.

Lease liabilities

'000 RUB	2020	2019
Balance at 1 January	**25,122,343**	**29,227,792**
Additions	1,403,155	689,806
Modifications and reassessments	1,820,089	(234,479)
Repayment	(6,486,604)	(6,370,094)
Interest expense	2,031,117	2,286,559
Foreign exchange loss/(gain)	749,006	(477,241)
Balance at 31 December	**24,639,106**	**25,122,343**
Non-current lease liabilities	**20,166,661**	**21,172,587**
Current lease liabilities	**4,472,445**	**3,949,756**

Interest expense in the amount of RUB 1,965,692 thousand (2019: RUB 2,222,642 thousand) has been charged to finance costs.

Total cash outflow for leases in 2020 amounted to RUB 6,648,964 thousand (2019: RUB 6,677,365 thousand).

Some property leases contain variable payment terms that are linked to sales generated by a store. 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 2020 was RUB 143,515 thousand (2019: RUB 333,751 thousand).

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 2,055 thousand (2019: RUB 1,083 thousand) and RUB 15,578 thousand (2019: RUB 12,483 thousand), respectively.

Trade and other payables

'000 RUB	31 December 2020	31 December 2019
FINANCIAL LIABILITIES AT AMORTISED COST		
Trade payables	23,252,925	24,147,521
Other financial payables	265,984	302,402
TOTAL FINANCIAL LIABILITIES AT AMORTISED COST	**23,518,909**	**24,449,923**
FINANCIAL LIABILITIES AT FAIR VALUE		
Interest rate swap liability	193,821	194,398
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE	**193,821**	**194,398**
Payables to staff	1,116,824	1,250,477
Taxes payable other than income tax	710,438	791,610
Advances received from lessees	283,339	396,220
Contract liability related to gift cards	104,696	100,111
Total trade and other payables	**25,928,027**	**27,182,739**

The Group's contract liabilities relate to contracts with customers for periods of less than one year. RUB 100,111 thousand of revenue was recognised in the current reporting period related to the contract liabilities as at 31 December 2019, 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 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 2020		**31,930,159**	**25,122,343**	**194,398**	**-**	**57,246,900**
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from loans and borrowings		11,450,000	-	-	-	11,450,000
Repayment of loans and borrowings		(7,125,405)	-	-	-	(7,125,405)
Interest paid on loans and borrowings		(2,893,597)	-	-	-	(2,893,597)
Repayment of principal amount of lease liabilities		-	(4,455,487)	-	-	(4,455,487)
Interest paid on lease liabilities		-	(2,031,117)	-	-	(2,031,117)
Dividends paid	22	-	-	-	(604,118)	(604,118)
Other financial payments		(328,472)	-	-	-	(328,472)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		**1,102,526**	**(6,486,604)**	**-**	**(604,118)**	**(5,988,196)**
NON-CASH CHANGES						
Additions to lease liabilities	25	-	1,403,155	-	-	1,403,155
Modifications and reassessments of lease liabilities	25	-	1,820,089	-	-	1,820,089
Accrued interest		3,206,561	2,031,117	-	-	5,237,678
Dividends declared	22	-	-	-	604,118	604,118
Changes in fair value of interest rate swap	26	-	-	(577)	-	(577)
Effect of changes in foreign exchange rates		192,311	749,006	-	-	941,317
TOTAL NON-CASH CHANGES		**3,398,872**	**6,003,367**	**(577)**	**604,118**	**10,005,780**
Balance at 31 December 2020		**36,431,557**	**24,639,106**	**193,821**	**-**	**61,264,484**
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	22	-	-	-	(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	25	-	689,806	-	-	689,806
Modifications and reassessments of lease liabilities	25	-	(234,479)	-	-	(234,479)
Accrued interest		3,054,661	2,286,559	-	-	5,341,220
Dividends declared	22	-	-	-	987,512	987,512
Changes in fair value of interest rate swap	26	-	-	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**

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, 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:

	Note	Carrying amount	
'000 RUB		31 December 2020	31 December 2019
Loans issued		63,250	388,688
Long-term refundable deposits to lessors	18	201,269	232,801
Trade and other receivables	20	2,521,862	3,006,601
Cash and cash equivalents	21	7,479,353	5,277,751
Total		**10,265,734**	**8,905,841**

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 2020 and 31 December 2019 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 2020 determined with the use of provision matrix is summarised in the table below.

