

(In thousands of Russian rubles)

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## Corporate information

Close Joint Stock Company “Magnit” (“Magnit”) was incorporated in Krasnodar, the Russian Federation, in November 2003.

In January 2006, Magnit changed its legal form to Open Joint Stock Company “Magnit”. There was no change in the principal activities or shareholders as a result of the change to an Open Joint Stock Company. In 2014 Magnit changed its legal form to Public Joint Stock Company (the “Company” or PJSC “Magnit”) in accordance with changes in legislation.

PJSC “Magnit” and its subsidiaries (the “Group”) operate in the retail and distribution of consumer goods under the “Magnit” name. The Group’s retail operations are operated through convenience stores, cosmetic stores, hypermarkets and other.

All of the Group’s operational activities are conducted in the Russian Federation. The principal operating office of the Group is situated at 15/5 Solnechnaya str., 350072, Krasnodar, the Russian Federation.

The principal activities of the Group’s subsidiaries all of which are incorporated in the Russian Federation, and the effective ownership percentages are as follows:

<b>Company name</b>	<b>Principal activity</b>	<b>Ownership interest 2018</b>	<b>Ownership interest 2017</b>
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JSC "Tander"	Food retail and wholesale	100%	100%
LLC "Retail Import"	Import operations	100%	100%
LLC "BestTorg"	Food retail in Moscow and the Moscow region	100%	100%
LLC "MFK"	Other activities	100%	100%
LLC "Selta"	Transportation services for the Group	100%	100%
LLC "TK Zelenaya Liniya"	Greenhouse complex	100%	100%
LLC "Tandem"	Rent operations	100%	100%
LLC "Alkotrading"	Other operations	100%	100%
LLC "ITM"	IT operations	100%	100%
LLC "Logistika Alternativa"	Import operations	100%	100%
LLC "Zvezda"	Assets holder, maintenance services for the Group	100%	100%
LLC "TD-holding"	Production and processing of food for the Group	100%	100%

LLC “MagnitEnergo”	Buyer of electric power for the Group	100%	100%
LLC “Management Company “Industrial Park Krasnodar”	Management of production assets	100%	100%
LLC “Kuban Confectioner”	Production of food for the Group	100%	100%
LLC “Kuban Factory of Bakery Products”	Production of food for the Group	100%	100%
LLC “Volshebnyaya svezhest”	Production of household chemicals for the Group	100%	100%
LLC “Moroznye pripasy”	Production of food for the Group	100%	100%
LLC “Moskva na Donu”	Production of agricultural products for the Group	100%	100%
LLC “Magnit Pharma”	Pharmaceutical license holder	100%	-
LLC “TH SIA Group”	Pharmaceutical wholesale	100%	-
LLC “MF-SIA”	Management activities	100%	-
JSC “SIA	Pharmaceutical		

International Ltd”	wholesale	100%	-
CJSC “Rink”	Production of medical devices	100%	-
LLC “MC SIA Group”	Management activities	100%	-
CJSC “SIA International – Krasnodar”	Commission trade of medicines and medical products	80%	-
LLC “SIA International – Arkhangelsk”	Commission trade of medicines and medical products	100%	-
LLC “SIA International – Astrakhan”	Commission trade of medicines and medical products	100%	-
LLC “SIA International – Barnaul”	Commission trade of medicines and medical products	100%	-
LLC “SIA International – Belgorod”	Commission trade of medicines and medical products	100%	-
LLC “SIA	Commission trade of		

International – Blagoveshchensk”	medicines and medical products	100%	–
LLC “SIA International – Velikiy Novgorod”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Vladivostok”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Penza”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Tambov”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Omsk”	Commission trade of medicines and medical products	85%	–
LLC “SIA International – Vladimir”	Commission trade of medicines and medical products	100%	–
LLC “SIA	Commission trade of		

International – Volgograd”	medicines and medical products	100%	–
LLC “SIA International – Voronezh”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Ekaterinburg”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Irkutsk”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Kazan”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Kamchatka”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Kemerovo”	Commission trade of medicines and medical products	100%	–
LLC “SIA	Commission trade of		

International – Kirov”	medicines and medical products	100%	–
LLC “SIA International – Krasnoyarsk”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Murmansk”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Nizhniy Novgorod”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Novosibirsk”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Orenburg”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Perm”	Commission trade of medicines and medical products	100%	–
LLC “SIA	Commission trade of		

International – Rostov-on-Don”	medicines and medical products	100%	–
LLC “SIA International – Samara”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Saint Petersburg”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Saratov”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Smolensk”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Stavropol”	Commission trade of medicines and medical products	100%	–
LLC “SIA International – Tula”	Commission trade of medicines and medical products	100%	–
Commission			



LLC "SIA International – Tyumen"	trade of medicines and medical products	100%	–
LLC "SIA International – Ufa"	Commission trade of medicines and medical products	100%	–
LLC "SIA International – Khabarovsk"	Commission trade of medicines and medical products	100%	–
LLC "SIA International – Chelyabinsk"	Commission trade of medicines and medical products	100%	–
LLC "SIA International – Chernozemie"	Commission trade of medicines and medical products	100%	–
LLC "SIA International – Yuzhno-Sakhalinsk"	Commission trade of medicines and medical products	100%	–
LLC "SIA International – Yaroslavl"	Commission trade of medicines and medical products	100%	–

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for release by the Chief Executive Officer of PJSC “Magnit” on 14 March 2019.

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## **Basis of preparation of the financial statements**

## **Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

## **Basis of accounting**

The Group’s entities maintain their accounting records in Russian roubles (“RUB”) and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these consolidated financial statements in accordance with IFRS.

The financial statements have been prepared on a historical cost basis except for certain cases that are additionally disclosed in separate paragraphs of the Group’s significant accounting policies ([Note 3](#)).

The functional currency of each of the Group's entities and the presentation currency of the consolidated financial statements is the Russian rouble ("RUB").

## **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

Exposure, or rights, to variable returns from its involvement with the investee; and

The ability to use its power over the investee to affect its returns.

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

The contractual arrangement with the other vote holders of the investee;

Rights arising from other contractual arrangements;

The Group's voting rights and potential voting rights.

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

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

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## **Summary of significant accounting policies**

### **Basis of consolidation (continued)**

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of subsidiaries are prepared for the same reporting period as those of the Group; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

Derecognises the assets (including goodwill) and liabilities of the subsidiary;

Derecognises the carrying amount of any non-controlling interest;

Derecognises the cumulative translation differences, recorded in equity;

Recognises the fair value of the consideration received;

Recognises the fair value of any investment retained;

Recognises any surplus or deficit in profit or loss;

Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

## **Business combinations**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling

interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

If the business combination is achieved in stages the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it

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

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

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

## **Current versus non-current classification**

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

Expected to be realised or intended to sold or consumed in normal operating cycle;

Held primarily for the purpose of trading;

Expected to be realised within twelve months after the reporting period; or

Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

It is expected to be settled in normal operating cycle;

It is held primarily for the purpose of trading;

It is due to be settled within twelve months after the reporting period; or

There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

## **Fair value measurement**

The Group measures non-financial assets, represented by investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The



fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability; or

In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

## **Revenue from contracts with customers**

The greater part of revenue from contracts with customers is retail sales.

The Group generates and recognizes sales to retail customers at the point of sale in its stores and to wholesale customers at the point of sale in its distribution centres and retail stores. Retail sales are in cash and through bank cards. Revenues are measured at the fair value of the consideration received or receivable, recognized net of value added tax and are reduced for estimated customer returns. Payment of the transaction price is due immediately when the customer

purchases goods. The customers have right of return, which is regulated by Russian legislation and is possible within up to 14 days since the purchase with the exception for certain categories of goods. Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

For sales promotion purposes and stimulation of client loyalty the Group provides loyalty programs, which allow to accumulate points and exchange them for goods hereafter. The loyalty program offered by the Group gives rise to a separate performance obligation because it generally provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty programme based on relative stand-alone selling price and recognizes a contract liability.

Expenses related to the loyalty programs are recognised in selling expenses and classified as advertising expenses.

## **Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and impairment.

Historical cost information was not available in relation to buildings purchased prior to transition date to IFRS (1 January 2004). Therefore, management has used valuations

performed by independent professionally qualified appraisers to arrive at the fair value as of the date of transition to IFRS and deemed those values as cost.

Cost includes major expenditures for improvements and replacements, which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statement of comprehensive income as incurred.

**Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The depreciation method applied to an asset is reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method is changed to reflect the changed pattern on a prospective basis as a change in an accounting estimate.**

The estimated useful economic lives of the related assets are as follows:

	<b>Useful life in years</b>
Buildings	30
Machinery and equipment	3-14
Other fixed assets	3-10

Other fixed assets consist of vehicles and other relatively small groups of fixed assets.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Construction in progress is reviewed regularly to determine whether its carrying value is recoverable and whether appropriate provision for impairment is made.

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

## **Government grants**

A government grant is recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received.

If grants provided to financing of definite expenses, government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. If grants provided to financing of an asset, government grants shall be recognised in profit or loss as equal shares over the expected useful life of this asset.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is recognized at fair value. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan and cash received.

## **Investment property**

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the income statement in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change

in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

## **Land lease rights**

Landlease rights acquired as part of hypermarket development projects are separately reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The useful life is estimated to be 49 years.

When the Group constructs a building on land that is leased under an operating lease, the operating lease costs (including amortization of land lease rights) that are incurred during the construction are capitalised as part of the construction cost of the building.

## **Intangible assets**

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives.

Lease rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

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

The following useful lives are used in the calculation of amortization:

<b>Description</b>	<b>Useful life in years</b>
Licenses	1-25
Lease rights (convenience stores)	1-21
Software	1-25
Trade marks	1-10
Other	1-7

## **Impairment of non-current assets**

At each reporting date, the Group reviews the carrying amounts of its non-current and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.



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

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss.

The following asset has specific characteristics for impairment testing:

## **Goodwill**

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the

CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

## **Finance leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## **Inventory**

Inventory is stated at the lower of cost and net realizable value. Cost comprises the direct cost of goods, transportation, handling costs and is decreased by the amount of rebates and promotional bonuses received from suppliers, related to these goods. Cost of goods for resale is calculated using the weighted average method, cost of materials and supplies is calculated using cost per unit method, cost of fuel and lubricants calculated using the average cost method. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.

## **Provisions**

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

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

## **Vendor allowances**

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the

vendor. Volume-related rebates and other payments received from suppliers are recorded as a reduction in the price paid for the products and reduce cost of goods sold in the period the products are sold.

## **Income taxes**

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with Russian law.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, except:

Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised, except:

Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred

tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

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

## **Retirement benefit costs**

The operating entities of the Group contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognized in the profit and loss as incurred.

## **Share-based payments**

Certain employees (senior executives) of the Group receive remuneration in the form of share-based payments. Employees render services as consideration for equity instruments (equity-settled transactions).

## **Equity-settled transactions**

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions.

Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

For the measurement of the fair value of equity-settled transactions with employees, the Group uses a Monte-Carlo simulation model for the Share Option Plan.

## **Segment reporting**

The Group's business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different types of stores and in various states within the Russian Federation, the Group's chief operating decision maker reviews the



Group's operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores, including both convenience stores, cosmetic stores, hypermarkets and others, and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

## **Seasonality**

The Group's business operations are not influenced by seasonality factors, except for the increase of business activities before the New Year holidays.

## **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset, other borrowing costs are recognised in profit or loss in the period in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the

weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

## **Contract balances**

### **Contract assets**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

### **Trade and other receivables**

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

### **Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract

liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

## **Financial assets**

### **Initial measurement**

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

### **Measurement categories of financial assets**

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

Amortised cost;

FVOCI (fair value through other comprehensive income);

FVPL (fair value through profit or loss).

Before 1 January 2018, the Group classified its financial assets as loans and receivables (amortised cost).

### **Loans and receivables**

Before 1 January 2018, trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market were classified as loans and receivables and were measured at amortised cost using the effective interest rate method.

From 1 January 2018, the Group only measures amounts of loans and receivables at amortised cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

## **Business model assessment**

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

The risks that affect the performance of the business model (and the financial assets held within that business model)

and, in particular, the way those risks are managed; How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);

The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

### ***The solely payment of principal and interest test (SPPI test)***

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI

assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

## **Cash and cash equivalents**

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

## **Impairment of financial assets**

Before 1 January 2018, financial assets were assessed for indicators of impairment at each reporting date. Financial assets were impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset was reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount was reduced through the use of an allowance account. When a trade receivable was uncollectible, it was written off against the allowance account. Subsequent recoveries of amounts previously written off were credited against the allowance account. Changes in the carrying amount of the allowance account were recognised in the profit and loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease could be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed through the profit and loss to the extent that the carrying amount of the investment at the date the impairment was reversed did not exceed what the amortised cost would have been had the impairment not been recognised.

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

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

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

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

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

## **Derecognition of financial assets**

A financial asset is derecognised when:

The rights to receive cash flows from the asset have expired; The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred



nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

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

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

## **Financial liabilities and equity instruments issued by the Group**

### **Treasury shares**

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

### **Share premium**

Share premium represents the difference between the fair value of consideration received and nominal value of the issued shares. Also the difference between the cost of purchased shares and the fair value of the consideration transferred as part of a business combination is recognised in share premium.

## **Earnings per share**

Earnings per share have been determined using the weighted average number of the Group's shares outstanding during 12 months ended 31 December 2018 and 2017. The Group does not have any potentially dilutive equity instruments.

## **Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

## **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

## **Financial liabilities**

Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at

amortised cost using the effective interest rate method, with interest expense recognised using an effective interest rate method.

## **Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

## **Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

The normal course of business;

The event of default; and

The event of insolvency or bankruptcy of the entity and all of the counterparties.

## **Fair value of financial instruments**

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

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

## Changes in accounting policies

In 2018, the Group revised its accounting policies and started to include handling costs in cost of purchased inventories. Previously, the Group recorded such costs within general and administrative expenses. The Group disclosed changes in the accounting policies on retrospective basis. Accordingly, as a result of recalculation of comparative amounts for 12 months of 2017, the cost of sales increased by the amount of the expenses:

	<b>2017</b>
Payroll and payroll related taxes	12,249,836
Rent and utilities	1,290,694
Packaging and materials costs	993,161
Other operating expenses	834,057
	<b>15,367,748</b>

The listed above costs represent the cost of handling goods.

There was no effect on basic and diluted earnings per share.

Changes in the accounting policy did not affect the consolidated statement of financial position and consolidated statement of cash flows.

In 2018, the Group changed its approach to the classification of depreciation of production fixed assets, which is now included in general and administrative expenses. Previously, the Group recorded such costs within cost of sales. As a result of the recalculation of comparative information for the 12 months ended 31 December 2017, cost of sales decreased by RUB 222,403 thousand and general and administrative expenses increased by the same amount. Changes in the classification did not affect the consolidated statement of financial position and consolidated statement of cash flows.

After the restatement of comparative information for the 12 months ended 31 December 2017, cost of sales amounted to RUB 853,816,856 thousand and general and administrative expenses amounted to RUB 238,593,076 thousand.

Except for the changes mentioned above and adoption of new standards effective as of 1 January 2018, the accounting policies adopted in the preparation of the consolidated financial statements for the year ended 31 December 2018 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each amendment is described below:

## *IFRS 9 Financial Instruments*

The Group first applied IFRS 9 *Financial Instruments*. The Group concluded that the standard does not have a significant effect on the consolidated financial statements.

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

For the periods starting 1 January 2018, the Group changed its accounting policy relating to classification and measurement of financial assets and liabilities in accordance with the core principles of the standard. As a result, of the change in accounting policy financial assets were classified as those to be measured subsequently at amortised cost and with no need for the retrospective adjustments due to absence of changes in classification of assets measured at amortised cost.

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

For contract assets and trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The provision under IFRS 9 did not differ significantly from the provision assessed under previous accounting policy and the Group did not make retrospective adjustments.