'000 RUB	Gross amount	ECL	Carrying amount
Trade receivables	271,003	(14,223)	256,780
Bonuses receivable from suppliers	2,012,244	(59,123)	1,953,121
Other financial receivables	322,098	(10,137)	311,961
Total	**2,605,345**	**(83,483)**	**2,521,862**

When preparing the provision matrix for the balances receivable as at 31 December 2020, the Group considered the extent to which the COVID-19 outbreak in the reporting period has affected the industry in which the Group operates and its debtors and concluded that there was no notable deterioration of the debtors' credit profile that would require a significant adjustment to the calculated expected credit loss rates with regard to 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**

(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.

(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 2020 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 2020

'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	5,390,612	118,716	644,810	4,627,086	-
Unsecured bonds	16,378,581	19,246,035	1,970,788	622,575	16,652,672	-
Unsecured bank facilities	14,417,464	16,875,293	1,092,285	1,472,420	14,310,588	-
Unsecured loans from related parties	1,132,624	1,140,319	1,140,319	-	-	-
Unsecured loans from third parties	2,888	2,888	38	2,850	-	-
Lease liabilities	24,639,106	37,344,787	3,289,905	3,287,534	15,796,555	14,970,793
Trade and other payables	23,518,909	23,518,909	23,518,909	-	-	-
FINANCIAL LIABILITIES USED IN HEDGING ACTIVITY						
Interest rate swap	193,821	193,821	101,458	92,363	-	-
Total	**84,783,393**	**103,712,664**	**31,232,418**	**6,122,552**	**51,386,901**	**14,970,793**

As at 31 December 2020, the Group's current liabilities exceeded its current assets by RUB 7,011,501 thousand (31 December 2019: RUB 7,242,026 thousand). 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 24, and is confident that it will be able to meet its obligations as they fall due.

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 USED IN HEDGING ACTIVITY						
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**

(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, as well as Euro.

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 2020	31 December 2019
Trade and other receivables	31,955	122,503
Cash and cash equivalents	60,981	22,574
Lease liabilities	(466,669)	(762,074)
Trade and other payables	(432,400)	(454,412)
Total	**(806,133)**	**(1,071,409)**

Apart from the above, the Group's exposure to the currency risks in relation to the USD arises on USD denominated intragroup loans between the Group entities with different functional currencies. While these intragroup loans are eliminated upon consolidation, related foreign exchange gains and losses are recognised in the consolidated profit or loss. Refer to Note 11.

The Group's exposure to currency risk in relation to the EUR was as follows based on notional amounts:

'000 RUB	31 December 2020	31 December 2019
Trade and other receivables	2,013	-
Cash and cash equivalents	330	1
Lease liabilities	(2,491,676)	(2,015,019)
Trade and other payables	(239,375)	(127,253)
Total	**(2,728,708)**	**(2,142,271)**

SENSITIVITY ANALYSIS

A 20% weakening/ strengthening of the RUB against the USD at 31 December 2020 would have decreased/ increased equity and profit or loss by RUB 161,227 thousand (31 December 2019: 11% weakening/ strengthening of the RUB against the USD would have decreased/ increased equity and profit or loss by RUB 117,855 thousand).

A 20% weakening/ strengthening of the RUB against the EUR at 31 December 2020 would have decreased/ increased equity and profit or loss by RUB 545,742 thousand (31 December 2019: 11% weakening/ strengthening of the RUB against the EUR would have decreased/ increased equity and profit or loss by RUB 235,650 thousand).

This analysis was performed only for the foreign currency denominated monetary balances in the consolidated statement of financial position related to 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.

(II) INTEREST RATE RISK

The Group is exposed 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 2020	31 December 2019
FIXED RATE INSTRUMENTS		
Cash and cash equivalents	7,302,520	4,215,703
Loans issued	-	388,688
Loans and borrowings	(36,431,557)	(26,929,124)
Lease liabilities	(24,639,106)	(25,122,343)
VARIABLE RATE INSTRUMENTS		
Loans and borrowings	-	(5,001,035)

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 2019.