For other debt financial assets the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

As a result of adoption of IFRS 9, the Group did not make any changes to the consolidated financial statements, including comparative historical information, as no significant adjustments were required as a result of the application of the standard.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

In accordance with the transition provisions of IFRS 15 the Group has elected full retrospective method of adoption. There is no significant changes from application of IFRS 15

except for the following reclassifications of deferred revenue and advances received from customers to contract liabilities described below.

The table below shows changes within lines of consolidated financial statements, which were recognised due to reclassification referred to above as a result of IFRS 15 adoption.

<b>Interim condensed consolidated statement of financial position</b>	<b>31 December 2017 as originally presented</b>	<b>IFRS 15 Reclassification adjustment</b>	<b>31 December 2017 as restated</b>
Deferred revenue	188,359	(188,359)	-
Advances received	690,028	(127,337)	562,691
Short-term contract liabilities	-	315,696	315,696
<b>Condensed consolidated interim statement of cash flows</b>	<b>2017 as originally presented</b>	<b>IFRS 15 Reclassification adjustment</b>	<b>2017 as restated</b>
Decrease in advances received	375,953	(661)	375,292
Decrease in deferred revenue	188,359	(188,359)	-



Increase in contract liabilities	-	189,020	189,020
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The Group is in the retail and wholesale business and sells goods both through its stores and distribution centres. The revenue recognised by the Group meets the definition of revenue from contracts with customers as per IFRS 15. The Group recognises revenue when control of the asset is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods. The customers have right of return, which is regulated by Russian legislation and is possible within up to 14 days since the purchase with the exception for certain categories of goods.

Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

The Group operates loyalty points programs, which allow customers to accumulate points when they purchase products in the Group's retail stores. The points can be redeemed for free gifts, subject to a minimum number of points obtained. Prior to adoption of IFRS 15, the loyalty programme offered by the Group resulted in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet

redeemed or expired. The Group concluded that under IFRS 15 the loyalty points give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty programmes is insignificantly different from the previous accounting policy. The deferred revenue related to these loyalty points programs was reclassified to contract liabilities.

#### *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

#### *Amendments to IAS 40 Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of

investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

#### *Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018. These amendments do not have any impact on the Group's consolidated financial statements.

#### *Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which

replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

*Amendments to IAS 28 Investments in Associates and Joint Ventures - clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which:

- (a) The investment entity associate or joint venture is initially recognised;
- (b) The associate or joint venture becomes an investment entity; and
- (c) The investment entity associate or joint venture first becomes a parent.

These amendments do not have any impact on the Group's consolidated financial statements.

## *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

## **Standards issued but not yet effective**

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

### *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

At the commencement date of a lease, the Group will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use

asset). The Group will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual extension options.

The Group will make a transition to IFRS 16 using the full retrospective approach. Under this approach the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented will be adjusted retrospectively as if the new standard had always been applied. Lease liabilities and right-of-use assets will be recognised at the date of lease commenced.

The Group has elected to use the following practical expedients proposed by the standard:

For all classes of underlying assets each lease component and any associated non-lease components will be accounted as a single lease component;

Lease payments for contracts with a duration of 12 months or less for the classes of underlying assets other than land and buildings will continue to be expensed to the statement of profit or loss on a straight-line basis over the lease term. IFRS 16 will have a material effect on components of the consolidated financial statements and the presentation of the net assets, financial position and results of operations of the Group. The standard will impact a number of key measures such as operating profit and cash generated from operations, as well as a number of alternative performance measures used by the Group. During the current reporting period, progress has been made in the collation of the additional lease data required to support IFRS 16 calculations,

establishing systems and processes required for accounting and reporting under IFRS 16 and in determining the appropriate discount rates to apply to lease payments. During the next financial year, the Group will finalise this work and set out accounting policies and procedures for leases. Until the impact assessment is completed, it is not practical to provide a reasonable estimate of the financial effect of IFRS 16.

Annual operating lease expenses and associated non-lease charges, which would have been recognised under existing accounting standards, will be replaced by depreciation and interest expense, which is higher on an initial stage of a lease decreasing over its term, so that a material impact on profit before tax is expected in the year of transition.

As disclosed in Note 29 at 31 December 2018 the Group's outstanding short and long-term lease agreements were cancellable. IAS 17 requires disclosing operating lease commitments only for non-cancellable leases, while under IFRS 16 the Group is also required to include in lease term periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

### *IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17). A comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applied to all types of insurance contracts



(i.e., life, non-life, direct insurance, and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

A specific adaptation for contracts with direct participation features (the variable fee approach);

A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required.

Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 15. This standard is not applicable to the Group.

### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The interpretation addressed the accounting for income taxes when tax treatment involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levied outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addressed the following:



Whether an entity considers uncertain tax treatments separately;

The assumptions an entity makes about the examination of tax treatments by taxation authorities;

How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;

How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for the annual reporting periods beginning on or after 1 January 2019, but certain transitions reliefs are available. The Group will apply the interpretation from its effective date.

Since the Group operates in a complex tax environment, applying the interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

### *Amendments to IFRS 9: Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or

circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments do not have any impact on the Group's consolidated financial statements

#### *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on the Group's consolidated financial statements.

#### *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan

amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;

Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments are not expected to have any impact on the Group's consolidated financial statement.

*Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

### ***Annual Improvements 2015-2017 Cycle (issued in December 2017)***

These improvements include:

#### *IFRS 3 Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages,

including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

The amendments are effective from 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group.

### *IFRS 11 Joint Arrangements*

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

The amendments are effective from 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group.

### *IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

### *IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. The amendments are effective from 1 January 2019, with early application permitted. The Group does not expect any effect on its consolidated financial statements.

### *Amendments to IFRS 3 Business Combinations – Definition of a Business*

The IASB issued amendments to the definition of a business in *IFRS 3 Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements,

add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Earlier application is permitted and must be disclosed. These amendments are currently not applicable to the Group.

### *Amendments to IAS 1 and IAS 8 – Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments must be applied prospectively. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted and must be disclosed. Although the amendments to the definition of material is not expected to have a significant impact on an Group’s financial statements, the introduction of the term

‘obscuring information’ in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

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## **Significant accounting judgements and estimates**

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

## **Estimates and assumptions**

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

Matters of accounting methodology requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; impairment of assets and taxation.

## **Impairment of assets**



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

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

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

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

## **Useful economic life of property, plant and equipment**

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

The Group's management periodically reviews the

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

## **Useful life of leasehold improvements**

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

## **Taxation**

The Group is subject to income tax and other taxes. Significant judgment is required in determining the provision for income tax and other taxes due to the complexity of the Russian Federation tax legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether it is probable additional taxes will be due. Where the

final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

## **Provision for expected credit losses of trade and other receivables and contract assets**

The Group uses a provision matrix to calculate ECLs for trade and other receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in the food manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is

sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 11.

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## **Balances and transactions with related parties**

The Group enters into transactions with related parties in the ordinary course of business. The Group purchases food products, materials for construction and equipment from related parties, provides and receives loans and acquires construction services. Related parties of the Group are represented by shareholders and companies, which are the members of the same group with the shareholders, and counterparties that are affiliated with the Group through key management (other related parties). Transactions with related parties are made on terms not necessarily available to third parties.

In February 2018, Galitskiy S.N. entered into an agreement with "VTB Infrastructure Investments" LLC on sale of 29.1% shares of PJSC "Magnit" owned by him. The transfer of shares' ownership title to the "VTB Infrastructure Investments" was registered on 14 March 2018. "VTB Infrastructure Investments" LLC has a significant influence on Group's operations from that moment. Consequently, the structure of related parties of the Group has changed. Related parties of the Group include all companies of the VTB Group.

## No guarantees have been given or received.

No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

The Group entered into a number of agreements with related parties for long-term borrowings with limit amounting to RUB 60,000,000 thousand with maturity dates in May 2023.

Related party balances as at 31 December 2018 and 2017 consisted of the following:

	<b>Shareholders</b>		<b>Other related parties</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Loans received ( <a href="#">Note 19</a> )	28,200,000	-	-	5,646,527
Other payables ( <a href="#">Note 16</a> )	2,633	-	93,288	58,603
Advances received	1,967	-	298	-
Other receivables ( <a href="#">Note 11</a> )	190	-	24,933	80,647
Short-term loans receivable	-	-	181,196	113,910
Long-term financial assets	-	-	50,000	50,000

Advances paid ( <a href="#">Note 12</a> )	-	-	24,364	159,046
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Trade payables ( <a href="#">Note 16</a> )	-	-	-	31,565
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The Group's transactions with related parties for the years ended at 31 December 2018 and 2017 consisted of the following:

	<b>Shareholders</b>		<b>Other related parties</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Loans received	28,200,000	50,433,500	1,333,881	10,564,200
Loans received repayment	898,389	50,645,472	1,169,174	4,981,181
Interest expense	898,389	60,463	71,473	63,508
Other expense	45,599	-	109,053	171,763
Interest income	17,117	12,700	9,024	22,183
Loans given repayment	16,542	162,204	67,595	1,424,404
Rent and utilities income	15,931	-	30,909	135,059
Other	8,052	-	819,223	234,943

income				
Purchases of inventory	-	-	3,608,331	9,960,169
Loans given	-	-	125,857	1,450,920
Purchases of property, plant and equipment	-	-	117,922	73,006
Purchase of intangible assets	-	-	38,777	110
Rent expense	-	-	16,709	4,376
Wholesale	-	-	68	235

All employee benefits of Group management and members of the Board of Directors of the Group for 2018 were RUB 908,822 thousand (2017: RUB 1,535,881 thousand). All employee benefits include the remuneration under labour contract, social contributions and repayments to the board of director's members.

## **Business combination**

# **Acquisition of "MF-SIA" LLC**

On 27 November 2018, the Group acquired 100% of shares of “MF-SIA” LLC, and obtained control over the group of companies SIA (hereafter “SIA Group”). All legal entities of the SIA Group are based in Russian Federation, the companies of the SIA Group are non-listed.

SIA Group is one of the largest distributors of pharmaceutical products and medical goods. The Group has special licenses that allow it to perform pharmaceutical activities and also it has contracts with many of the largest producers of pharmaceutical products and medical goods in Russia and globally.

## **Assets acquired and liabilities assumed**

The assets and liabilities of the SIA Group, recognized in the financial statements, were based on a provisional assessment of their fair value. As at the reporting date, the Group did not finalize the valuation and allocation of purchase price. The Group plans to finalize the valuation of the fair value of assets and liabilities of the SIA Group no later than November 2019. As at the reporting date, the Group has been preparing an independent valuation of the property and intangible assets owned by SIA Group. The valuation had not been completed by the date when the 2018 financial statements were approved for issue by the Board of Directors. Also the Group has not finalized the valuation of fair value of some assets (including deferred tax asset) and liabilities (related to contingent liabilities and provisions) as the Group has not received yet all comprehensive information about the facts and circumstances as at the valuation date.



The information about provisional fair values of the identifiable assets and liabilities of SIA Group at the date of acquisition is disclosed below:

**Provisional fair value  
recognized on acquisition**

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<b>Assets</b>	
<b>Property, plant and equipment (<u>Note 7</u>)</b>	5,942,407
<b>Intangible assets (<u>Note 9</u>)</b>	12,776
<b>Deferred tax asset (<u>Note 27</u>)</b>	2,649,636
<b>Inventory</b>	2,150,364
<b>Trade and other receivables</b>	4,251,463
<b>Cash and cash equivalents</b>	187,758
<b>Taxes receivable</b>	712,732
<b>Advances paid</b>	886
	<b>15,908,022</b>
<b>Liabilities</b>	
<b>Short-term borrowings</b>	11,691,781
<b>Trade and other payables</b>	20,387,412

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<b>Accrued expenses</b>	920,195
<b>Taxes payables</b>	335,045
	<b>33,334,433</b>
<b>Total identifiable net assets at fair value</b>	<b>(17,426,411)</b>
<b>Goodwill arising on acquisition (<a href="#">Note 9</a>)</b>	22,724,015
<b>Purchase consideration transferred</b>	<b>5,297,604</b>

The gross amount of trade receivables is RUB 4,251,463 thousand. The fair value of the trade receivables is approximately equal to the gross amount of trade receivables. Trade receivables are not impaired and it is expected that the full contractual amounts will be collected.

The deferred tax asset of RUB 1,220,511 thousand relates to losses carried forward as of the date of acquisition. It is expected that this asset will be refunded against taxable profit in the future. The remaining amount of deferred tax asset is represented by temporary tax differences related to accrued provisions.

The goodwill of RUB 22,724,015 thousand is attributable to expected synergies arising from the acquisition. The total amount of goodwill is allocated to Group activities under the following formats “Magnit Cosmetic” and “Magnit Pharmacy”, including related stores and warehouses. None of the recognized goodwill is expected to be deductible for income tax purposes.

From the date of acquisition, SIA Group contributed RUB 2,009,308 thousand of revenue and RUB 150,723 thousand to profit before tax from continuing operations of the Group.

Before the business combination the SIA Group did not prepare financial statements under the IFRS accounting policy of the Group, therefore the assessment of the impact on revenue and profit before tax of the Group as if the combination had taken place at the beginning of the year is practically impossible.

In 2018, the Group purchased 1,513,601 of its own shares from the open market with the aim of transferring them as a **purchase consideration for the 100% of shares of SIA Group**. The fair value of the shares is calculated with reference to their quoted price. Under the business combination the fair value of the consideration was calculated as the multiplication of the quantity of equity instruments to be transferred under the contract and the share price of one voting non-documentary registered share in the share capital of PJSC "Magnit" defined in accordance with market quotes at the date of acquisition of "MF-SIA" LLC. The share price of one share at the date of acquisition amounted to 3,500 rubles. The fair value of the consideration given comprised RUB 5,297,604 thousand. The Group transferred its own shares as the consideration for acquisition of "MF-SIA" LLC.

Transaction costs of 259,504 thousand RUB were expensed and are included in administrative expenses.

Cash and cash equivalents of the SIA Group at the acquisition date are included in the investments activities cash flows in the consolidated statement of cash flows.

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## Property, plant and equipment

Property, plant and equipment as at 31 December 2018 consisted of the following:

	<b>Land</b>	<b>Buildings</b>	<b>Machinery and equipment</b>
<b>Cost</b>			
<b>At 1 January 2018</b>	<b>16,040,282</b>	<b>267,229,195</b>	<b>104,253,052</b>
Business combination ( <a href="#">Note 6</a> )	518,323	5,271,403	57,199
Additions	49,661	153,250	14,693,139
Transfers	-	29,472,659	-
Disposals	(507,371)	(4,212,633)	(4,901,835)
Transfer from land lease right	107,804	-	-
<b>At 31 December 2018</b>	<b>16,208,699</b>	<b>297,913,874</b>	<b>114,101,555</b>
<b>Accumulated depreciation and impairment</b>			

<b>At 1 January 2018</b>	-	<b>(40,344,375)</b>	<b>(60,350,243)</b>	(
Charge for the year	-	(15,026,930)	(15,176,110)	
Disposals	-	4,474,661	4,323,283	
<b>At 31 December 2018</b>	-	<b>(50,896,644)</b>	<b>(71,203,070)</b>	(
<b>Net book value</b>				

<b>At 1 January 2018</b>	<b>16,040,282</b>	<b>226,884,820</b>	<b>43,902,809</b>
<b>At 31 December 2018</b>	<b>16,208,699</b>	<b>247,017,230</b>	<b>42,898,485</b>

Property, plant and equipment as at 31 December 2017 consisted of the following:

	<b>Land</b>	<b>Buildings</b>	<b>Machinery and equipment</b>	(
<b>Cost</b>				
<b>At 1 January 2017</b>	<b>14,989,340</b>	<b>233,361,003</b>	<b>88,734,450</b>	
Additions	801,677	192,252	20,355,439	
Transfers	-	40,036,277	-	
Disposals	(961)	(6,360,337)	(4,836,837)	

Transfer from land lease right	250,226	-	-
<b>At 31 December 2017</b>	<b>16,040,282</b>	<b>267,229,195</b>	<b>104,253,052</b>
<b>Accumulated depreciation and impairment</b>			
<b>At 1 January 2017</b>	-	<b>(31,806,293)</b>	<b>(50,796,984)</b>
Charge for the year	-	(14,906,594)	(13,835,432)
Disposals	-	6,368,512	4,282,173
<b>At 31 December 2017</b>	-	<b>(40,344,375)</b>	<b>(60,350,243)</b>
<b>Net book value</b>			
<b>At 1 January 2017</b>	<b>14,989,340</b>	<b>201,554,710</b>	<b>37,937,466</b>
<b>At 31 December 2017</b>	<b>16,040,282</b>	<b>226,884,820</b>	<b>43,902,809</b>

In 2018, the weighted average capitalisation rate on funds borrowed is 7.81% per annum (2017: 9.49%), the information on interest expenses, included in the cost of qualifying assets, is disclosed in [Note 25](#).