	Profit or loss		Equity	
'000 RUB	500 bp increase	500 bp decrease	500 bp increase	500 bp decrease
31 DECEMBER 2020				
Interest rate swap	375,000	(375,000)	305,341	(346,819)
Cash flow sensitivity (net)	**375,000**	**(375,000)**	**305,341**	**(346,819)**
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)**

(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.

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 2020		
Gross amounts before offsetting	4,718,504	25,715,551
Amounts offset	(2,196,642)	(2,196,642)
Net amounts presented in the consolidated statement of financial position	**2,521,862**	**23,518,909**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,258,042)	(1,258,042)
Net amount	**1,263,820**	**22,260,867**

'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**

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 and requirement in respect of positive net assets of LLC "O'KEY" for external loan agreement; the Group follows all requirements.

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 742,609 thousand as at 31 December 2020 (31 December 2019: RUB 653,698 thousand). 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.

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 2020, the Group has other possible obligations of approximately RUB 1,900,000 thousand (31 December 2019: RUB 1,900,000 thousand) 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.

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:

- The Company's major indirect shareholders (Note 1);
- Other related parties under control of the major indirect shareholders;
- 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:

'000 RUB	2020	2019
SHORT-TERM EMPLOYEE BENEFITS:		
Salaries and short-term bonuses	403,752	343,763
Social security contributions	16,874	13,855
Other short-term payments	4,621	17,234
LONG-TERM EMPLOYEE BENEFITS:		
Long-term service bonus	50,071	38,000
Total	**475,318**	**412,852**

In addition, members of the Company's Board of Directors received remuneration in the amount of RUB 77,031 thousand for the year ended 31 December 2020 (2019: RUB 59,442 thousand) which is included in legal and professional expenses.

(B) TRANSACTIONS WITH OTHER RELATED PARTIES

(I) REVENUE

	Income		Receivables	
'000 RUB	2020	2019	31 December 2020	31 December 2019
Sale of services	1,883	2,335	35	122
Total	**1,883**	**2,335**	**35**	**122**

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

'000 RUB	Expenses	
	2020	2019
Variable lease expenses and expenses relating to short-term and low value leases	98,180	90,515
Interest expense on lease liabilities	95,919	122,124
Interest expense on loans and borrowings	89,854	79,058
Other services received	-	10,424
Total	**283,953**	**302,121**

LEASES WITH OTHER RELATED PARTIES

Lease liabilities under related party arrangements were as follows:

'000 RUB	31 December 2020	31 December 2019
Lease liabilities due to other related parties, including:	934,736	1,272,328
Current lease liabilities	436,924	382,636
Non-current lease liabilities	497,812	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 2020	31 December 2019
Loans and borrowings	**1,132,624**	**949,106**

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 2026 (31 December 2019: payable on demand but not later than 2021). In 2020 accrued and fully paid interest amounted to RUB 89,853 thousand and the rest of the movement of the loan is attributable to foreign currency translation difference within other comprehensive loss.

(IV) LOANS GIVEN

'000 RUB	31 December 2020	31 December 2019
Loans given (Note 18)	-	346,025
Interest receivable	53,784	33,196
Total	**53,784**	**379,221**

The long-term loans to entities under control of shareholder group in the amount of RUB 346,025 thousand were early settled in 2020 in cash.

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 13.

(B) NON-RECURRING FAIR VALUE MEASUREMENTS

As at 31 December 2020, recoverable amount of some of the Group's non-current assets tested for impairment was determined on the basis of the fair value less costs of disposals approach. Refer to Note 14.

(C) 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.

There were no transfers between the levels of the fair value hierarchy or changes in valuation techniques for fair value measurements during 2020 and 2019.

Significant accounting policies

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 including foreign exchange gains and losses on borrowings and cash and cash equivalents, as well as any other foreign exchange gains and losses 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.

(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, 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.

(III) DEPRECIATION

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. 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 improvements	the lowest of the useful life or 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) LEASES

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.

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 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.

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) are presented as operating cash flows.

(I) INVENTORIES

Cost of goods for resale includes costs of purchase (comprising of the purchase price, including import duties and other non-recoverable taxes, transport and handling costs, and any other directly attributable costs, less relevant supplier discounts, bonuses and similar items), as well as other costs such as internal handling, packaging and transport to the extent that it directly relates to bringing the goods to the location and condition ready for sale.