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## Land lease rights

Land lease rights as at 31 December 2018 consisted of the following:

	<b>Land lease rights</b>
<hr/>	
<b>Cost</b>	
<b>At 1 January 2018</b>	<b>2,819,831</b>
Additions	847
Disposals	(28,774)
Transfer to PPE	(107,804)
<b>At 31 December 2018</b>	<b>2,684,100</b>
<hr/>	
<b>Accumulated amortization and impairment</b>	
<b>At 1 January 2018</b>	<b>(446,809)</b>
Charge for the year	(44,096)
Disposals	2,985
<b>At 31 December 2018</b>	<b>(487,920)</b>
<hr/>	
<b>Net book value</b>	
<b>At 1 January 2018</b>	<b>2,373,022</b>
<hr/>	

**At 31 December 2018**

**2,196,180**

Land lease rights as at 31 December 2017 consisted of the following:

**Land lease rights**

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<b>Cost</b>	
<b>At 1 January 2017</b>	<b>3,033,439</b>
Additions	63,023
Disposals	(26,405)
Transfer to PPE	(250,226)
<b>At 31 December 2017</b>	<b>2,819,831</b>
<b>Accumulated amortization and impairment</b>	
<b>At 1 January 2017</b>	<b>(393,987)</b>
Charge for the year	(54,530)
Disposals	1,708
<b>At 31 December 2017</b>	<b>(446,809)</b>
<b>Net book value</b>	
<b>At 1 January 2017</b>	<b>2,639,452</b>
<b>At 31 December 2017</b>	<b>2,373,022</b>

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In 2018, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of RUB 780 thousand (2017: RUB 2,610 thousand).

## Intangible assets

Intangible assets as at 31 December 2018 consisted of the following:

	<b>Licenses</b>	<b>Lease rights</b>	<b>Software</b>	<b>Trademarks</b>
<b>Cost</b>				
<b>At 1 January 2018</b>	<b>266,432</b>	<b>838,516</b>	<b>2,383,011</b>	<b>29,700</b>
Business combination ( <a href="#">Note 6</a> )	-	-	12,776	
Additions	83,765	1,184,184	792,353	2,130
Disposals	(67,651)	(19,893)	(551,544)	(115,000)
<b>At 31 December 2018</b>	<b>282,546</b>	<b>2,002,807</b>	<b>2,636,596</b>	<b>31,720</b>
<b>Accumulated amortization and impairment</b>				
<b>At 1 January 2018</b>	<b>(134,425)</b>	<b>(87,012)</b>	<b>(1,081,804)</b>	<b>(2,963)</b>

Charge for the year	(62,161)	(153,874)	(666,968)	(3,090)
Disposals	58,025	3,369	551,544	11
<b>At 31 December 2018</b>	<b>(138,561)</b>	<b>(237,517)</b>	<b>(1,197,228)</b>	<b>(5,938)</b>
<b>Net book value</b>				
<b>At 1 January 2018</b>	<b>132,007</b>	<b>751,504</b>	<b>1,301,207</b>	<b>26,74</b>
<b>At 31 December 2018</b>	<b>143,985</b>	<b>1,765,290</b>	<b>1,439,368</b>	<b>25,78</b>

Intangible assets as at 31 December 2017 consisted of the following:

	<b>Licenses</b>	<b>Lease rights</b>	<b>Software</b>	<b>Trade mark</b>
<b>Cost</b>				
<b>At 1 January 2017</b>	<b>249,150</b>	<b>160,096</b>	<b>1,940,162</b>	<b>4,955</b>
Additions	44,686	692,139	726,338	24,847
Disposals	(27,404)	(13,719)	(283,489)	(96)
<b>At 31 December 2017</b>	<b>266,432</b>	<b>838,516</b>	<b>2,383,011</b>	<b>29,706</b>
<b>Accumulated</b>				

**amortization  
and  
impairment**

<b>At 1 January 2017</b>	<b>(102,119)</b>	<b>(66,097)</b>	<b>(802,124)</b>	<b>(1,681)</b>
Charge for the year	(59,710)	(34,634)	(563,169)	(1,378)
Disposals	27,404	13,719	283,489	96
<b>At 31 December 2017</b>	<b>(134,425)</b>	<b>(87,012)</b>	<b>(1,081,804)</b>	<b>(2,963)</b>
<b>Net book value</b>				
<b>At 1 January 2017</b>	<b>147,031</b>	<b>93,999</b>	<b>1,138,038</b>	<b>3,274</b>
<b>At 31 December 2017</b>	<b>132,007</b>	<b>751,504</b>	<b>1,301,207</b>	<b>26,743</b>

Amortization expense is included in general and administrative expenses ([Note 24](#)).

Goodwill as at 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
<b>Goodwill as at beginning of the year</b>	<b>1,367,493</b>	<b>1,367,493</b>
<b>Goodwill arising on acquisition (<a href="#">Note 6</a>)</b>	<b>22,724,015</b>	<b>-</b>

<b>Goodwill impairment</b>	-	-
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<b>Goodwill as at the end of the year</b>	<b>24,091,508</b>	<b>1,367,493</b>
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## **Goodwill impairment test**

The Company performed its annual goodwill impairment test for goodwill related to acquisition of “TD-holding” LLC as of 31 December of each year. In assessing whether goodwill has been impaired, the current value of generating unit was compared with its estimated value in use.

Value in use was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows for ten years, approved by the management of the Group, taking into account inflation, the demand for goods produced by “TD-holding” LLC, as well as other macroeconomic assumptions. The discount rate was determined based on the weighted average cost of capital of the Group and amounted to 16% (12.6% in 2017).

The impairment test did not reveal impairment of goodwill.

The Company performed its annual goodwill impairment test arising from the acquisition of the SIA Group, value in use was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows for five years, approved by the management of the Group, taking into account inflation (5%), expected synergies from acquisitions, existing long-term contracts with

suppliers of pharmaceutical and medical goods, as well as other macroeconomic assumptions. The discount rate was determined based on the weighted average cost of capital of the Group and amounted to 16%.

## **Key assumptions used in value in use calculations and sensitivity to changes in assumptions**

The calculation of value in use for acquisition of SIA Group business is most sensitive to the following assumptions:

Gross margin;  
Discount rate;  
Revenue growth.

### **Gross margin**

The gross margin included in the forecast of Group's activities under the formats "Magnit Cosmetic" and "Magnit Pharmacy", including related stores and warehouses, is in the range from 33.2% to 40.6%, in accordance with the approved strategic development plan and expected efficiency of sales. A decrease in buyers' demand may lead to a decrease in gross margin. The decrease of gross margin by 5% would result in decrease in expected operating cash flows, but would not cause impairment losses.

### **Discount rate**

The discount rate calculation is based on the specific circumstances applicable to the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the

Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service.

Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

An increase in the pre-tax discount rate to 19% (i.e. + 3%) would reduce the expected discounted cash flows, but would not cause impairment losses.

## **Revenue growth**

One of the most significant assumptions used in the testing model is revenue growth for the forecast period, being in the range from 5% to 26%. The forecast is based on Group's activities under the formats "Magnit Cosmetic" and "Magnit Pharmacy", including related stores and warehouses. The Group forecast of the expected volume of sales is based on the approved strategic development plan for the forecast period, as well as indicators of the expected consumer price index. The expected consumer price index is 5%. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge. Decreased demand can lead to a decrease in sales volume. A decrease in revenue by 5% would result a decrease in expected operating cash flows, but would not cause any impairment losses.

The impairment test did not reveal impairment of goodwill.

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## **Inventories**

Inventory as at 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Goods for resale (at lower of cost and net realisable value)	178,092,712	151,723,919
<b>Materials and supplies</b>	9,686,170	10,480,583
	<b>187,778,882</b>	<b>162,204,502</b>

Materials and supplies are represented by spare parts, packaging materials and other materials used in hypermarkets, stores and warehouses, as well as semi-finished goods of own production.

## Trade and other receivables

Trade and other receivables as at 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Trade receivables – third parties	4,242,813	30,980
Other receivables – third parties	3,349,862	2,041,472
Other receivables – related parties ( <a href="#">Note 5</a> )	25,123	80,647
Expected credit losses of accounts receivable (bad debt provision)	(656,795)	(753,913)

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**6,961,003 1,399,186**

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Other receivables are mainly represented by receivables related to bonuses from vendors.

Trade receivables are non-interest bearing and are generally repaid up to 90 days.

Trade receivables are mainly represented by accounts receivable from customers of the SIA Group, which was acquired in November 2018. At the date of acquisition, the Group estimated the fair value of accounts receivable and recognized it as identifiable asset ([Note 6](#)).

The Group uses a provision matrix to calculate expected credit losses (hereafter “ECL”) for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group’s historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in the food manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.



The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade and other receivables as at 31 December 2018 using a provision matrix:

	<b>Current</b>	<b>Overdue less than 90 days</b>	<b>Overdue 90-180 days</b>	<b>Overdue 180-360 days</b>	<b>Overdue more than 360 days</b>
<b>2018</b>					
Expected credit loss rate	0.1%-1.5%	3-5%	10-20%	50%	100%
Estimated total gross carrying amount at default	6,100,163	662,920	216,945	115,020	522,000
Expected credit loss	12,200	20,946	43,389	57,510	522,000

Ageing of trade and other receivables that were past due but not impaired as at 31 December 2017:

<b>Carrying amount</b>	<b>Not impaired or</b>	<b>Neither past due nor impaired</b>	<b>Overdue</b>
------------------------	------------------------	--------------------------------------	----------------

	<b>amount</b>	<b>overdue as at 31 December 2018</b>	<b>Overdue 90-180 days</b>	<b>Overdue 180-360 days</b>	<b>more than 360 days</b>
<b>2017</b>	1,399,186	1,160,259	57,865	88,210	92,851

## Advances paid

Advances paid as at 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Advances to third party suppliers	4,873,493	4,353,038
Advances for customs duties	710,629	430,435
Other advances	46,495	47,925
Advances to related party suppliers ( <a href="#">Note 5</a> )	24,364	159,046
	<b>5,654,981</b>	<b>4,990,444</b>

## Cash and cash equivalents

Cash and cash equivalents as at 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
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Petty cash, in RUB	2,255,279	2,098,404
Cash in banks, in RUB	4,795,522	6,770,745
Cash in banks, in foreign currency	20,765	15,135
Cash in transit, in RUB	8,746,776	9,453,133
Cash placed on accounts with minimum account balance, in RUB	9,540,000	-
Short-term deposits, in foreign currency	1,389,412	-
	<b>26,747,754</b>	<b>18,337,417</b>

Cash in transit represents cash collected by banks from the Group's stores and not deposited in bank accounts and bank card payments being processed as at 31 December 2018 and 2017.

As at 31 December 2018 cash was placed on deposits in US Dollars in amount of RUB 1,389,412 thousand, also cash in rubles was placed on accounts with minimum account balance in amount of RUB 9,540,000 thousand, maturing in January 2019. The amount of interest accrued as at 31 December 2018 is not significant.

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## Share capital, share premium and treasury shares

**2018**  
**No.**

**2017**  
**No.**

	('000)	('000)
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850
<b>Issued and fully paid (par value of RUB 0.01)</b>	101,911	101,911
	<b>2018</b>	<b>2017</b>
<b>Share premium at 1 January</b>	<b>87,635,960</b>	<b>42,647,372</b>
<b>Sale of treasury shares</b>	(378,620)	-
Additional issue of shares	-	44,988,588
<b>Share premium at 31 December</b>	<b>87,257,340</b>	<b>87,635,960</b>
	<b>2018 No. ('000)</b>	<b>2017 No. ('000)</b>
<b>Balance of shares outstanding at beginning of financial year</b>	<b>101,911</b>	<b>94,561</b>
<b>Issue of shares</b>	-	7,350
<b>Sale of treasury shares</b>	1,514	-
Purchase of treasury shares	(4,760)	-
<b>Balance of shares outstanding at the end of financial year</b>	<b>98,665</b>	<b>101,911</b>

In 2018, the Group transferred 1,513,601 of its own shares purchased from the open market as a reward for acquiring a business (Note 6). The fair value of the consideration

transferred was RUB 5,297,604 thousand. The difference between the fair value of the shares and their book value was recorded as a decrease in share premium in the amount of RUB 378,620 thousand.

In 2018, the Group purchased 4,760,089 of own ordinary shares from the open market, the treasury shares cost amounted to RUB 17,727,687 thousand.

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## Dividends declared

During the year ended 31 December 2018 the Group declared dividends to shareholders relating to 2017 and the 9 months of 2018:

**2018**

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<b>Dividends declared for 2017 (135.5 RUB for 1 share)</b>	13,808,989
<b>Dividends declared for the 9 months of 2018 (137.38 RUB for 1 share)</b>	13,628,984

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During the year ended 31 December 2017 the Group declared dividends to shareholders relating to 2016 and the first half of 2017:

**2017**

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<b>Dividends declared for 2016 (67.41 RUB for 1 share)</b>	6,374,381
<b>Dividends declared for the first half of 2017 (115.51 RUB for 1 share)</b>	10,922,782

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As at 31 December 2018 the amount of liability for unpaid dividends is RUB 13,629,822 thousand (at 31 December 2017: RUB 831 thousand).

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## Trade and other payables

Trade and other payables as at 31 December 2018 and 2017 consisted of the following:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Trade payables to third parties	122,585,005	93,574,862
Other payables to third parties	8,492,500	5,477,121
Other payables to related parties ( <a href="#">Note 5</a> )	95,921	58,603
Trade payables to related parties ( <a href="#">Note 5</a> )	-	31,565
	<b>131,173,426</b>	<b>99,142,151</b>

The average credit period for purchases was 41 days in 2018 and 37 days in 2017. Interest may be charged on the outstanding balance based on market rates in accordance with certain agreements with vendors, however no

significant amounts of interest were charged to the Group during the years presented. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

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## Accrued expenses

Accrued expenses as at 31 December 2018 and 2017 consisted of the following:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Accrued salaries and wages	7,235,456	7,183,464
Other accrued expenses	5,770,579	4,391,489
	<b>13,006,035</b>	<b>11,574,953</b>

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## Taxes payables

Taxes payables as at 31 December 2018 and 2017 consisted of the following:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Social insurance contributions	2,105,510	2,208,386

Employee income tax withholding	1,100,611	1,042,411
Property tax	822,291	761,474
Value added tax	763,424	2,220,432
Other taxes	-	51,017
	<b>4,791,836</b>	<b>6,283,720</b>

## Borrowings and loans

Long-term and short-term borrowings and loans as at 31 December 2018 and 2017 consisted of the following:

	<b>Year of maturity</b>	<b>Weighted average interest rate</b>	<b>31 December 2018</b>	<b>Weighted average interest rate</b>
<b>Long-term borrowings and loans</b>				
Unsecured bank loans	2020-2025	8.57%	65,837,515	8.17%
Unsecured bank loans from related parties ( <a href="#">Note 5</a> )	2021-2022	8.25%	28,200,000	-
Unsecured bank loans	2019	-	-	8.23%



Less: current portion of long-term borrowings and loans				(301,375)	
<b>Total long-term borrowings and loans</b>				<b>93,736,140</b>	
<b>Short-term borrowings and loans</b>					
Unsecured bank loans	2019	7.7%	70,535,826		-
Unsecured bonds	2018	-	-		10.91%
Unsecured bank loans	2018	-	-		7.76%
Unsecured borrowings from related parties ( <a href="#">Note 5</a> )	2018	-	-		7.4%
Current portion of long-term borrowings and loans				301,375	
<b>Total short-term borrowings and loans</b>				<b>70,837,201</b>	

All loans are denominated in Russian rubles.