Where the goods for resale assume conversion, which is the case for the Group's self-produced catering products, their cost also includes items specifically attributable to units of production (for example, direct labour, direct expenses and sub-contracted work), as well as a systematic allocation of fixed and variable production overheads incurred in the converting them into products ready for sale.

The cost of inventories is based on the moving weighted average principle.

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(J) 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 within other operating income and expenses. 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.

(K) 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.

(L) 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.

(M) 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 sales of trading stock, including retail sales of goods and sales of self-produced catering products. The major source of sales of trading stock is retail revenue.

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 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 and award points 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.

In the reporting period, the Group's hypermarkets business maintained a loyalty program where retail customers were able to accumulate award points on purchases of certain goods which entitled them to a discount on future purchases in the hypermarkets. Also, 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 award points and coupons represent a material right to the customers and give rise to a separate performance obligation to deliver the customers additional or discounted 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. The estimated stand-alone selling price of the award points is determined with reference to the extent to which future performance is not expected to be required because the customer does not redeem the points awarded.

(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.

(N) COST OF GOODS SOLD

Cost of goods sold includes the cost of goods for resale and self-produced catering products sold to customers.

The Group receives various types of bonuses from suppliers of goods, primarily in the form of volume discounts, slotting fees and counter services to suppliers related to the purchases made. These bonuses decrease the cost of the goods and are recorded as reduction of cost of sales as the related goods are sold.

Losses from inventory shortages are recognised in cost of goods sold.

(O) 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.

(P) 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 or cost of sales, based on their function.

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.

(Q) 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.

(R) 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.

(S) 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.

(T) 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.

(U) NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and amendments to standards have been issued by the International Accounting Standards Board (IASB) that are mandatory for annual periods beginning on or after 1 January 2021. However, none of these standards and amendments have been adopted by the European Union and therefore do not yet apply to the Group.

Changes in presentation

In the reporting period, the Group has reconsidered its approach to classification of certain expenses relating to sales of self-produced catering products in the consolidated statement of profit or loss and other comprehensive income. As the result, such expenses previously presented within selling, general and administrative expenses are now presented within cost of goods sold. The Group believes that the revised presentation better reflects the function of the related expenses and results in the consolidated financial statements providing more relevant information about the Group's financial performance.

Outlined in the following table are effects from the change in presentation made on the consolidated profit or loss amounts for the year ended 31 December 2019 presented as comparatives in these consolidated financial statements:

'000 RUB	2019 – as originally presented	Reclassifications	2019 – as revised
Cost of goods sold	(125,986,668)	(1,839,607)	(127,826,275)
Gross profit	**39,099,534**	**(1,839,607)**	**37,259,927**
General, selling and administrative expenses	(33,629,825)	1,839,607	(31,790,218)

The change in presentation did not affect the Group's profit or loss for the year.

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

Business Intelligence (BI) – comprises the strategies and technologies used by enterprises for the data analysis of business information.[1] BI technologies provide historical, current, and predictive views of business operations.

Content management system (CMS) – computer software used to manage the creation and modification of digital content

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

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

Point of Sale (POS) platform – A system which allows the processing and recording of transactions between a company and their consumers, at the time in which goods and/or services are purchased

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

Retail Predictive Application Server (RPAS) – Configurable software platform for developing forecasting and planning applications

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

CEO – Chief Executive Officer

CJSC – Closed joint stock company

CRM – Client Relationship Management

DC – Distribution centre

EBITDA – Earnings before interest, taxes, depreciation and amortisation

FD – Federal district

FMCG – Fast-moving consumer goods

FY – Financial year

GDR – Global depositary receipt

HR – Human resources

IFRS – International Financial Reporting Standards

IPO – Initial Public Offering

IT – Information Technology

JSC – Joint Stock Company

k – A thousand

KPI – Key Performance Indicators

LLC – Limited Liability Company

m² – Square metre

NGO – Non-governmental organisation

p.p. – Percentage point

Q – Quarter of the year

RAEX – Expert RA rating agency

RUB – Russian rouble

WMS – warehouse management system

YoY – Year Over Year

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