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## Government grants

	<b>2018</b>	<b>2017</b>
<b>At 1 January</b>	<b>1,155,991</b>	-
<b>Received during the year</b>	1,967,114	1,258,873
Recognized in profit or loss	(85,404)	(102,882)
<b>At 31 December</b>	<b>3,037,701</b>	<b>1,155,991</b>
Short-term	62,340	55,423
Long-term	2,975,361	1,100,568

The Government grants were received to recover a part of the direct costs incurred for construction and modernization of fixed assets. The government grants were received in cash and as a benefit of the loan at a below-market rate of interest.

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## Revenue from contracts with customers

Revenue from contracts with customers for the years ended 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Retail	1,216,851,273	1,131,113,105

Wholesale	20,164,184	12,201,300
	<b>1,237,015,457</b>	<b>1,143,314,405</b>

## Cost of sales

Cost of sales for the years ended 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Cost of goods sold	906,357,321	823,797,268
Transportation expenses	34,210,972	30,019,588
	<b>940,568,293</b>	<b>853,816,856</b>

**Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.**

**Cost of goods sold contains the amount of losses due to inventory shortages.**

In 2018, payroll in amount of RUB 22,015,986 thousand (2017: RUB 22,039,524 thousand) was included in cost of sales.

In 2018, handling cost in the amount of RUB 2,068,304 thousand (2017: RUB 3,117,912 thousand) were included in cost of sales.

## Selling expenses

Selling expenses for the years ended 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Advertising	8,601,093	8,431,919
Packaging and raw materials	3,531,063	3,443,421
Depreciation	3,937,790	3,753,860
	<b>16,069,946</b>	<b>15,629,200</b>

## General and administrative expenses

General and administrative expenses for the years ended 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Payroll	83,622,350	83,737,179
Rent and utilities	72,482,523	64,914,040
Depreciation	31,583,532	29,193,500
Payroll related taxes	24,210,938	24,068,867
Bank services	6,058,852	4,466,211
Repair and maintenance	4,420,757	5,040,869

Taxes, other than income tax	3,804,346	3,399,198
Security	1,551,342	1,278,960
Amortization	996,116	768,342
Provision for unused vacation	600,813	34,843
(Reversal) of expected credit losses / accrual of bad debt provision	(97,118)	129,225
Other expenses	5,532,323	5,932,642
	<b>234,766,774</b>	<b>222,963,876</b>

Contracts with participants of the Share-based Payment Program were signed on 29 December 2018, the date is considered as the grant date. The costs of services are not significant, since the period of rendering services in 2018 is 1 day.

## Finance costs

Finance costs for the years ended 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Interest on loans	8,955,433	9,918,532
Interest on bonds	469,054	3,943,377

<b>Total interest expense for financial liabilities</b>	<b>9,424,487</b>	<b>13,861,909</b>
Less: amounts included in the cost of qualifying assets	(288,225)	(883,027)
	<b>9,136,262</b>	<b>12,978,882</b>

## Other income

Other income for the years ended 31 December 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Sale of packing	3,702,421	3,586,323
Advertising income	2,400,370	2,219,566
Penalties	1,759,906	1,496,535
Government grants	85,404	102,882
<b>Other</b>	762,254	353,967
	<b>8,710,355</b>	<b>7,759,273</b>

## Income tax

The Group's income tax expense for the years ended 31 December 2018 and 2017 is as follows:

	<b>2018</b>	<b>2017</b>
<b>Consolidated statement of comprehensive income</b>		
Current tax	5,216,406	3,962,310
Deferred tax	3,991,065	5,922,488
<b>Income tax expense reported in the consolidated statement of comprehensive income</b>	<b>9,207,471</b>	<b>9,884,798</b>

The movements for the years ended 2018 and 2017 in the Group's deferred tax position are as follows:

	<b>2018</b>	<b>2017</b>
<b>Liability at the beginning of the year</b>	<b>21,521,720</b>	<b>15,599,232</b>
Charge for the year	4,028,830	5,922,488
<b>Deferred tax liability at the end of the year</b>	<b>25,550,550</b>	<b>21,521,720</b>

	<b>2018</b>	<b>2017</b>
<b>Asset at the beginning of the year</b>	-	-
Charge for the year	(37,765)	-
Acquired in business combination ( <a href="#">Note 6</a> )	(2,649,636)	-
<b>Deferred tax asset at the end of the year</b>	<b>(2,687,401)</b>	-

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

	<b>As at 31 December 2017</b>	<b>Consolidated statement of comprehensive income 2018</b>	<b>Business combination (Note 6)</b>
<b>Deferred tax assets</b>			
Accrued expenses	(149,449)	(188,835)	(163,224)
Inventories	(217,675)	(326,629)	(35,952)
Trade and other receivables	(147,479)	18,814	(1,264,357)
Advances paid	(103,410)	(150,757)	-
Prepaid expenses and intangible assets	(57,140)	(106,848)	-
Other	(308,865)	(230,464)	(58,435)
Losses carried forward	-	-	(1,220,511)
<b>Deferred tax assets</b>	<b>(984,018)</b>	<b>(984,719)</b>	<b>(2,742,479)</b>



<b>total</b>				
Including netting with deferred tax liability	984,018	946,954	92,843	
<b>Net deferred tax assets</b>	-	<b>(37,765)</b>	<b>(2,649,636)</b>	<b>(2,687,401)</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	21,427,892	4,273,549	-	
Inventories	262,983	623,506	-	
Other	814,863	78,729	92,843	
<b>Deferred tax liabilities total</b>	<b>22,505,738</b>	<b>4,975,784</b>	<b>92,843</b>	<b>2</b>
Including netting with deferred tax assets	(984,018)	(946,954)	(92,843)	
<b>Net deferred tax liability</b>	<b>21,521,720</b>	<b>4,028,830</b>	<b>-</b>	<b>2</b>

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

	<b>As at 1 January 2017</b>	<b>Consolidated statement of comprehensive income 2017</b>	<b>As at 31 December 2017</b>
<b>Deferred tax assets</b>			
Accrued expenses	(87,604)	(61,845)	(149,449)
Inventories	(1,952,013)	1,734,338	(217,675)
Other	(513,834)	(103,060)	(616,894)
<b>Deferred tax liabilities</b>			
Property, plant and equipment	17,292,548	4,135,344	21,427,892
Inventories	-	262,983	262,983
Other	860,135	(45,272)	814,863
<b>Net deferred tax liability</b>	<b>15,599,232</b>	<b>5,922,488</b>	<b>21,521,720</b>

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax. Below is a reconciliation of

theoretical income tax at 20% to the actual expense recorded in the Group's profit and loss:

	<b>2018</b>	<b>2017</b>
<b>Profit before tax</b>	<b>43,071,995</b>	<b>45,423,770</b>
<b>Theoretical income tax expense at 20%</b>	<b>(8,614,399)</b>	<b>(9,084,754)</b>
<i>Adjustments due to:</i>		
Tax effect of losses due to inventory shortages not deductible in determining taxable profit	(355,035)	(335,920)
Tax effect of other expenses that are not deductible in determining taxable profit	(317,434)	(464,170)
<b>Income tax recovery due to submission of revised tax returns</b>	<b>79,397</b>	<b>46</b>
<b>Income tax expense</b>	<b>(9,207,471)</b>	<b>(9,884,798)</b>
<b>Effective tax rate</b>	<b>21.4%</b>	<b>21.8%</b>

## Earnings per share

Earnings per share for the years ended 31 December 2018 and 2017 have been calculated on the basis of the net profit for the year and the weighted average number of common

shares outstanding during the year. The calculation of earnings per common share for the years ended 31 December 2018 and 2017 is as follows:

	<b>2018</b>	<b>2017</b>
Profit for the year attributable to equity holders of the parent	33,864,524	35,538,972
Weighted average number of shares (in thousands of shares)	101,146	95,105
<b>Basic and diluted earnings per share (in RUB)</b>	<b>334.81</b>	<b>373.68</b>

The Group does not have any potentially dilutive equity instruments.

## **Contingencies, commitments and operating risks**

# **Operating environment**

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

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remain high.

The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

## **Tax legislation**

The Group's main subsidiaries, from which the Group's income is derived, operate in Russia. Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

In 2018, further implementation of mechanisms aimed at countering tax evasion through the use of low-tax jurisdictions and aggressive tax planning structures. The amendments include, among other things, definitions of beneficial ownership and tax residency by actual place of business (for legal entities) and the approach to the taxation of controlled foreign companies in the Russian Federation.

In addition, a concept of tax benefit was introduced for all taxes payable in the Russian Federation, with a focus on the presence of a business purpose of activities and confirmation of discharge of obligations under agreements by the parties to these agreements or a party to which these obligations were transferred under a contract or by law. These amendments significantly modify the framework for determination of unjustified tax benefit obtained by a

taxpayer, and will have a significant impact on established court practice. However, the mechanism of application of this regulation is yet to be settled, and the respective court practice is not established.

These changes and recent trends in the applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. The tax authorities may thus challenge transactions and accounting methods that they have never challenged before. This may result in significant amounts of tax charges, penalties and fines being imposed. It is not possible to determine the amounts of constructive claims or evaluate probability of their negative outcome. Fiscal periods remain open to review by the tax authorities for a period of three calendar years immediately preceding the year of review.

According to management, at 31 December 2018, they had properly construed the relevant legislation, and the probability that the Group will retain its position with regard to tax, currency and customs law is assessed as high.

As at 31 December 2018 and 2017, the Group accrued no provisions for tax positions.

## **Litigation**

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time.

Management believes that the resolution of all business matters will not have a material impact on the Group's financial position, operating results and cash flows, except for contingent liability described below.

## Contingent liability

LLC “Gazprom Mezhrefiongaz” initiated a legal claim against the Group in respect of default of its obligations under a gas supply contract. If the trial is lost by the Group, the estimated loss will be RUB 408,169 thousand. The next court hearing is scheduled for 2 April 2019. Management believes that the Group has sufficient grounds to defend its position in the court, but given uncertainties involved in the litigation process there possible risk that the Group will lose the case. Therefore, no liability for potential obligation has been recorded in the consolidated financial statements. The Group plans to contest the claim in the court.

## Capital and rent commitments

As at 31 December 2018 and 2017, the Group entered in a number of agreements related to the acquisition of property, plant and equipment, capital commitments are presented net of VAT:

	<b>2018</b>	<b>2017</b>
Within one year	10,211,095	17,797,342
In the second to fifth years inclusive	6,705	1,641,856
	<b>10,217,800</b>	<b>19,439,198</b>

The Group entered in a number of cancellable short-term and long-term rental agreements. The Group plans to prolong these agreements in the future. The expected annual lease

payments in 2019 under these agreements amount to approximately RUB 60,376 million (expected annual lease payments in 2018: RUB 53,077 million).

## **Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity ratios. The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 19, cash and cash equivalents disclosed in Note 13 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 14.

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### **Financial risk management objectives and policies**

## **Gearing ratio**

Management reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio in 2018 of up to 54% (2017: 42%) determined as the proportion of net debt to equity.

The gearing ratio as at 31 December 2018 and 2017 was as follows:



	<b>2018</b>	<b>2017</b>
Loan debt	164,573,341	126,460,055
Cash and cash equivalents	(26,747,754)	(18,337,417)
<b>Net debt</b>	<b>137,825,587</b>	<b>108,122,638</b>
<b>Equity</b>	<b>253,303,907</b>	<b>259,307,439</b>
<b>Net debt to equity ratio</b>	<b>54%</b>	<b>42%</b>

Debt is defined as long-term and short-term borrowings. Equity includes all capital and reserves of the Group.

The change in the target gearing ratio is due to the changes in the capital structure in 2018.

## Fair values

Set out below is a comparison by class of the Group's financial instruments that are carried in the consolidated financial statements, the carrying amount and the fair value of which are different. Carrying amount of Group's financial assets approximates their carrying value.

The fair value of the financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Long-term				

borrowings and loans	93,736,140	86,338,130	94,010,140	86,417,298
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Bonds	-	20,619,115	-	20,150,000
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The fair value of loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Long-term borrowing and loans are categorized as Level 2 within the fair value hierarchy. For quoted bonds (Level 1) the fair value was determined based on quoted market prices. No transfers occurred between levels in the hierarchy during the reporting period.

As at 31 December 2018 and 2017, the fair value of the Group’s financial instruments, except as described above, approximates their carrying value.

Set out below are changes in liabilities arising from financing activities:

	<b>1 January</b>	<b>Proceeds from loans and borrowings</b>	<b>Repayment of loans and borrowings</b>	<b>Balance at 31 December</b>
<b>2018</b>				
Short-term and long-term borrowings and loans	126,460,055	600,693,859	(572,272,534)	10,4
<b>2017</b>				
Short-term and long-				

term borrowings and loans	127,605,780	688,243,578	(689,033,285)
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	<b>1 January</b>	<b>Dividends declared</b>	<b>Dividends paid</b>	<b>31 December</b>
<b>2018</b>				
Dividends paid	831	27,437,973	(13,808,982)	13,629,822
<b>2017</b>				
Dividends paid	11,936,866	17,297,163	(29,233,198)	831

## Foreign currency risk management

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when purchase is denominated in a different currency from the Group's functional currency).

### Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant. The

impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

The Group manages its foreign currency risk by scheduling payments to foreign suppliers close to the date of transfer of ownership over goods to the Group.

	<b>Change in USD rate</b>	<b>Effect on profitbefore tax</b>	<b>Change in EUR rate</b>	<b>Effect on profitbefore tax</b>
2018	+14.00%	708,705	+14.00%	227,075
	-14.00%	(703,516)	-14.00%	(226,246)
2017	+11.00%	552,429	+12.50%	139,491
	-11.00%	(552,429)	-12.50%	(139,491)

## **Interest rate risk management**

The Group is exposed to insignificant interest rate risk as entities in the Group borrow funds on fixed rates primary.

## **Credit risk management**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to

credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

In determining the recoverability of trade and other receivables the Group uses a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating) and the likelihood of default over a given time horizon. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

## **Trade and other receivables**

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

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of current assets at any time during the years presented.

# Cash and cash equivalents

Credit risk from investing activities is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

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

## Offsetting of financial assets and liabilities

The Group offsets its financial assets and financial liabilities when all the conditions for offset are met. In the table below are reflected financial assets, offsetting against liabilities in the consolidated statement of financial position:

	<b>Gross amount</b>			<b>Net amount consolidated of financial</b>
	<b>Trade and other receivables</b>	<b>Trade and other payables</b>	<b>Amount of offset</b>	<b>Trade and other receivables</b>
2018	19,619,741	(143,832,164)	12,658,738	6,961,003
2017	11,433,088	(109,176,053)	10,033,902	1,399,186

# Liquidity risk management

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

## Liquidity risk tables

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

	<b>Weighted average effective interest rate, %</b>	<b>Less than 1 month</b>	<b>1-3 month</b>	<b>3 mon 1</b>
<hr/>				
<b>2018</b>				
<hr/>				
Trade and other payables		105,452,122	25,721,304	
<hr/>				
Fixed interest rate instruments	8.14	5,123,937	24,953,099	50,811
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**110,576,059 50,674,403 50,813**

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**2017**

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Trade and  
other  
payables 79,174,922 19,967,229

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Fixed  
interest  
rate  
instruments 8.56 1,515,852 20,511,786 25,790

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**80,690,774 40,479,015 25,790**

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The Group has access to financing facilities of RUB 378,150,000 thousand of which RUB 211,533,730 thousand remains unused at 31 December 2018. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

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## **Subsequent events**

There were no significant events after the reporting date.

Chief Executive PJSC "Magnit" Naumova O.V.

14 March 2019

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